INFLATION — 1990

JULY — ~~SEPT.~~ ~~OCT~~, DEC,

PAY RISES OUTRUN INFLATION

By ADRIAN HERSCH

IN spite of a harsh economic climate, trade unions are gaining wage increases well ahead of the rate of inflation

A wage survey conducted by Levy Piron & Associates (LPA) covering February to June this year shows an average pay settlement of 17,7% above the previous scales The consumer price index was 13,9% in May

LPA senior consultant Pat Stone says "Pressure on employers has increased since last year Almost three times as many mandays were lost through strikes in the first half of the year as in the same time in 1989."

Mr Stone says that as a result of the living wage campaign, there is great pressure for large increases at the lower levels Employers have increasingly had to prepare for negotiations by analysing living-level surveys, such as those conducted by the University of Port Elizabeth and the University of South Africa

In the period under review, the Chemical Workers Industrial Union secured the highest minimum and average rate — R5,32 and R6,28 an hour respectively, followed by the SA Commercial Catering and Allied Workers Union (SACCAWU) (R4,69 and R5,41), the Paper, Printing and Allied Workers Union (PPAWU) (R4,47 and R4,94), and the Food and Allied Workers Union (FAWU) (R4,22 and R4,63)

Noting that SACCAWU and PPWAWU gained rates above those for FAWU, the report says "Perhaps it is significant that these two unions headed the list responsible for the most mandays lost during the January-June 1990 period"

A feature of negotiations this year is the diversity of demands made by the unions

Demands, including six months' paid maternity leave and job guarantees, are being made in sectors where they have traditionally not been sought

They have been a high priority for some years in sectors employing large numbers of females — for example, the retail and textile sectors

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Disputes

Demands for skills training, study leave, educational assistance and bursaries for dependants are being tabled regularly.

"In many cases concessions are being made as a better educated workforce is of benefit to all," says the report.

Disputes were declared in 47% of the negotiations. Of them, 31% were referred to conciliation boards or industrial councils, 22% to mediation and the rest resolved by the parties concerned

Industrial action was reported in 24% of the cases. Most action was in the form of strikes (47%) followed by overtime bans (43%) and go-slows (8%).

On average, 76 days passed between the initial union demand and the agreement being concluded This compares with 89 days in 1989 and 87 in 1988

Producer price inflation rate declines to 3-year low

Star 11/7/90

By Sven Linsche (153)

The Reserve Bank's policy of keeping the rand at a stable level is showing dramatic results, with the producer price inflation rate falling to a three-year low in May.

But this trend is not likely to reverse the Bank's tough stance in the foreign exchange market, despite pressure from gold mines and other exporters to allow for a depreciation of the rand.

"Inflation is still enemy number one and unless the declines on the wholesale level filter through to the consumer price index, a change in our stance is unlikely," a Reserve Bank spokesman said yesterday.

Figures released by Central Statistical Services show that the year-on-year increase in the producer price index (PPI) for imported commodities in May was 7,2 percent — 2,9 percentage points lower than the rate for April

This is the lowest rate of increase in almost three years and is over 12 percentage points down on the high of 19,3 percent in June last year.

It brought down the annual rate of increase in the overall PPI to 11,3 percent in May from its high of 15,7 percent in the same month last year. In April the PPI rose by a year-on-year 11,6 percent.

The fall in wholesale inflation is good news for the consumer price index (CPI), although the benefits of lower producer price increases take a few months to make an impact on the consumer level.

The first benefits of the recent falls have already been noted, with consumer price inflation dropping to 13,9 percent in May after hovering around the 15 percent level for almost a year.

Economists forecast a further fall in the inflation rate over the next few months because the steady rand exchange rate is only one of the tough policy instruments used by the Reserve Bank to decelerate growth in the domestic economy.

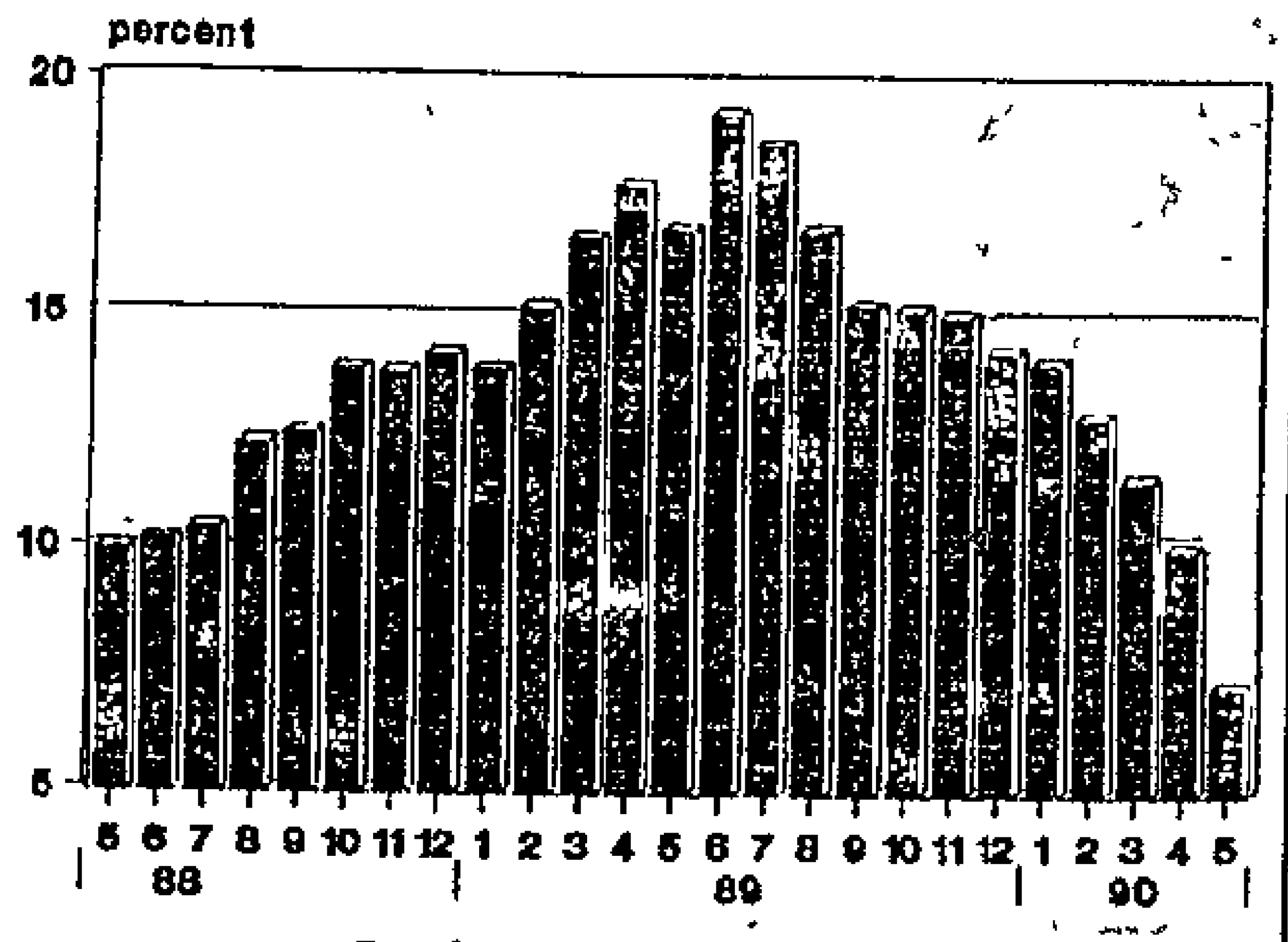
The rand has kept a fairly steady level against the dollar over the last few months, despite the sharp drop in the gold price.

Most dealers attribute this to active market intervention by the Reserve Bank.

While the rand fell by 0,6 percent in June against a basket of currencies, most imports are still priced in dollars.

The PPI for local commodities increased by an annual 12,2 percent in May, compared with 12 percent for April and 11,3 percent in March.

Strong increases in May were shown by coal (5,6 percent), non-ferrous basic metals (six percent) and metal products (6,7 percent).



Producer price inflation (imported goods)

INFLATION FM 13/7/90

Lifetime leap

(153)

At the rate of inflation since 1974 the general price level will rise 7 476 times in the biblical lifespan of 70 years, writes Reserve Bank economic unit head Jaap Meijer In the latest *Quarterly Bulletin* he points out that anyone who lives an additional year will experience a rise in prices of 8 493 times

So much for longevity!

Inflation, he argues, is detrimental to growth for many reasons

- ☐ Fears of inflation feeding on itself — or fears of abrupt corrective action by authorities to bring it under control — weaken business and consumer confidence,
- ☐ Continuous price increases mask signals about relative scarcity and therefore weaken

FM 13/7/90 (153)

the ability of the market pricing mechanism to allocate resources correctly;
- ☐ Real resources are wasted in recalculating and revising prices, gathering information and justifying unpopular increases,
- ☐ People are reluctant to hold real money balances, which means "a loss of business efficiency and of the convenience, liquidity and security which real money balances confer on their holders;"
- ☐ Exploitation, perceptions of exploitation and attempts by the authorities to prevent exploitation,
- ☐ Unfair redistribution of income and wealth, often at the expense of those least able to fend for themselves, like pensioners,
- ☐ Low or negative real after-tax interest returns on savings, low real after-tax interest costs of borrowed funds and consequently lower domestic saving and misdirected investment spending,
- ☐ Complications surrounding wage and related negotiations and also labour-management conflict,
- ☐ Demand for hedge assets — such as debt-financed fixed property — which do not provide continuous job opportunities; and
- ☐ Changes in real Bank rate brought about by changes in the inflation rate This makes for volatile monetary policy and, if countervailing action is taken, the consequent changes in nominal Bank rate create further uncertainty in the business community

Changes in price levels over an extended period, argues Meijer, are "overwhelmingly associated with a rise in the nominal amount of money per unit of physical production

"It follows that the monetary authorities will not be able to claim victory in their war against inflation as long as the growth rate of money supply remains unduly high, regardless of the original or current causes of inflation and of whatever other steps may be taken to bring inflation under control " ■

Ruthless money policy pays

S| Times 15/7/90 (153)

All set for a floating gamble

By CHARMAIN NAIDOO

A FLOATING casino operating out of Cape Town's Table Bay could present an interesting gamble for investors with strong stomachs

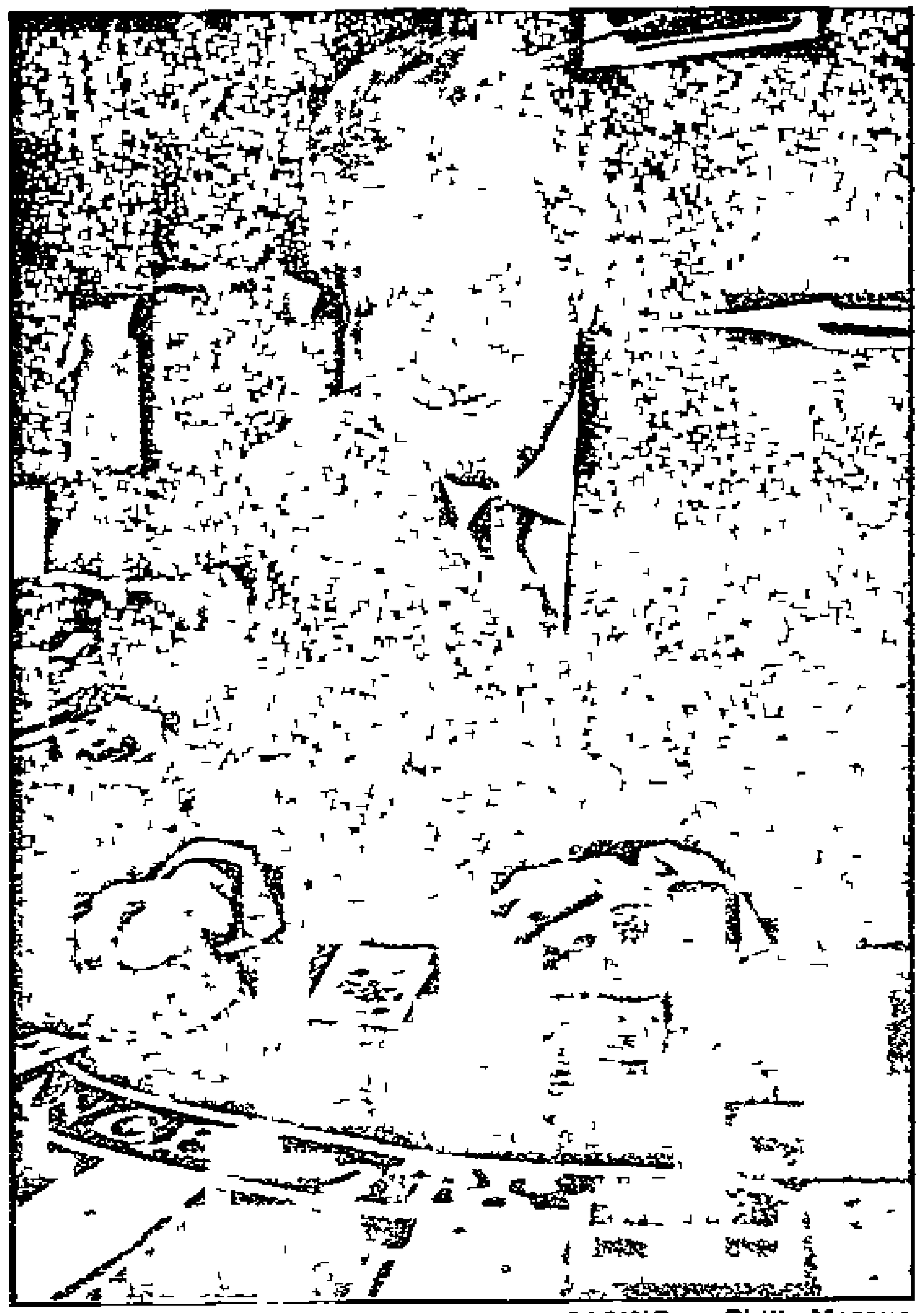
After five years of slog, the directors of Delta Queen Sporting International confirm that building of the luxury Delta Queen casino of the high seas has begun.

In 1984, Philip Marcus Henry Marcus, John Sayers and Ted Sayers decided to seek the right to operate a floating casino from Cape Town or Durban.

Philip Marcus says permission has now been obtained from various government departments enabling the "private club" project to go ahead

A total of R18-million is needed to get the venture on the water and R8-million has been raised The directors have guaranteed a large sum through Standard Bank.

The balance is being raised through the private placing of redeemable (16% interest) debentures. Mr Marcus expects the company to redeem them out of profits within two years.



GETTING SHIP SHAPE FOR A SEABORNE CASINO Philip Marcus stacks the chips Picture GARTH LUMLEY

Salary

He says all money received from the public will be placed in a trust account under the administration of auditors Kessel Feinstein.

"Thereafter payments will be made from this trust account only for the building and equipping of the Delta Queen. The directors have agreed not to draw a salary for two years."

The directors have guaranteed to put in or finance the balance of the money needed once 60% of the total has been raised.

"We are close to the R3-million or R4-million we need," says Mr Marcus.

The Delta Queen directors are not the first to consider a casino outside SA's territorial waters

Sun International examined the concept, but decided against it because of the Cape s stormy seas and its winter, which would make business seasonal.

Mr Marcus says. "We are the first to overcome major obstacles such as obtaining permission and finding a suitable vessel." He is confident that the Delta Queen, with 500m² of gambling space and another 500m² of restaurants, bars and entertainment areas will be able to sail out twice a day

The vessel to be used is designed to reduce the effects of waves

The Delta Queen will be able to carry 250 people.

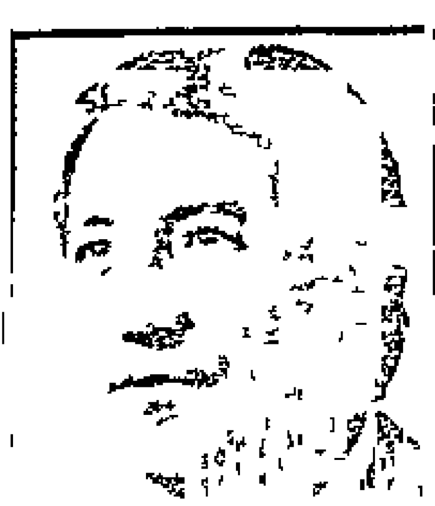
The casino and gaming business will operate as a private club restricted to members of the Delta Queen Sporting International Club and their guests.

Fare

Senbank king of the merchant pile

By DAVID CARTE S| Times 15/7/90

PIET LIEBENBERG s new administration at Bankorp has carried out a radical restructure by transferring R8 billion of TrustBank s assets into Senbank.



By moving all of Trust Bank s corporate accounts Bankorp has transformed Senbank into by far SA s biggest merchant bank

With assets of more than R11-billion Senbank will be more than three times bigger than closest rival UAL which has about R3-billion

The entire staff of Trust with shareholders funds of R10-million or more will be able to run cheque accounts at Senbank Targets include JSE-listed companies, multinationals and their subsidiaries parastatals and municipalities

Mr Van der Merwe says 70 of the top 100 companies have at least one account at Senbank after its absorbtion of TrustBank s corporate clients.

Credit demand drops, but brakes to stay on

INTEREST rates in the capital and money markets have softened, but forget about a cut in the prime overdraft rate

That is the essence of what Reserve Bank Governor Chris Stals told Business Times this week. Through ruthless monetary policy, the inflation rate has been screwed down from 18% to 14% Prime has been a firm 21%, putting its real rate on a recent record at 7%

The Reserve Bank's tough stance is working and demand for credit is falling fast. Companies and individuals are battling to survive. In the four months to April, liquidations were up 45% on a year previously Some economists are pleading for the Reserve Bank to relent on rates to prevent overkill

By DIRK TIEMANN

In expectation of lower rates, RSA and Eskom rates have been marked down in the capital markets.

The Eskom 168 for instance fell from 16 44% to 16% this week. In the money market, rates on six to 12 month negotiable certificates of deposit are down from 19 75% to 18%, causing hopes to rise for a cut in prime.

But Dr Stals insists "We are in the right direction But the rate of increase in the money supply and credit extension is still too high.'

TARGET

Dr Stals says. 'The 17 5% increase in credit extension in the past 12 months is better than the 30% in August 1988 but we would like 15%

"The money supply growth target is 11% to 15% for 1990 but we are touching 19%"

So determined is the Reserve Bank to keep money supply down that it has allowed mining houses to slow the repatriation of export receipts.

Richard Jesse banking analyst at stockbroker Martin & Co says I would expect a cut in the bank rate in the next quarter — but it won't happen until money supply growth is inside the target.

"The Reserve Bank has missed its targets in the past and is nursing its credibility That s why Dr Stals cannot act until he gets inside the target range. That will be the signal for a cut in bank rate '

First National Bank managing director Barry Swart says Privatisation Minister Wim de Villiers has set a target for inflation of 10% by the end of next year

"If 7% real rates are to be maintained, prime won t get below 17% in the next 17 months If rates do come down, it will happen gradually"

relaxes monetary policy now it risks the inflationary climate of Argentina or Brazil — but critics say high rates suit his group

Dr Falkena says: "To relax monetary policy now would be to repeat past mistakes. Prime rate in real terms is still lower than those of our trading partners."

Standard Bank chief economist Nico Czypionka believes rates will fall. "The economy is falling off sharply in some areas more than is palatable The balance of payments is no longer critical despite the drop in the gold price.

"The capital position has improved and the decline in reserves is levelling off. A 10% inflation rate is attainable by the end of next year"

Rand Merchant Bank group economist Rudolf Gouws says: "Stabilisation of the net gold and foreign reserves means the ground is prepared for a fall in interest rates Commercial bank loans and the demand for credit are down and we should see a slight decline in interest rates in the next two to three months

"The economic slowdown will, however, continue at least until September-October 1991 I think inflation will drop to about 10,5% by late next year"

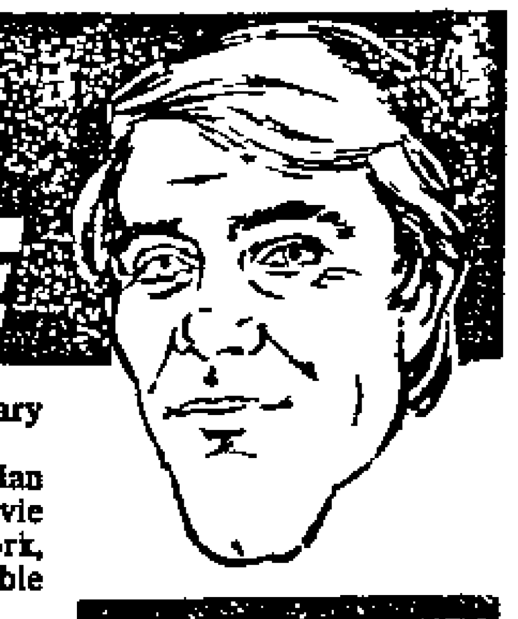
CAUTION

Anglo American senior economic consultant Aubrey Dickman says the hard-won battle against inflation should not be abandoned too soon.

"I lean toward caution. However, 8% real prime, which we will have if the inflation rate falls to 13%, is more than we need. Interest rates should be flexible and move in accordance with exchange rates.

"I believe that interest rates have peaked and that they will come down some time this year"

CARTE BLANCHE



By DAVID CARTE

A PAGE FROM THE NEW DEAL

CHANNEL money saved on defence towards a voluntary civilian make-work and training scheme

This was the call of Anglo American chairman Julian Ogilvie Thompson in his annual review this week. Mr Ogilvie Thompson advocates a "development force" to provide work, education and skills to the "lost generation" — unemployable victims of the liberation-before-education call.

Amplifying his remarks, Mr Ogilvie Thompson told me that what he had in mind was an organisation similar to the Civilian Conservation Corps, set up in 1932 as part of President Roosevelt's New Deal in the Great Depression.

More than 3 million young Americans had their first experience of work in the CCC Its most spectacular project, undertaken with the similar 4-million-man Civil Works Administration, was the construction of 25 dams for the Tennessee Valley Authority

Jobless youths received food, overalls and shelter, plus $30 a month while they worked and learned skills All America benefited. The TVA, for instance, provided hydro-electric power and eliminated killer floods.

It s an appealing idea Imagine an army of millions of youths, at present without jobs or skills, descending on townships, laying streets and pavements, upgrading plumbing and sewerage, building houses, schools and clinics, electrifying houses, and planting trees — learning as they work.

In rural areas, thousands of illiterate poverty-stricken people could build dams, canals and irrigation ditches fight soil erosion and improve farming methods for their own benefit.

Mr Ogilvie Thompson is enough of a realist to know that any such scheme in SA is a non-starter if black community leaders are not involved. He also insists that there must be nothing military about it.

Lest anyone should worry that such a scheme might compromise free enterprise, Mr Ogilvie Thompson says it need not be government led, even if taxpayers' money is used. An independent trust, such as the one that Jan Steyn is running with R2-billion from the State, could organise the project.

Manpower Director-General Joel Fourie says the foundation for such a scheme exists.

"The only shortage is money On a budget of only R100-million, my department, in co-operation with hundreds of employers, has trained more than a million young people"

Education and Development Aid Minister Stoffel van der Merwe welcomes Mr Ogilvie Thompson's suggestions

The idea is off to a receptive start. Now it's up to the Government business, and most importantly, the black community to get it rolling.

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S Times 15/7/90

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INTEREST rates in the capital and money mar about a cut in the prime overdraft rate.

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VARIED

Dr Stals says the Reserve Bank does not have a fixed real rate of interest in mind.

"We will maintain real interest rates in recessions and upswings, but depending on circumstances, they can be one, three or five percent.

"Real rates in most countries vary from 5% to 8% Much depends on whether we can allow short-term capital outflows Right now the reserves are very low and even though the balance of payments looks better, we should not relax yet"

United Group economist Hans Falkena says if SA relaxes monetary polic it risks the inflationar mate of Argentina or — but critics say high suit his group

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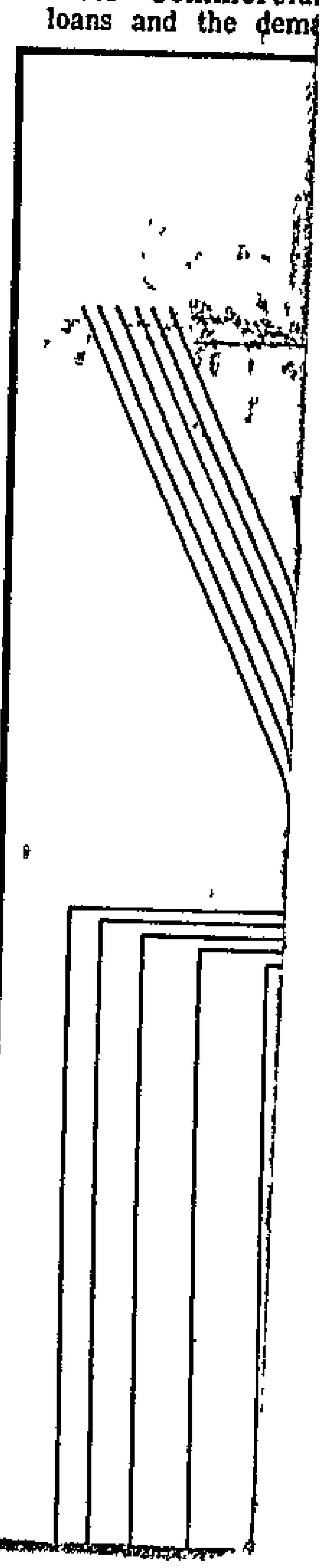

Stals stands firm on interest rates

Bank 'will not buy SA out of its recession'

B/Day 16/7/90

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GRETA STEYN

RESERVE Bank Governor Chris Stals says the Bank has no intention of trying to buy SA out of an economic recession by creating huge amounts of money.

In an interview at the weekend Stals said that if growth was financed with money creation, it would be short-lived and inflation would surge.

"We cannot solve unemployment by printing money. There is nothing the Bank can do in the short term to revive economic growth that will not result in escalating money supply growth followed by an upsurge in inflation."

Ideally, he said, growth should be financed with savings and capital inflows The available savings should be employed as productively as possible. Business confidence also played a role. Strict monetary policies would create a financial environment conducive to saving and investment, and the productive employment of savings.

Stals vowed to maintain the attack on inflation despite growing pressure to cut interest rates in response to the biting recession.

His comments came as interest rates in both the money and capital markets softened on continued speculation of an imminent cut in Bank rate — the lowest rate at which the central bank provides the money market with cash. It is the benchmark interest rate in the economy.

In the capital market, yields on the key Eskom Loan E168 broke through the 16% resistance level as a stronger gold price added fire to a market keen on a bull run. In the money market, the Treasury Bill rate dropped further to 17,85% after being stuck at 18% for months. Details of the recession sparked unabated rumours of a cut in official interest rates a week ago.

But Stals said acting on the recession was not the Bank's role — its role was the protection of the external and domestic value of the currency.

He said that in the next six months, it might appear as if there was a conflict between the Bank's priority to protect the value of the currency, and the need for greater economic growth.

"The central bank's territory is pretty well mapped out as the financial side and not the real economy. It is only with a longer term perspective that our positive influence over economic growth and employment can be seen."

Indicators watched closely by the Bank were credit extended by monetary institutions, growth in the money supply, the balance of payments (BoP), gold and foreign exchange reserves and, most importantly, inflation. Indicators of the real economy were of secondary importance to these financial figures

On inflation, money supply and the BoP he said he was happy with the trends — "but not with the absolute levels. An infla-

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Recession

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tion rate of 13,9% is still too high. Recent trends on money supply have been encouraging, but I am not yet entirely satisfied with the slowdown in the rate of growth in both money and bank credit We also need to build up foreign exchange reserves".

Although inflation was the most important indicator, Stals emphasised it was not the only indicator

"There is no magic inflation target that will immediately indicate a fall in Bank rate should occur We have to look at a host of factors before taking any such decision That is the art of central banking"

There was also no special formula for the margin of interest rates above the inflation rate The margin could vary, depending on whether one wanted to relax policy slightly or tighten it by keeping Bank rate constant while the inflation rate dropped.

Asked about politics, he said the Bank was enjoying a respite from political pressure to reduce interest rates It was usually in the run-up to an election that such pressure was felt In the environment of political change, there had been no suggestion that lower interest rates would make the political task easier.

He said a decline in the gold price to an average of $360 for the year could mean SA lost more than R1bn off its current account surplus for the year, an unfortunate development given the need to build reserves

"But the long-term outlook for the gold price is favourable, as industrial demand for the metal is expected to grow as world production starts falling. Demand and supply conditions would then favour an improvement in the gold price"

Rand's value cut in half

Cape Times 17/7/90 Political Staff 153

THE rand has halved in value in less than five years. According to the Government Gazette, R1 in 1985 officially became worth R2 in May this year The calculation was based on the latest consumer price index.

The base for the CPI was 100 in 1985, but in May this year it became 200,4

IMF concerned over SA's inflation rate

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GRETA STEYN

THE IMF delegation which visited SA last month expressed concern over the inflationary effects of accommodating new economic demands in a post-apartheid SA.

The IMF's views on SA, written in a confidential report, is common knowledge in government circles Talk is that the report emphasised the urgent need to reduce SA's inflation rate now — so that any rise in the rate resulting from greater claims on the available resources will come off a low base

SA's newly appointed representative at the IMF in Washington, Frans le Roux, declined to confirm the IMF's view but said the recent visit, and report, had been "one of the most positive in years". An IMF delegation visits every member country annually

Le Roux, who headed government's tax advisory committee before his appointment as IMF representative, leaves for Washington at the end of this week He takes over from Eltie Links, who moves to Zurich to cultivate ties with European banks.

SA is in the unusual position of having a permanent representative at the IMF — the result of its political isolation. The country has no access to IMF aid in times of balance of payments troubles as US legislation requires the Americans to veto any proposal of aid for SA Rumours have been rife that this obstacle could be lifted as SA has met virtually all the criteria set by the US However Le Roux said a change on this front was not expected.

"SA probably needs the IMF's advice now more than it needs its cash Rising expectations in a new SA will place an enormous burden on the country's economy, with massive demands on government spending. The IMF's discipline will help SA keep on the straight and narrow in its transitional phase."

● LE ROUX

Le Roux said SA's continued membership of the IMF was vital even though no aid was forthcoming

There was an increasing realisation that SA had an essential role to play in an African context. The road away from isolation in the IMF probably lay via Africa.

AA cost-cutting 'won't alter service, subscriptions'

Star 19/7/90

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By Shirley Woodgate

Rationalisation measures by the Automobile Association will not directly affect subscriptions or the service offered to the organisation's 500 000 members, says managing director Peter Elliott.

"Internal cutbacks necessitated by high operational costs and a 25-30 percent inflation rate, rather than the official 15 percent, include the closure of the marketing division and retrenchment of 21 out of 750 staff, the scrapping of the AA Foundation and the training department," he said

The AA Foundation is a research body that relies on sponsorship from organisations interested in bringing down the road accident rate.

Another reason for a projected operating deficit of R4 million for 1990 was the fact that new projects devised by the AA had not sold as well as anticipated These included the corporate membership scheme, which was not meeting its target in the present economic climate

"Emergency road services, tow-truck operations and technical and travel services provided for our members will be totally unaffected," said Mr Elliott

"In fact, the emergency road services will grow to meet the rising demand .. because of increasingly ageing vehicles on the roads"

'Labour costs limit fall in inflation'

CM Times 20/7/90 153

By AUDREY D'ANGELO
Business Editor

INFLATION should continue to fall in the second half of the year, Old Mutual chief economist David Mohr says in his Economic Monitor But the extent to which it comes down will be limited by rising unit labour costs.

He thinks there is little chance of the problem improving significantly

"Unit labour costs have increased strongly since the end of 1988 and are currently running at a year on year rate of just under 20%", he explains

"Given still high wage pressures in a slowing economy, this upward trend may persist for some time

"As a result of these cost pressures we still think it unlikely that the consumer price index (CPI) inflation rate will decline to below the 10% level (if that) over the duration of the present economic downswing."

Forecasting that inflation will rise again in the longer term, Mohr continues "The rising demands — particularly from the public sector — on an economy faced with constraints such as a low rate of expansion of the production capacity, shortages of skilled labour and an ongoing requirement to transfer real resources abroad through debt repayment, do not favour meaningful declines in inflation in the longer term"

But, he thinks, positive real interest rates combined with fiscal discipline should keep inflation in the historical range of between 10% and 15%

Discussing interest rates Mohr, like most other economists, now thinks short term rates will not come down before the end of this year or possibly until 1991 unless there is a serious rise in unemployment

"Although it is a prerequisite, the slowdown in economic activity is not necessarily a sufficient condition for a fall in short term interest rates

"In the final analysis, the timing of a decline in money market rates is a monetary policy decision and the major considerations in this regard are the replenishment of the foreign exchange reserves and the curbing of inflationary pressures

"It is unlikely that the short-term state of the real economy will play a major role in this decision unless the unemployment situation shows a marked deterioration"

Mohr thinks longterm rates could resume their downward trend later this year But, he warns "Foreign participants could again play a decisive role in determining the direction of capital market rates

"Should foreign perceptions regarding the domestic political and economic climate become more negative, foreigners might become large net sellers of domestic capital market assets, thereby retarding any possible fall in longterm rates"

He is concerned about the effect of lower commodity prices including gold, and deteriorating terms of trade for SA

He points out that SA's terms of trade (export prices divided by import prices) have been deteriorating since the end of 1988

"SA's exports are highly concentrated in commodities such as gold, coal, platinum and agricultural products A fall in the prices of these commodities therefore implies a decline in exporters' income, which accounts for more than a quarter of domestic economic activity

"If, at the same time, importers are paying more for goods (particularly investment-related goods such as machinery and equipment, the demand for which is relatively insensitive to price changes) business conditions in a large segment of the economy may deteriorate to such an extent that the country as a whole experiences a relative decline in welfare

"This effect on the corporate sector is presently compounded by the fact that businesses are being squeezed by continued high wage demands and other labour problems

"In addition taxes paid by this sector, excluding mining, virtually doubled over the past two fiscal years"

Mohr says that international commodity prices are expected to weaken further this year, as economies continue to slow down This means that a further weakening of the terms of trade is likely this year

"Unless this trend is offset by a meaningful rise in export volumes — which is unlikely in view of the slowdown of world economic grwoth — or a marked depreciation of the rand, which the authorities are reluctant to permit, this means that monetary policy will have to remain tight in order to curb import growth and ensure that the current accounbt position remains manageable

"This, in turn, will delay the onset of the next cylical upswing in economic activity."

The Star Star 20/7/90 153
Finance

Govt adds VAT to anti-inflation fight

By Jabulani Sikhakhane

In a bid to bolster its fight against inflation, the Government intends asking companies to use their VAT-exemption on capital goods to hold down retail price increases, says deputy Minister of Finance Dr Org Marais.

Speaking yesterday at a briefing organised jointly by the Johannesburg Chamber of Commerce & Industry and the Financial Mail, Dr Marais said the names of the companies agreeing to participate in the anti-inflation campaign would be made public.

Dr Marais said it was the Government's intention to introduce an excise duty on capital investments to smooth out the transition to VAT.

The duty, which would be lower than the VAT rate (the Government is currently working on the basis of 12 percent), would be phased out over time.

He said the transition period would be needed to avoid distortions in the economy.

Dr Marais said without the transition period, companies would wait until October 1 next year before making any capital investments

He said the first stage in preparation for the introduction of VAT would be to invite business people to submit comments on the draft Bill

Members of the VAT committee will be announced next week. The committee will receive comments and recommendations on the draft Bill and submit its report to the Cabinet at the beginning of November

Org Marais

The final Bill is expected to be released at Budget time next year, after which the Government will embark on the second phase of providing training on the implementation of VAT.

Dr Marais said that among the comments received so far, most interest had centred on bringing food into the VAT net.

Others related to construction and fixed capital goods, transitional rules, compliance costs, second-hand goods, fringe benefits, entertainment, financial services, transport, medical services and local and regional services council levies

From the economic point of view, October next year would be about the right time to introduce VAT.

Inflation was expected to be lower and interest rates would have fallen, Dr Marais said.

Inflation's slow retreat continues

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B Day 24/7/90

GRETA STEYN

INFLATION, the Reserve Bank's public enemy number one, continued its slow retreat in June with a 0,3 percentage point fall from May's annual rate to 13,6%.

Measured by the year-on-year change in the Consumer Price Index (CPI), inflation peaked in the current cycle at 15,7% in June a year ago and is set to reach about 13% by the end of 1990.

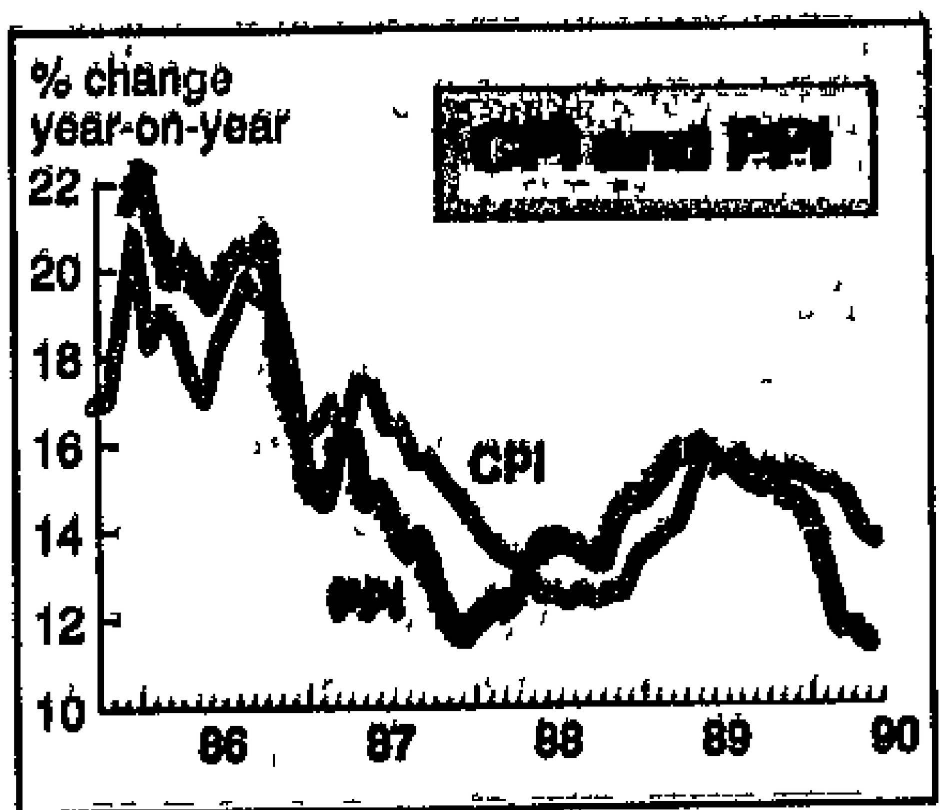
Economists ascribe the downward trend to the economic slowdown in response to strict policies, as well as the stable rand/dollar exchange rate.

Old Mutual's David Mohr said: "It is encouraging that the underlying pressures have abated again" He was referring to the low month-on-month increase in the CPI of 0,7% in June.

Assuming the monthly increases in the index average about 1% until the end of the year, inflation will be 13% by December.

The increase in the index in the June quarter of this year was 2,75% — a significant slowdown from the first quarter's 3,7%. The CPI stood at 201,8 in June, which means that the domestic purchasing power of R1,00 has been reduced by more than half since 1985

Mohr warned against expecting too much during the rest of the year. He added that June's figures were not yet evidence of enough progress in the fight against inflation to warrant a cut in interest rates.



Graphic FIONA KRISCH Source CSS

"But all the major indicators — inflation, money supply and the balance of payments — are moving in the right direction A reduction in interest rates before the end of the year is possible."

Food price rises remain a major contributor to the inflation rate. In the year to June, these prices rose by a far greater percentage than the inflation rate at 15,3%

Economists point out that current policies will do little to restrain increases in this important component of the CPI (its weighting is almost 23%).

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Inflation

B Day 24/7/90

☐ From Page 1

SA Chamber of Business economist Keith Lockwood said prices of basic goods continued to rise at a faster rate than the overall inflation rate

He was concerned about the plight of the low income group, whose inflation rate was higher at 14,4%

Categories that are more sensitive to high interest rates provide evidence of the success of strict monetary policy.

Prices of services rose by well below the inflation rate at 12,1% (commodities, including food, were up 14,3%). Excluding food, the overall inflation rate is 13%.

Nedcor's Edward Osborn noted the figures were also positively influenced by the reduction of import surcharges

"Progress on inflation and the large-scale retrenchments indicate a rethink of monetary policy is called for," he said

INESS

Inflation - the destructive force

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Sowetan 26/7/90

HOW many times in any week have newspapers not referred to inflation? Inflation is the twin sister of unemployment when it comes to the economy. Strange, there is a converse relationship between the two. Graham Bell, our writer on economic affairs, this week looks at inflation. His next article will detail the relationship between inflation and unemployment.

IN the past 20 years, South Africans have learned to live with inflation. We have got used to prices going up, be it bread, transport or the movies But none of us like inflation - it is always an unpleasant surprise to have to pay a bit more than last time

To be sure, we don't have it too bad In places like Brazil and Yugoslavia, prices can rise by 20 times in one year That would mean the price of bread going up from, say, R1 to R20 between January and December

Our inflation rate is around 14 percent at the moment and it is falling because the economy is slowing down This does not mean that prices will More likely, they will just rise by a bit less About the only goods where prices fall are computers because the technology is changing so fast

When economists talk about inflation they refer to the consumer price index or the producer price index These indices are made up of a "basket" of goods Each month, the Central Statistical Services in Pretoria checks the prices of a huge variety of goods and services from petrol to rent to shirts They process the result into a single number

The inflation rate is then calculated by comparing that number with the number of a year before Prices of specific good may has changed and some by less The basket is the average of all the changes

Since 1973, our inflation rate has been in "double-digits" ie at 10 percent or above It has ranged from 10 percent to over 20 percent While this does not seem very much, it is, in fact very destructive For example, the buying power of R100 in 1970 would have fallen to just R9 today, R100 in 1980 would buy just R24 today, and R100 in 1985 would be worth just R49 today.

This collapse in spending power is caused by the compounding effect of inflation If inflation is 15 percent, after one year R100 has fallen to R85, after two years it is down to R72 and so on and so on.

Inflation becomes a vicious circle Once people realise that the buying power of their rands is going down, they demand more money from their employers to keep up with price rises. Employers then increase their prices in order to keep their heads above water. This creates another round of wage demands and so on.

There have been times when inflation has got completely out of control In Germany after the First World War, it got so bad that it took a wheelbarrow load full of banknotes just to buy a dozen eggs In some South American countries, inflation has taken off like a spaceship; prices will change while you are standing there making up your mind whether to buy or not

My view is that no inflation is the best inflation This is very difficult to achieve because people are so used to it Ultimately, inflation is a moral issue because, in a truly democratic society, there is no need to fool yourself that inflation helps

Still some way to go before restrictions ease, says Stals

Pret-8/8/90 (153)

By Sven Lünsche

It would be wrong to ease the current credit restrictions and create additional money to finance an upswing in economic fortunes, says Reserve Bank governor Dr Chris Stals.

His comments, in an interview this week, come in the face of increasing criticism that the maintenance of the current policy stance for much longer may induce an "overkill" situation.

Dr Stals says the economy has entered a downward adjustment phase, but has not yet created the hardships of a recession.

"Certainly we would have been happy with a softer landing, but if we look at the reasons for the downturn they can largely be attributed to non-monetary factors."

He says developments such as political uncertainty, social and labour unrest, as well as the falling gold price, are mainly to blame for the slowdown.

"It is therefore unreasonable to expect that current problems can be solved by monetary policy."

From a purely monetary point of view the economy has not yet decelerated to required levels and the Reserve Bank will wait for more signs that inflation is under control.

Control of money supply is the tool used by the bank to influence monetary policy and growth in the broad measure of money supply, M3, is still running at high levels.

"As a short-term aim we would like to see M3 at least in the middle of our 11 to 15 percent target range."

The bank is aiming at real rates of interest of about six to eight percent, in line with those of SA's major trading partners. At present the level is about five percent.

"Although the economy is only about half-way through the current downturn, we are satisfied with the trends we are seeing in money supply growth, interest rates, domestic credit extension and inflation.

"However, we will have to break the inflationary psychosis of our economy once and for all to allow for steadier growth."

Dr Stals says the bank has received a lot of support for its anti-inflationary policy, but suggests that both employers and unions reduce the level of wage increases

"If wage increases continue at high rates, many companies will face closure, or a reduction in their operations in the face of the tough monetary policy.

"A great deal of maturity is therefore required from both unions and employers to avoid the unemployment that will inevitably result from hard-line attitudes," Dr Stals says.


Dr Chris Stals

Stals stays on charted course

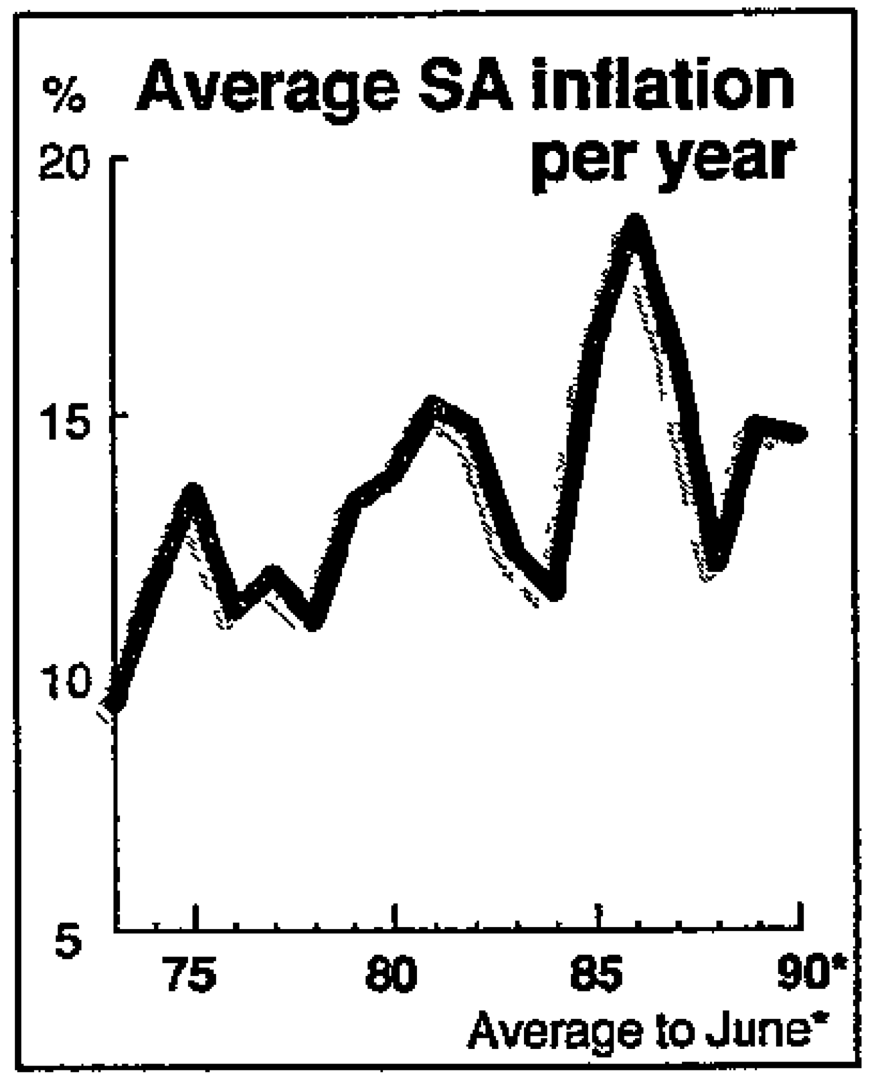
BDay 9/8/90 153

GRETA STEYN

WHEN Chris Stals took the reins of the Reserve Bank on August 8 last year, monetary policy changed in content and style.

In his first major policy speech he declared war on inflation, opened fire with a surprise hike in Bank rate barely a month later and is now still sticking to his guns — much to the surprise of the markets.

Stals's stance on inflation illustrates his firm belief that the Reserve Bank has a small — if it has any — role to play in short-term stabilisation policy



Graphic: FIONA KRISCH

Economic recessions are not the Bank's main concern — its mission is the protection of the currency's domestic and external value This view represents a major shift in focus from the past when recessions triggered sharp falls in interest rates.

Widespread applause met Stals's statement about a year ago that the time had come to hone down inflation But almost a year after his first address at the Bank's annual general meeting, only a few stray supporters continue to applaud while the markets have grown restless with impatience to see him cut Bank rate.

The markets and some economists believe a recession, coupled with a strong BoP, equals a cut in interest rates It would appear to be an affordable move to alleviate economic hardship.

That approach was taken to extremes after the 1985 recession when interest rates dropped to significantly negative levels in real terms.

Stals has apparently told Bank staff he hopes to see inflation go down to levels compatible with our trading partners' in the next four years

Against that background, he has left promoting economic growth to Economic Co-Ordination Minister Wim de Villiers and Trade and Industry Minister Kent Durr

The Bank's role is to provide a stable financial structure within which those economic policies can be implemented He will keep monetary policy tight for as long as it takes to create that environment

A feature of his tight policies in the past year has been to keep the money market very short of cash — squeezing banks' margins. He hoped to curtail credit growth in this way

The policy drew heavy criticism The Standard Bank's economists joined money market expert Pierre Faure of Sechold in calling for a flexible prime rate to cope with the squeeze They accused the bank of "credit rationing" and departing from market-oriented policies.

Stals has put a flexible prime rate on the agenda, but the chances are that prime will not be freed before interest rates are clearly on a downward path.

Criticism was also levelled at Stals during the "repurchase agreement debacle" The ~~move to~~ bring these off-balance sheet items back on balance sheet, where they become subject to expensive reserve requirements, was initially interpreted by the market as an effort further to tighten monetary policy.

The first meeting on the issue caused an uproar which grew louder as the gilts market realised that speculation would be curtailed.

Stals then said the move had been aimed at creating a sounder banking system; it was a bank supervisory measure rather than a monetary policy decision. In any event, there were some crossed lines on the issue that later firmly emerged as an effort to create a stable and sound financial environment.

The striving for improved stability, and the mission to protect the external value of the currency, have seen a change in exchange rate policy Stals has explicitly said he wanted to keep the rand as stable as possible against a basket of currencies, of which the dollar has the strongest weighting.

When necessary, the Bank has intervened actively in foreign exchange markets to stop the rand from appreciating too much or to moderate its descent The policy has had the benefit of containing the Bank's forward cover "losses" which last year drew heavy criticism for their money-creating effect

A relatively stable rand also reinforces the battle against inflation as it contains imported inflation

In the fight against inflation, one of the main thrusts is curbing money supply growth. Nonetheless, the Bank has accorded a lower profile to the money supply targeting exercise than in the past, preferring to call the projected range "guidelines" rather than targets.

Growth in the money supply is edging into the guideline range of 11%-15%. Inflation has slipped to 13,6% after peaking at 15,8% last year, credit growth has slowed to the desired level of about 1% a month and the foreign exchange reserves improved by more than R270m in July Stals's policies are clearly working

His test in the next year will be in whether he keeps policies tight enough to crush double-digit inflation and create the stable financial environment he desires

But he will also be judged by whether he keeps policy too tight — even if the Bank does not see recessions as its main concern

LETTERS

Productivity is key to prosperity — Barend

Star 9/8/90 153

By Roy Cokayne

There is a good chance of pushing inflation below double figures in the not too distant future on condition current anti-inflationary policies remain in place, says Finance Minister Barend du Plessis.

He warned, however, at the opening of the Pretoria offices of stockbrokers Frankel, Kruger Vinderine yesterday that South Africa was vulnerable because of the economic situation that had arisen after being cut off from international financial resources.

He said there was only one universal economic principle and that was that a society could consume only as much as it produced.

The fundamental message was that you did not achieve equality in the standard and quality of living by cavorting in the streets, by striking and through stayaways

Maximum price

There was a maximum price at which a country could continue exporting, but wage and salary demands were now being negotiated on the basis of political power and pressure, and not on productivity.

Workers needed to understand that if the export price was given and there was a need for an increase in wages, the only variable that could make the equation balance was a concomitant increase in productivity.

Present trends disclosed some disturbing issues in that wages and salaries had exponentially outstripped productivity.

"Both employers and employees must understand there is ultimately no other solution than higher productivity or an arresting of these wage demands for continued growth in South Africa — unless one resorts to continued depreciation of your currency, which immediately in our case translates into an inflation injection

"That is something that we need like a hole in the head right now."

South Africa's economic preservation did not lie in lifting trade sanctions and a return to international capital markets, but in developing an awareness of the fundamental truths of the economy.

He urged employers and others in positions of authority to explain the fundamental truths such as the link between productivity and remuneration to their workers.

They should be explained because there were millions of people in South Africa who had not yet properly experienced the benefits of free enterprise and private property ownership, he said

No quick end to recession seen

B/Day 9/8/90

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GILLIAN HAYNE

THE recession is likely to continue into the second half of 1991 because of the low level of SA's foreign reserves and government's determination to bring down the inflation rate, according to the UBS's Economic Monitor.

The growth rate will not exceed 1%, it says, as an increase in the rate tends to lead to an increase in imports, for which there are limited foreign reserves.

A further reason for the prolonged downswing is high interest rates, in line with government's anti-inflationary stance, which will keep gross domestic expenditure depressed. Government needs to bring inflation down to around 6% to be competitive in the international market, says UBS economist Hans Falkena.

The Monitor also predicts a further reduction in the absolute level of gross domestic investments over the next two years.

It will be difficult to recover from the recession — which began towards the end of 1989 — in less than two years, says Falkena.

Food price increases exceed inflation rate

Star 11/8/90

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While price increases in most retail sectors have been slowing down in the past few months, food prices have been increasing by more than the overall rate of inflation

Food prices, which have a weighting of 23 percent of the overall consumer price index (CPI), have been increasing at a time when the producer price index (PPI) for food fell to a remarkably low seasonally adjusted 3,2 percent in May.

So, while costs at the producer level increased by only 3,2 percent in May — because of an eight percent fall in meat prices — retail prices increased by 15,6 percent.

Dr Azar Jammine of Econometrix says there are a number of explanations "Firstly, the CPI tends to follow the PPI by three to six months "

In other words, when producer prices fall, the corresponding decrease in consumer prices should broadly follow in three to six months

Dr Jammine also points out "the basket of commodities used to calculate the CPI is different from the basket used to calculate the PPI

Import content

The PPI has a 25 percent import content so the relative strength of the rand earlier this year was an important reason for falling producer prices."

"Dr Jammine also suggests another more worrying possibility "Higher food prices could be the result of monopoly pricing at the food distribution level."

Dr Jammine continues "Over the past four years food price increases at the retail level have been consistently higher than increases in producer prices. Since 1986 the PPI for food has

DUMA GQUBULE

been on average three percent below the CPI for food "

However, Raymond Ackerman, chairman of Pick 'n Pay says "I have never fixed a price and I would never consider fixing a price The competition in our industry is vicious Our meat prices have responded to lower prices at the producer level Meat prices have only increased by eight percent in the last year "

Mr Ackerman believes if it were not for the fierce competition among food retailers, prices would be higher

Overseas pressure

"There have been increases in prices of imported packaging and overseas suppliers who have been receiving profits in depreciated rands have been putting pressure on local management to increase margins," he says

A representative of IBIS Marketing Information Services, which conduct retailing research, agrees with Mr Ackerman

He says "Although the three main food retailers have over 50 percent of market share, the industry is highly competitive These people do not talk to each other "

Volkskas chief economist Adam Jacobs does not think monopoly pricing is the main reason for higher food prices.

"In the clothing sector there is fierce competition and no monopoly situation, but clothing price increases have been high High inflation is a consequence of a relaxed monetary policy "

"That is correct," Dr Jammine says, "but it is precisely the relaxed monetary policy which provides the space for monopolies and trade unions to effect price and wage increases respectively."

Positive signs in recent weeks

Barend sees likely fall in interest rates

B Day 14/8/90

FINANCE Minister Barend du Plessis said yesterday he believed it would be possible to lower interest rates before the year end.

In an interview, Du Plessis ruled out any immediate relaxation in monetary policy, but said that "a lot could happen within three months".

"We will be in a much better position to read the situation within three months. I still believe that something will be possible before the end of the year."

Du Plessis said he had pointed out before that when the inflation rate began to come down it would pull down interest rates. If this did not happen real interest rates would be punitive to a degree that was not appropriate

The Finance Minister said that in recent weeks there had been very positive signs that the consumer price index (CPI) and money supply were going in the right direction.

There were also positive signs from

● DU PLESSIS

MIKE ROBERTSON

the producer price index (PPI), although this was an unreliable indicator.

Du Plessis said any decrease in interest rates later this year would be very small

"Our firm belief is that we have achieved so much and the present situation holds out so much promise for real progress in our fight against inflation that we must go about policy application with utmost circumspection."

He said that after studying the latest graphic representations of economic variables it seemed to him that the economy had managed the downswing on a much more acceptable level than expected.

However, he conceded that this was a general assessment, and that some sectors were "really battling" While the overall picture was in line with his prediction earlier this year of a soft landing, "some people really came down very hard".

Asked about progress in the budget cuts initiated to partially fund police pay increases, Du Plessis said the process was continuing and entailed a full review of spending priorities.

It was difficult, "and perhaps not even prudent", to make known now what had already been achieved.

The process, he said, involved the appointment of financial managers to run

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Barend

B Day 14/8/90

☐ From Page 1

departments on a more professional basis than before, using procedures like cost flow management

"In this respect Wim de Villiers (Administration and Economic Co-ordination Minister) and a number of advisers appointed to assist him play a decisive and welcome role."

Du Plessis said SA had achieved a reasonable degree of success in rolling over foreign loans, but the situation was far from normal.

There had been sufficient improvement in exports to enable SA to meet its balance of payments commitments for the year

He said there were a lot of "promising noises" coming from a number of international financial institutions about resuming longer-term business with SA

However, because SA was still within the confines of a standstill, international banks were, in many instances, required to make additional deposits with their central banks if they lent to the country.

The result was that "the cost of transactions with SA is too high to really provide the volume of finance that we are capable of handling".

Du Plessis said the partial success in rolling over loans was directly linked to developments since February 2

However, in recent months government had received increasing inquiries from overseas about prospects for a cessation of labour unrest, stayaways, strikes and excessive wage demands

Positive signs in recent weeks

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B|Day 14/8/90

MIKE ROBERTSON

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□ To Page 2

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Deepening recession will hit corporate results

SYLVIA DU PLESSIS
and MARCIA KLEIN

A DEEPENING recession — with margins being squeezed by weakened demand and rapidly rising costs — will have a severe impact on corporate results to be published over the next few months, analysts and economists say.

And companies hard-hit by a deteriorating economy could, depending on interest rates, continue to reflect the impact of this on their bottom-lines for up to 12 months after economic conditions improve, some warn B/Day 16/8/90

The most recent spate of results, from Turner & Newall, Afpac, Implats and Ninian & Lester, for example, reflect declines in attributable profits of 75%, 15,3% (annualised), 15,5% and 67% to end-June, respectively, whether interim or year-end

These were preceded by slides of 17% from Everite Group, 10% from Haggie and 15% from Blue Circle — also to end-June

Max Pollack & Freemantle industrial analyst Chris Gilmour said yesterday he would be surprised if average industrial earnings growth for the next year exceeded 5%-10% — negative growth if inflation-adjusted

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He believed companies would continue to feel the economic pinch for six to 12 months after the economy had turned around, probably in the second quarter of next year

Consumer-oriented companies would be the first to recover — people would have more disposable income — while heavier industrial companies would see a recovery in their fortunes at a later stage because business would not have the confidence to spend on large-scale investments

Companies included in the financial and industrial index generally determined the

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Recession B/Day 16/8/90

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progress of all others in those sectors, and with poorer results or static growth expected from giants such as Barlows and Amic, smaller companies could be expected to do "much worse", he added

Standard Bank's Nico Czypionka said the issue arose as to whether the market had fully discounted the impact of the recession on share prices

He said shares of smaller companies had already fallen and even blue chips, although relatively stable, were not invulnerable

Results due in the next few months would be disastrous, he added, especially as labour costs had increased, turnovers had declined and finance costs had remained high

He said he expected the recession to end next year

AHI joins call for lower interest rates

Star 17/8/90 153

Finance Staff

A prolonged economic recession could have serious repercussions for a future economy, says the Afrikaanse Handelsinstituut (AHI) and suggests that it is now time for a temporary lowering of interest rates.

According to the AHI the latest economic indicators clearly show that business activities are slowing down and in a number of sectors production levels have already dropped

It adds that recessionary conditions across the broad spectrum of the economy are now a reality. "The situation is being aggravated by production losses as a result of strikes as well as the uncertainty in the business sector as a result of the political situation in the country"

The prevalent depressed economic conditions are creating serious financial problems for many sectors and individuals, the AHI adds. It appears too that the weaker and declining profits of companies, increasing insolvencies and liqui dations and cash-flow problems are in may cases being made worse by the high interest rates.

Positive economic factors, cited by the AHI include the success in checking inflation, the control of bank credit and the building-up of the country's foreign reserves These factors increase the potential for healthy economic growth in the long term.

Taking everything into account, the AHI is optimistic that nominal interest rates should drop to lower levels towards of the end of the last quarter.

Such a scenario, however, depends on the expectation that the declining inflation rate will continue.

United view

In another economic survey releases last night the United says a gradual decline in the inflation rate is envisaged in the next two years when the authorities will try to achieve a more structural and longer-term reduction in inflation. It says emphasis will be placed on monetary policy and the bank rate is therefore expected to remain closely aligned with the inflation rate.

For the inflation rate to be brought below 10 percent, fiscal restraint as well as realistic wage demands will have to be adhered to

A rapid decrease in the bank rate is unlikely, because of the only moderate decrease in the inflation rate and the hardening of international exchange rates.

To reduce the inflation rate to a single digit figure by 1992 will probably require a real bank rate of about 4,5 percent for the foreseeable future.

The United sees the immediate prospects for the equity market as unexciting. Corporate profits are declining in line with the current recession and relatively high credit costs, it says.

Stals on the border of a dilemma on inflation rate, economists say

ANDREW GILL

VARIOUS factors are likely to stifle the inflation rate's downward trend in coming months and could result in a stalemate for Reserve Bank governor Chris Stals in his war against inflation, economists said yesterday.

They said Stals could face a dilemma shortly if inflation failed to respond to his tight measures, as a wave of unrest hit the country and pressure mounted for him to ease monetary policy.

Inflation stood at 13,6% in June this year after peaking in June 1989 at 15,7% Economists expect little or no change for July and a possible 13% by year-end.

Econometrix chief economist Azar Jammine said· "If the rate was to come down in the next few months it would have to come off a low base because of low monthly increases for the corresponding period last year" B\Day 17/8/90

A contributing factor for the steady declines recently had been the fact that they came off a high base.

By the time this technical factor was overcome, he said, the effects of a higher oil price (if it was sustained) would preclude any large falls in the inflation rate

If the oil price remained at its present levels, SA would pay R65 a barrel for oil which would necessitate a 10% (12c) rise in the petrol price, he said

This alone would contribute to a 0,4% increase in the CPI while the knock-on effect of a higher petrol price would result in increases in other sectors

This would not result in a rise in the inflation rate but would ensure that any potential falls were blocked, he said.

Bankorp economist Johan Els said a further bug bear was food inflation. It stood at 15,3% in June and Els expected it to increase to 15,8% in July's figures.

Jammine said this was a problem with the SA economy because despite producer food inflation being as low as 6%, consumer food inflation was consistently above 15%.

He said in a classic competitive system, when demand fell prices fell and output remained the same. However, "in SA the monopolies increase prices and reduce output thus increasing consumer inflation"

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Recession is here, says AHI

W/Mail 17/8 - 19/8/90 153

RECENT economic indicators clearly show that business activities are slowing down and in a number of sectors production levels have already dropped, the Afrikaanse Handels Instituut (AHI) says in its latest economic report

It adds that recessionary conditions across the broad spectrum of the economy are now a reality The situation is being aggravated by production losses as a result of strikes as well as the uncertainty in the business sector stemming from the political situation in the country

The prevalent depressed economic conditions are creating serious financial problems for many sectors and individuals, the AHI says It appears too that the weaker and declining profits of companies, increasing insolvencies and liquidations and cash-flow problems are in many cases being made worse by the high interest rates

Positive economic factors cited by the AHI include the success in checking inflation, the control of bank credit and the building-up of the country's foreign reserves These factors increase the potential for a healthy economic growth in the long term

The AHI warns, however, that the effects of prolonging the slowing down process too long could have serious implications for the a future recovery

It questions whether it has not become time for a temporary lowering of the nominal interest rates

Everything taken into account, the AHI is optimistic that nominal interest rates should drop to lower levels towards of the end of the last quarter

Such a scenario, however, depends on the expectation that the declining inflation rate will continue — Sapa

Battle against inflation now paying dividends

Star 23/8/90 153

By Magnus Heystek, Finance Editor

The struggle against a structurally high inflation rate seems to be paying off In July the consumer price index inflation figure continued its recent decline, with the annualised figure dropping to 13,3 percent — 0,3 percent lower than the previous month's figure.

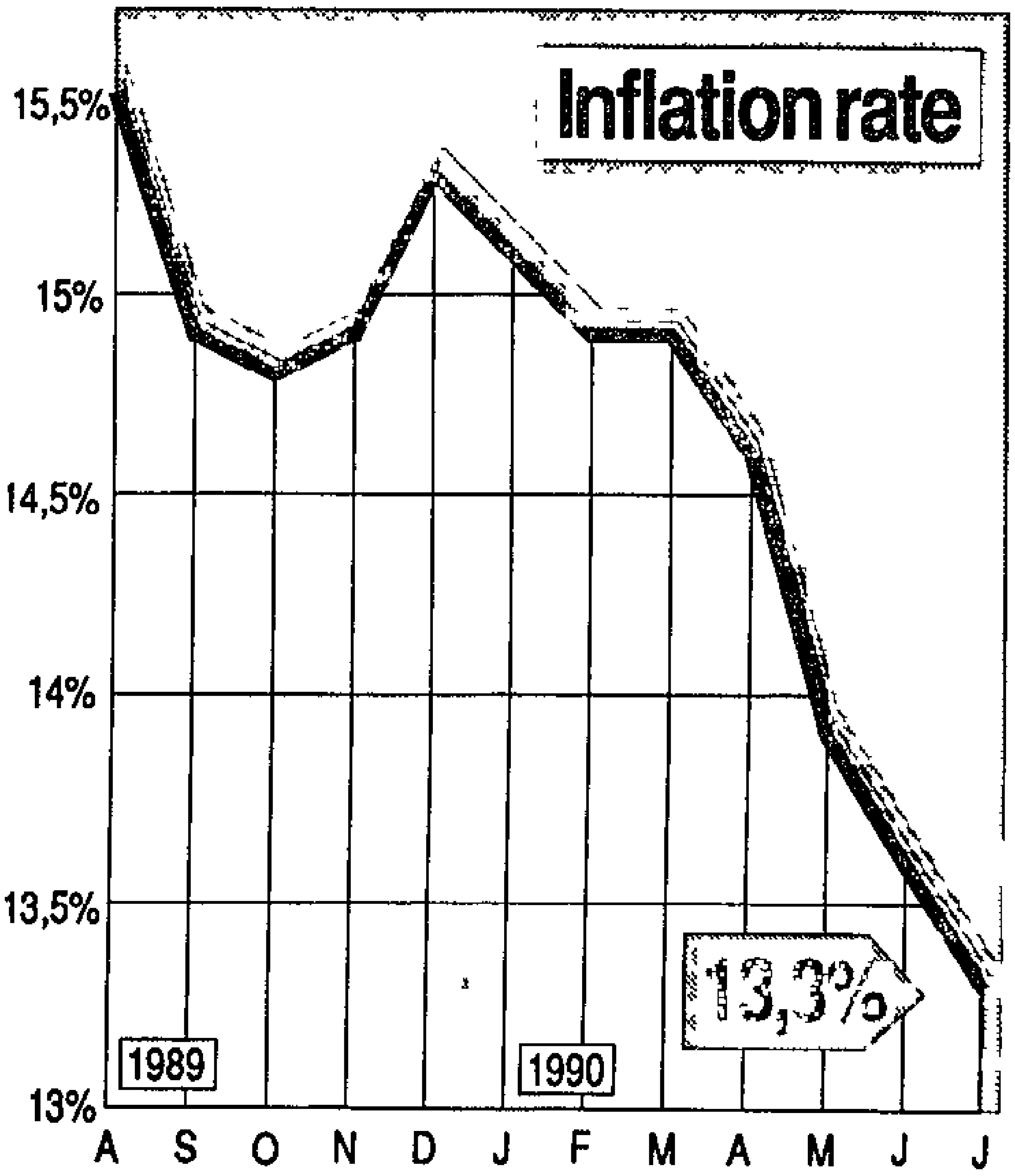
Economists are now forecasting that inflation can drop to 11 percent by the end of next year if there is no deviation from the current restrictive monetary policy

In itself, the decline is good news for consumers and businessmen who have become inured to persistently high rates of inflation

But it also paves the way for a drop in interest rates, which would boost even further the fall in the growth rate of prices

All eyes are now on the Reserve Bank to lower Bank rate, which determines all other interest rates. But Governor Dr Chris Stals seems set on keeping rates at present levels for some time to come

Figures released by Central Statistical Services (CSS) show that the rate of increase in the consumer price index dropped to 13,3 percent on an annualised basis, which is 0,3 percentage points lower than June's 13,6 percent The figure for May was 13,9 percent. The month-on-month increase in the seasonally adjusted index was 0,8 percent



Inflation for lower-income groups, when compared with July 1989, was 14,4 percent, 13,4 percent for the middle-income group and 12,8 percent for the upper-income group

Once again, food was the main culprit and accounted for 35 percent of the total increase

The annual average increase for food was 16,4 percent. Processed food rose by 15,7 percent, while unprocessed food was up by 16,4 percent

Non-alchoholic beverages rose by 3,3 percent, cigarettes and tobacco by 4,4 percent and alchoholic drinks by 2,8 percent

East London was the hardest hit, with a rise of 14,9 percent, while Bloemfontein was the lowest with 10,4 percent

For pensioners, the Klerkdorp area showed the lowest increase of 11,6 percent, while those in the Pinetown/Durban area faced an increase of 15,9 percent.

Rudolph Gouws, economist and director of Rand Merchant Bank, believes the inflation rate will decline to 11 percent by the end of next year

He told delegates to the 23rd annual convention of the South African Property Owners' Association in Cape Town recently SA was starting to reap the benefits of a more stable rand exchange rate.

Fundamental inflation was on a downward trend, with the cyclical peak in inflation being lower than previous cycles for the first time since 1969

Reasons for optimism about inflation included the impact of tight monetary policy on business cycles and expectations, the impact of the downswing in the business cycle resulting in pressure on margins, the stable exchange rate, declining meat prices and no indirect tax increases in the 1990 Budget.

An inevitable rise in the cost of petrol — which should be in the region of "at least a few cents a litre in the short term" — would negatively affect inflation

He said due to weaker demand for credit and improved balance of payments, the fundamental trend for interest rates to be reduced was now in place

"However, South Africa is going to have to learn to live with proper interest rates," he said

Inflation rate drops to 13,3%

CAPE TIMES 23/8/90

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By ARI JACOBSON

SA's inflation rate, as measured by the consumer price index (CPI), slipped further in July to 13,3% year-on-year — against June's comparative increase of 13,6% — confirming the government's success in limiting price rises

However, hopes that a decline in the bank rate was imminent were dampened by a pending petrol price hike and an exhorbitant jump in the food bill.

The food component at 16,4% prevented the index from sagging further and as an important social welfare indicator re-emphasised the plight of the poor

This was supported by the 16,4% gain in processed foods and 15,7% increase in unprocessed foods.

The highest year-on-year burden at 14,4% fell upon the lower income earners — with a 13,4% rise for the middle income group and paradoxically the least effect on the upper echelons at 12,8%.

An added impediment to a bank rate decline was the prospective hike in petrol prices as a result of the situation in the Middle East

Bankorp economist Johann Els, said the seasonally adjusted CPI was the measure government considered as the correct barometer of inflation. Applying these figures the CPI has remained relatively static at 12,8% year-on-year since March

"As a future guage of the possible inflation rate it reveals a fairly stable downward path towards 12,8% by year-end"

Els said the fall of the CPI to 13,3% had come as a surprise against "expectations of a rate hovering around 13,6% for longer.

"This was based on a month-on-month calculation of 0,9% between June and July, slightly higher than the actual figure of 0,7%"

Figures released by the Central Statistical Services show that non-alchoholic beverages rose by 3,3%, cigarettes and tobacco by 4,4% and alchoholic drinks by 2,8%

East London was the hardest hit, registering a rise of 14,9% with Bloemfontein the lowest at 10,4%

For pensioners, the Klerksdorp area showed the lowest increase with 11,6% while those in the Pinetown/-Durban area faced an increase of 15,9%.

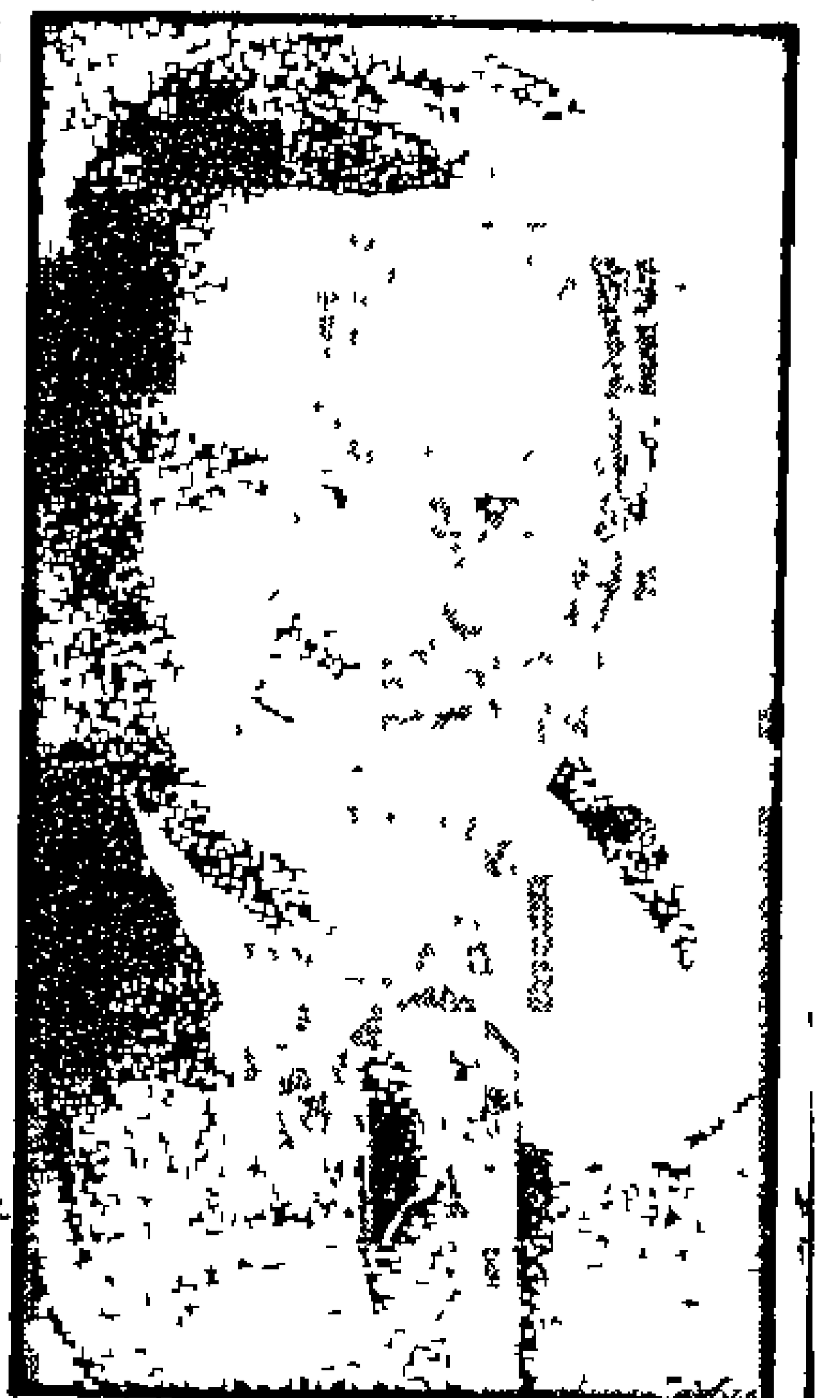
Turmoil in SA and overseas bolsters case for high rates

By IAN SMITH

THE Middle East crisis and turmoil in world stock markets have dashed hopes of lower interest rates in SA.

The prospect of higher world inflation because of the $10-a-barrel spurt in oil prices, uncertainty in world markets and the likelihood that SA's main trading partners will lift interest rates make it almost impossible for the Reserve Bank to respond to urgent calls for help from the private sector.

Evidence that the economy is now in serious recession continues to mount Confidence indices fall, car sales are down and hotel occupancy rates are declining. Stellenbosch's Bureau for Economic Research says the financial position of white consumers has fallen to its lowest since 1985.


LESLIE BOYD ...'on high side?'

Profits of companies are also starting to flag. Anglo American's Amic, a microcosm of the economy, spanning markets from explosives and chemicals to food and textiles, reported a 20% fall in earnings in the six months to June.

This week's announcement that M3 money-supply growth had fallen to a provisional year-on-year rate of 16,32% — its lowest since October 1987 — and that the inflation rate came down to 13,3% last month would ordinarily have added weight to calls for interest cuts.

But economists, many of whom supported the calls a week ago, say the time is not ripe.

"I believe we will have to sweat it out for a while longer," says Ted Osborn, head of Nedcor Group's economic unit.

Most economists agree that a reduction in prime overdraft rate, which could have been made in the last quarter of this year, is now unlikely — despite damage to business.

TIGHT

SA Chamber of Business chairman Leslie Boyd still hopes that a limited reduction will be possible in September or October.

"With inflation down we now have a real interest rate of between 7% and 8% I wonder if that is not on the high side."

But he says business basically supports Reserve Bank Governor Chris Stals' tight control.

"This is the last government that can tackle the problem of inflation The next government will face enormous expectations and might not have the courage to impose the measures needed to force down inflation"

Mr Osborn says the Middle East crisis has complicated life for the SA authorities

Although there is a case to alleviate some of the private sector's problems, a balance must be maintained between interest rates here and in foreign countries. The Reserve Bank must also consider what the oil price will do to inflation

"Before the Middle East blew up, the bank was hesitant about bringing down interest rates too early It wanted to be sure that inflation was on the way down, money supply was lower and that bank credit was under control.

"If the inflation rate was down to 12% by the end of the year we could have looked for prime of 19%

"But the international uncertainty makes it even more unlikely that the bank will move soon on interest rates."

GUESS

Sacob director-general Raymond Parsons says the chamber has told the Reserve Bank that the recession is even deeper than the most official statistics suggest

"A sharp recession is hitting a broad range of sectors — from manufacturing to advertising," he says

The economic downturn has entered its fifth quarter.

Southern Life economist Mike Daly says many factors call for an easing of the monetary policy stance

"The cumulative effect of two years of restrictive policy has stopped the economy dead in its tracks"

Syfrets' economist Elmien de Kock agrees that the economy is ready for a decline in interest rates But it is unlikely before the end of the third quarter.

BUCK

Econometrix director Michiel Bester is also pessimistic about a quick fall in interest rates

"The Middle East threat will put upward pressure on rates internationally, and we should not buck the trend But even without the crisis I would be reluctant to lower rates now"

There is a minority view that if the political and financial crisis worsens, the US Federal Reserve — together with other central banks — may ease monetary policy to prevent recession from developing into depression In that event, the scope for lower rates would improve in SA

Cheaper money — hopes fade

ST 26/8/90

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The other wild card is the gold price, which could receive a boost from a dollar weakened by growing US Budget and trade deficits These deficits have been aggravated by savings-and-loans defaults and the high cost of having 250 000 US troops in the Middle East

RB slams high labour costs

CAPE TIMES 27/8/90 153

Own Correspondent

JOHANNESBURG — The Reserve Bank blames "too high" real labour costs for fuelling endemic inflation and helping create a capital-intensive economy that cannot generate enough employment opportunities

The Bank said in its latest Annual Economic Report. "Unduly aggressive wage demands, and employers' willingness to accede to such demands, will delay and may potentially frustrate success for the authorities' anti-inflation policies

"Industrial action, organised labour protest and labour unrest raise the perceived effective real cost of labour"

Inflation in its present form and at current levels appeared to be driven mainly by inflationary expectations — embodied in, among others, the annual wage claims of organised labour and employers' willingness to meet these demands

The Bank notes the inflationary effects of expectations would probably only be tempered after "a fairly dramatic" decline in the observed inflation rate.

Similarly, a substantial reduction in money supply growth, generally regarded as an important factor in the fight against inflation, was to a large extent also dependent on a lowering of the inflation rate itself

The Bank notes "unsatisfactory wages" triggered 63,5% of the 1,2m man-days lost in the first half of 1990

It said the high real effective cost of labour had contributed to the capital-intensive nature of the SA economy A "hassle factor" had caused a shift away from labour-intensive production processes

"The 'hassle' element in the cost of providing employment comprises the loss of output on account of worker intimidation and unauthorised absenteeism, and of work stoppages, strikes, stayaways and other forms of trade union or organised labour action, the management costs of dealing with these and related phenomena, and the loss of goodwill on account of strained labour/management relationships"

The economy's inability to create enough jobs and the tendency towards "undue capital intensity" were major structural weaknesses

This was illustrated by high unemployment, estimated at 5,4m in the non-agricultural sectors of the economy

New

Cape Times 27/8/90

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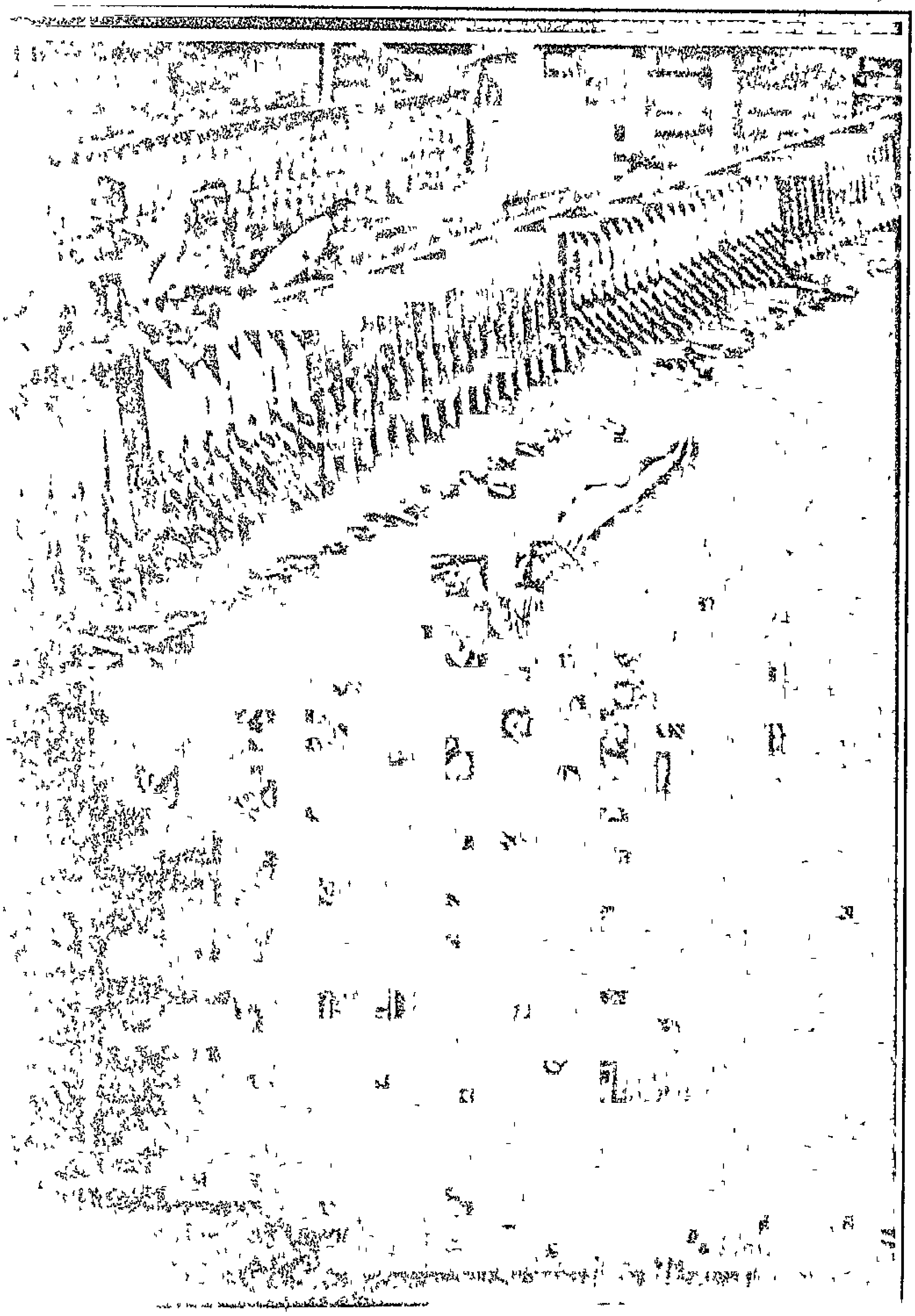
ew deal

Plan to

revamp economy, cut inflation



Own Correspondent

JOHANNESBURG. — The government will soon unveil a comprehensive economic package aimed at reducing inflation dramatically, creating maximum new job opportunities and restructuring the savings pattern in SA.

Top business leaders have already been briefed on the most important facets of the restructuring programme

They predict that when President F W de Klerk unveils the package — the most likely dates are the Natal NP conference this week or the Free State conference the following week — it will be the economic equivalent of his watershed February 2 speech

A cabinet source said that Mr De Klerk aimed to break the "psychology of inflation"

Government s belief that the restructuring programme will be effective explains the repeated and confident predictions of Mr Barend du Plessis, Minister of Finance, that the inflation rate will continue to fall despite the Gulf crisis and the possibility it holds for an increased fuel price

Dr Wim de Villiers Minister of Administration and Economic Co-Ordination, outlined broad details of the package on Friday

Factors inhibiting growth in SA, he said, were

- The high inflation rate,
- Limited export capacity and relatively high imports,
- The outflow of capital and skilled workers,
- Excessive state spending by government, and
- Lack of efficient competition

Policy strategies

Dr De Villiers said government had investigated

- The most suitable policy strategies to be followed by Eskom, Transnet and other government institutions in combating inflation,
- The effect of import parity pricing of the international competitiveness of local products,
- The important contributory factors towards inflation and measures in terms of monetary and fiscal policy to counter them and
- The removal of tax measures which distorted price and production structures

Dr De Villiers and his Mineral and Energy Affairs counterpart, Dr Dawie de Villiers, have held a number of meetings with senior management of Eskom and Transnet in recent months

Business leaders who have been briefed on the broad outlines of the restructuring programme expect that Mr De Klerk will announce that Eskom and Transnet will restrict tariff increases to considerably below the inflation rate in the next few years

Dr De Villiers said that an important part of the restructuring programme would be to reform the savings structure in SA, in particular restoring the traditional pattern of private saving

He told the agricultural summit that to encourage maximum job creation the restructuring policy laid stress on the exploitation of the country's strategic advantages — mineral wealth, agricultural potential and an adequate basic infrastructure

Inflation the main target

(153)

Govt to unveil new plan for SA economy

B/Day 27/8/90

MIKE ROBERTSON and GERALD REILLY

GOVERNMENT will unveil within weeks a comprehensive economic package aimed at reducing inflation to single digits, creating maximum job opportunities and restructuring the savings pattern in SA

Top business leaders have already been briefed on the most important facets of the restructuring programme

They predict that when President F W de Klerk unveils the package — the most likely dates are this week's NP conference in Natal, or next week's Free State conference — it will be the economic equivalent of his watershed February 2 speech.

A Cabinet source said De Klerk aimed to break the "psychology of inflation" with the policy package.

Government's belief that the restructuring programme will be effective explains Finance Minister Barend du Plessis's repeated confident predictions that the inflation rate will continue to decline despite the Gulf crisis

Administration and Economic Co-ordination Minister Wim de Villiers outlined broad details of the package at an agricultural summit in Pretoria on Friday.

He said factors inhibiting growth were the high inflation rate, limited export capacity and relatively high imports, the outflow of capital and skilled workers; excessive state spending and profligacy by government, and the lack of efficient competition

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Measures to encourage personal discretionary saving rather than contractual savings could also be expected

He said that to encourage maximum job creation, the restructuring policy laid stress on the exploitation of the country's strategic advantages — mineral wealth, agricultural potential and the availability of an adequate basic infrastructure

The programme also made provision for more effective use of scarce resources, especially capital and skilled labour

It is believed that government is leading up to a bid to promote decentralised labour bargaining Any such move is likely to be strongly resisted by organised labour

Govt plans new move to reduce inflation

Star 28/8/90

By Derek Tommey

The Government is about to sail uncharted waters in its bid to reduce inflation and make South African goods more competitive.

It wants to stop what it terms "import parity pricing", which inflates the price of cheaper locally produced goods to the level of dearer imported ones.

An economist explained: "If a widget costs 20c to make in South Africa and R2 to import from overseas, you can be certain that the selling price of the local widget will be R1,99.

"Therefore users get no real benefit from the lower costs of production in South Africa."

This concern with import parity pricing was voiced last Friday by the Minister for Administration and Economic Cooperation, Dr Wim de Villiers

An investigation had been held, he said, into improving the competitive position of local producers in the foreign and domestic markets and thwarting the cost-increasing effects of import parity pricing where conditions justified this

How the Government will get local manufacturers to sell their goods more cheaply remains to be seen.

Import protection

However, one way would be to threaten to lower protective barriers against imports.

In other words it could offer local manufacturers protection against imports only if they priced their goods some way below the price of the imported article

The Government is believed to have something similar in mind to make local industry move to two-shift operations — unless manufacturers work two shifts, the level of protection provided could be reduced

The Industrial Development Corporation recently launched a programme aimed at encouraging manufacturers to go to two-shift working. But industrialists are not keen, partly because of difficulty in finding competent supervisory staff.

The move on import parity pricing is part of a major economic restructuring plan being drawn up to reduce inflation and improve South Africa's economic performance

High labour costs 'fuel inflation'

BDay 27/8/90

(153)

GRETA STEYN

THE Reserve Bank blames "too high" real labour costs for fuelling endemic inflation and helping create a capital-intensive economy that cannot generate enough employment opportunities

The Bank said in its latest Annual Economic Report "Unduly aggressive wage demands, and employers' willingness to accede to such demands, will delay and may potentially frustrate success for the authorities' anti-inflation policies Industrial action, organised labour protest and labour unrest raise the perceived effective real cost of labour."

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The economy's inability to create enough jobs and the tendency towards "undue capital intensity" were major structural weaknesses This was illustrated by high unemployment, estimated at 5,4-million in the non-agricultural sectors of the economy

● See Page 3

B/Day

Stals warns producers against too-high prices

29/8/90 B/Day

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ANDREW GILL

SA PRODUCERS will price themselves out of their markets or see their operating surpluses evaporate if domestic producer inflation continues at its present high rate of increase, Reserve Bank Governer Chris Stals warned yesterday.

Speaking at the Bank's AGM in Pretoria, Stals said it was not the time for seeking to strengthen profits through price increases because local producers would find it progressively more difficult to compete with imported goods and would slow the return to more rapid economic growth.

The price index for imported goods increased at an annual rate of just 6% in June, while the price index for domestically produced goods increased by 12,5%.

The achievements recorded so far, he said, had come mainly from the dramatic decline in the rate of increase in the price index of imported goods, which had come off its seasonally adjusted and annualised high of 26,8% in the second quarter of 1989 to 2,9% in the second quarter of 1990.

He said fiscal and monetary restraints had now succeeded in moderating gross domestic expenditure to the extent that demand no longer exerted upward pressure on prices.

The problem, however, was a persistent cost-push process deeply embedded in inflationary expectations among decision-makers arising from 16 years of double-digit inflation.

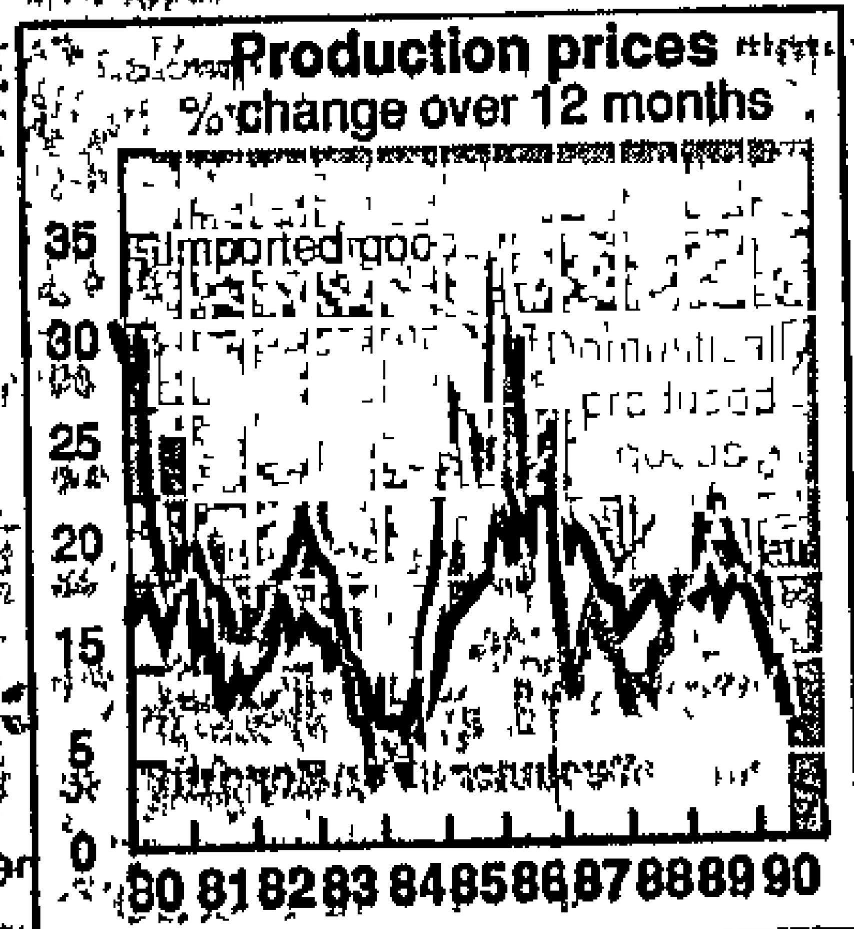
"The almost invariable principle adopted by price-makers and carried over into wage negotiations, investments and many other economic decisions is to take as a point of departure an assumed rate of inflation at least equal to the indifferent record of the recent past," he said.

"This principle of price and wage determination will, if pursued into 1991, come into direct conflict with the resolve of the authorities to persist with their quest for stability in the rand."

Producers who cynically underplayed the Reserve Bank's resolve to control the expansion of money supply would either price themselves out of their markets or see their operating surpluses evaporate, he said.

"Trade unions who act likewise will price their members out of employment."

In a tougher than expected address, Stals said the authorities would persist with the "necessary" restraints until inflation, and perceptions of future inflation, had declined to a rate more in line with the average rates of SA's trading partners.



Graphic: LEE EMERTON Source: RESERVE BANK

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29/8/90 B/Day

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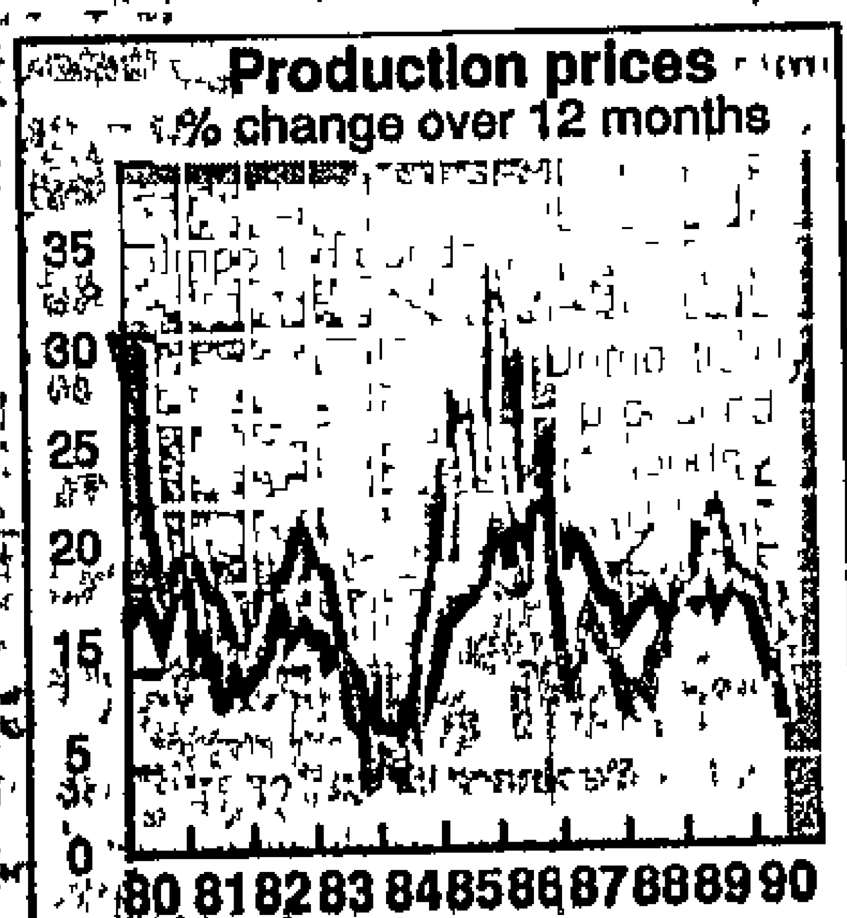

Graphic: LEE EMERTON Source: RESERVE BANK

Bank's view of recession 'too mild'

SYLVIA DU PLESSIS

SA IS in the throes of a recession more serious than the Reserve Bank claims, some leading industry spokesmen say in response to the Bank's recent statement in the Annual Economic Report that it is light

Pick 'n Pay chairman Raymond Ackerman said yesterday the recession could have been much worse, but while turnovers were holding up well they were not as buoyant as in a boom. B Day 29/8/90

"I feel the recession is a little stronger than mild," he said

"It's crucial either (Nelson) Mandela or (Mangosuthu) Buthelezi meet to discuss the current violence, or they both meet with (President F W) De Klerk to discuss it It also depends on whether interest rates start falling, while improved business confidence — vitally wrapped up with these factors — is crucial for the economy to turn"

Colfin MD Jeff Wiggill said his company's money lending operation Wingate was experiencing a drop in demand for funding, particularly in the area of new listings, of between 30% and 40%

"This is because demand has dropped — the quality of inquiries is down — and is also due to more cautious lending in view of high interest rates The Reserve Bank's claim we are in a mild recession is conservative"

SAB MD Meyer Kahn agreed the recession was "a bit stronger than mild It's rough out there The downturn has been hugely aggravated by socio-political turmoil, otherwise it would've been fairly manageable on its own

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"But I'm not despondent. I believe for the first time, to some extent, it's showing some benefit, in terms of declining inflation, for example The pain will lead to some gain."

Tradegro CE Donald Masson said describing a recession was "like saying a war is big or small

"At least (Reserve Bank Governor Chris) Stals admits there's a recession The world hasn't stopped but it's tough out there, with no consistent sales pattern"

Ed Hern, Rudolph corporate finance director Tak Hiemstra said the recession was "a lot more severe" than the Bank claimed

"Our feedback is that 'mild' is putting it mildly"

Stals unbending on monetary policy

BDay 29/8/90

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GRETA STEYN

RESERVE Bank Governor Chris Stals will not declare a truce in the war against inflation, but has pledged to ease monetary policy as soon as it can be justified

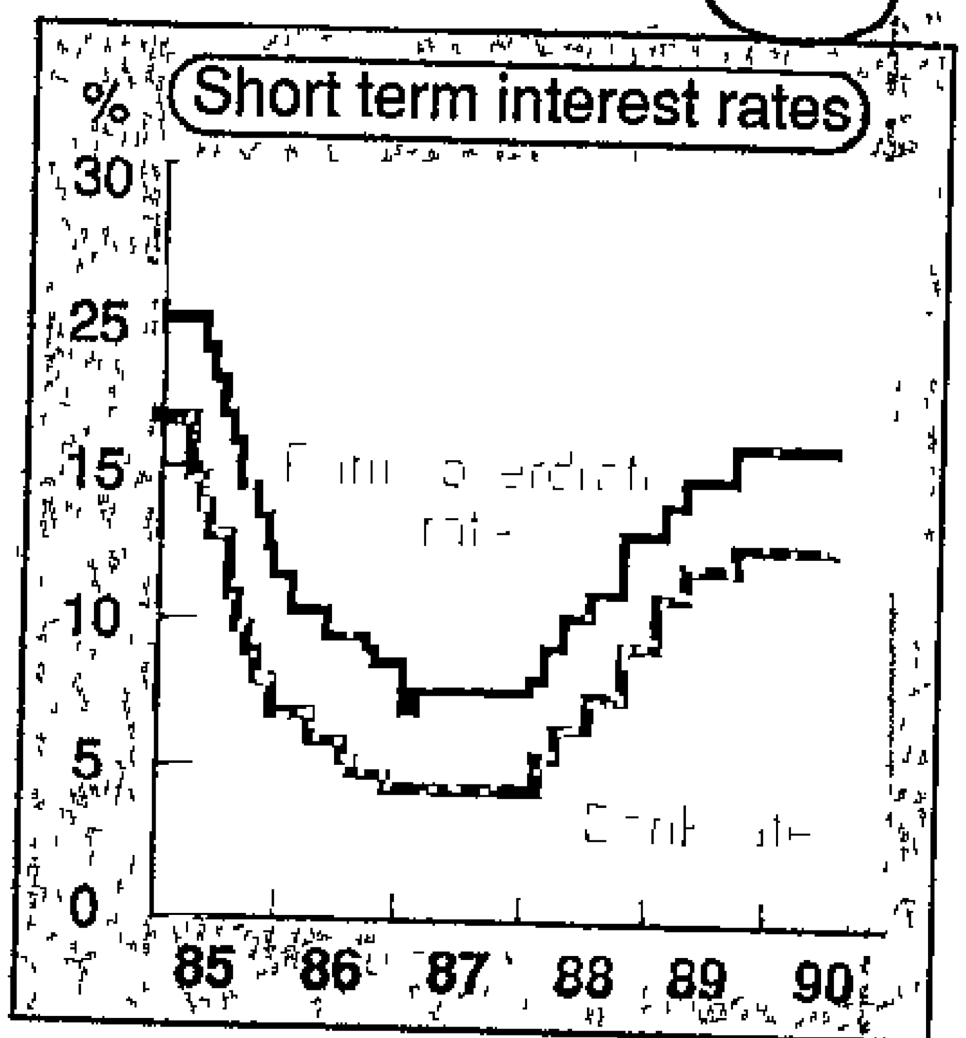
In a key speech demonstrating strong resilience in the face of growing pressure to cut interest rates, he stressed the authorities' "total commitment" to the battle against inflation.

"The sooner this dictum is believed and accepted, the less pain there will be in the adjustment," he said in his Governor's Address in Pretoria yesterday.

Apart from high inflation, the gold and foreign exchange reserves were too low to justify an easier policy The influence of excessive increases in the money supply in 1988 and 1989 remained a problem as there was too much money in the system

The Middle East crisis had further complicated the situation.

"The SA economy is now in a delicate stage where a change in direction of monetary policy has to be considered It is, however, extremely important that any switch in policy should be carefully timed — a premature relaxation of the restrictive measures can easily nullify the progress made over the past year towards restoring financial stability," he said.



Graphic LEE EMERTON Source RESERVE BANK

His address comes at a time when the markets are impatient for a cut in Bank rate Some sections of organised commerce and certain economists have also called for an easing in policy in response to the recession

Stals countered this sentiment with "The Reserve Bank is not insensitive to the

□ To Page 2

Stals unbending

□ From Page 1

hardships created for many people by the present low economic growth rate, but must warn against the temptation of seeking relief for all of the country's economic ills in a premature relaxation of monetary policy."

It was not surprising that "many unreasonable and even unrealistic expectations" had arisen on the power of monetary policy actions to ease economic ills, he said

In spite of the clear signal that a cut in Bank rate was not imminent, the capital market showed bullish reaction to the speech A dealer said the bullish sentiment reflected optimism that Stals would win the battle against inflation. However, rates kicked up again towards the end of a volatile day with gold's collapse winning the day.

The speech provided scant clues as to at which level of inflation or money supply growth Stals might be moved to act

On money supply, he noted it would be "no cause for concern" if the rate of increase turned out to be below the 11% bottom of the target range.

In retrospect, the money supply guidelines of a range of 11%-15% for the increase in M3 had been generous, he said — indicating that a period of growth inside the guideline might in itself not be enough to trigger a drop in Bank rate

He noted, however, that a change in monetary policy could be introduced "at any time, at short notice, and on the basis of all new information that becomes available."

● See Page 3
● Comment Page 10

Stals warns industries

Cape Times. 29/8/90

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Financial Editor

THE structural problem of deeply embedded inflationary expectations among decision makers will have to be addressed before meaningful progress can be made in the fight against inflation, said Reserve Bank governor Chris Stals yesterday

In his annual address to shareholders he warned industry and trade unions they risked losing work and jobs unless they took seriously the authorities' twin goal of curbing inflation and protecting the rand's value.

He also cautioned "Ultimate success in the fight against inflation will not come easily or quickly"

He said modest gains had been made in that campaign, but added that 16 years of double-digit inflation — averaging 13,7% — had produced a structural problem of deeply embedded inflationary expectations among decision makers

An almost invariable principle adopted by industry and business in setting prices, which was carried over into wage negotiations, investment and many other economic decisions, was to use as a point of departure an assumed rate of inflation at least equal to the indifferent record of the recent past, he said

Trade unions who act likewise will price their members out of employment," he added

Political reforms

Sweeping political reforms since February, designed to dismantle apartheid, have generated high expectations among the mainly disadvantaged black majority for a rapid improvement in living standards, and fuelled union militancy

Unofficial figures show the number of man-days lost through industrial action totalled 1,2m in the first half of 1990 — nearly triple the number for the same period last year.

He said modest achievements so far in reducing inflation have resulted mainly from a dramatic decline in the rate of increases in the prices of imported goods

In the year to June 1990 the price index for imported goods rose 6%, less than half the 12,5% rise in the index for locally produced goods

"If this trend in prices continues, SA producers will find it progressively more difficult to compete with imported goods, and also to retain their competitiveness in the export markets," he said

"The authorities are determined to persist with the necessary restraints until inflation, and also the perception of future inflation in the minds of the beholders, have declined to the desired level — a rate more in line with the average rate of inflation of our trading partners," he said

FINANCE

Inventories lowered ahead of the slump

B/Day 30/8/90

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MARIETTE DU PLESSIS

BUSINESSES appear to have learned from previous recessions — they have managed to reduce their stock levels to anticipate the current downturn

Industry spokesmen and economists say destocking from the second half of 1989 enabled businesses to bring inventory to sales ratios down to a greater extent than during the slight 1984-86 recession

Consequently the inventory build-ups which normally occur in an economic upswing and last into the downturn were lower than before

The more gradual downswing during most of 1989 also served to reduce the element of "surprise" in the changed business situation and forestalled a major part of the overshoot in inventories which tends to result from more abrupt cyclical fall-offs in economic activity

Companies destocked to prevent a fall-off in production due to unanticipated liquidity problems Consequently the inventory build-up during the latter half of 1988 and the beginning 1989 was less than before, as reflected in the latest Reserve Bank statistics

The figures show the level of industrial and commercial inventories relative to GDP to be 20,5% in the current downswing to date, compared with 25% in the downswing of 1981-82 and 22% in 1984-86.

Together with the declining inventory cycle, SA's GDP contracted further in the first quarter of 1990, declining at an unchanged rate of 1,5%

Total real inventories maintained their traditional lagged relationship to the business cycle However, as early as the third quarter of 1989 — when positive real growth was still being recorded in the overall economy — aggregate real inventories were already being reduced, the latest Reserve Bank annual report says

The quarterly decline in the change in total inventories, at seasonally adjusted annual rates for the first quarter in 1990, amounted to R3bn compared with R0,4bn and R1,6bn for the third and fourth quarters in 1989 respectively

The report says computerised monitoring and positive real interest rates, together with the "soft landing" character of the cyclical slow-down helped to dampen the amplitude of the inventory cycle, which has been destabilised to a lesser extent than previously experienced

Link between inflation and unemployment

Sowetan 30/8/90

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IN the last article we discussed the damage inflation can do to the economy This time we examine the link between inflation and unemployment

There is huge unemployment in South Africa Many blacks of working age are unemployed, especially those who do not have education and skills Many people blame apartheid for this problem They are only partly right.

Where they are right is in the deliberate restrictions placed on blacks to receive a proper education and to work in certain jobs

However, many other developing countries, where there is no apartheid, also have high unemployment Over many years, these countries have often followed policies of high inflation This means that they printed money to try to ease the burden of the unemployed

Unfortunately, it has been shown time and again that printing money does not ease unemployment It only leads to inflation .Sometimes, the extra money does give the economy a boost for a short period This leads to new jobs being created But rising inflation soon follows and jobs are then lost

The reason is that inflation reduces the will of people to save their money Consumers would rather spend than save

Need to save

Savings are the life blood of an economy because they are the source of funds to build new factories and businesses And this is where new jobs come from

Even if savings are available, inflation clouds the outlook for the economy Investors become less keen to put up new factories because the future looks uncertain

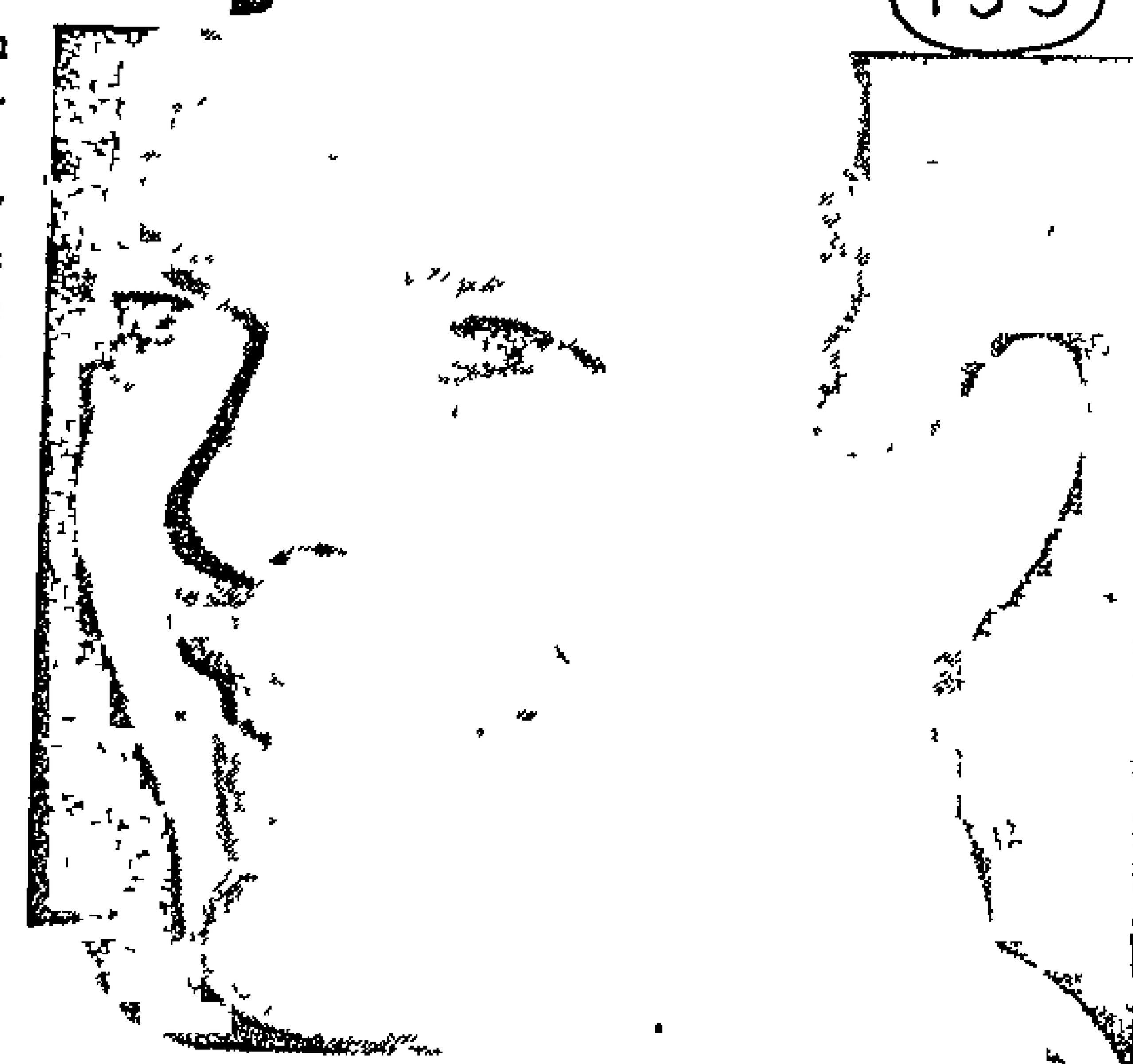
So, in the long-term high inflation is always associated with rising unemployment It can become a vicious circle. If jobs are declining and the government prints more money, inflation follows Then more jobs are lost.

If the government prints more money, inflation rises further and still more jobs are lost And so on

Often this process is worsened by "stop-go" policies. This is where the government tries to reduce inflation for a while with very tough policies Later, it backs down and inflation takes off again

There are other negative effects High inflation causes the exchange rate to fall which itself can lead to more inflation because the cost of goods from overseas becomes more expensive

The message is that any economy that tries to inflate its way out of trouble only digs a deeper hole for itself The only long-term solution to high inflation is tight control over the money supply and a freer economy



Business columnist Graham Bell.

Workers should be allowed to work where they choose and accept whatever wage they can get

This last point is strongly opposed by the trade unions because they are after a living wage for their workers But where jobs are scarce, union wages can only be paid to a limited number of workers If business cannot pay lower wages, it cannot afford to employ more workers This is a growing problem in South Africa It is a problem that printing money cannot possibly solve

Countries that have achieved low unemployment have usually had low inflation Korea and Taiwan are very good examples These countries have had phenomenal success. They started as low-wage economies and concentrated on creating maximum jobs Education has been a high priority

Many successful economies have aimed to sell their goods into overseas markets This earned them the foreign exchange to buy essential imports (mainly technology)

A high-employment policy is the best formula, even if wages start off low The more workers there are, the more goods are produced and the more money there is to buy them This means more businesses can start up and still more workers can be employed

In short the gruesome reality is a choice between low wages and no wages at all

Right now the political mood in South Africa is not in favour of such an economic system Hopefully, if the political climate improves we will accept that low inflation is a pre-condition for creating jobs

Conditions set for lower rates

THE Reserve Bank has no objection to lower nominal interest rates, provided the rates decline for the right reasons and at least exceed the rate of inflation, says Governor Chris Stals.

Stals, addressing a business breakfast of the Johannesburg Chamber of Commerce and Industry yesterday, said that if equilibrium between the demand for and supply of loanable funds could be established at lower nominal interest rates, without an excessive increase in the money supply, the Bank would have no objection.

Genuine savings and the real demand for funds would then determine the interest rate level.

As long as the supply of loanable funds was not supplemented with new money created by the Reserve Bank, nominal interest rates would normally remain above the rate of inflation.

He said that over the next few months the Bank would be guided in its monetary policy by the underlying changes in the demand for and the supply of funds outside of the money creating machinery, by the changes in the money supply and movements in the interest rates and by changes in foreign exchange market position.

While SA now had the opportunity of moving closer to the ideal situation which included zero inflation, positive real interest rates and a balance of payments equilibrium, the Bank was not satisfied that enough progress had been made to attain greater financial stability.

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Perseverance

A premature relaxation of monetary policy could therefore easily nullify the progress made so far.

"The progress made over the past year justifies our call for the perseverance for some more time in our restrictive monetary and fiscal policies."

The Bank, however, would not unnecessarily delay the relaxation of monetary policy. — Sapa

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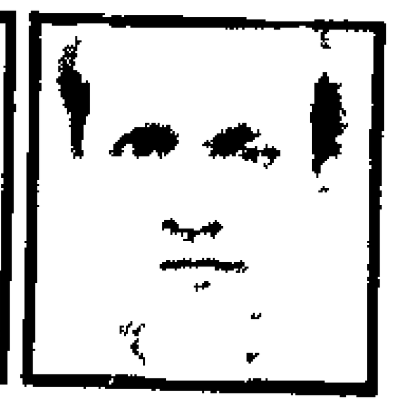
Star 1/9/90

A fight that must be won

Money Matters

MAGNUS HEYSTEK



THE resolve by Dr Chris Stals, Governor of the Reserve Bank, to break this country's inflationary spiral, should not be underestimated.

By all accounts, South Africa is moving into a new monetary era which is likely to have a profound effect on all of our spending and saving decisions.

This was evident from his presidential address earlier this week when he refused to be pressurised into dropping interest rates.

Interest rates, he said, would not be dropped until the inflation rate came down and the growth in the money supply figures declined further.

Any premature relaxation of the current tough monetary stance, he said, will nullify the progress in the fight against inflation and will soon lead to renewed clamps to protect the balance of payments.

South Africa's inflation rate jumped into the double-digits after the first oil shock in 1973. Since then inflation has averaged 15 percent, rising to a monthly high of 20 percent at one stage.

During this period, various half-hearted efforts were made by the authorities to curb the inflationary spiral. None of them worked, partly because the socio-political consequences in the form of massive unemployment, social unrest and even hunger and malnutrition were politically unacceptable.

We were all right with a high inflation rate while everyone else had it too. But this lasted for only a very short time. While all our trading partners got their inflation rates down, ours went the other way. This left the authorities with no choice but to drop the external value of the currency to maintain what is called the "purchasing power parity"

What this means is that the external value of the rand has to drop roughly equivalent to the differences in inflation rates between two countries. An example will illustrate this principle better: Country A (South Africa) has an inflation rate of 15 percent It trades with country B (West Germany, for example) with an inflation rate of 5 percent. The obvious difference is 10 percent.

In order for the West German tourist's money to retain it's purchasing power in South Africa, the West German currency has to appreciate by 10 percent against the rand. This is the nature of currency markets.

So far Dr Stals has managed to return some form of stability to the rand exchange rate since he took over the Reserve Bank. While much has been written about the sharp decline against sterling, which accounts for only about 16 percent of our foreign trade, it has been very steady against the US dollar, the currency in which most of our trade is done.

A consequence of this is that the continuing rise in the price of imported goods, and especially cars, can be expected to slow down.

A break in the inflationary spiral, however, can only be achieved by ensuring that savers earn real rates of return on their money. At a prime overdraft rate of 21 percent (compared with the inflation rate of 13 percent) the real return now is 8 percent. But this does not take taxation into account.

An era of real interest rate returns is upon us. Savings will be rewarded while spending will be penalised.

Most countries in the world with high growth rates, like Japan, Switzerland and West Germany are countries with high rates of savings and low rates of inflation. Wouldn't it be nice if we joined that group?

The market is littered with the walking wounded

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Inside Out

ANN CROTTY

SOME interesting share dealing on the market this week although the underlying level of activity remained fairly dull with nobody prepared to take a firm view on gold, the finrand or De Beers.

And it was another week of some really awful company results mixed in with a sprinkling of excellent performances. But with Mr Stals (who reckons you've got to be a sadist to be a Reserve Bank Governor) seemingly determined to reduce inflation it is inevitable that in the months ahead, the walking wounded will far outnumber the able-bodied corporates.

So not much direction or hope for confused investors.

Myles was told that the reason institutions aren't buying right now is cos prices are too low — apparently they prefer to wait until there's a mad rush into the market and prices are pushed to more expensive levels.

Titaco featured on the list of the week's major price movers — up 15c to 85c. There wasn't much volume but Myles reckons that this is yet another example of how issuing a cautionary can improve a share's rating. He says there's been no good news about the company, most of the talk refers to cash constraints and the possibility of a change of control — not exactly bullish stuff

Last week's cautionary issued by Martin Jonker Holdings is apparently to do with a small acquisition. Myles couldn't be more specific except to stress there was no change of control

Acquisition

Buildcor's cautionary refers to the acquisition of part of PG Bison — a company that is controlled by the PG Group with Mondi and Afcol also having a stake.

No news on the Drop Inn cautionary.

Myles heard some rumours that the Namsea cautionary could involve a change of control at about 550c a share. But he couldn't get any reliable gen except that an announcement is likely to be made sometime next week.

Difficult to see who could be buying this Barlows' subsidiary (held via Oceana). The 550c is well up on net asset value but looks very weak against the 12 month share price high of 900c.

There was very heavy volume in Farm-Ag during the week with most of the trading accounted for by one or two book-overs mid-week. The share doesn't normally attract much attention and Myles was unable to track down any gen but is trying ...

Digoco, which had a 4 for 1 share consolidation a few weeks back when the share was around 5c, is now looking at a share price spread of 5c-10c. Myles thought that even this level seems fairly generous.

With the weak institutional holder now completely sold out of Rusfurn, that share price seems better able to respond to some strains of positive sentiment — it was up to 140c this week.

Well supported

On a sortof related matter, the Tradegro share price seems to have established a bottom level of 120c which is reasonably well supported by the valuation of its listed subsidiaries This week's grim results didn't move it below that level.

But there's growing talk in the market of the need to break the group into more manageable units. Chief executive Donald Masson, although disappointed by the financial '90 performance, doesn't seem to be entertaining these sort of thoughts.

And his views on the departure of Rusfurn? "Miss the team, miss the earnings, but don't miss the debt."

Myles heard some talk that the Registrar of Financial Institutions is not all together happy with the JSE's plans to introduce a R30 basic charge on broking transactions This minimum charge is to be introduced some time in September.

Myles reckons that a R30 basic charge is unlikely to get the man in the street enthused about the delights of capitalism and share ownership. And what happens if Iscor workers decide they want to sell their not-so-great Iscor investment and are told they'll have to pay R30 for the privilege?

But as the Registrar has two representatives on the JSE Committee, if there had been any serious reservations on his part they should have been voiced some time ago

More small firms failing as recession takes toll

153 GERALD REILLY

PRETORIA — The recession is squeezing the life out of a growing number of companies and close corporations, says Information Trust Corporation (ITC) chairman Paul Edwards B/Day 3/9/90

At the weekend he said the number of companies and close corporations being liquidated had increased dramatically in the first half of the year compared with January to June last year

In the first six months of this year, 916 companies and close corporations were liquidated compared with 671 last year — an increase of 37%

June's figure of 195 liquidations was the highest monthly figure since July 1987 The economy, Edwards said, was unquestionably in recession This was borne out by the negative growth over the last three quarters

Some industrial sectors were being hit harder than others but generally profits were under severe pressure and cash flow problems were crippling other areas

The rate of liquidations, Edwards said, was likely to continue to rise over the next 12 months He could not see an upturn in the economy before mid-1991

It was sad, he said, to see businesses with full order books fail However, unless money from sales found its way into the bank, businesses were at risk

Black spending helps to foil lower earnings trend

B/Day 4/9/90 153

MERVYN HARRIS

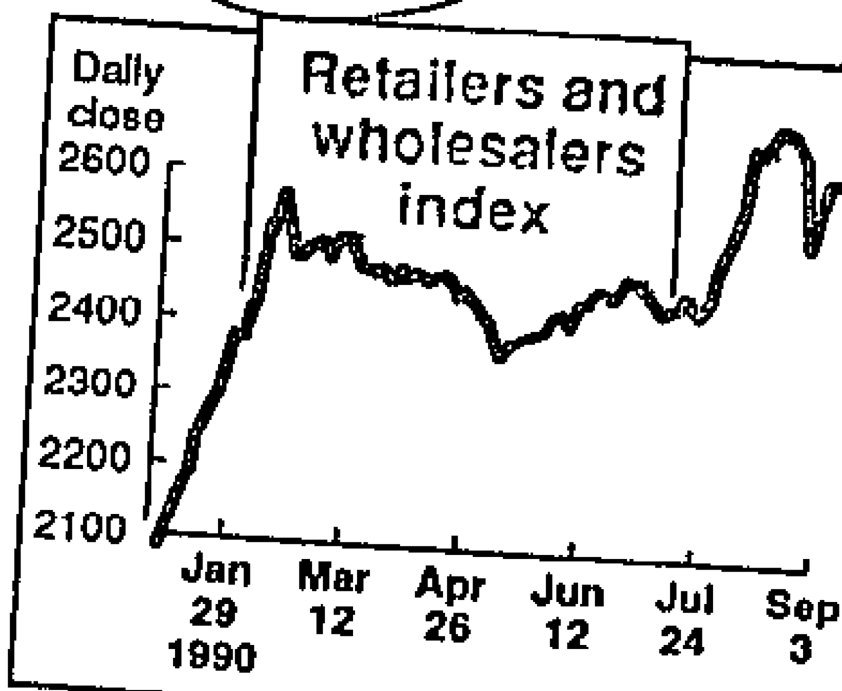
WAGE increases for black workers above — or at least in line with — the inflation rate, could be the major reason why many consumer companies are bucking the general trend of lower corporate earnings, say analysts

The rent holiday in Soweto and other black townships could also have increased the availability of black discretionary income The ending of the boycott should, therefore, have an impact on spending patterns

Consumer durables and semi-durable goods are usually hit hardest in a recessionary climate But results from Wooltru, Foschini and furniture groups J D Group and Rusfurn show they are weathering the storm better than most other companies, and Pepkor has indicated earnings are on an uptick

Ed Hern Rudolph's Syd Vianello ascribed the improved performances of these companies to black workers spending the money they had been receiving in above inflation-related wage increases

"As people's needs and aspirations improve, they spend more money on items which enhance their status These include things such as good clothing and furniture in the house," he said



Graphic FIONA KRISCH Source JSE

This view is shared by other analysts who have been surprised by the resilience of consumer-based companies, which normally feel the crunch of a downturn more than other companies

Mathison & Hollidge's Aloma Jonker said that the relaxation of HP restrictions earlier this year helped furniture companies put in good performances

"The lifting of the restrictions released pent-up demand for furniture Foschini does a lot of credit sales, which do well in recessionary times, and Wooltru was boosted by its image of a quality store

"But not all companies have done that well, which suggests that good management is a crucial factor Those companies best able to manage stock turns and margins have shown the benefits"

But both Jonker and Vianello see more difficult times for consumer companies in the months ahead, as the recession bites deeper

Jonker noted that clothing inflation was running higher than the CPI, which could put the squeeze on companies Moreover, the growth in furniture sales was already showing signs of weakening

"The months ahead are going to be difficult and it will all come down to how management copes with the situation," she added

Vianello said increasing retrenchments in the labour market, as the economy remained in the doldrums, would also slow the rate of growth in expenditure on consumer goods

Battle against double-digit inflation likely to suffer a severe setback

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BDay 4/9/90

ANDREW GILL

AFTER its recent slide, the inflation rate is set to come under renewed upward pressure as a result of yesterday's 10c (almost 9%) petrol price hike that could see efforts to destroy double digit inflation falter.

A 10% hike in the local petrol price, analysts say, could lead to a 0,5 percentage point hike in the inflation rate excluding the knock-on effects (transport costs), which could push it up by another 0,5 percentage points — a 1% overall hike. Further pressure will be exerted by the effect of world inflation on the price of imports.

This could set inflation on a gradual ascent as the knock-on effects filter into other sectors of the economy

Inflation has declined steadily from its 15,7% peak in June last year to 13,3% in July. Analysts say it could return to about 14% in November as a result of the higher petrol price.

Finance Minister Barend du Plessis said in Natal last week the oil price rise and gold price fall had been an "unkind cut" coming at a time when economic policy seemed to be paying dividends

If the Middle East crisis continues supporting oil prices at their high levels, further petrol price hikes can be expected

If petrol were to rise by 20% the direct effect on the inflation rate would be in the region of one percentage point with the knock-on effect contributing a similar rise

Standard Bank's economics team says petrol price increases could halt the downward trend in inflation this year and hamper progress next year.

They sketch a scenario of inflation remaining at its current level in 1990 and declining marginally to 12,9% by the end of next year as a result of petrol price increases

The model assumes interest rates remain unchanged and all other components of the CPI rise by 1% a month

Pressure on the rate of increase in the CPI will be fuelled by the inflationary effects of higher oil prices on SA's trading partners — which translates into imported inflation

SA's import price inflation, which has been the major factor behind the falling inflation rate, could lose its downward impetus on the local inflation rate

The annual import price inflation rate was only 6% in June compared with domestic producer inflation which was 12,5% An increase in import inflation and a static, if not higher, domestic rate are the likely implications of higher oil prices

A further spoiling factor, observers say, is that local producers and retailers are raising their prices to protect their margins and are proving to be a costly factor in Reserve Bank Governor Chris Stals's attempts to bring down the inflation rate.

The rate of increase for the index of lo-

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Inflation

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cally produced commodities has not fallen since March this year and is almost the same as February's rate of 12,6% at 12,5%

However, the rate of increase for imported commodities has shown dramatic declines over the past few months It has more than halved since March (12,5%), falling to 6% in June

This hefty fall could be reversed if SA's trading partners are unable to absorb the higher oil prices, which economists say is not unlikely

The petrol price increase, consistent price increases from local producers and the inflationary implications of high oil prices on SA's major trading partners could, if they coincide, result in an extremely "unkind cut" for Stals in his war against inflation

Job market 'still needs skilled people'

B Day 5/9/90 (153)

MARIETTE DU PLESSIS

THE job market in SA was not flooded with skilled people, despite the economic downturn, Colin Katz Associates MD Colin Katz said in a recent interview

Companies in general falsely believed a tight economy would necessarily imply the industry was inundated with highly qualified people available at "bargain basement" prices

However, Katz said the law of supply and demand did not apply in times of recession and the existing skills shortage in all sectors made it more difficult for personnel consultancies to recruit people with the relevant qualifications and experience

The economy was growing despite recession, leading to a demand for graduates which exceeded the turnout

He said an estimated 50% of graduates were leaving the country

Katz said people were "job-hunting out of necessity and not out of choice" and attributed this trend to the changing political and economic situation in SA in terms of job insecurity

An age restriction contained in many adverts made it almost impossible for men over 45 and women over 35 to find employment

Katz felt women's role in middle management was almost non-existent with a negligible percentage of the Top 100 companies having female directors in management

But, he said, many companies were rapidly changing their perceptions about employing people of all races.

Don't pin hopes on hefty pay increases

Star 8/9/90 (153)

DEREK TOMMEY

THIS year's annual pay rises are likely to be the smallest for a decade. A falling inflation rate, the growing business recession, continuing high interest rates and uncertainty about the economic outlook are expected to make employers extremely reluctant to grant anything near the rises of previous years.

Employees expecting their annual rise to provide them with enough money to pay debts and spend more freely again will be seriously disappointed.

Many South Africans have become accustomed to seeing their pay packets match the inflation rate and grow every year by 15 percent or more (last year the average increase was 16,9 percent)

But personnel consultants say this year most pay rises are likely to be limited to 12 percent

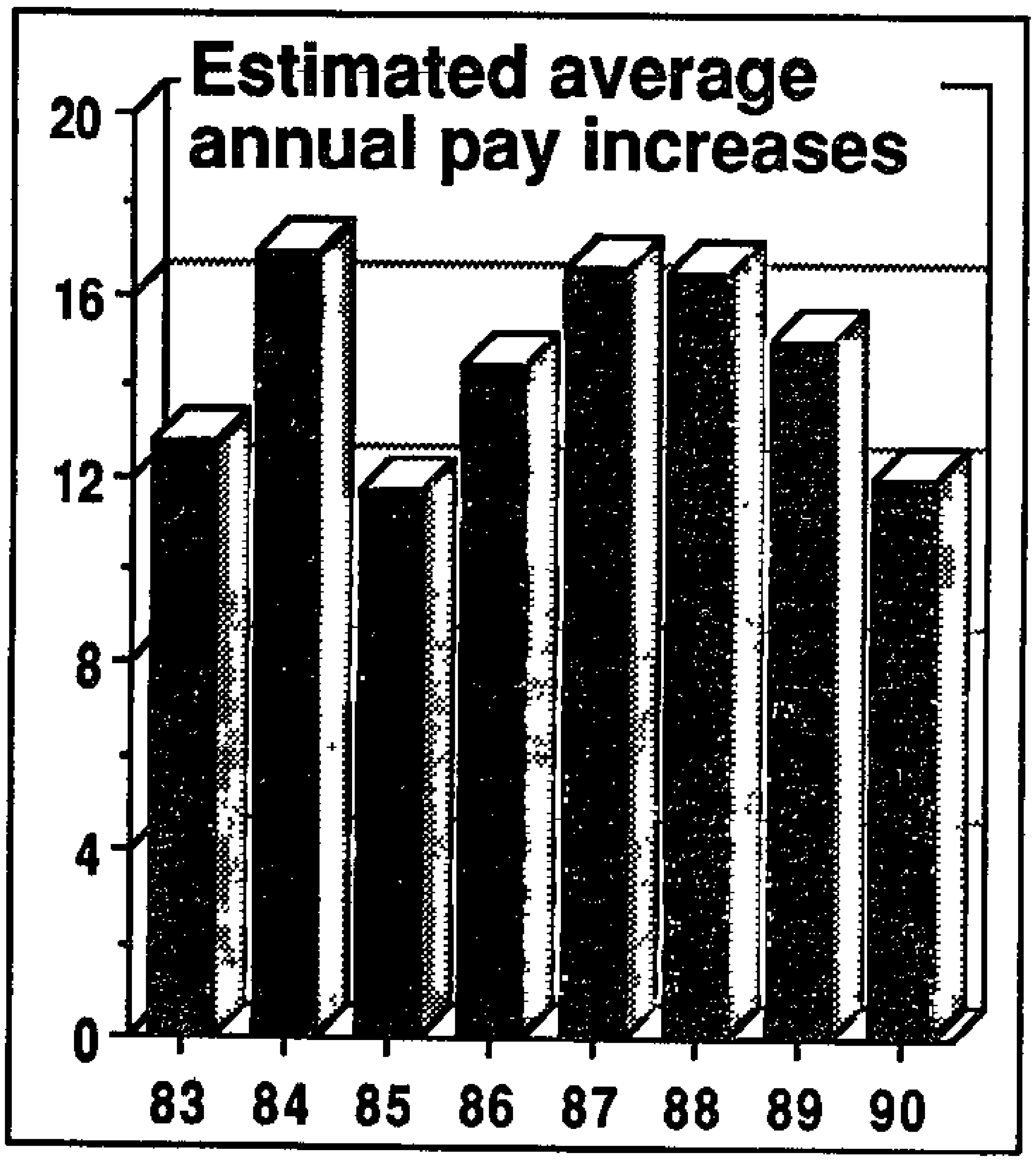
If the economy contracts still further, many increases might be no more than 10 percent, even though inflation is still running at 13 percent.

The recession has already led many firms to retrench workers, a consultant says. The result is that starting salaries, especially for clerical and administrative jobs, have begun to drop.

Lower year-end pay rises will be both the result and an important part of the authorities' drive to reduce inflation.

The Governor of the Reserve Bank, Dr Chris Stals, said this week that for the past 16 years South Africa had experienced double-digit inflation.

If the inflation rate was not reduced, there was a danger that South Africa could follow the South American pattern of huge inflation rates



In view of political developments, it was essential that a sound financial basis be created for the new South Africa, he said

This was perhaps the last opportunity South Africa would have to bring down inflation, he said.

Limiting wage increases was an important part of the anti-inflation campaign

Dr Stals has already warned that employers granting wage increases and raising prices on the basis of previous inflation rates could be heading for trouble

"This principle of price and wage determination will, if pursued into 1991, come into direct conflict with the resolve of the fiscal and monetary authorities to persist with their quest for stability of the rand," Dr Stals told the annual meeting of the Reserve Bank recently

"Producers who cynically underplay the Bank's resolve to control the expansion of the money supply will either price themselves out of the market, or see their operating surpluses evaporate

"Trade unions who act likewise will price their members out of employment," he warned organised labour

Some people might say we'd heard all this before, but inflation continued — and pay rises remained large

But this time, as Dr Stals has made clear, conditions are very different.

Where this anti-inflation campaign differs from previous ones is that the Reserve Bank has at last got the money supply under control

What this means is that the amount of money in the economy from South African sources cannot be enlarged to any extent without the consent of the Reserve Bank In doing this, the Bank is now able to control prices

Economists say prices, the level of economic activity and the money supply are directly related

The result is that if firms raise prices when the money supply is fixed, they will do less business

Therefore, granting big wages increases and putting up prices to pay for the increases is a recipe for disaster in current conditions

With Dr Stals apparently expecting tight money conditions and difficult economic times to continue for another year, it means that industrialists will have to think hard about lifting prices in the future

Even the latest oil price rise could turn out to be more deflationary than inflationary

In the past, an increase of this sort quickly resulted in a jump in the consumer price index, with demands by employees, usually quickly acceded to by employers, for a pay rise to meet increased expenditure

However, this time round the petrol price increase means up to R1,2 billion, according to the best guesstimates, is going overseas to pay for the higher cost of petrol

Unless the Reserve Bank takes steps to offset this loss there could be a contraction in the money supply — making it even harder for firms to put up prices and pay higher salaries and wages.

South Africans should not feel too badly about the authorities' aim of reducing inflation.

As a South African now working in the US (inflation rate four percent) once remarked "The big difference between the two countries is that if you get a pay rise in the US, it means something."

Perhaps, if Dr Stals succeeds in his endeavours, pay rises in South Africa might also mean something

PPI noses down with inflation

Star 12/9/90

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The production price index (PPI) has followed the inflation rate's slow downward trend and is at its lowest level since October 1984 when it was 9,8 percent

Central Statistical Services says the rate of increase in the PPI for July was 10,3 percent on an annualised basis — 0,9 percent down on June's 11,2 percent

The July-on-June increase was 0,4 percent

The price index of imported goods fell by 1,3 percent to 4,7 percent (six percent in June).

The largest price increase were recorded in furniture (6,2 percent), leather and leather products (6,1 percent), and footwear (5,2 percent) — Sapa.

EXECUTIVE SALARIES

STILL CHEAP JO'BURG

High inflation and rising costs may have eroded the bank balances of many business people, but executives in SA are still better off than a lot of their counterparts elsewhere in the world

A recently published international guide on executive tax and living costs reports that senior executives in Johannesburg can buy more with their salaries than people in similar jobs in Sydney, Brussels, Dublin, Oslo, Stockholm and several other major cities The survey, published by UK-based P-E International, finds that executive salaries go furthest in New York, Toronto, Geneva, Frankfurt and Paris

For South Africans, the downside of the report is that their buying power is declining For the year to March, prices in Johannesburg rose 18%, the report says This is considerably higher than Athens (13%), Brussels (10,2%), London (9,8%), Stockholm (8,5%) and most other major cities

While SA suffers from high inflation and a deteriorating exchange rate, executives in Europe have benefited from reductions in direct taxation as governments attempt to minimise taxes in an effort to attract foreign investment, according to Ash Emery, MD at P-E International's SA representative, Emery & Associates

Though inflation has driven up the cost of living, SA still ranks among the cheapest industrialised countries in which to live The added benefit of the weak rand ensures that SA is very attractive financially for expatriates from Europe and the US.

Out of 31 cities sampled, only Prague and Budapest can offer a cheaper cost of living than Johannesburg, claims the report The most expensive cities to live in are Oslo, Tokyo, New York, Stockholm, Copenhagen and Brussels Cities almost on a par with Johannesburg are Manchester, Toronto and West Berlin Housing is most expensive in New York, Lisbon, Tokyo, London, Brussels and Barcelona

A weekly food budget for a family of four — estimated at about R200 in Johannesburg — costs the equivalent of R616 in Tokyo, R560 in New York, R363 in Paris, R297 in London and R279 in Sydney

A more important reason for cheer, perhaps, is the low cost of alcohol in SA A bottle of Scotch bought in Johannesburg, for example, is likely to be about half the cost of a bottle in London, Zurich, Tokyo or Dublin The bad news for residents of Sydney, California and Helsinki is that they will have to pay close to three times as much as SA drinkers ■

SA may 'bite recessionary bullet' for longer period

8/Oct 18/9/90 153

ANDREW GILL

SOUTH Africans might have to "bite the recessionary bullet" for longer than had been anticipated, possibly another year, economists said yesterday

World economies are facing intensified downward pressure as a result of higher oil prices, and many are set to enter premature recessions

The resultant waning demand in weakening world markets could stifle the chances of stimulating the economy by means of increased export earnings, SA's traditional upswing leader, they said

Also, monetary policy might have to stay tight for longer as a result of the fuel price hike's inflationary impact, and the continuing township violence was expected to discourage foreign investment in the uncertain climate

UBS economist Hans Falkena said any upswing should not be expected until the third quarter of next year

Gold's weak performance since the crisis did not bode well for exports as investors turned to currencies to realise a real return on their money

Frankel Kruger Vinderine economist Mike Brown said the slowdown in the international economy raised a question on future export growth

Real gross national product growth in Organisation of Economic Co-operation and Development (OECD) countries would be about 2,5% this year and 1,9% in 1991compared with 1989's 3,5%, he said

A stable to firm exchange rate against the dollar was also a problem as it depressed export earnings even further Weakening commodity prices worldwide were another deterrent to future growth

Boom

He said the local economy was likely to remain in its trough for about another year

Another means of stimulating the economy was through a consumption-led boom where interest rates fell and spurred demand, but Brown said this was dangerous as it merely fuelled inflation

By loosening money supply and dropping interest rates, the higher demand would put renewed upward pressure on the inflation rate, he said

It would make SA exports less competitive and cancel Reserve Bank governor Chris Stals's gains in his war against inflation, he said

Falkena said the economy could not be stimulated by monetary policy because of the tenuous balance of payments and weak gold and foreign exchange reserves position.

A recent report in the Financial Times said the International Monetary Fund (IMF) had warned countries not to ease monetary policy in response to the higher oil prices

The IMF report said relaxing economic policies would only make economic difficulties more severe and have a serious effect on inflation.

Stals said at the Bank's AGM "the ills of the economy cannot all be cured by relaxing monetary policy

"It is the strong opinion of the Bank that a new expansionary phase started now and based mainly on an excessive creation of additional money, and therefore also on unrealistically low interest rates, will not be sustainable "

Economists explain index performance

B Day 18/9/90 (153)

GILLIAN HAYNE

THE change in requirements stipulating the prescribed buying by financial institutions of government gilts is one of the reasons for the reasonably good performance of the JSE's industrial index, say economists.

Contrary to the popular theory that recessionary times lead to a poor industrial performance, the index is not easing as traditionally experienced.

Factors economists expected to negatively affect the index included large interest bills and a drop in demand for industrial products, and a possible move away from equities to the short-term money market to capitalise on high interest rates.

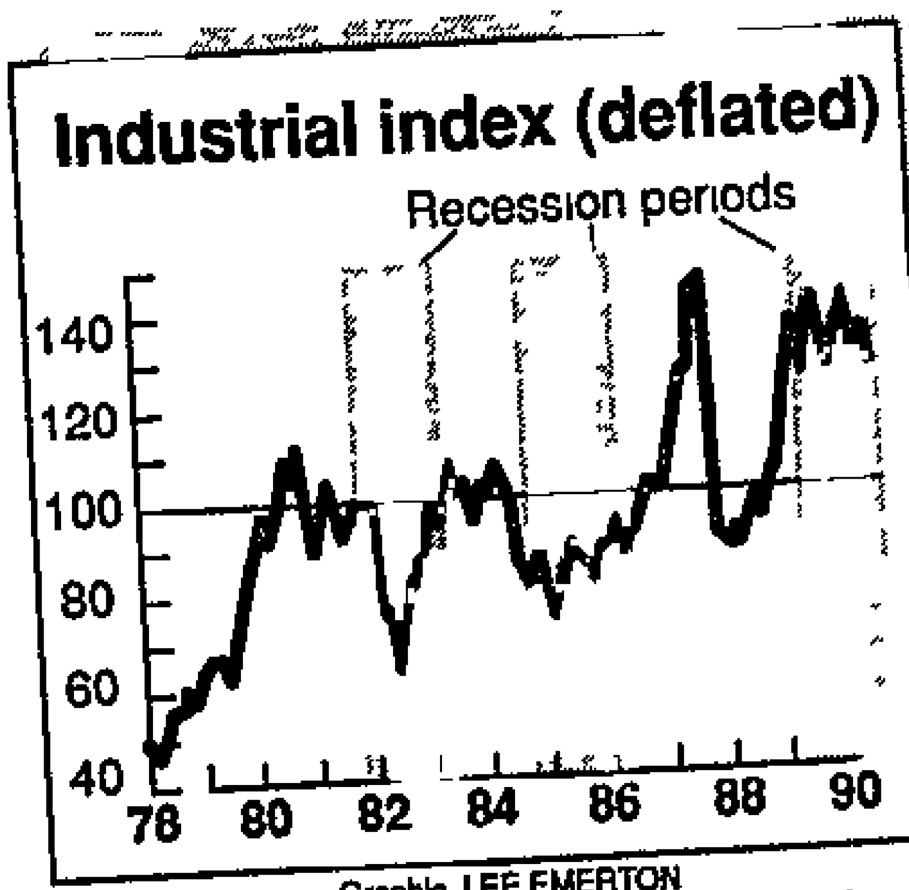
An analyst said yesterday that while institutions were not overly keen to buy industrial equities at present, they were also not selling as they wanted to keep their exposure to equities high.

A fund manager said government's move to drop the compulsory prescribed holding level of government stock had had a major influence in steadying the index.

It led to companies increasing their equity exposure at a mature time in the business cycle, and with the shortage of good quality scrip in SA they would prefer to hold their stock through rough times rather than sell and risk not being able to buy in at a later stage, he said.

Discount House of SA manager Chris Greyling said "On average, among institutions, equity holdings rose 10% to 58% after the change in the government ruling."

Another reason given for the unexpected behaviour of the industrial index concerned the share constituents of the index, many of which, for example Richemont, operated outside the recessionary circumstances in SA.



Graphic LEE EMERTON
Source GEORGE HUYSAMER & PARTNERS INC

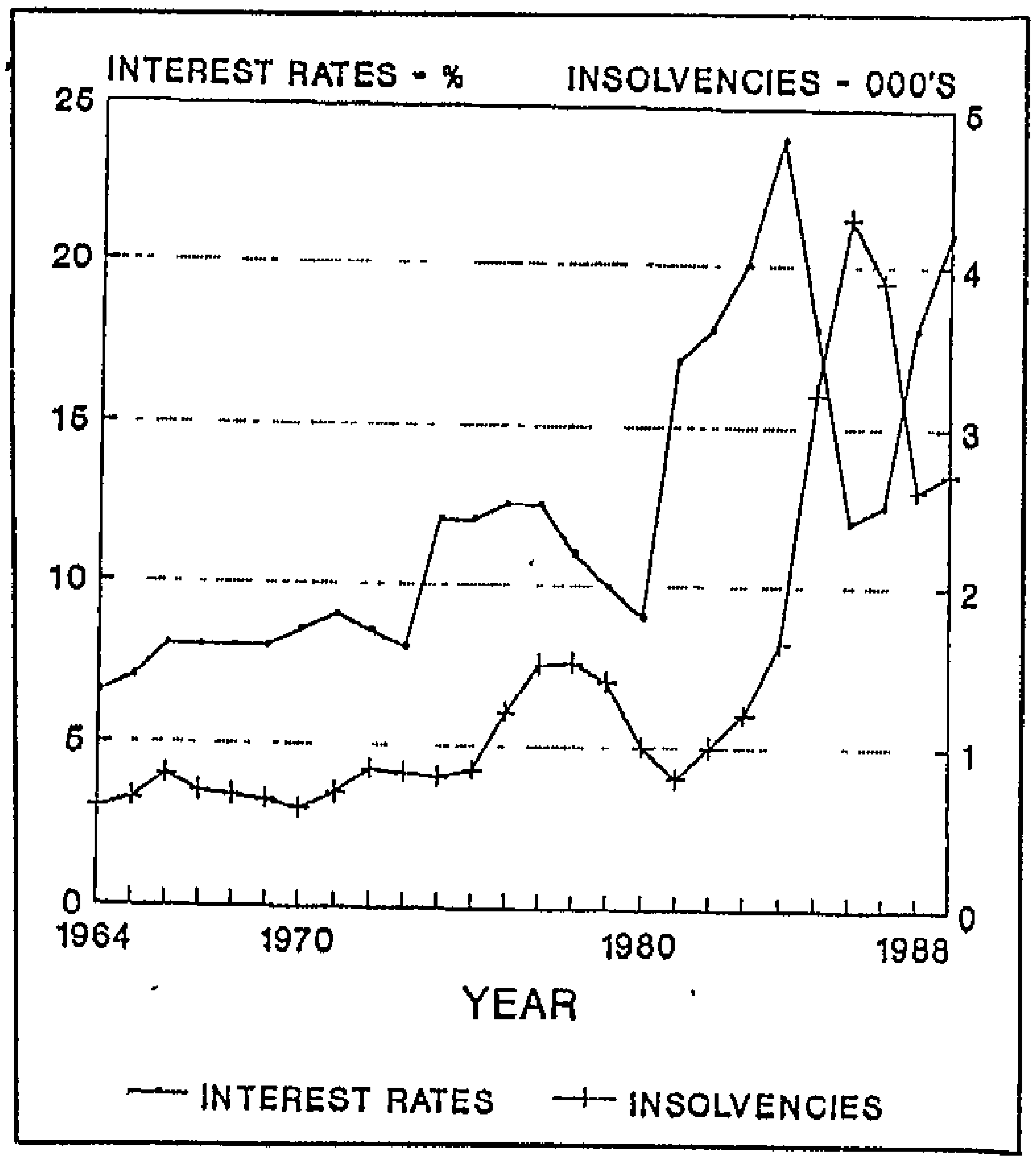
George Huysamer & Partners' Louis Geldenhuys explained that the industrial index came off a different base as it had to be read against the background of the exogenous shock to the market in 1987 and the subsequent recovery.

"Following the 1985/1986 recession, companies approached the current slowdown in a much stronger position — gearing ratios were stronger, inventories were better managed, and balance sheets were stronger — resulting in earnings growth remaining firm," he said.

Geldenhuys said the expectations of industry, following the changes in the political arena, had had a positive impact on the economy.

"But expectations are now turning sour with the increase in violence and the weakening of the world economy. The political situation with its physical disruptions to the economy and the influence of the world economy on SA could see the recession lasting longer than the average 27 months."

THE RECESSION: *Political unrest, the Gulf c*



More individuals go to the wall this time around

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By ROBERT LAING

INDIVIDUALS are being hit harder than companies in this recession. The value of consumer judgments is three times higher than in corresponding months in 1988 and twice as high as in 1989 The value was more than R150-million in May

The number of business insolvencies has not increased dramatically, but the size of those businesses which are going under has

Ernst & Young liquidator Philip Reynolds says. "Having one big company hit the wall is more damaging to the economy than having 12 little one-man businesses going bust.

"The number of insolvencies is not a true reflection of how serious the situation is because the size of companies is not given Examining the value of judgments gives a clearer picture "

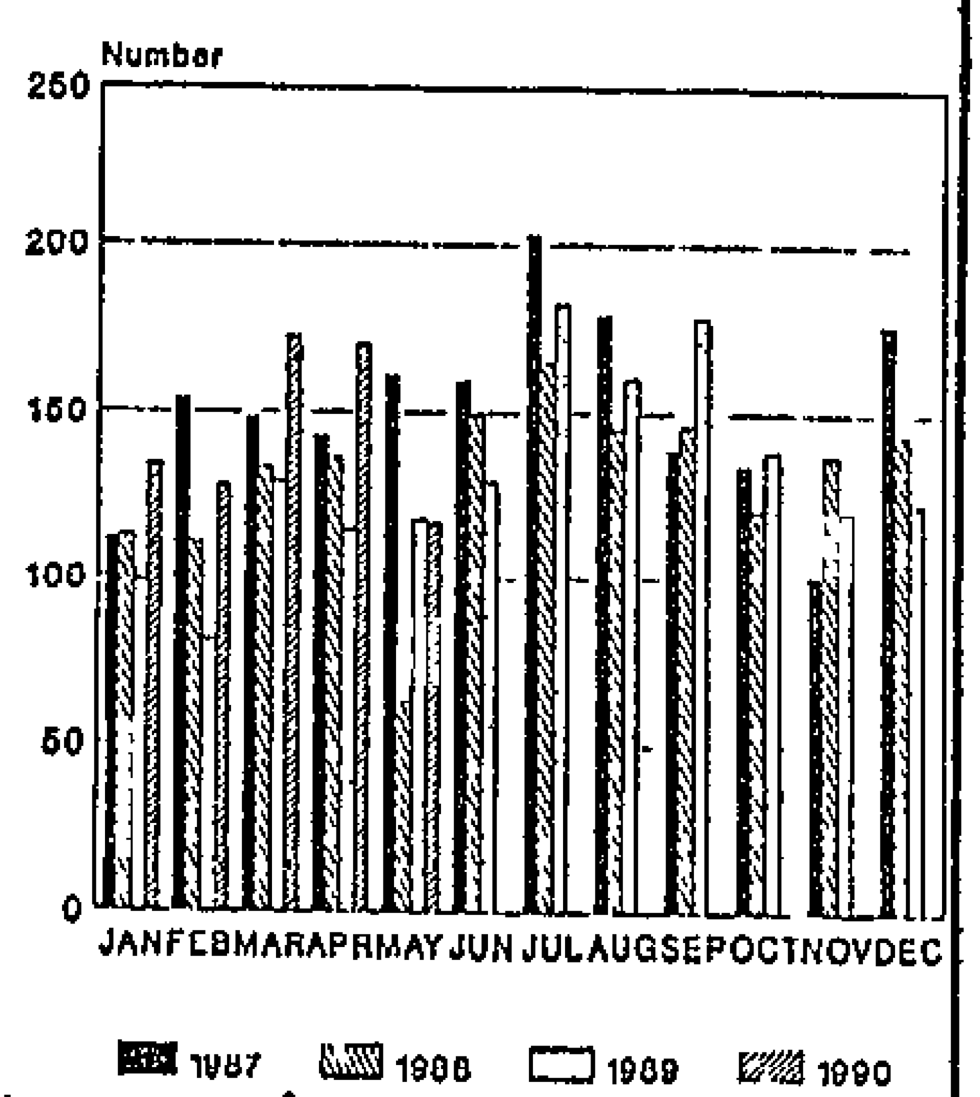
Kreditinform calculates that the value of business judgments has been averaging about R15-million since March, double as high as in 1988 or 1989

A relationship appears to exist between the number of insolvencies and interest rates A graph compiled by Kreditinform clearly shows that the prime rate level leads the number of insolvencies by about 20 months For instance, in 1985 prime reached its peak of 25 percent and liquidators were hard pressed to cope

The slaughterhouse months which followed peaked about two years later By then prime had eased to 12 percent — and the trend in liquidations lagged consistently. However, 1989 saw the pendulum swing back to prime at 21 percent and liquidators predict another wave of liquidations

LIQUIDATIONS

COMPANIES AND CLOSE CORPORATIONS



KREDITINFORM

w/Mail 21/9 - 27/9/90

On the rise — Inflation, violence And crime

wMail 21/9-27/9/90

BY ARTHUR MAIMANE

JUST like inflation rises in an economic recession, such as the one South Africa is sliding into, the crime rate takes off on the graphs of the police force and crimonologists. Some desperate people among the newly unemployed turn to crime as their "informal" alternative for making a living. But this anti-social progression is complicated by apartheid and its various side effects.

The disruption of black schools sparked off by the 1976 Soweto uprising, which was a protest against Bantu education, has resulted in thousands of children dropping out from the formal system that leads to gainful employment. Many of these no-hopers have turned to crime — an alternative that's become an easier option over the years because of under-policing. Thousands of policemen are occasionally taken off the normal crime beat to tackle "political unrest" in the townships — caused by apartheid.

There are no official statistics for any increase in crime this year because the figures are collated annually. But Brigadier Chris Serfontein, South African Police crime prevention co-ordinator in Pretoria, says there has been "a considerable increase" in serious crime. That was without taking into consideration the recent blood-bath on the Witwatersrand (about 700 murders and thousands of assaults) which has taken more policemen off the beat onto township frontlines.

This other effect of apartheid is bound to give non-political criminals more room to manoeuvre, especially when the policemen drafted into "Operation Iron Fist" man roadblocks in the townships.

Captain Opperman, police liaison officer in Johannesburg, has a different view on crime statistics from his senior colleague in Pretoria. He said that although he has no specific statistics because he'd have to ask all 92 police stations in his area, and that would take two weeks, the crime rate was "steady".

He said any suburban residents concerned about policemen being withdrawn from their usual patrols onto the frontline based their fears on insubstantial evidence.

Asked if there was a slow-down in police response to emergency calls, Opperman said people were conditioned by television dramas which showed police cars screeching down streets, sirens howling, within seconds of a call.

"We have to assess our response on priorities," he said. "If a resident calls complaining that towels have been stolen from their washing line and somebody else calls about a burglary in progress — or a rape — the priority is obvious. We could have several police cars responding to the crime in progress within minutes and ignoring the towel theft for a while."

However well the SAP are doing their job, some suburbs organised Neighbourhood Watch schemes to protect themselves from armed burglars and towel thieves. Gavin Webster is chairman of such an operation in a part of Kensington, Johannesburg. Neighbours got together last year at a time when, according to police statistics, break-ins were down to 88 890 from a peak of 150 186 in 1986.

Webster said that under-policing had been "a fact of life for a while" and the watchful eyes of his neighbours had kept the crime rate down. And the organisation had also served a social purpose by bringing isolated suburbanites together. Neighbourhood Watch schemes, he said, had improved contacts with the police — and some insurance companies were lowering premiums for residents in the eagle-eyed neighbourhoods.

Tens of thousands of homes around the country have been turned into fortresses and their owners are prisoners behind high walls, razor wire, electronic burglar alarm systems and other security measures. And they pay high premiums for the services of "armed response" security companies.

In the townships the attitude is that tall fences are self-defeating. First, they declare to the world that there are valuables beyond them. And, second, once the burglars have breached this first line of defence they are protected from the eyes of watchful neighbours.

There is, though, a crime that fences, razor wire and the latest anti-theft technology cannot diminish: vehicle theft. Manufacturers design ever more sophisticated alarms, immobilisers and even anti-hijack devices; but thieves soon find their way round this technology.

According to Serfontein, about a third of stolen vehicles are exported to neighbouring countries where foreign exchange restrictions limit legal imports. It seems that well-off people who can get foreign currency come to South Africa to buy vehicles and other luxuries while the rest wait for "back door" imports and pay in Zim-dollars, kwachas or whatever is the local currency.

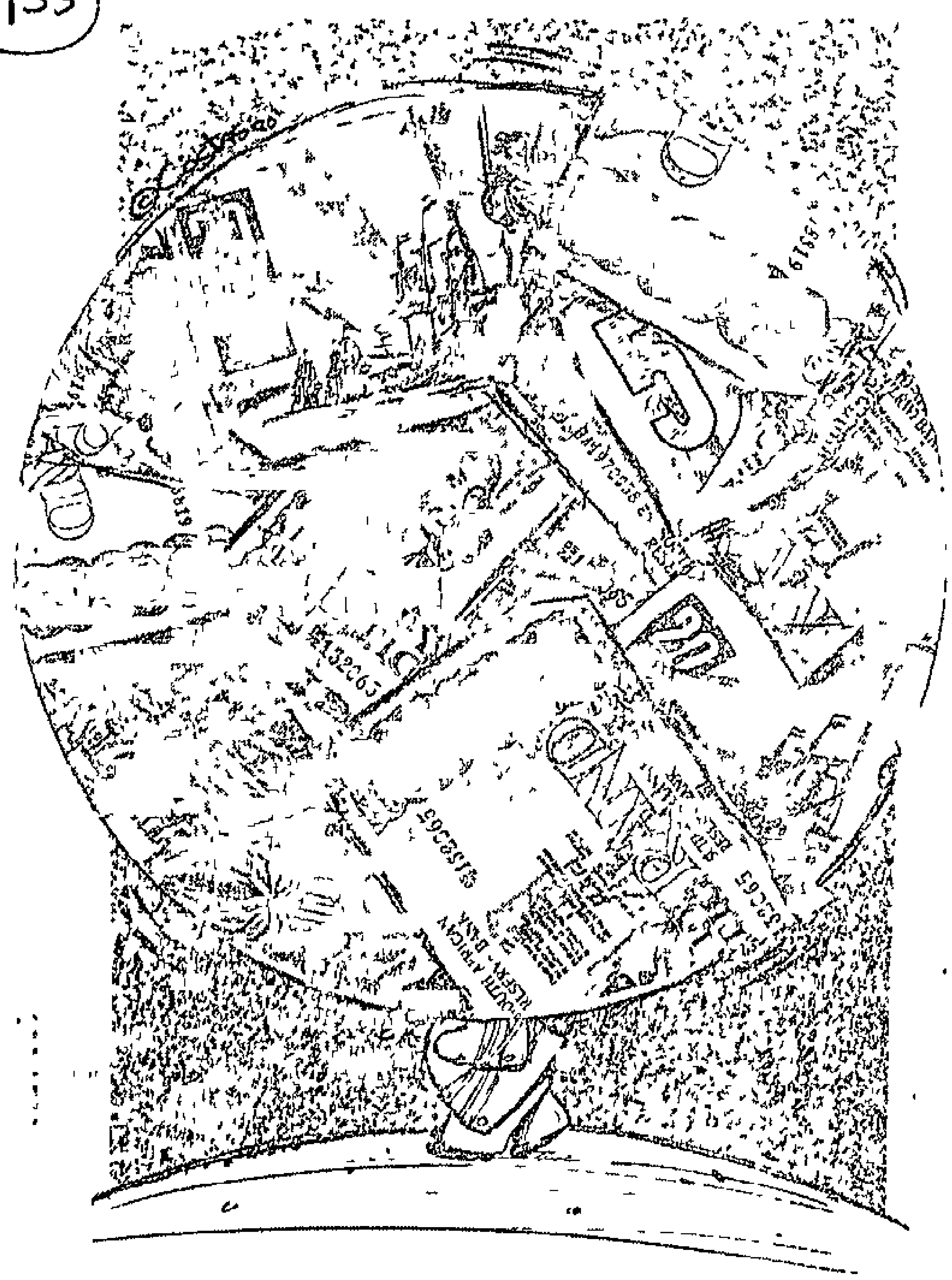
The SAP says it recovered 58 percent of the 56 640 vehicles stolen in 1987 but two years later the percentage was down to 52,1 — when the theft-rate had risen to 60 564 vehicles. Of the vehicles insured with members of the South African Insurance Association (SAIA) only 17 338 were stolen in 1987; but there was a much smaller recovery rate, 15 percent. The initial figures for this year promise a bumper year for thieves. According to the police, 17 860 vehicles were stolen in the first three months of 1990, which is 18 percent above the average monthly rate for the same period last year.

The SAIA statistics are reassuring for their members' policy-holders, with an increase of only 9,2 percent of their vehicles stolen in the same period this year.

Mild so far, but ...

WMail 21/9-27/9/90 (153)

How long the recession will last and how severe it will be are questions exercising the minds not only of businessmen but also of people with bond payments to meet and fears for their jobs **REG RUMNEY** *finds economists expect a long haul into dangerous territory ahead*



SO far, the recession has proved as moderate as it has been drawn out But there are ominous signs a contraction in the world economy will prolong the agony — or worsen it

And again for now, the feelings of gloom that attended South Africa's last, dismal recession have been absent As Reserve Bank governor Chris Stals has outlined, this is partly due to the mood of optimism that infused the country after State President FW de Klerk's glasnost speech at the beginning of the year

Even the wave of industrial and social unrest that has followed was initially seen as part of the process of change, not as signs of revolt against the system

That could change and may have already Businessmen complaining the situation is untenable, argue unrest hits productivity and profits, weakens business confidence and deepens recession But the unrest must also be caused to some extent by recession

The official unemployment figure, an important economic indicator, has not rocketed as one would expect But official figures on unemployment don't show the extent of the problem We could be living in a fool's paradise when it comes to the potential for explosive unrest if the recession deepens

No one is arguing about the existence of a downswing, recession, slump, or its duration so far According to the Reserve Bank, up to the middle of this year South Africa had had five consecutive quarters of low or no growth The outlook for the rest of the year and beyond is no better Nedcor estimates the economic growth rate will decline this year at 0,3 percent on average

The Reserve Bank has stressed the mildness of the recession This is backed up to some extent by the handy composite index, published by the SA Chamber of Business, of some of the economic pointers likely to sway the business mood The chamber's Business Confidence Index has been dropping for some months The fall has been gradual, lending credence to the idea that we are still in for a "soft landing" rather than a crash

Indeed, most economists seem to think the retreat won't turn into the economic rout of 1985/86 They warn there is no certainty when the recovery or upturn will come

Southern chief economist Mike Daly thinks the bottom of the recession may only be reached by the middle of next year This means we won't feel any benefits until the end of the year, as the economy slowly builds up steam again

Most pessimistically, perhaps, United chief economist Hans Falkena has said no upswing should be expected until the third quarter of next year

What can the authorities do? So far the consensus answer seems to be, what they have been doing up to now

The recession is partly due to a resolve by the De Klerk government to let Stals carry out the restrictive monetary policy he has followed without interference from the government.

Stals has committed the bank to preserving the value of the currency, and almost all in the business community are persuaded he has no choice in the matter but to keep interest rates high to do this

The latest edition of the *South African Chamber of Business Review* sums up current thinking in business circles

"High interest rates were a necessary therapy to heal a sickness which, if neglected, could have emaciated the economy Excessive credit encouraged unbridled spending in the private and public sectors, spurring inflation, depleting gold and foreign exchange reserves "

Nedcor chief economist Edward Osborn argues "We have to exorcise the inflation spectre Since 1972 South Africa has suffered double-digit inflation "

It is a tricky decision because the social unrest, caused partly by the hardships of recession, may threaten the development of constitutional negotiations

As long as the government's political resolve holds, interest rates will stay high And that political resolve will depend on the amount of heat the authorities get from those hurt by its policies

The feeling is Stals may drop the Bank Rate, which gives the lead to all interest rates, by about one percentage point This would mean prime rate — the rate banks charge their best customers — would also drop by one percentage point Other rates would follow

In itself this would not greatly ease the pain of high interest rates but it would signal a change of course Again, economists believe the past pattern of dropping rates as sharply as they were raised will not be repeated In 1985/6 the Bank Rate was dropped from 20,75 to 9,5 percent in 12 steps — an open invitation, the *Sacob Review* notes, to everyone to get out and spend, regardless

Daly believes the Reserve Bank will wait for actual declines in the rate of inflation before dropping interest rates This means real interest rates — the gap between inflation and the rates offered by banks — will stay high The real prime rate is now eight percent

So what is keeping the recession, in the economists' view, "mild"?

For one thing, spending by households has held up well, particularly on non-durable goods, such as food and services, and on durables, such as fridges, washing machines and cars Spending on semi-durables, such as textiles, has dropped off at a lower rate than in previous recessions

Demand for new vehicles, particularly passenger cars, an important economic indicator, has been resilient New vehicle sales this past month, for example, were surprisingly good New car sales for August were 8,9 percent higher at 1 600 cars than August 1989 Motor industry umbrella body, the National Association of Automobile Manufacturers says replacement demand from business and car rental firms is keeping vehicle sales up This level of sales is unlikely to be repeated in coming months

The fact remains that while sales in general are coming under pressure there is enough energy left to prevent things grinding to a halt

This, perhaps, will rescue the Reserve Bank policy Had the recession really bitten deep, calls for lowering of interest rates to stimulate the economy would not have been as muted

The danger that now approaches is events beyond South Africa's control might push the economy over the edge

Chief of these is the Gulf crisis, which has already meant higher petrol prices South Africa has had one fuel price increase and another is almost certain unless oil prices fall from levels of around $30 a barrel Midweek, North Sea Brent crude was trading $3 above that

Problematically for South Africa, the gold price has failed to follow in oil's footsteps, as it did in the past Gold has been on the upward path rather than down, and fundamentals seem to favour it, but it has so far failed to reach the $800 levels which followed the last oil crisis

The oil price rise also means our major trading partners in the industrialised world will see slower rates of growth

South Africa's trade surplus, according to preliminary figures released by Customs and Excise, in the January to August period was 18,6 percent up on the figure for the same period last year at R9,378-billion In part this has been because our imports have been kept low by the government's tight rein on the economy But a contraction in the world economy would make it tougher for South Africa to export

A decline in exports could mean a drop in gold and foreign exchange reserves and this in turn decreases South Africa's ability to maintain a stable exchange rate for the rand, making imports more expensive and spurring inflation

Should the downswing become a crash, Stals may have no option but to reflate The alternative is greater unrest and intense political pressure from right and left Premature reflation would leave South Africa back at square one with inflation and its attendant nightmares

WMail 2/9-27/9/90

Soaring oil price may sabotage Reserve Bank plan

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Weekly Mail Reporter

THE oil price rise has come at an unfortunate time for the authorities in their crusade against inflation, according to the latest *Standard Bank Review*

That South Africa won't be insulated from higher oil prices was brought home by the recent 10c a litre petrol price increase, notes the *Review* This will raise inflation 0,5 percentage points immediately In coming months it will mean a further 0,5 percentage points rise because of higher transport and input costs

The higher oil price will also cut our potential trade surplus

Although the cost of oil imports will rise, this will be tempered by the increase in domestic coal production and prices which should follow on a sustained increase in oil prices

"Moreover, gold export earnings will rise as a result of a somewhat higher (albeit disappointing) gold price, in response to oil-induced global inflationary expectations "

Potential further growth of non-gold or coal exports, which have strengthened the domestic economy in recent years, will be hurt by weaker global activity

The oil price rise has created a policy dilemma for the monetary authorities

"Consistently tight monetary policy and the more favourable performance of the rand had recently begun to show visible signs of success and further declines in the inflation rate were in the offing "

While any cut in interest rates will decrease inflation by lowering mortgage rates, the real possibility of a second and bigger increase in petrol prices will thwart reducing inflation to a single digit figure

Hence the authorities are now caught between their desire to be (and be seen to be) consistent in their fight against inflation on the one hand, and a clamouring for a reduction of the monetary squeeze on an economy that is already slowing rapidly

"If too much emphasis is focused on combating inflation, the authorities run the risk of inducing a severe economic recession which will later necessitate expansionary monetary policy that will sweep aside recent gains on the inflation front

"Likewise, policy that is too accommodatory of pressure to underpin economic growth runs the risk of a renewed upward price spiral triggered by higher petrol and chemical feedstock prices and increased transport costs "

South Africa's economic performance in the years ahead will depend as much on developments in the Gulf as on domestic monetary and fiscal policy, the says

It also reckons recent developments in the Middle East have raised fears that the recent, third major disruption of oil supplies in two decades may be similar in its impact on the world economy to the two previous ones

The Gulf crisis has not yet been resolved, it adds, and the level at which oil prices will eventually settle is still unknown In the meantime, world financial markets continue to include a risk premium in the oil price and it is now likely pre-crisis expectations of a $20 a barrel oil price by the end of the year will be short of the mark

"As a result, concern has focused on the possibility that the world economy, after eight years of uninterrupted expansion, may now face the possibility of contraction, rising inflation and in some instances, outright recession

"The lesson of the previous two oil crises was that those countries already in a weak economic condition feel the impact of high oil prices much more acutely than those countries experiencing robust, healthy economic growth "

So the effects should be divergent, and the combined relative strength of the Japanese and West European economies should compensate for downturns elsewhere

Inflation fight at risk — Standard

Star 21/9/90

(153)

Duma Gqubule

The very real possibility of a second, and more substantial, increase in petrol prices will thwart progress in reducing inflation, says Standard Bank

In its review the bank says South Africa's economic performance in the year ahead will depend as much on developments in the Gulf as on domestic policy adjustments

"The recently announced 10c-a-litre increase in the price of petrol will result in an immediate 0,5 perecent rise in domestic inflation, with a further 0,5 percent rise in coming months as a result of the indirect impact of higher transport and input costs on domestic prices."

It says SA's trade surplus is also likely to be adversely affected. The cost of oil imports will rise, but this will be tempered by the increase in domestic coal production and a rise in foreign coal prices which a sustained increase in the oil price implies.

"Gold export earnings will rise as a result of a somewhat higher (albeit disappointing) gold price

"However, potential further growth of non-gold or coal exports, which have added significant strength to the domestic economy in recent years, will be adversely affected by weaker global economic activity."

The bank says the increase in the oil price has created a policy dilemma for the monetary authorities.

"If too much emphasis is focused on combating inflation, the authorities run the risk of inducing a severe economic recession. This will later necessitate expansionary monetary policy that will sweep aside recent gains on the inflation front.

"Likewise, policy that is too accommodatory of pressure to underpin economic growth, runs the risk of a renewed upward price spiral triggered by higher petrol prices," the bank says

SA's unrest is deepening the recession, says Stals

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B Day 21/9/90

JOHN CAVILL

LONDON — Unrest in SA was deepening the recession as it hit output and productivity, Reserve Bank Governor Chris Stals said in the British capital yesterday

Speaking at the Conference on Corporate Strategies for a Changing SA, Stals said the downturn in the business cycle produced by tight monetary policy to combat inflation had been "relatively mild" up to the end of June

"There is some evidence, however, that it has deepened since then, mainly as a result of the adverse effects on production of increased social unrest and an accompanying loss in labour productivity," he said

Stals cited three main factors which were depressing short-term growth prospects

□ Slow-working structural changes forced on SA by the net outflow of capital and disinvestment by foreign investors since the mid-1980s,

□ The "normal" impact of the recessionary phase of the economy which, however, was boosting the current account surplus from R1,4bn to R4,6bn annualised,

□ "The unavoidable economic effects of the reform process in the political, cultural and social areas "

While they lessened hopes of a high growth rate over the next 12 months, they also contributed to "a sound basis for a prosperous economy in the new SA"

Stals said the Reserve Bank and the Treasury believed the "new SA" could not start with low and falling foreign exchange reserves, a payments deficit, depreciating rand, rising inflation, rapidly increasing money supply or high government spending, a budget deficit and high tax rates

He said economic policy was now being focused more on medium- and long-term objectives

"It may not be possible in the present time of transition to achieve any of these longer term objectives, but the current situation provides a wonderful opportunity for preparing the economy for a great new future "

He concluded "To prove our sincerity and confidence in the future we must use this interim period to ensure, through monetary and fiscal austerity and discipline, that the new SA will start on a sound basis "

Sapa reports that Finance Minister Barend du Plessis told the conference foreign governments had to actively back reform in SA or risk making a mockery of their decades-long efforts towards this process

It was a top priority that SA's international, diplomatic, economic and financial status be normalised to release its economic potential.

KIN BENTLEY reports that Du Plessis said the steps taken by the South African government since February 2, including the unbanning of the ANC and the release of Nelson Mandela, had thus far failed to achieve a single relaxation of international action against SA

Star 25/9/90 (153)

Food price rises fuelling inflation — worse to come

By Duma Gqubule

The Reserve Bank's effort to reduce inflation has been dealt a severe blow

In August the rate of inflation showed an increase for the first time since January, dashing hopes of an early reduction in interest rates.

Figures released by Central Statistical Services yesterday show the inflation rate rose by 0,3 percent to 13,6 percent in August on an annualised basis from July's 13,3 percent

Once again, food — which has a weighting of 23 percent of the overall consumer price index (CPI) — was the main culprit.

It registered a hefty 17,7 percent gain, compared with August last year.

This was the biggest jump in food prices since January, when the rise was 18 percent

Other offenders were clothing and footwear, with a monthly increase of 2,5 percent, housing at 1,5 percent, household operations at two percent and transport at 3,1 percent

The higher inflation rate in August came as a complete surprise to economists who had been expecting the rate to drop to about 12,9 percent

Economists now say the battle against inflation will be a long one

Louis Geldenhuys, economist at broker George Huysamer, says "This underlines how difficult it will be to bring down inflation What is even more worrying is that the recent 10c-a-litre petrol price increase is not included in these figures"

Standard Bank has estimated that the recent petrol price increase will result in an immediate 0,5 percent rise in domestic inflation (raising the possibility of the inflation rate rising to 14 percent next month), with a further 0,5 percent rise in coming months as a result of the impact of higher transport and input costs on domestic prices

Econometrix economist Azar Jammine says. "Interest rates will probably not decline in coming months, as originally expected

"With the strong prospect of a further 20c-per-litre petrol price hike soon, and the associated one percent immediate addition to the inflation rate, there is no way the Reserve Bank can cut rates now"

Fergusson Brothers' chief economist and investment strategist Gad Ariovich says "While strict monetary policy has eliminated the demand-side pressures on inflation, monetary policy is not effective in dealing with the cost-push inflationary pressures that are now coming from higher food and energy prices

"Unfortunately, the price of reducing inflation will be heavy and the economy is likely to go deeper into recession However, there is no short cut and we have to go through this operation"

Standard Bank managing director Roberto Grandi says "At best the inflation rate will be reduced to 12 percent in 1992, implying that the Government could keep applying stringent measures into 1992 to achieve the goal of single-digit inflation. The current recession will therefore continue longer than envisaged."

However, economists expect inflation to resume its downward trend once the economy has adjusted to higher oil prices.

They say inflation is likely to remain above 13 percent this year and that the first cut in interest rates will be delayed until early next year.

Figures show rise in inflation

ANDREW GILL 153

INFLATION as measured by the annual rate of increase in the consumer price index (CPI) has risen for the first time since November 1989, defying predictions of further sharp falls and dampening expectations of an early cut in Bank rate.

The rate of increase rose to 13,6% in August from July's 13,3%, Central Statistical Service figures released yesterday showed. B Day 25/9/90

Economists said the rate was likely to increase again in September as a result of the fuel price increase earlier this month. But medium-term prospects for further falls were "still good".

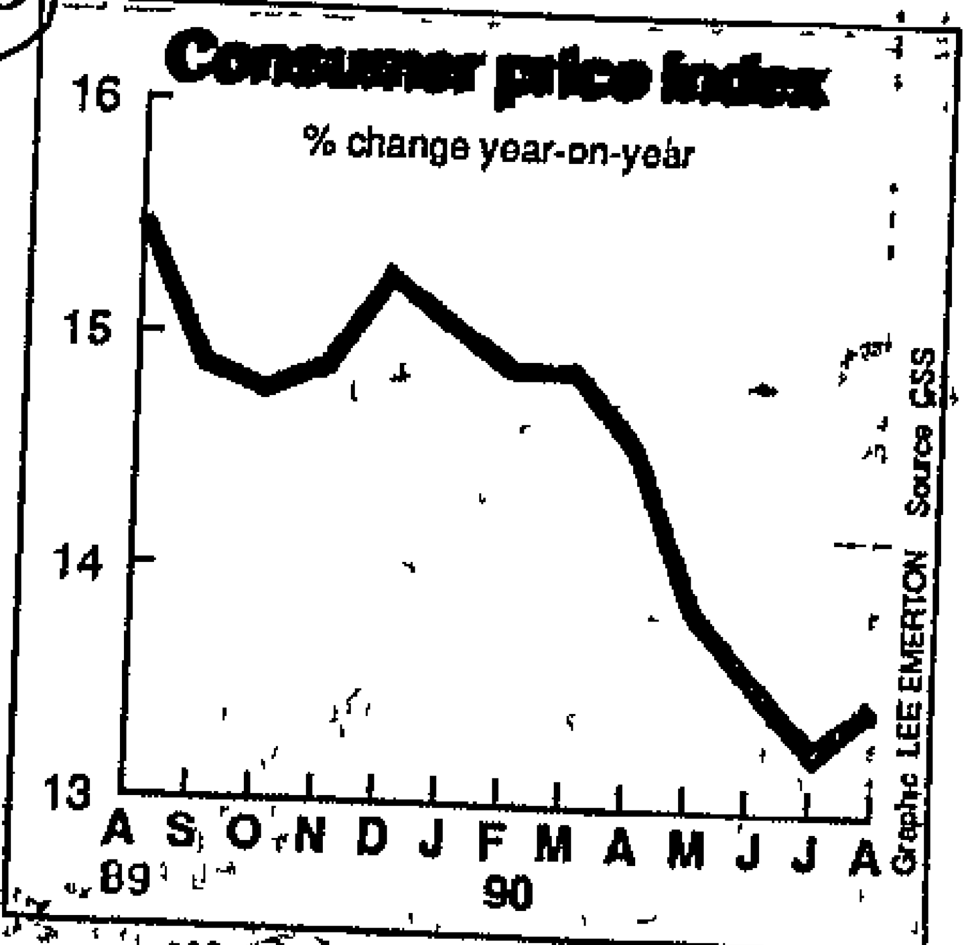
A larger-than-expected monthly increase of 1,6%, mainly as a result of higher food and transport costs, pushed the rate off its 18-month low, reached in July.

Food inflation soared 1,3 percentage points to 17,7%, its highest in 30 months. The month-on-month increase was 2,3%.

First National Bank chief economist Cees Bruggeman said: "We may have to wait longer rather than sooner for a cut in Bank rate."

Bankorp economist Nick Barnardt said if another fuel price increase came into effect next month inflation could hit 14%.

Inflation for the middle income groups, up 0,9 percentage points at 14,3%, increased the most.



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BUSINESS DAY, Wednesday, September 26 1990 3

Inflation rate forecasts revised

LESLEY LAMBERT

CAPE TOWN — Sanlam economists have revised their annual inflation rate forecast upwards as a result of the fuel price increase and warned that interest rates may take longer than expected to fall

Chief economist Johan Louw, who had predicted in his latest Economic Survey that inflation would decline to 13,2% during September, said yesterday he was "most disappointed" in the increase to 13,6% recorded in the August consumer price index (CPI).

He predicted a 14% increase in September as the full effect of the first fuel price increase filtered through and said this could keep interest rates high longer than expected.

However, Louw said while the tempo of price increases would continue, he did not expect a turnaround in the long-term downward trend which had been established.

While the current deceleration in the growth of money supply should contribute to a further slowdown in the inflation rate, the granting of salary and wage increases — which were higher than the increases in the CPI — were still a major stumbling block in the fight against inflation.

But the financial authorities' determination to bring it down to much lower levels would provide a strong counterbalance, he said.

Addressing inflation in the Sanlam Economic Survey, Louw said rapidly increasing food prices, which represented about 23% of the total CPI, were largely responsible for preventing the prices of non-food items from bringing the inflation rate down.

The survey showed that food represented more than 35% of the total CPI for the lower income groups, while it represented about 27% for the middle income group and slightly more than 16% for the higher income group

Translated into year-on-year increases, in July the CPI for the lower, middle and higher income groups was 14,4%, 13,4% and 12,8% respectively

The current economic downswing would not be as severe as the previous two but could last longer

Recessionary conditions were spreading to more sectors of the economy and a continued deterioration in consumer and business confidence, coupled with the uncertain political climate and prolonged labour unrest, were also having a dampening effect

Higher inflation in the major industrial countries could have an unfavourable impact on SA's exports

Soaring prices of food push up rate of inflation

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BDay 27/9/90

ANDREW GILL

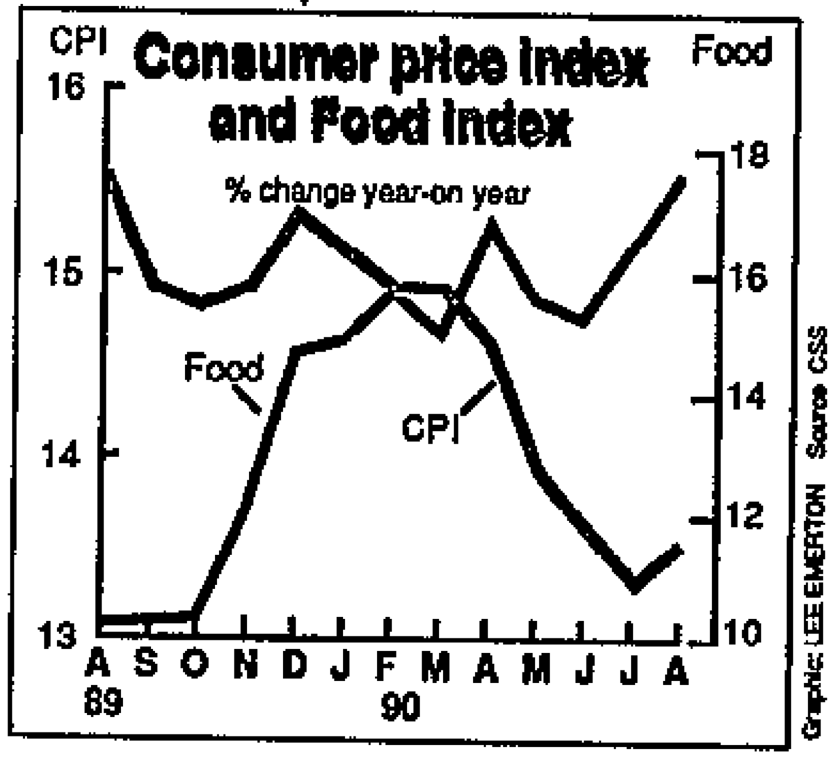
SOARING food prices are a major inhibiting factor in the Reserve Bank's fight to destroy double digit inflation, August's consumer price index shows

Food inflation increased at an annual rate of 17,7%, a 30-month high, helping to push the all-items inflation rate up for the first time this year

Unprocessed food prices are rising at an even faster rate of 18,5%, while processed foods were 16,2% higher in August this year than in August 1989

This is largely because of vegetable and fruit and nut prices Vegetables cost 41,1% more in August than in the same month last year. Fruit and nuts cost 28% more

If food inflation is excluded from the calculations, inflation is running at only 12,4% — levels not seen since 1988 when the average for the year was 11,8%



Bearing the brunt of the higher prices are the lower and middle income groups, for whom food price inflation is running at annual rates of 18,5% and 18,1% respectively In the higher income bracket, it is running at a much lower 16,5%

All-items inflation is 14,6% for the lower income groups, 14,3% for middle income and 13,1% for the higher income group

Since the all-items inflation rate began falling at the end of last year, the lower income group inflation rate has remained consistently above that rate, while high income group inflation has remained below it.

One of the major contributors to the downward pressure in the all-items rate is housing, with a 21% weighting in the index, which rose at an annual rate of just 7,6% in August. It has held below 10% since entering single digits in May.

Transport costs contributed to August's higher rate, but this was more likely a seasonal hiccup The annual rate of increase is only 11,1%

A radical economic transformation needed

Star 28/9/90 (153)

By Duma Gqubule

The single most vital aspect of restructuring the economy is the transformation of the "high-inflation, low-growth" trend of the 1980s into a "low-inflation, high-growth" economy for the 1990s, says Bankorp's economic unit

In its quarterly review the bank says continuous double-digit inflation and low economic growth over the past 15 years have been the greatest direct causes of the poverty and inequality existing today.

The bank says real economic growth has shown a serious structural decline — from five percent a year in the 15 years to 1974 to two percent a year in the 15 years thereafter

This has brought a correspondingly serious decline in job creation

"The average rate of job creation in the past 15 years was a mere one percent a year and there were practically no new jobs created in the formal sector of the economy in the 1980s"

The bank says low job creation has aggravated the problem of poverty and inequality

It says excessive wage increases also contribute indirectly to the problem of poverty and inequality

"Continuously high wage increases and labour unrest encourage a trend towards labour-replacing capital investment in a number of industrial sectors

"This acts as a further serious brake on job creation

"Unremitting wage pressure also undermines business profitability over a wide front - bringing further reductions in fixed investment, new projects and job creation"

The bank says excessive government spending, taxation and borrowing induce high inflation and low growth

"Consequently, norms for fiscal discipline should be built into a new constitution — government revenue could be restricted to 30 percent of GDP and the deficit before borrowing to three percent of GDP

"A constitutional limit to government share in the country's total capital stock, say 55 percent, could also make an important contribution in this regard.

Inflation likely to drop in 1991, says economist

BDay 28/9/90 (153)

SYLVIA DU PLESSIS

BANKORP chief economist Nick Barnardt expects the CPI inflation rate to drop to about 11% by the end of 1991 despite the fuel price increase and a probable second hike.

In addition, the achievement of a single-digit figure in 1992 remains within reach, he says in the bank's latest quarterly economic review.

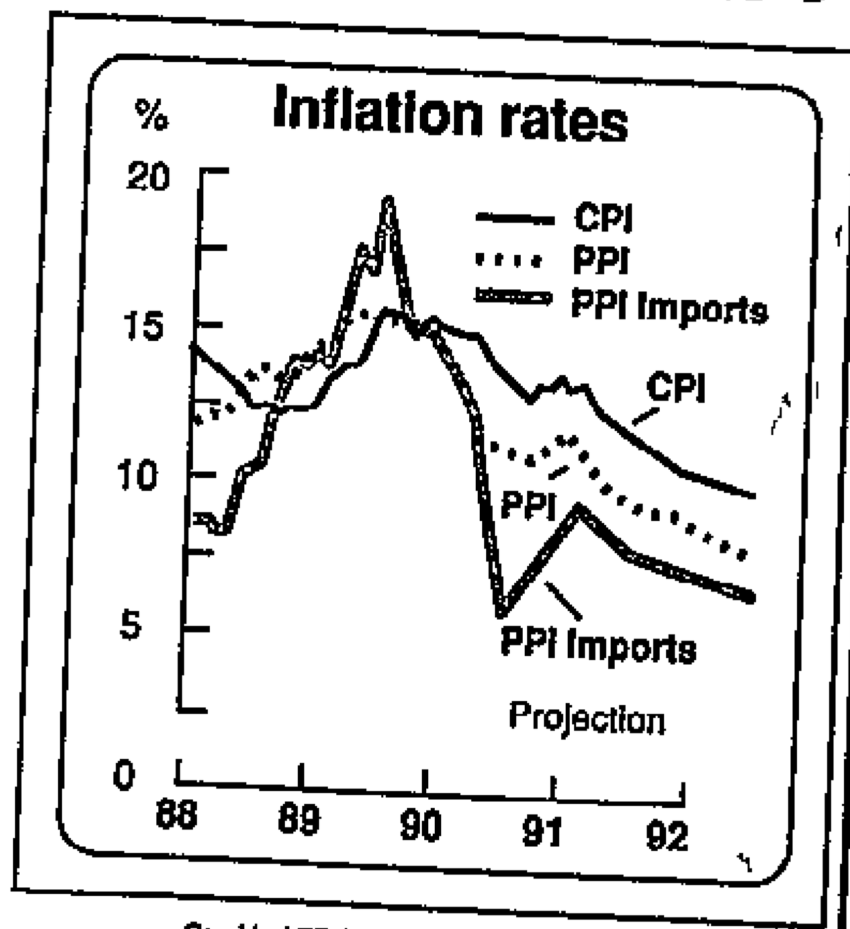
The projections are based on the assumption there will be no war in the Middle East, that the crisis there will "fade" in the first half of 1991, and that oil prices will return to below $35 a barrel before year-end.

Barnardt says the fuel price increase is certain to buoy the CPI inflation rate to about 13,5% by year-end, with its "ripple" effect also affecting the 1991 inflation rate.

"However, this does not mean that domestic inflation will show an uninterrupted rise in coming months. On the contrary, the favourable effect of all the positive underlying inflation factors . . will still produce a declining inflation trend in 1991."

Those factors include a marked drop in the year-on-year inflation rate in the producer price index, a lower rate of wage and salary increases over that of last year and falling credit and money creation.

Barnardt says he does not expect the delaying effect of fuel price rises on the general declining inflation trend to have any serious delaying effect on interest rate reductions.



Graphic: LEE EMERTON Source BANKORP

"The recent declines in credit and money creation and the further sharp decreases foreseen in coming months — together with renewed lower inflation during 1991 — will still pave the way for moderate interest rate cuts."

Prime will stand at 20% by the end of this year, around 17% by end-1991 and about 15,5% by mid-1992, he says.

However, government should consider further cuts in import levies before the end of the year to counteract the inflationary effect of fuel price increases as far as possible.

□ Speaking on August 7, days after Iraq invaded Kuwait, Finance Minister Barend du Plessis said there was a good chance of a single-figure inflation rate "in the not too distant future".

FM 28/9/90

CONSUMER PRICES

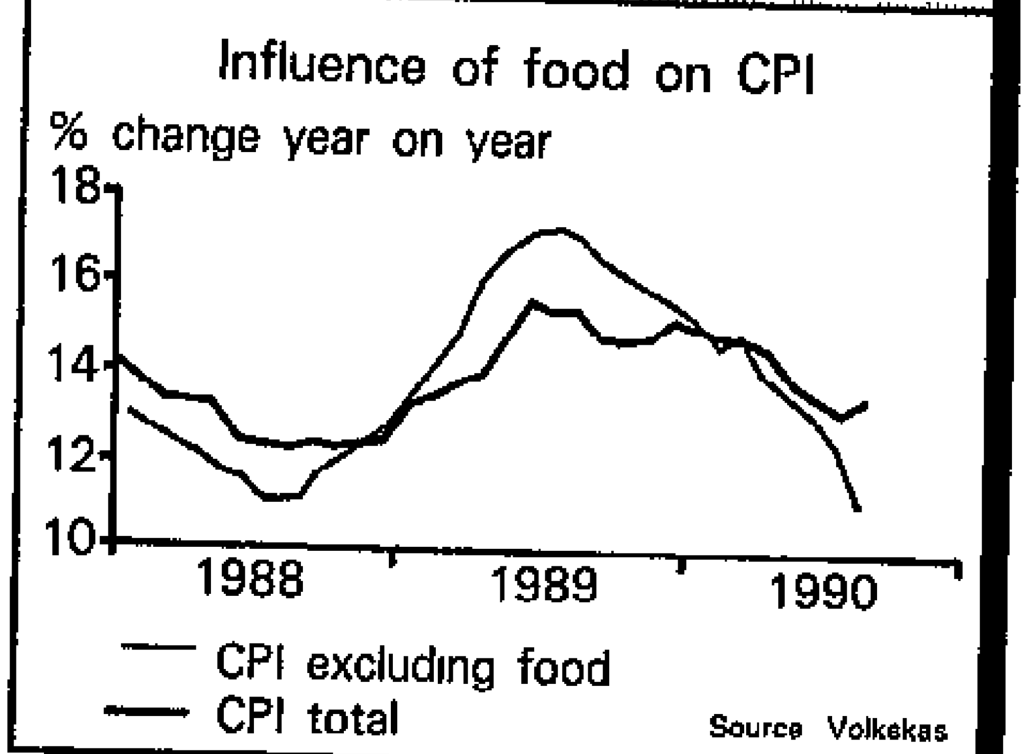
SURPRISE UPTURN

(153)

With producer price inflation still slowing down — reaching a six-year low of 10,3% in the year to July — it seemed reasonable that

consumer prices would follow suit, at least until the recent 10c petrol price hike had its effect But after falling steadily since November the rate of increase in the consumer price index (CPI) accelerated to 13,6% in August from 13,3% in July.

Farm factor



Inflation now seems unlikely to come down in the short term and may even begin to creep up. Senekal, Mouton & Kitshoff economist Leon Steenkamp says every 10% petrol price hike will translate into an 0,45 percentage point rise in CPI and the effect could double as increases filter through.

The figures should cool any expectations of an imminent cut in interest rates

As often in the past year, food prices (weighted at 23% and the most important single category) were largely to blame for the August increase, up 2,3% in the month and 17,7% year-on-year.

The main items responsible for the increase were vegetables, recording a monthly increase of 7,8% (41% year-on-year), fruits and nuts 4,3% (28%), sugar 3% (11%), fats and oils 3% (12%), coffee, tea and cocoa 0,9% (16%), fish and other seafood 1,3% (13%), and milk, cheese and eggs 0,8% (23%), and "other" foods 1,5% (20%)

Volkskas senior economist Adam Jacobs expresses disappointment at rising food costs but is unsure of the reasons. "We are between seasons for fruit and vegetables, with the winter crop gone and no summer stock available yet, but that's not the whole story Farmers say they are not sharing in the increases "

Meat prices registered a monthly 1,6% increase (11% for the year), though wholesale prices have fallen in recent months

Whatever the reasons, the less well-off continue to take a beating. Food is weighted at 35% for the lower-income group, driving annual inflation up to 14,6% In the middle-income group, where food is weighted at 27%, the figure is 14,3%, while in the higher-income group, with food weighted at only 16%, inflation is a much lower 13,1%

Other big monthly rises were clothing and footwear 2,5% (16% annual), fuel and power 1,7% (13%), household operation 2% (16%) and transport 3% (11%) ■

Plan to cut inflation, boost exports

BDay 1/10/90

Economic overhaul gets final touches

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MIKE ROBERTSON

SENIOR Cabinet Ministers are set to meet today to put the finishing touches to government's economic restructuring plan which aims to reduce inflation to single digits while boosting SA's export competitiveness.

At a series of meetings between government and Eskom and Transnet it was agreed that electricity and rail cargo tariff increases would be restricted to well below the inflation rate for the next few years.

It is understood electricity tariff hikes could initially be kept as much as eight percentage points below the inflation rate.

Government spending is to be further reduced and all departments have been instructed to cut their budgets by a minimum of 5% for the next financial year.

The recently announced defence cuts, approved by Cabinet two weeks ago, are in line with this instruction. Decentralisation incentives and development aid funding will also be cut once former Auditor-General Joop de Loor completes his investigation into this matter.

President F W de Klerk was expected to announce the restructuring programme in a policy speech last month. This was delayed to allow the impact of the Gulf crisis on oil prices to be taken into account.

Administration and Economic Co-ordination Minister Wim de Villiers, Trade and Industry Minister Kent Durr and Mineral and Energy Affairs Minister Dawie de Villiers are due to meet today to finalise their contribution to the speech.

First details of the plan emerged at the end of August when Wim de Villiers told an agricultural summit that government had investigated:

- Policies to be followed by Eskom and Transnet to combat inflation.
- The effect of import parity pricing on the international competitiveness of SA products.
- Monetary and fiscal measures to counter inflation.
- The removal of tax measures which distorted price and production structures.

Speaking at the Natal NP congress, Finance Minister Barend du Plessis said that if government succeeded in restricting electricity and transport tariff increases, SA would be in a position to "export as never before".

In a recent speech at the opening of a polypropelene factory at Secunda, Durr said government would consult the business and industrial community on a sectoral basis before announcing any change to traditional protection policy.

Government, he said, was acutely aware of the need to reduce uncertainty to an absolute minimum. At the same time it was determined to give the economy an export orientation

Durr has an IDC report on protection policy, and said in an interview at the weekend that it was receiving attention

□ To Page 2

Economy

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□ From Page 1

from Trade and Finance department officials

With about 14 000 items on the tariff book, Durr said while government was clear in its objective of removing measures that made it impossible to export, it would take time to move from "a less virtuous system to one that is more virtuous. We are not going to rush about like a bull in a china shop".

Customs tariffs could not be seen in isolation from other important matters such as inflation, tax policy, surcharges and exchange and interest rates

However, where there were inappropriate tariff distortions and abuse of tariffs, government would act.

Durr said a report on protection policy in the paper industry had already been concluded and an announcement was imminent. An investigation into the chemical industry was still in progress

The economic restructuring package is also expected to contain measures aimed at improving productivity

It is understood that these could include offering lower electricity and transport rates to companies which worked second or even third shifts

In his speech at the agricultural summit, De Villiers said an important part of the reconstruction package would be an attempt to reform the savings structure, particularly the pattern of private saving

Measures to encourage a shift from personal contractual saving to discretionary saving are said to be included in the plan

Sacob: don't rush reform

By Michael Chester

The SA Chamber of Business warned yesterday that South Africa would run into serious new inflation dangers if it tried to move too fast with socio-economic reform.

Sacob director-general Raymond Parsons said progress would be on far firmer ground if tackled step-by-step towards a set of targets spread over the next 10 years.

He told a Small Business Week conference at Sun City that studies by Sacob had shown that to try to introduce total black/white equality at a single stroke would cost a staggering R52 billion

Star 3/11/90

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Open

"If the pace at which socio-economic challenges is tackled is too rapid," he said, "a combination of balance of payments and inflation problems will soon bring the whole process to a halt

"South Africa has a very open economy, with foreign trade amounting to about 55 percent of gross domestic product," he said.

"The global economy and the pressures it will impose must be taken into account in the formulation of a development strategy in the future."

One positive element would be renewed access to the facilities and resources of the International Monetary Fund and the World Bank, he said

Price rises jeopardising fight against inflation

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BDay 5/10/90

GRETA STEYN

THE THREAT of another hike in fuel prices, an imminent increase in the bread price and the cost crunch in the chemical sector have sparked fears of a major setback in the battle against inflation.

The combined effect of the oil crisis and soaring food prices could see SA end the year with an average inflation rate for 1990 at about the same levels as the 14,6% seen last year. Little or no progress would have been made in the fight against inflation, spearheaded by tight monetary policies

Old Mutual economist Ursula Maritz said a 20c increase in fuel prices would add 0,8 percentage points to the inflation rate

Assuming that all other goods rose by 0,8%-1% a month, SA would end the year with inflation at 14%-15% — excluding any knock-on effects from higher fuel prices

This is a far cry from the consensus forecast among economists in August of a decline to slightly below 13% by December, according to a survey by First National Bank

However, it is not clear whether petrol prices will increase, in spite of crude oil prices having doubled from their levels of $18 before the Gulf crisis started in August

The National Energy Council has warned that a further price hike might be necessary if the equalisation fund is exhausted, and fuel conservation measures could be required

Less easy to quantify is the effect on the inflation rate of higher prices for oil-based chemical products such as plastic containers, food wrapping, detergents and other cleaning agents These could be expected, however, to underpin the oil price-induced upward bias in inflation

Maritz said: "Another worrying factor is the high rate of increase in food prices, especially the recent signs of an uptrend in meat price increases"

Apart from meat, indications this week that the bread price would rise by 10c was a negative signal for inflation Escalating food prices pushed the inflation rate back up to 13,6% in August from 13,3% in July

A huge 1,6% month-on-month increase in the consumer price index (CPI) was accounted for by food price rises — and implied economists' assumption of a 1% monthly rate of increase in the index excluding fuel might be optimistic.

Bread's category — wheat products — makes up 3,3% to the total consumer price index (CPI) basket of goods and one economist predicted the increase could add 0,2 percentage points to inflation in November.

'ctober 5 1990

Govt moves to fight inflation

Oct 5/10/90 153

By Peter Fabricius, Political Correspondent

President de Klerk announced last night that electricity and rail freight tariffs are to be kept substantially below the inflation rate as part of a restructuring plan to help boost economic growth

Eskom and Transnet will also offer special rates, especially to help export industries to improve the balance of payments.

Mr de Klerk announced these moves at the annual banquet of the Natal Chamber of Industries in Durban

Job growth

The measures are part of a Government economic restructuring plan to curb inflation and boost the economy to a level which would ensure job growth

Electricity, a well-developed rail transport system and mineral resources represented major strategic advantages that should be used to the full, especially for exports.

Other features of the plan include

- Everything possible would be done to reduce Government spending in real terms over the next three years. Any increase in spending on socio-economic services and law and order would be provided for by a rearrangement of spending priorities.
- The policy on taxation, subsidies, regional development and protection was being reviewed to improve healthy competition, both in home and world markets — but without subjecting local manufacturers to "disruptive" competition
- Monetary policy would remain focused on maintaining the value of the rand.
- The functioning of the market system was being improved by deregulation, commercialisation and the promotion of effective competition

Mr de Klerk said price and wage increases in the private sector should properly discount the effect of the Government's anti-inflationary measures.

"Unwarranted wage and price increases can only be implemented at the expense of real growth and employment."

The restructuring which had already taken place was showing results.

- Foreign debt repayments during the second half of the year were much lower than in the first Foreign loans had been rolled over or renewed
- Gold and foreign exchange reserves had shown a welcome increase in July and August
- For the first time, the growth in money supply and credit stayed within targets
- The effective growth rate of the rand had shown greater stability over the past few months
- Up to the end of June, it seemed that the economic downturn was milder than previous downswings.

Broking firms face harsh recession as turnover dips

BDay 5/10/98

(153)

SYLVIA DU PLESSIS

SOME broking firms are facing their worst recession since the bear market of the early '70s as turnover on the market slides to abysmally low levels

The result has been staff cutbacks across the board, mainly by "natural attrition" but also by retrenchments as the firms struggle to trim costs.

Senior staff are among those believed to have taken salary cuts of up to 20% And many are not expecting Christmas bonuses

Cutbacks in the industry follow steadily declining volumes and values on the JSE Volumes have sunk to around 5-million shares daily from 7-million a month ago, affecting turnover which has been halved to a daily R35m this week from September 1

This compares with the R75m to R85m a day with which most firms are "comfortable" in order to cover costs, and trade of more than R100m a day during the 1987 boom

Max Pollak & Freemantle senior partner Dave Shapiro, whose firm "retired" 10 backroom people last week, estimates there has been a cut of 10% to 15% in staff levels in the broking community this year

"But it's been more a case of natural attrition at the clerical, admin and junior levels than at the broker level. This is because greater efficiencies on the admin side have reduced the strain there," he says.

Frankel Kruger Vinderine (FKV) senior partner Leslie Frankel denies his firm has retrenched staff. He says only three employees have left in the past month — of their own accord — and that this is normal in the circumstances. In fact, FKV will be announcing an "extension of its base" within the next two weeks, he adds

"There's a lot of movement and rationalisation in the industry now because, with inflation, salaries and expenses are up tremendously and there are no volumes to support expenses that have arisen," he says

A spokesman for a medium-sized firm, who did not want to be named, says those with a sharp institutional focus are generally remaining in the black

"But the industry could do with a movement on gilt rates and a higher gold price — something to spark things off on the JSE."

☐ The latest move among investment analysts is that of Frankel, Kruger Vinderine mining analyst Keith Bright, who says he is leaving the firm "for greener pastures" Talk is that he will be joining Edey, Rogers & Co on November 1. And Ed Hern Rudolph mining analyst and head of research Tom Dale is reported to be leaving the firm to join Genmin

Thumbs down for FW's speech

Star 6/10/90 (153)

TRADE unions have given a unanimous thumbs-down to State President F W de Klerk's inflation busting speech yesterday — when he called for curbing wage increases

Economic woes could be addressed only when workers had a say in how the economy was to be run and had a proper stake in its growth, they said

Cosatu's Living Wage Campaign spokesman Jane Barret said curbing wages "to push profits up" was a short-term measure, not real economic growth.

Nactu's general secretary Cunningham Ngcukana called Mr de Klerk's call "hypocrisy at its highest." Government Ministers gave themselves huge salary increases while expecting workers to accept poverty and degradation — Staff Reporter

Star 6/10/90 153

Interest rates to stay high until inflation is under control

Sweat it out a little bit longer, says De Klerk

FINANCE STAFF

THE Government has dashed prospects of an imminent cut in interest rates. Interest rates will stay high as long as inflation remains at current levels.

This warning comes from no less than State President F W de Klerk himself

Speaking in Durban this week he emphasised the determination of the authorities to beat inflation — despite the hammering the high real interest rates is giving business

At the annual banquet of the Natal Chamber of Industries, he responded to a plea by the chamber's president, Brian Wallett, to consider easing the burden on commerce by reducing rates

Mr de Klerk said the biggest source of momentum in the cost of living was an unrealistically high expectation of inflation

'Sweat out'

The country had to "sweat out" high interest rates "a little bit longer" in the interests of the economy.

The Government was acutely aware that the private sector was "on a knife-edge because of the pressure of certain monetary and fiscal measures we are keeping in place"

"On the other hand, we share the realisation that if we let go too soon, then in a year's time the private sector might say we made a mistake"

South Africa would attract the investment it desperately needed only if it succeeded in bringing down inflation to a level comparable to that of its major trading partners

For 10 years South African inflation had been three times the rate of the countries with whom it did most of its trade

Research showed that 70 percent of price increases in a year were a direct result of increases the previous year

"We have a built-in expectation of inflation that we must break"

The State President appealed to business not to allow increases in the price of oil brought about by the Middle East crisis to "add fuel to the already intense fire of inflationary expectations"

The country had advantages in the energy field over some of the major economic powers of the world in that it produced a portion of its petrol from coal, in addition to having a large stockpile of oil

Urging the private sector to do everything it could in the inflation fight to maintain price and wage increases to the level of productivity improvements, Mr de Klerk said the public had a right to expect that these rises would be at a discount to retail prices

Reacting to his statements, economists yesterday were mostly in agreement with the authority's position

While some suggest there could have been room for a cut in the prime overdraft rate were it not for the Gulf crisis, the say these hopes have now been dashed for the time being

Imported oil

The sharply higher cost of imported oil will add about R3,7 billion to South Africa's import bill, placing pressure on the balance of payments

While gold has risen in response to the Gulf crisis, the rise has not been enough to compensate fully for the near-doubling of oil prices

The effects of higher oil prices have already resulted in an increase in the petrol price and sharply higher air fares, while the cost of chemicals is set to rise significantly

A central theme in the Government's monetary policy is the protection of the currency, which has dropped alarmingly in value in the past 20 years

This sharp decline in the rand against all major currencies — and some not so major — has resulted from the disparity between local and overseas inflation rates

Against the Italian lira, one of the weakest currencies in the world, for instance, the rand is now worth only about 52 percent of its 1970 value

Against the Swiss franc the rand is now worth only nine percent.

BDay 8/10/90

Economists welcome tariff limits

GILLIAN HAYNE

GOVERNMENT's promise to keep electricity and rail freight tariff increases below the inflation rate was welcomed by economists at the weekend.

They were responding to President's F W de Klerk's speech in Durban last Thursday in which he said tariff increases in the next few years would be below the inflation rate

The economists said that although the move would not have a tangible effect on lowering the inflation rate, it would play a part in government's overall disciplined monetary policy

Nedcor economist Edward Osborne said although the announcement was in keeping with government's programme to lower inflation, by itself it would not produce a "magical fix", as increasing fuel prices, water levies and the threatened rise in bread prices would negate its effects

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Detrimental

"However, it is still a welcome move in that it will contribute to the fight against inflation, and will be of advantage to industries that are floundering in the current recession"

However, Osborne said that using Eskom and Transnet as financial instruments to curb inflation could prove detrimental to those companies in the long run, despite assurances that the move would not artificially suppress tariff adjustments.

However, Bankorp economist Nick Bernardt said together with government's other tight monetary policies, it would help to lower inflation.

"It is important to be consistent as every aspect in the policy plays a role in the end With the suggested reduction of import levies next year and continued strict monetary policy on government spending and the like, we expect inflation to decrease to 11% by the end of 1991, and to single digits by 1992."

A spokesman for the Afrikaanse Handelsinstituut welcomed the announcement, which he said was in keeping with government's tight monetary policies.

● See Page 6

Inflation fight could deepen the recession

By Duma Gqubule

With the Reserve Bank determined to reduce inflation to single digits by keeping prime interest rates 6 to 7 percent above an inflation rate likely to be in the 12 to 12,5 percent range at the end of 1991, some economists and commentators are now saying that the consequences of this exercise could be a recession worse than the one in 1985/86.

Metropolitan Life chief economist Dr Chris Visser says it is pretty dangerous to expect that we can bring inflation down to single digits without doing some serious damage to the economy

However Econometrix economist, Dr Azar Jammine says "provided the current spate of unrest does not degenerate into full scale anarchy and chaos, there are a number of reasons why it is not envisaged that the severity of recessions experienced in the 1980s will be repeated

"First, the downturn in economic activity began from a much lower base than previous downturns, so it seems unreasonable to expect the magnitude of further deterioration to be as substantial as in those slumps

"Secondly, even though interest rates are high, they are still significantly below their 1985 levels, both in nominal and inflation-adjusted terms.

"Thirdly, fiscal policy is neutral to marginally expansionary — the first real tax cuts in personal taxation in a decade were announced in the March budget

"Next, the government has announced its intention to inject around R3 billion into social upliftment projects Much of this money is to be spent in the next 18 months

In addition the government has also granted a whole series of salary increases for certain civil servants (police, teachers and nurses) which are over and above the 10 percent across-the-board increase awarded to public servants

"Fourthly, the fact that inventories have been drawn down substantially and are now at historically low levels suggests there is unlikely to be a mass cancellation of orders and associated dramatic slump of the kind experienced in the mid 1980s

Overseas improvement

"Businessmen appear to have trimmed their operations, have striven for increased efficiency and have refrained from leveraging their operations to the same extent as in the mid 1980s

"Finally and most importantly, political developments have improved overseas perceptions of South Africa This has made it easier for SA to roll over portions of its foreign debt

"It has also enabled the country to gain access to short term loans and trade credits which were not previously available. Recent political developments have therefore eased the country's balance of payments constraint slightly," he says

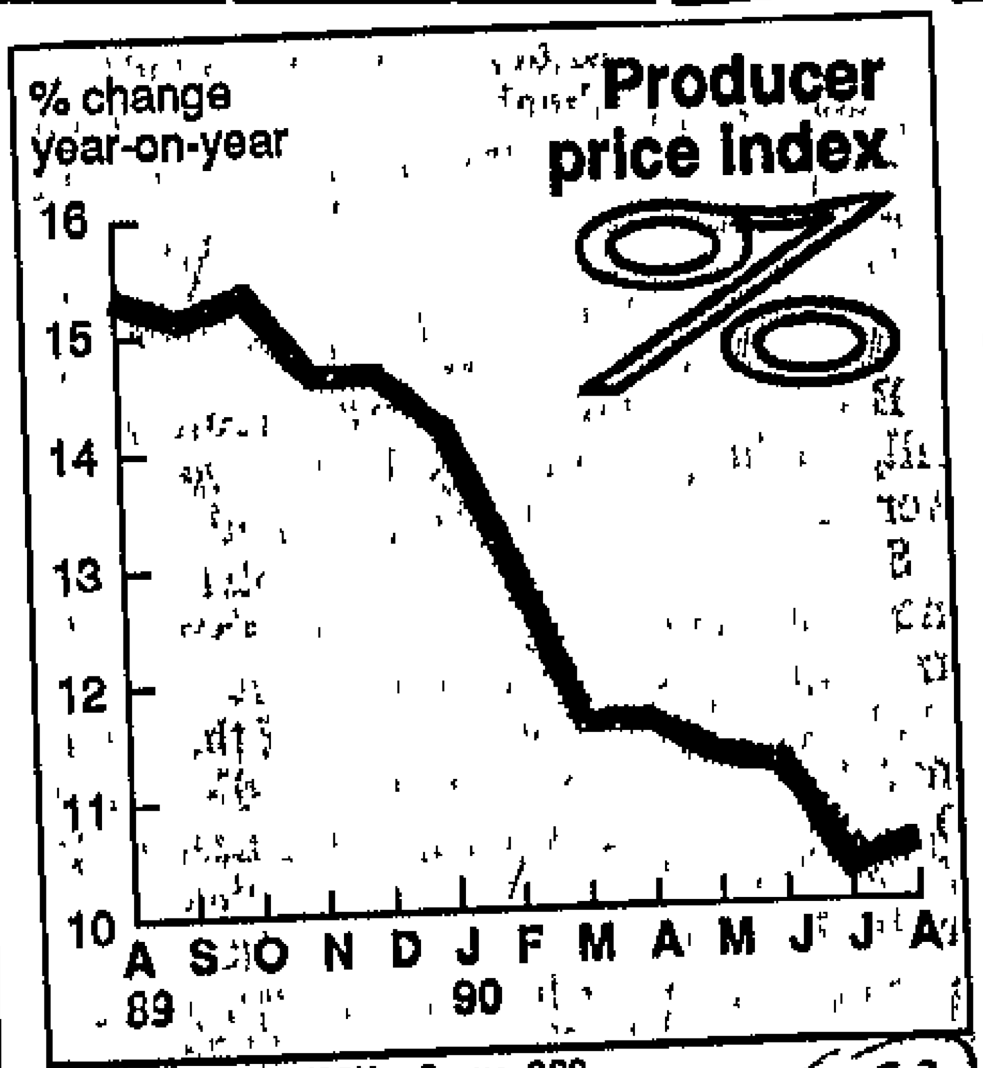
Professor Brian Kantor of the economics department at the University of Cape Town (UCT) says high interest rates need not hurt if there is more confidence in the economy

"What we need is a confidence booster from the ANC who can call for the lifting of sanctions and announce that they no longer intend to pursue their policy of nationalisation," he says

Professor Kantor says it will not be too difficult to bring inflation down to single digits in 1992 provided the Reserve Bank continues to keep the money supply down and succeeds in its policy of mantaining a stable exchange rate

Jos Gerson also of the economics department at UCT says the real test in bringing inflation down to single digits in 1992 will be to keep the rand stable in trade weighted terms during the next upswing expected to begin in 1992

"In the next upswing more imports will be sucked in and the rand will come under pressure Whether the Reserve Bank manages to mantain the the rand stable under such conditions will determine whether inflation will be brought down to single digits," he says



Graphic FIONA KRISCH Source CSS

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Fight against inflation falters

ANDREW GILL B/Day 12/10/90

THE annual rate of increase in the producer price index (PPI) rose for the first time in 11 months in August, providing further evidence that the battle against inflation is likely to be tougher than expected.

In August, the annual rate was up to 10,5%, 0,2 percentage points higher than in July, while the month-on-month increase was 1,3% against 0,1% in July.

Adding to the dismay is the continued high rate of increase in the index for locally produced goods. This rose to an annual rate of 12% compared with July's 11,6%

The annual increase in the index for imported commodities, however, showed a further decline. It fell to 4,1%, which is 0,6 percentage points lower than July's 4,7%. The monthly increase was a low 0,2%

Econometrix economist Azar Jammine says this is a worrying factor, giving credence to the idea that inflation's steady declines have been caused largely by low import inflation with insufficient downward pressure from the local sector.

The PPI is generally regarded as a leading indicator of consumer price inflation — with the latest uptick likely to be felt soon by that index. Jammine says this uptick will probably be academic because of the imminent effects of the higher petrol price on inflation.

He says a 35c rise in the petrol price, not unlikely at present underrecovery rates, is likely to have an immediate effect on the index — about 1,2%, assuming 4% of consumer income is spent on petrol

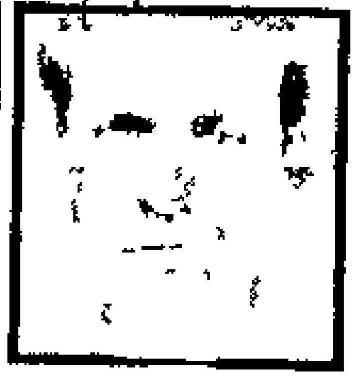
Bullish predictions of a 10% inflation rate by the end of 1991 made earlier in the year were, therefore, likely to have been overoptimistic, he says.

Inflation heading back up again

(153) Star 13/10/90

Money Matters

MAGNUS HEYSTEK



THE fight against inflation has taken a turn for the worse. After dropping steadily since the beginning of the year inflation is now once again heading upwards.

Inflation, as measured by the annualised increases in the Consumer Price Index (CPI) started rising in August after reaching a three-year low of 13,3 percent, raising hopes of an inflation rate below 10 percent some time during next year.

The 10c increase in the petrol price last month still has to filter through to the September CPI-figures which are expected in about two weeks time.

Further and unavoidable increases in the petrol price are set to propel the CPI-increases to levels around 15 percent before the end of the year.

Petrol price increases tend to affect the whole of the economy, dragging prices upwards in a seemingly endless spiral.

This time the authorities cannot be blamed for the turnabout in the inflation rate. It has been doing all in its power to wring inflation — and more importantly — inflationary expectations out of the economy.

This has been done by keeping monetary policy very tight ie, high and real interest rates, a curb on credit creation by the banks by making "overnight rates" at the Reserve Bank punitively high and a tight reign over government spending

All was set for a steady decline in the inflation rate to below 10 percent and even lower. This target now seems unrealistic, for the time being at least.

All over the world, industrialised countries are having to face up to higher inflation. Yesterday Britain reported an annualised inflation rate of 10,9 percent while in the US inflation is rapidly heading towards the 7 percent range

This could have severe implications for economic growth worldwide The most effective way to combat inflation is to tighten monetary policy But this option comes at a time when growth rates are showing distinct signs of slowing down; in some cases quite dramatically. Higher interest rates will depress growth even more.

It's easy to speculate, but were it not for the latest developments in the Middle East, local interest rates would have been dropped by one percentage point at least, thereby aiding the fight against inflation.

The most insidious evil of inflation is perhaps the expectations of even higher inflation — a "psychology of ever-increasing inflation" as it is known. A whole generation of people have been weaned on this attitude

As millions of South Africans become resigned to the prospect of ever increasing prices as a way of life, these following unhealthy developments follow:

- More and more workers demand wage hikes to keep up with price increases and to get a jump on future price increases. It's a never-ending story.
- More and more trade union leaders insist on cost-of-living adjustments in annual wage negotiations They blame industry for inflation while industry blames them.
- More and more businesses boost prices in anticipation of the eventual wage demands.
- Consumers act irrationally and buy big-ticket items ahead of price increases, thereby adding to the credit boom and demand-inflation.
- Nobody believes in the value of thrift and hard work anymore. Nobody believes in the value of money. It becomes nothing but paper. Believe it or not, but many countries have collapsed because its people lost faith in the monetary system.
- In the face of this inflation-induced uncertainty deception becomes a way of life and deceit a way of life.
- Companies are paying dividends and taxes out of profits that don't exist. In order to keep on growing, companies become involved in more speculative ventures in order to stay ahead of the inflation race.
- Manufacturers revert to "packaging for price" The price of the product stays the same or increases only marginally, but the buyer gets less for his money than ever before.

Many products illustrate this: chocolate bars, aluminium foil, chips, toilet paper, cat food etc.

- Quality is lost. Instead of solid oak or teak furniture, for example, one gets plywood or pine dressed up to look like the real thing. Books are not bound anymore, they are glued; airline seats get smaller to squeeze more people in.
- Retirement planning becomes very difficult Retirement itself a nightmare as the steady increase in prices undermines and ultimately destroys the purchasing power of money that was saved over a lifetime.

Just ask anyone who retired on a fixed income ten years ago.

Battle against inflation goes on (153) Japie Jacobs

B/Day 19/10/90

GERALD REILLY

PRETORIA — The inflationary consequences of higher oil prices did not mean government's anti-inflation campaign had failed, nor that it should be abandoned, the Finance Minister's special economic adviser Japie Jacobs said yesterday.

Speaking at an Afrikaanse Sakekamer function, Jacobs said there could be temporary hiccoughs in the declining tendency of the rate, but this should not be seen as a failure of the anti-inflation policy

The success of government's campaign would depend greatly on inflationary expectations being drastically scaled down

Trade union members' earnings were rising in real terms but were not offset by higher production, he said. This was because wage negotiations were based largely on inflationary expectations and not on increases in real production.

Because previous efforts by government to control inflation had failed — for a number of "sound reasons" — the relatively high inflation rate over the past 15 years had given rise to a degree of scepticism over the success of the current campaign

Cynics pointed to the recent rise in the consumer price index (CPI) as a result of increased food prices, while the consequences of the higher fuel prices — with the possibility of further increases — still had to be felt

Government's repeated statements on the disadvantages of inflation and the need to lower the rate of increase had led to "anti-inflation exhaustion" among the public

Domestic

However, the anti-inflation programme, which implied a limitation in the growth of domestic demand, did not necessarily mean economic stagnation

Jacobs said inflation could only be successfully combated if imports were allowed to compete with local products For this, a realistic exchange rate was necessary

If exports were to play an important role in the future growth of the economy, domestic industrialists had to be exposed to greater overseas competition in the domestic market

It had to be emphasised that government's campaign was being carried out with the help of market-orientated techniques and not through direct control measures

This was why price and interest control measures were not being considered Neither was a system of credit ceilings to control banks' credit advances nor a policy to restrain salary rises

A lowering of the inflation rate was a prerequisite for sound economic growth at a higher average rate

But no one, Jacobs said, ever suggested that it would guarantee renewed economic growth.

There were long-term measures which could be introduced, such as better education and training with the aim of upgrading the quality of the labour force.

The same applied to the government sector's share in the economy and the elimination of "dissaving" — the use of capital to partly finance current expenditure

Jacobs said it was necessary for the private sector, government bodies and trade unions to take note of the seriousness of the way in which the anti-inflation programme was being managed.

Star 19/10/90 (153)

Inflation psychology has to be broken if gold mining is to survive

By Derek Tommey

The inflation psychology in this country has to be broken if the gold mining industry is to survive, warns Mr Clem Sunter, chairman of Anglo American' gold and uranium division.

He made these remarks following the announcement yesterday of the group's gold mining quarterly results, which contained a particularly pleasing profit increase from Free State Consolidated Gold Mines (Freegold)

Mr Sunter said that in the past three years the gold price has risen by R3000 a kilogram or about 11 percent In the same period there has been a 60 percent to 100 percent increase in the price of stores and almost a 100 percent increase in wages

"There are few industries in the world that can absorb this type of punishment, but the gold mining industry has managed to survive"

However, the industry is no longer being bailed out by the declining rand and in the past six months its profit margins have been seriously squeezed.

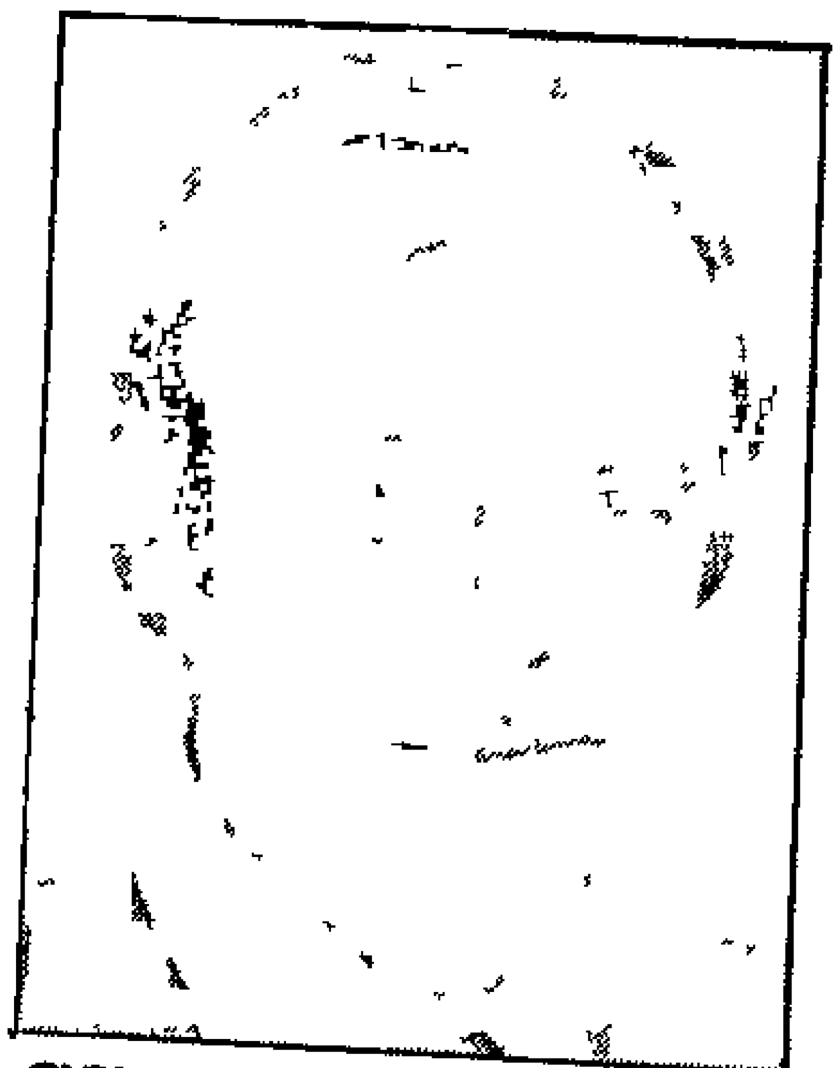
"We have to break the inflation psychology that exists in this country. There is still the assumption that we can go on as usual in terms of salary increases, wages increases and suppliers putting up their prices.

But it has to stop, he says, pointing out that the livelihood of several millions of people is at risk.

"There are 200 000 people working in the gold division of Anglo American and 500 000 working in the gold mining industry as a whole."

If their 2,5 million dependants and other people indirectly associated with the gold mining industry are included many millions of people rely on the gold mining industry.

Freegold reports a working



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profit for the September quarter of R139,2 million, almost three times the June quarter profit of R52,5 million.

This increase was achieved in spite of the loss of 20 000 man shifts by white employees at President Steyn, and an extra R60 million on the wage bill as a result of the 16 percent wage increase which took effect from July 1

Taxed profit was R142,7 million (R52,7 million) and available profit after capital expenditure was R80,2 million (R14,2 million)

The improved profit reflects a reduction in labour unrest from the June quarter, strong control of costs, an increase in the tonnage milled and an improvement in the yield

Mr L Hewitt, a director of the company, said that as a result of resignations and retirements, the number at the mine likely to be retrenched has fallen form 7800 to 6600. Discussion were still taking place with the unions, and if they agreed to certain proposals, such as longer unpaid leave, the number that might hve to be retrenched could drop to 3300.

Vaal Reefs had a working profit of R151,7 million (R148,9 million) and a consolidated profit of R120,5 million (R138,0 million)

Tons milled increased but the yield declined

Mr Hewitt said an inquiry had been held into the explosion which resulted in 21 deaths and the outcome of the inquiry would be made public.

Discussions were still taking place on when to start work at Moab, the new mining area adjoining Vaal Reefs Mr Hewitt said a decision would depend on the gold price He did not want to embark on a major capital expenditure programme when he was uncomfortable about the gold price.

Vaal Reefs already had a heavy capital expenditure programmes including spending R156 million on the Number 10 Shaft.

Western Deep Levels had a working profit from gold of R83,4 million (R75,0 million) and an available profit after capital expenditure of R20,1 million (R21,4 million). The yield declined from 7,81 grams to 7,4 grams a ton, partly because the fire damage in the east area was delaying production longer than expected But increased production here should lead to a higher yield.

Elandsrand had a working profit from gold of R35,0 million (R37,8 million) and a taxed profit of R33,7 million (R37,1 million). Profit available after appropriation for capital expenditure was R604 000 (R197 000)

The high level of capital expenditure was a result of a recent policy decision, taken in the light of low gold price, to finance this from profits and no longer from borrowings.

Ergo has declared an interim dividend of 35c a share. The high unit cost of R31 112 for a kilogram at the Ergo division has led to a decision to switch to a carbon in leach production method which should reduce production costs.

Inflation rate could jump as much as 4%

STAR 20/10/90 (153)

THE inflation rate could rise by as much as 3 to 4 percent as a result of the shock increase in the petrol price which came into effect at midnight last night.

Food companies have already warned that food prices will rise in the wake of higher fuel costs

Economists have calculated that the inflation rate will be back above 15 percent before the end of the year with most of the hard-won gains during the year, wiped out as result of higher fuel costs

Ironically, the announcement of the new petrol price was made on the same day that the Government announced its new anti-inflation drive.

Petrol has a direct weighting of about 5 percent in the composition of the Consumer Price Index (CPI) Higher petrol prices also filter through virtually the whole economy, the so-called knock-on effect.

Speaking on Radio 702's News Talk programme last night Tony Twine, a director of Econometrix said that the cumulative effect of the two increases in the petrol price will soon push the inflation rate to above 15 percent, and possibly 16 percent before the end of the year.

"Higher fuel costs will effectively lead to reduced consumer expenditure as the general public will have less money to spend on other items This will lead to lower growth," Twine said.

Other economists also pointed out that the country's balance of payments is being placed under pressure by the sharp rise in the cost of oil

Analysts were expecting a sur-

MAGNUS HEYSTEK

plus of anything between R5 and R6 billion on the current account of the balance of payments.

If oil prices remain at current levels for a whole year, it will mean an additional R3-R4 billion in the form of oil payments.

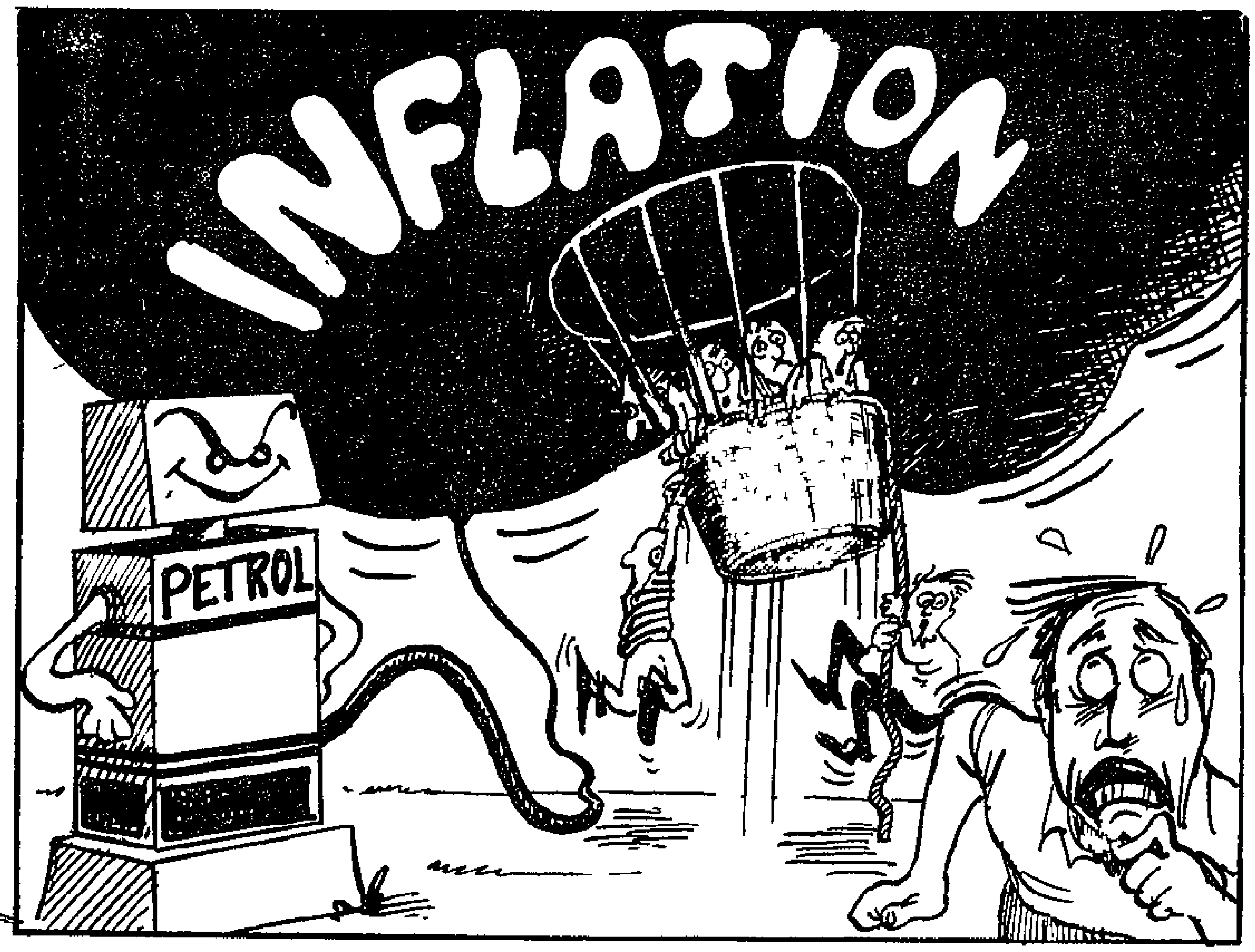
Last night the acting chief executive of Checkers, Francois Rossouw warned that consumers must brace themselves for even higher food prices "Although an increase was expected the extent of the price jump came as a shock at a time when urgent steps to aid the economy were being taken at all levels.

"An immediate increase in the general inflation rate of up to 1,2 percent and a 3 percentage points increase over the next year could now be expected. The situation in the Middle East will, however, hopefully be resolved and this will then lead to a drop in oil prices again," Rossouw said last night.

Yesterday the Minister of Administration and Economic Coordination Dr Wim de Villiers announced a new strategy to bring SA's inflation rate in line with that of it's trading partners over the next three to four years.

But he admitted that the unavoidable increases in petrol prices will derail this process in the short term. Part of the strategy is to limited the tariff increases of Eskom and Transet — which have been identified as primary causes of SA's high inflation over the last 15 years — to about 4 percentage points below the inflation rate

Eskom has announced that electricity charges in 1990/91 are set to increase by only 8 percent Similar increases are expected from Transnet.



Oil prices tumble to lowest for a month

LONDON — Spot oil prices tumbled to their lowest for more than a month as fast moving markets stripped out their so-called war premium on Friday. But the potential of Middle East developments to spook the market was still very real, traders said

The spot price for North Sea Brent Blend, a key reference price for crude, traded at $33,30 a barrel in late European afternoon business, down $2,35 from late Thursday in New York, and marking the lowest level paid since September 14 for crude for immediate delivery.

Market movements recently have been based heavily on the latest perceptions of whether war or peaceful settlement was more likely in the Gulf crisis.

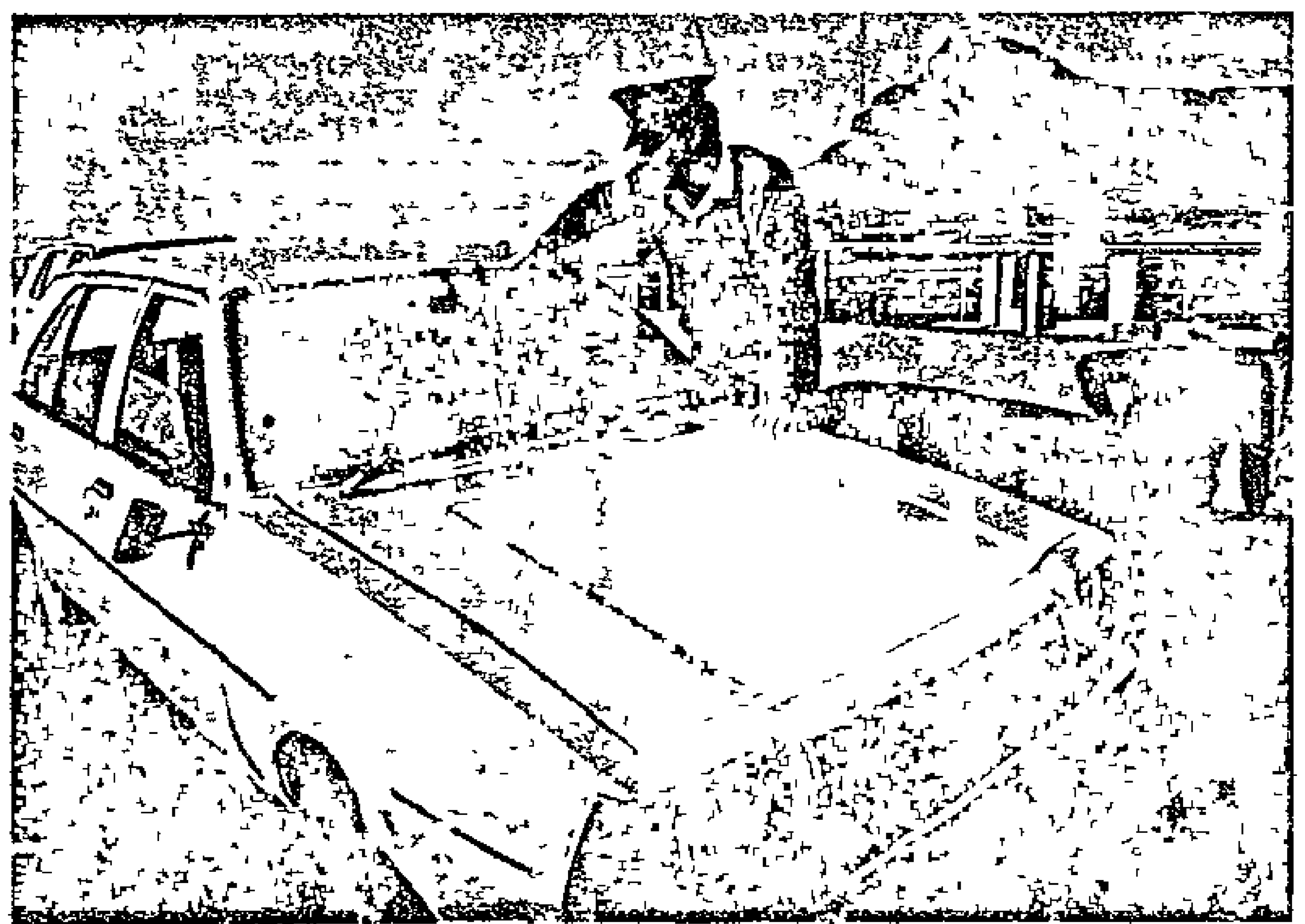
A statement by Iraqi Deputy Prime Minister Taha Yassin Ramadan in Amman early yesterday made up traders minds after declines seen on Thursday had been partially reversed by news of further clashes between Palestinians and Israeli security forces in the Gaza Strip occupied territory

On London's International Petroleum Exchange the December futures contract stood around $32,10, five dollars below week ago levels and almost two dollars down on Thursday

But, prices were off their lows in the afternoon as traders battened down hatches ahead of the weekend.— Sapa-Reuter.

INFLATION FUELLED

W/E ARGUS 20/10/90 (A3)



Picture: JOHAN SCHRONEN Weekend Argus

Sergeant J Kruger of the Mowbray police inspects the bullet-riddled car, stopped after high-speed chase.

Two wounded in chase

By JOHAN SCHRONEN
Weekend Argus Reporter

TWO suspected thieves were shot and wounded by police during a high-speed car chase through the southern suburbs at dawn today.

The shots and squealing tyres awakened residents as the chase passed through Rondebosch and Mowbray.

The pursuit began about 6am when police became suspicious of four occupants of a car in Lansdowne Road, Claremont.

When they called on the driver to stop the car sped off and the police gave chase.

Radios and other goods were thrown from the car.

Police arrested the fugitives when their bullet-riddled car slewed to a halt with punctured tyres on the Black River Parkway near Maitland.

Two of the suspects were wounded and were admitted to Groote Schuur Hospital under police guard.

Describing the chase, a Rondebosch resident who lives in a block of flats in Eureka Road said: "I was awakened by the shots about 6am.

"Then I heard cars travelling at high speed, screeching tyres and more shots. The chase seemed to be along Campground Road.

"Many people in our block were awakened. I could hear doors opening all over the place and the sound of voices. I kept my head down. I wasn't going to look."

Indonesia gives ANC R25,3-m

JAKARTA — Indonesian President Suharto pledged R25,3-million to the African National Congress to contribute to the struggle to end racism in South Africa, a government official said.

President Suharto made the

Food prices, commuter fares are set to rocket

Weekend Argus Reporters, Correspondents and Sapa

CONSUMERS stand to be hard-hit by the staggering 32c-a-litre increase in the price of petrol. Motorists will be hit in their pockets at the petrol pumps — but so will commuters and shoppers.

Predictions are that the increase will set inflation soaring and prolong the recession which has already led to alarming unemployment.

City Tramways has already said it will be unable to absorb the increase. But its general manager, Mr F E Mayoss, called on motorists to switch to public transport as it presented people with a marvellous opportunity to save themselves a great deal of money.

But those adversely affected will be the country's poorest — millions of black bus commuters.

The Southern African Bus Operators Association said that the annual 700-million commuter trips by their 14 000 minibuses were transporting commuters who earned an average monthly income of less than R500. Many were unemployed job-seekers using the mini-buses to visit urban centres.

The fuel price increase would cost an estimated additional R97-million annually, which meant that fares would have to be increased. Depending on the distance travelled, it could cost 20c a trip more in cities, raising weekly costs by as much as R5.

Warnings of further food-price increases have come from agriculture as well as the major supermarkets.

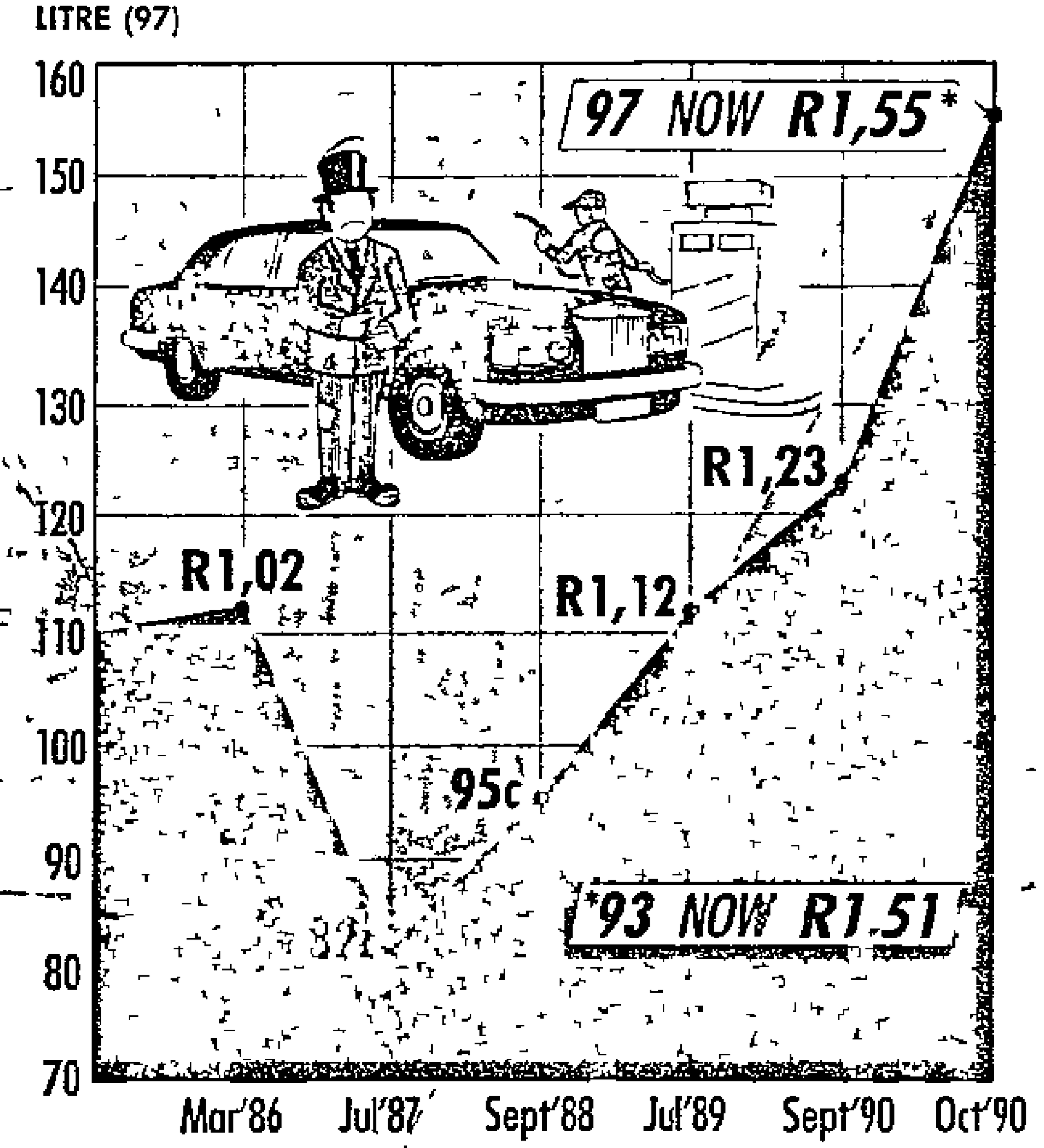
The president of the SA Agricultural Union, Mr Nico Kotze, said the fuel price increase, specifically that of diesel, was a further major setback for agriculture and could no longer be absorbed for its own account.

The managing director of OK Bazaars Limited, Mr Gordon Hood, said any fuel-price increase had an impact on the distribution costs at a manufacturer-supplier level and inevitably the price to the retailer was increased.

"This increase is particularly unfortunate as our traditional customers are the ones least likely to be able to afford an increase in the price of our goods."

Sharp upward twist

Checkers said consumers could most definitely expect a hike in food prices. Its acting MD, Mr Francois Rossouw, said the extent of the fuel price jump came as a shock at a time when urgent steps



There has been nothing but bad news for motorists — the price of petrol has almost doubled since July, 1987.

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"An immediate increase in the general inflation rate of up to 1,2 percent and a 3 percentage point increase over the next year could now be expected."

Checkers would continue to negotiate to keep prices as low as possible and make sure that hidden increases were not passed through by suppliers and blamed on the petrol price. It would further try to educate consumers on how to cope with and budget for this massive increase.

Pick 'n Pay's chairman, Mr Raymond Ackerman, appealed to his group's suppliers not to raise their prices except nominally, as petrol was a small component.

He again appealed to the government to allow his organisation to discount the price of petrol in the light of the latest fuel price increase. This could save consumers about 4c or 5c a litre.

The SA Chamber of Business said the increase was "unavoidable" and had been expected, but would give South Africa's cost structure a sharp upward twist.

It estimated the immediate direct inflationary impact to be more than one percent. But to that had to be added the indirect effect of higher transport costs.

The Chamber said a complete reassessment of the country's economic prospects was now necessary and that the economic downswing was likely to be longer and deeper than previously expected.

The National Association of Automobile Manufacturers of SA said that, while understanding the reasons for the increase, the extent of it represented a major blow not only for the motor industry but for the economy as a whole.

The Administrator of the Cape, Mr Kobus Meiring, said provincial traffic officers had been instructed to introduce extensive speed-control measures and warned that unpopular lower speed limits could be reintroduced.

■ In its petrol-price increase report yesterday The Argus inadvertently referred to Mr Alan Baxter as the foods manager of Checkers. He is the general manager (foods) of Pick 'n Pay.

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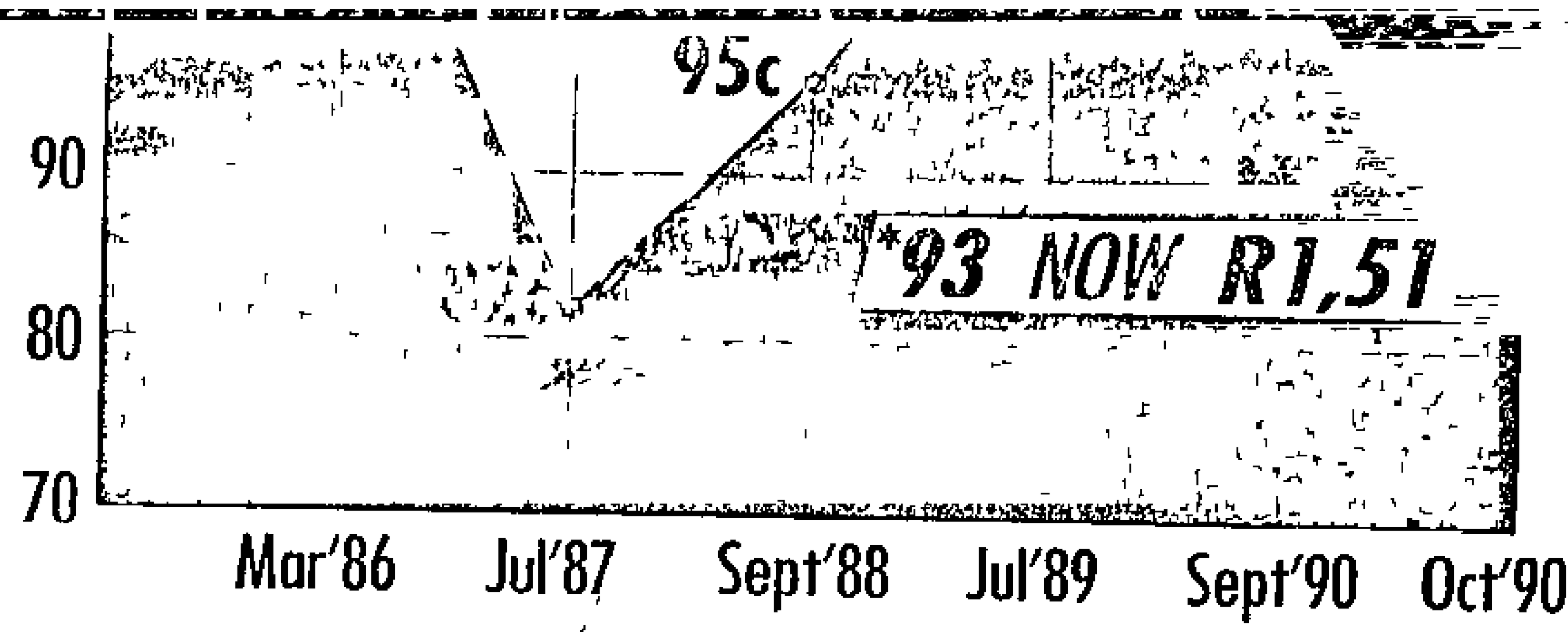

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(153)

14% inflation looms

ST Times 21/10/90

Business Times Reporter

THIS week sees the release of crucial figures for South African consumer price inflation and broad money growth in September.

The outturns could have a close bearing on the authorities' interest-rate strategy.

The annual inflation rate ticked up to 13,6% in August, boosted mainly by food prices.

The September figure will be the first to include the effects of the higher domestic petrol price which, together with continuing food-price pressure, could see the inflation rate advance again towards 14%.

The measure of broad money growth, M3, should on the other hand decline further in annual terms.

Bank advances growth continues to slow under the impact of the general credit squeeze, and money supply is relatively well insulated from the external factors that are wreaking havoc with the exchange rate, the inflation rate and the level of foreign reserve.

M3 growth should also move toward the bottom of the authorities' 11-15% target range for calendar 1990, and could dip below it before the year-end.

Weak

Internationally, US durable goods orders for September are out on Wednesday. The figure is likely to reinforce the general impression of the weakening US economy that has developed over the past six months.

The September outturn should match the negative figure recorded for August, and should be particularly weak in the non-defence sector.

Defence orders have been boosted by Operation Desert Shield — the US military deployment in the Persian Gulf.

The UK's current account figures for September are scheduled for release tomorrow, and could show a widening in the deficit from August's £1,1-billion, rising to around £1,3-billion.

The strength of sterling in the run-up to its full membership of the European Monetary System will be hindering any reduction in the deficit by making imports cheaper and UK exports less competitive.

The Bank of Japan's monthly report on the Japanese economy is published tomorrow and will be scanned in the markets for clues as to the short-term intentions of the Japanese financial authorities towards short-term interest rates.

Against a background of falling US interest rates and a rallying Tokyo stock exchange, it is unlikely that the bank is considering any immediate adjustment to its credit stance.

CML

Monday, October 22, 1990

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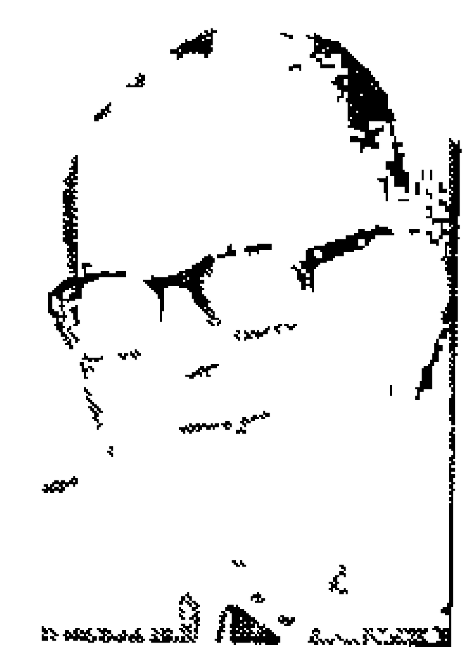
Govt onslaught on inflation forecasts



Dr De Villiers

Own Correspondent

JOHANNESBURG — The government has launched an onslaught on inflationary expectations in the wake of the petrol price hike, warning against using the increase to push for higher prices and wages

The Minister of Economic Co-ordination, Dr Wim de Villiers, poured cold water over economists' predictions that the direct and indirect cost effects of the 25% hike in petrol prices would add about two percentage points to the inflation rate Together with the September petrol price increase, some believe the full impact of the Gulf crisis could raise the consumer price index (CPI) by three percentage points

Dr De Villiers said "Taking South Africa's relatively low dependence on oil as an energy source into account, an increase in fuel prices need not necessarily affect inflation to the extent that is often forecast"

An upward adjustment in South Africa's inflation rate, and that of the rest of the world, could not be avoided It was imperative, however, that this price increase should not lead to sustained increases in the general price level.

He called on the private sector to follow Eskom and Transnet in applying wage and price discipline, saying if business followed, there was no reason why the inflation rate could not resume its downward trend The government would not accommodate a sustained increase in inflation, as it remained unshaken in its resolve to cut inflation

"Actions based on the assumption that general price increases will be higher than, or the same as, the present inflation rate will inevitably lead to lower economic growth and greater unemployment, and that should be properly taken account of in determining wages and prices"

The authorities wanted to address the "huge" inflationary role played by indexation — the practice of linking price and wage increases to the prevailing level of inflation More than 70% of general price increases in one year are automatically carried over to the next year

Economists said a relentless interest rate policy was a key factor in breaking inflationary expectations The Reserve Bank had ignored the market's expectations of a cut in the bank rate for months, and this finally sank in last week. The liquid bankers' acceptance rate turned around to reach its highest level in about two months at 18% and the treasury bill rate jumped to 17,7% from 17,34%

Inflationary fears have pushed capital market rates more than 10 points higher in a week. The SA Chamber of Business predicted the direct inflationary impact of the price rise would be "in excess of 1%, to which must be added the indirect effect of higher transport costs on all sectors"

South Africa is set to end the year with inflation at about the same level as it was in December 1989 — 15,3% The average inflation rate for the year will be at about the same level as last year's 14,7% Hopes that the country will see single-digit inflation by the end of next year have been dashed and the average in 1991 could be higher than 13%

Stellenbosch Bureau for Economic Research chief Professor Ockie Stuart said the immediate effect on inflation of the petrol price increase would be at least one percentage point, with the ripple effect adding another one Volkskas's Mr Adam Jacobs saw at least 1,25% added to the CPI as a result of the latest increase differences

Graphic LEE EMERTON Source ESKOM

its performance

Trade union priorities not addressed, says Golding

6 Day 22/10/90 (153)

ALAN FINE

ADMINISTRATION and Economic Co-ordination Minister Wim de Villiers' plan for economic restructuring failed to address trade union priorities and was in opposition to them in various respects, a leading unionist said yesterday.

NUM assistant general secretary Marcel Golding, noting De Villiers's call on Friday for unions to co-operate in the fight against inflation through restraining their wage demands, also warned against government interference in the collective bargaining process

Golding said government could hardly expect the labour movement to co-operate in economic strategies over whose formulation unions had had little or no influence.

He understood government's concern to tackle the inflation problem — inflation had also had a negative effect on workers' earnings However, union economic priorities had to be the priorities of its members, and those were primarily job creation and increasing workforce income

A key area unions believed needed to be addressed as a pre-condition for economic progress was training.

Inflation the key to drop in rates

BDay 22/10/90 153

GRETA STEYN

ADMINISTRATION and Economic Co-Ordination Minister Wim de Villiers signalled at the weekend interest rates would remain high until a meaningful reduction in inflation had been achieved and until SA's balance of payments (BoP) was in good shape

DE VILLIERS

"Before the oil price crisis we felt that if our BoP was healthy and our exchange rate at the right level, we could start thinking of easing policy But we cannot contemplate such a move at the moment Much depends on whether there will be full-scale war in the Gulf We will have to keep the measures in place until there is greater direction an stability," he said

He denied that a protracted period o hardship would result from government' general aim of bringing SA's inflation rat down to levels compatible with its mai trading partners within the next three t four years.

"Within a reasonable period we will be able to see growth — when inflation is down and the BoP is healthy, we can relax on the interest rate path"

He was optimistic about prospects for the BoP. President F W de Klerk's reform initiatives would boost the capital account, while the current account would benefit from measures to encourage exports

On fiscal policy, he noted De Klerk's statement that greater social spending would be financed by savings in other government departments.

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Wim dampens inflation forecasts (153)

Govt calls for discipline by private sector

B'Day 22/10/90

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● More reports Pages 3 and 5
● Comment. Page 10

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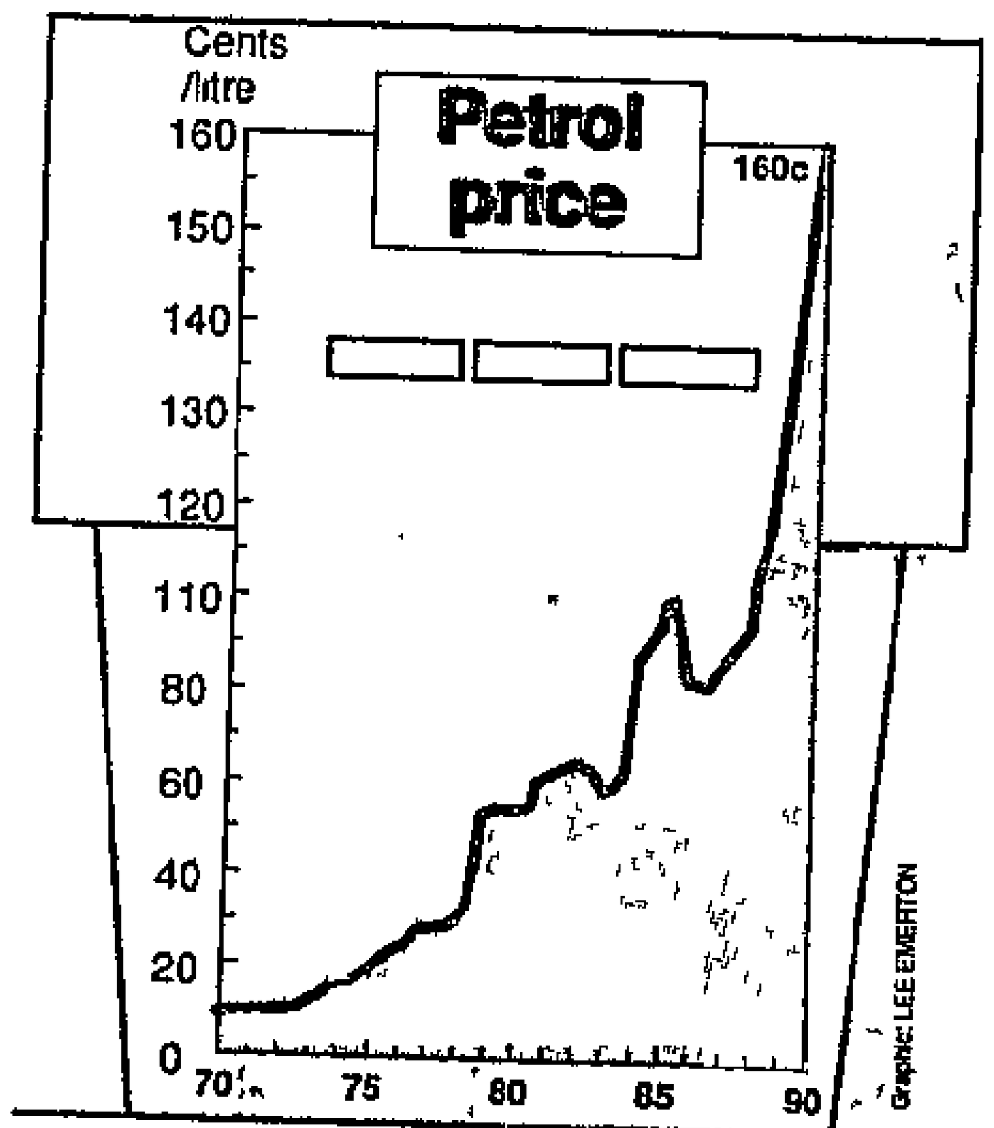

Wim on inflation

B'Day 22/10/90 (153)

☐ From Page 1

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GERALD REILLY reports Stellenbosch Bureau for Economic Research chief Ockie Stuart said the immediate effect on inflation of the petrol price increase would be at least one percentage point, with the ripple effect adding another one Volkskas's Adam Jacobs saw at least 1,25% added to the CPI as a result of the latest increase. Earlier this year, Stuart said the bureau estimated a negative growth rate this year of 0,3% This was likely to worsen to 0,5% or higher, he added

Consumers would be battered by a prolonged recession, with inflation eroding real earnings and virtually no hope of an early interest rate cut to provide relief

De Villiers said the absolute level of inflation was not as important as the level relative to SA's trading partners, and their inflation rates were also set to rise. But a narrowing of the differential still implied an absolute decline in inflation in SA.

Making growth and jobs wait while we try to tame inflation

153

BDay 22/10/90

GRETA STEYN

A DECADE of economic stagnation, double-digit inflation and massive unemployment speaks for itself A major overhaul of the SA economy is needed Government plans to do just that with a comprehensive restructuring programme The plan, for all its strengths, has major weaknesses.

An assessment of the present economic strategy has to take account of the country's economic needs One of the greatest is employment In the 1980s, a sluggish economy saw employment growth trail far behind the expansion of the economically active population — jobs grew by an average 1,1% a year while job seekers increased by an average 2,5% The number of jobs in industry remained stagnant during the '80s; the public sector provided the main impetus for what little growth there was in overall employment.

The number of officially registered unemployed is misleadingly low at its peak of about 140 000, according to the Reserve Bank's September Quarterly Bulletin — the Bank goes on to estimate the real number of job seekers in the formal economy at 5,4-million. This ties in with unofficial academic estimates that put the percentage of the economically active population that cannot be accommodated in the formal sector at about 40%

SA needs rapid and sustained economic growth of about 5%-6% a year to create jobs Yet the main focus of the economic restructuring programme is not on growth and job creation, but firmly on combating inflation

The architect of the restructuring plan, Administration and Economic Co-Ordination Minister Wim de Villiers, emphasises that the top priority of economic policy is bringing inflation down to close to that of our trading partners within the next three to four years "There will not be scope for increases in inflation or even allowing it to remain where it is Actions based on the assumption that the general price level will be higher than, or the same as, the current level will inevitably lead to lower economic growth and greater unemployment — and that should be thoroughly taken note of when setting prices and negotiating wages"

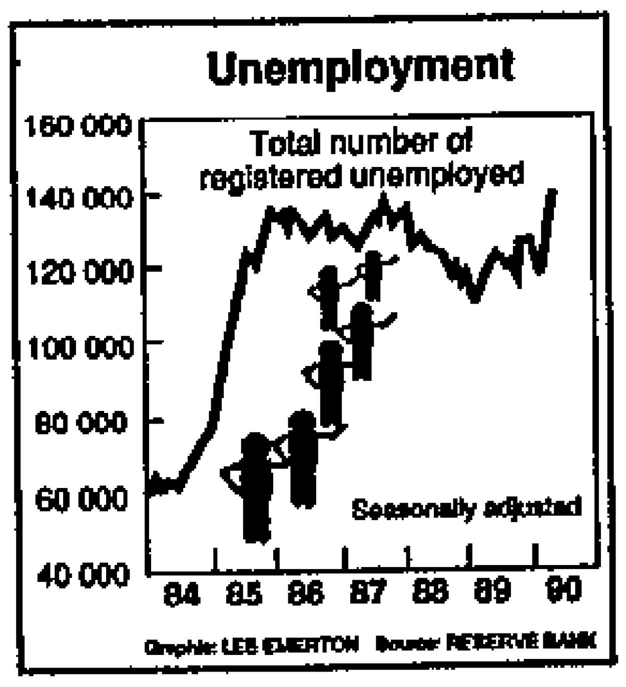
Strong stuff, against a background of 40% unemployment in the formal sector, political unrest and a debate on the political economy that focuses sharply on the skewed wealth distribution in SA This is a man with a mission and nothing, not even Saddam Hussein, can shake his resolve.

De Villiers' resolve manifests itself in a style that is politically naive and even insensitive — he appealed to the trade unions to join the "team effort" against inflation, but also stated clearly that their views on privatisation would be disregarded Not the kind of approach that fosters team spirit.

"Breaking inflation's grip on the economy is the top priority simply because there is no long-term trade-off between inflation and employment Inflation leads to spending and savings habits that inhibit the long-term growth potential of the country The answer to the unemployment crisis is rapid and sustained economic growth, the key word is sustained To avoid a Latin American boom-bust economy, SA has to lick the inflation problem

In the long run, conservative financial policies create a financial environment in which sustainable growth can be achieved The Economist recently reported that developing countries with low interest rates — negative in real terms — had average growth of only 1,6% in 1983-89, compared with 5,9% in countries with positive real interest rates

De Villiers emphasises the key role of expectations in keeping inflation high To a large extent, inflation is "all in the mind"; to quote Shakespeare, "nothing is either good or bad but thinking makes it so" If we stop thinking inflation, we will have gone a long way towards solving the problem Apart from high interest rates, low electricity tariff increases and tight fiscal policy, a verbal onslaught on inflationary expectations has emerged as a key weapon in the fight against inflation.



Inflation at the level of our trading partners will encourage export-led growth as SA exporters will be able to price their goods competitively But fighting inflation in itself will not promote rapid economic growth and more jobs Specific strategies to encourage growth and employment creation are needed.

SA desperately needs growth — is government doing enough to promote it? De Villiers likes to call his growth policies a "supply-side" approach They do contain strong elements of supply-side economics — the encouragement of savings to finance investment, heightened productivity, lower taxes to encourage work effort.

Exporters are being offered cheap electricity and rail tariffs if they use idle capacity by working extra shifts. The idea is to encourage growth through heightened productivity The moves are also part of a drive towards export-led, rather than consumption-led, growth

Labour and capital productivity is being encouraged through soft loans provided by the Industrial Development Corporation to firms that work multi-shifts Lower taxes and all the measures to encourage savings have not yet been finalised.

These measures will work. But they are not enough to encourage economic growth of the order needed to put a big dent into unemployment. It is hard to envisage an unprecedented boom in exports as exporters employ large numbers of people to work around the clock. Too little is being done about encouraging job-creating economic growth The World Bank's latest World Development Report argued for growth policies that would harness labour De Villiers' plan is a First World plan that fails to recognise the most obvious growth opportunity in SA.

Combine SA's massive housing shortage, put at more than 1-million units in 1988, and unemployment and they spell opportunity

JCI economist Ronnie Bethlehem has argued for a major public works programme to build houses. Such a programme would generate growth and employment without putting pressure on the balance of payments Bethlehem argued it could be mainly state-financed by scrapping Mossgas, cutting defence spending and reducing spending on apartheid bureaucracies The homes should be sold, thus counteracting the threat of inflation and increasing home ownership among blacks

"In SA, the state has been able to ignore the problem of mass black unemployment until now only because its obligations have not been to a majority electorate and because it has allowed itself to be guided by policy models based on the post-war experience and policy adaptations of Western Europe and North American countries," Bethlehem argued.

It is a major shortcoming of De Villiers' plan that it has not fully acknowledged the extent of the unemployment problem It is surprising that the obvious route to growth and greater employment, with its positive political spinoffs, was not included in the restructuring plan. The idea that house-building can be a spur for growth is not without its supporters among economic policy-makers; Reserve Bank senior Deputy Governor Jan Lombard has been a tireless advocate of such a plan

Government's economic restructuring programme is to be criticised, not for its contents, but for what it lacks There is still time to add to the plan and to stop pretending SA is part of Europe or North America.

LETTERS

Fuel hike 'major setback' in battle against inflation

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THE recent increases in the price of fuel could add two percentage points to the inflation rate, with their full effect on the economy pushing it even higher, Sanlam chief economist Johan Louw said in the company's latest economic survey.

Louw said the increases constituted a major setback in the fight against inflation, although he believed the underlying downward trend would be resumed in the medium term.

"At this stage we forecast an annual increase in the consumer price index of about 14,5% by the end of 1990 — more or less the same as the average rate estimated for the whole year," he said.

Commenting on the current recession, Louw said although he believed the "cooling phase" would last more than 30 months — much longer than the previous two recessions — it would not have the same intensity.

GILLIAN HAYNE

B/Day 24/10/90

Retarding

In addition to the rise in international oil prices, the unrest, with its negative impact on production as well as on business and consumer confidence, had also helped to slow the economic growth rate

Referring to the balance of payments, Louw said the Middle East crisis was having a negative effect on SA's export trade as it was retarding the economic growth of some of SA's leading trading partners

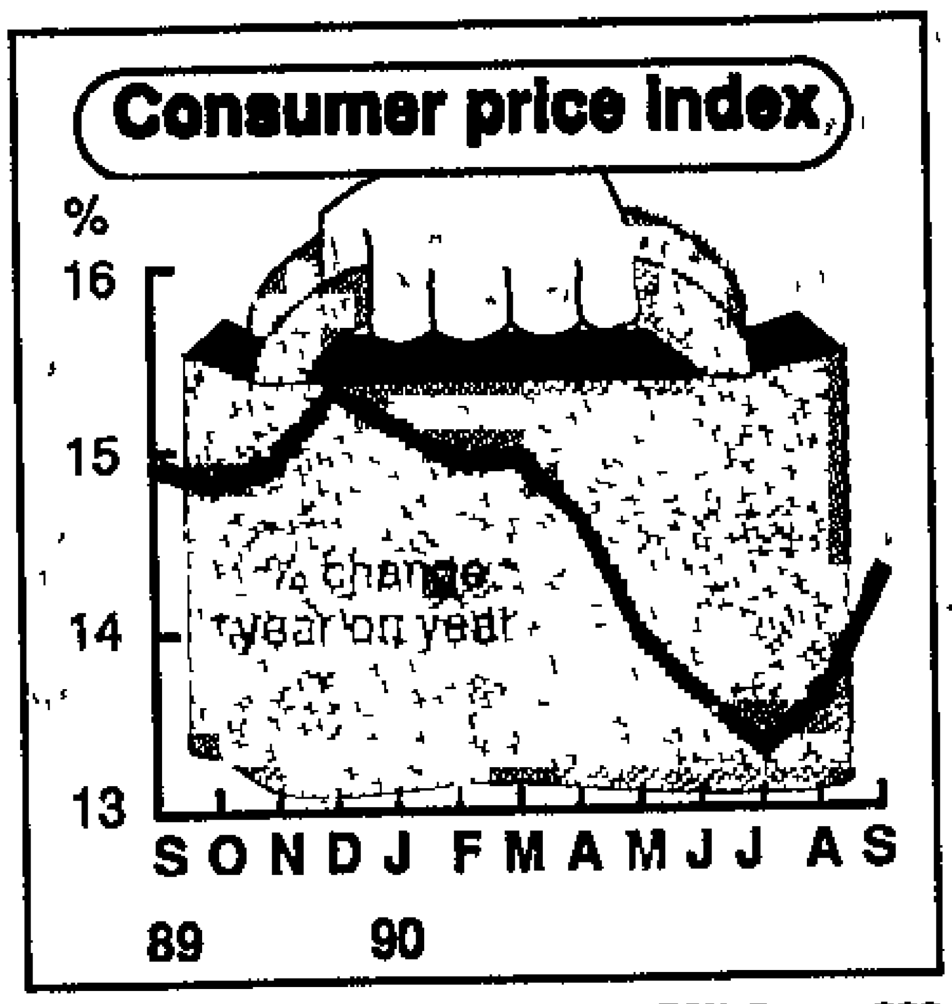
On the import bill he said the current account of the balance of payments was under pressure and the previously expected surplus of R5bn was unlikely to be achieved

The improvement in the capital account could not stop the falling ratio of reserves to imports

SA's foreign reserves currently cover less than two months' imports, while an acceptable norm, by international standards, was three months or more

"This means that we do not have the reserves to accommodate a significant recovery in the economy," Louw added

The sharp decline in the gold price and the fuel price hikes would make a drop in the Bank rate and an accompanying reduction in the banks' overdraft rate unlikely in the near future, he said



Graphic: LEE EMERTON Source CSS

BDay 24/10/90

New upward trend expected in CPI

153

GRETA STEYN

THE September petrol price hike pushed up inflation by 0,4 percentage points in that month to bring the overall level to 14,3% in the second month of what is expected to be a new upward trend.

Inflation, as measured by the year-on-year change in the consumer price index (CPI), bottomed at 13,3% in July from a peak of 15,8% about a year previously. Significant progress in breaking inflation's grip is the major objective of present monetary policy. Inflation has extinguished bullishness in the money and capital markets even though money supply and BoP figures show positive developments.

For the second month in succession, the month-on-month increase in the index was high — 1,5% after 1,6% in August. But an encouraging feature in September was the slowdown in the rate of increase in food prices to 1% month-on-month from the previous month's jump of 2,3%. Year-on-year, food prices rose by 17,3% compared with 17,7% in August

Economists said the direct impact of the next fuel price increase would add at least a further one percentage point to the inflation rate The knock-on effect of the two fuel price hikes could add another 1,5 to bring the overall impact on the CPI to close to 3%.

PH 6 B/5040

Set-back in fight against inflation

CMT Trib 26/10/90. 153

By AUDREY D'ANGELO
Business Editor

THE successful fight against inflation has been reversed — at least temporarily — by higher petrol and food prices, figures released by the Central Statistical Services show.

Following an uptick in August to 13,6% year on year, from 13,3% in July, the consumer price index (CPI) climbed another 0,7% month on month The year on year increase in September was 14,3%

The rise did not surprise economists, who pointed out that it reflected the 10c a litre increase in the petrol price in September.

But Adam Jacobs of Volkskas Bank, Mike Daly of Southern Life and Elmien de Kock of Syfrets said yesterday that they expected the CPI to resume its downward trend next year

Daly said that although he thought the CPI would rise to 14,5% or 15% by the end of this year he expected it to be down to 11% by the end of 1991. He thought it would average 13% next year

The CSS reports that the processed food index was up by 17,1% year on year, and unprocessed food up by 17,2%

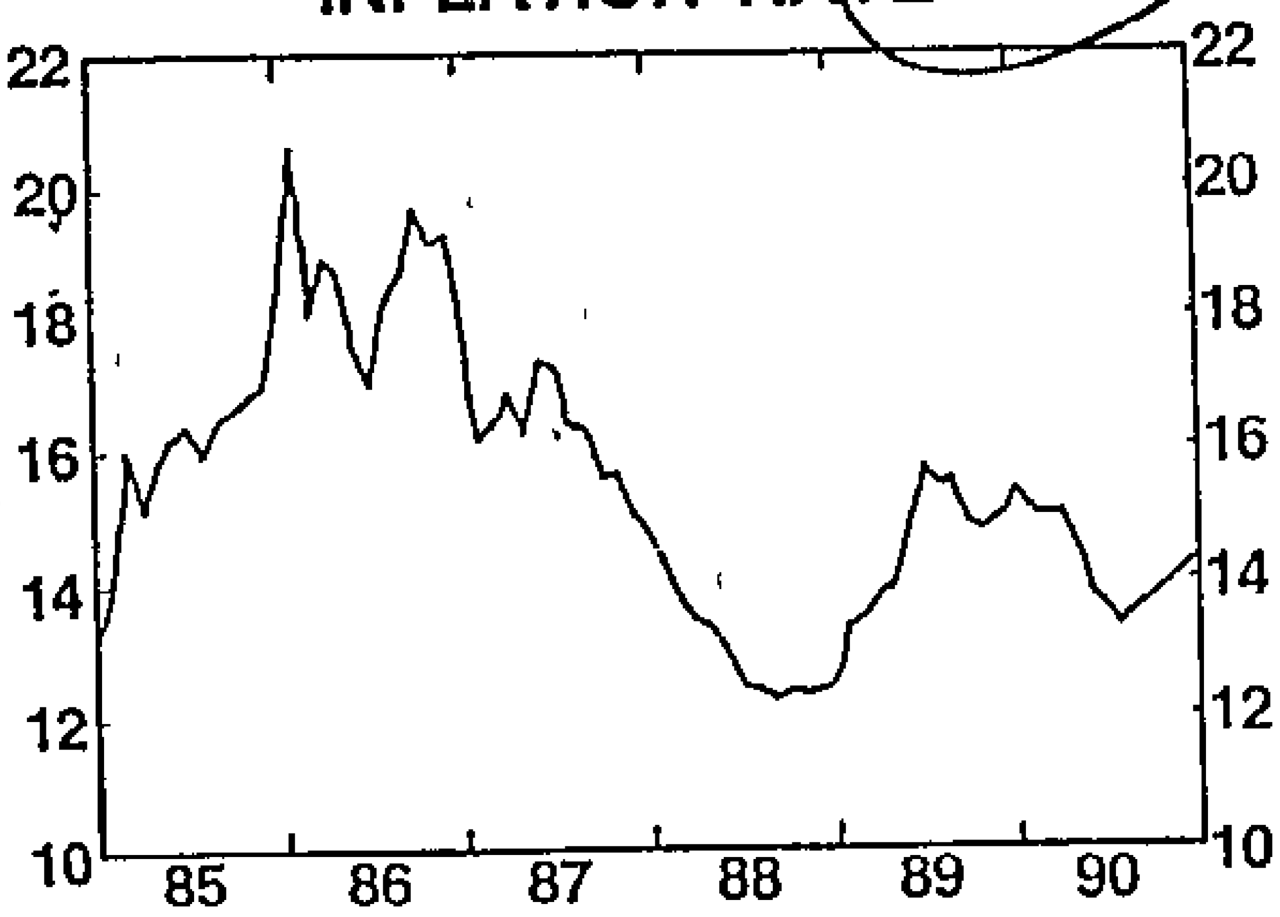
The inflation rate for the lower income group was 14,9% year on year, the middle income group 14,8% and the upper income group 14,2%

Old Mutual chief economist Dave Mohr pointed out:"This is the first month a higher petrol price has come through on the CPI But apart from that these figures show inflationary pressures are still high

"The petrol price increase announced last week will come through only in December when we can expect the CPI to be 15% year on year.

"This is a big setback to the Government's fight to bring down inflation, and means high interest rates until well into next year"

INFLATION RATE



The steady decline in the inflation rate, which ended with an uptick in August, is definitely over for the time being. The consumer price index rose to 14,3% year on year in September, after rising to 13,6% in August from 13,3% in July.

Syfrets economist Elmien de Kock said the rise in the CPI was "very much in line with expectations" following the rise in petrol prices

But the month on month rise in the food index was only 1% following an exceptionally high one in August.

Although "we are definitely going to see another sharp increase, the underlying trend is downwards"

Said Jacobs:"The inflation rate will go higher, and come down in due course But we are faced with a low rate of growth for a year or 18 months" ay October 25 1990

Inflation rate climbs again

(153)

Sowetan 25/10/90

SOUTH Africa's inflation rate has reversed its downward trend and climbed by 0,7 percentage points in September.

According to the Central Statistical Service, the rate of increase in the consumer price index for the month was 14,3 percent compared to the 13,6 percent registered in August.

The CSS says that one of the biggest contributors was again food, which showed a 17,3 percent increase in September last year.

Processed food was up by 17,1 percent, while unprocessed food was up by 17,2 percent

The overall monthly increase in the CPI was 1,5 percent, while monthly increases of sugar were at 6,2 percent, recreation and entertainment at 5,9 percent, fats and oils at 3,1 percent and fish and other seafood at 2,5 percent

Transport

The running cost of transport rose by 5,5 percent, personal care and furniture by three percent and fuel and power by two percent.

Overall, the inflation rate for the lower income group was 14,9 percent, the middle income group faced a rise of 14,8 percent and the upper income group one of 14,2 percent.

Hit hard

The hardest hit area was East London, where the cost of living rose by 15,4 percent, while Bloemfontein was the lowest with 10,4 percent.

Pensioners were hardest hit in East London, where their index was up by 15,4 percent, while those in Bloemfontein were lowest with an increase of 12 percent. - *Sapa*

All hopes of respite dispelled by inflation rate

153

B Day 25/10/90

ANDREW GILL

THE recession is now firmly entrenched, latest figures show, and the chances of any respite have been squashed by an inflation rate that threatens to test three-year highs and upset the authorities' well-laid plans.

The contraction could result in a negative real growth rate of 0,5%, Southern Life economist Mike Daly said in the group's previous economic review TrustBank predicted a 0,8% fall in GDP in its previous review

Further confirmation of the recession emerged in this week's money supply growth figures. M3 is coming close to breaking out of the lower limit of the Reserve Bank's 11% to 15% guideline range

Daly said "Rather than easing monetary policy by cutting Bank rate as a response to below-target monetary growth, the Reserve Bank is likely to consolidate the gains by lowering the guidelines to 7% to 11% in the new year."

Nedcor economist Edward Osborn called the money supply the "half-full or half-empty" argument In terms of policy objectives money supply growth is on track but it also reflects the poor state of the economy.

The trade figures also reflected the recession with the demand for non-oil imports slumping 23% from September. However, economists say the inflation rate argues against a policy response to the recession.

Consumer inflation, up to 14,3% in September, has increased by one percentage point over the past two months but the worst is yet to come with the 32c-a-litre petrol hike appearing only in next month's releases

Osborn said a year-end rate of 15,7% was possible if the petrol price hike prompted transport-related industries to follow suit and up prices.

Inflation, he said, was on course for a complete change of direction and the effects of the higher rate would permeate the system

One of the effects, he said, would be increased wage demands, closer to 14%.

This in turn could spark a further round of price increases and push inflation even higher

One of the better statistics released this month was the trade figures Expectations of a sharply reduced trade surplus in September were surprisingly disproved with the surplus rising slightly despite oil prices reaching 10-year highs

However, the current account surplus failed to boost foreign exchange reserves in September — there was a R250m fall from three-year highs in the Reserve Bank's holdings. On valuation factors, October's figures may show further falls.

153 Star 30/10/90

Many businessmen pessimistic about fight against inflation

By Roy Cokayne

Many businessmen believe recent attempts to slash the inflation rate will be unsuccessful.

A joint survey by the Pretoria Technikon and the Pretoria Chamber of Commerce and Industry shows expectations about the inflation rate in the short term remain negative — and that 70 percent of respondents believe attempts being taken to bring it down will be unsuccessful.

The Minister for Economic Co-ordination Dr Wim de Villiers said recently that 70 percent of the current inflation rate could be attributed to expectations of inflation

South Africa was at the point where indexation was playing an extremely important role in these expectations and the only way to address the problem was to change them to a general belief that inflation was going to come down, he said

In the survey, undertaken by Deon van Zyl, head of the economics department at Pretoria Technikon, more than 70 percent of respondents reported experiencing cost increases since the beginning of the year Only five percent believed their input costs had dropped.

Mr van Zyl said the poorer economic expectations, which had been noticeable in the previous investigation, had increased in intensity.

More than half the respondents said inventories since February had dropped, while 67 percent planned to keep inventories at lower levels than at the beginning of the year

About 50 percent reported a decline in sales (33 percent at the beginning of the year)

Sales for 42 percent of respondents still showed a positive trend

Short-term sales expectations were also relatively negative because 51 percent of respondents expected a further decline over the next few months

"This expectation is in stark contrast to the situation in February when the majority predicted an increase in sales," Mr van Zyl said

Credit sales to date had remained virtually unchanged, with most respondents not foreseeing any change in the next few months

However, problems had begun to occur with the payment of accounts and 30 percent of the respondents indicated they had tightened their credit control measures.

About 38 percent were planning to implement stricter credit control measures

"As can be expected, there exists a clear trend of increasing bad debts that have to be written off, with 27 percent of respondents experiencing increases in non-recoverable debts," Mr van Zyl said

"Expectations about future bad debt followed the same pattern One out of every four respondents believed the non-payment of accounts will increase in the next few months"

The trend of declining profitability noted in February had increased during the year, with 40 percent of respondents now reporting poorer profits Only 23 percent had reported improved profitability

Short-term expectations about the course of the economy in Pretoria and its surrounding areas followed the same pattern, with 44 percent of the respondents expecting a further drop in business activity.

Only 22 percent had a more positive outlook and believed economic conditions would improve.

UBS: keep pay hikes below inflation

6 IDW 31/10/90

ANDREW GILL

AN INCREASE in next year's wage bill should be kept two percentage points below the inflation rate if a rate of 11% is to be achieved by the end of 1991, the United Building Society (UBS) said in its latest Economic Monitor.

If, however, wage bills increased by 14% next year, it was unlikely that the inflation rate would fall at all

This had become more pertinent since the 25% petrol price increase with the resultant deterioration in the inflation rate and the expected worsening of the terms of trade

As a result, a cut in Bank rate should be expected only in the second quarter of 1991.

Reducing the inflation rate to single-digit figures by 1992 would require a real Bank rate of 5% in the foreseeable future, it said.

"Assuming a 13% inflation rate in April next year, this would imply a Bank rate reduction only from the second quarter onwards" (68)

It was also likely that the current recession would be prolonged and positive growth in gross domestic product could be expected only in September 1991 (153)

The slowdown in the world economy was expected to dampen merchandise exports in 1991, while merchandise imports and net service payments were expected to pick up slightly next year

This could reduce the current account surplus for 1991, the Economic Monitor said.

SAC

Demand-pull inflation 'has been beaten'

B/Day 1/11/90 (153)

ANDREW GILL

DEMAND-pull inflation has been beaten, says Reserve Bank Senior Deputy Governer Jan Lombard, and the main focus is now on destroying inflationary expectations

Lombard, speaking at the Sacob conference yesterday, said there were no monetary causes of inflation left in the economy and the Bank saw no need to intervene in the money market to reduce domestic liquidity or raise interest rates

On the contrary, the Bank could see interest rates coming down if price- and wage-makers abandoned their inflationary expectations.

The levelling off on the demand side was clearly demonstrated by the monetary trends, he said, with money supply growth down well to within the Bank's 11%-15% guidelines.

He hinted at the use of SA's "very extensive" oil reserves in 1991, should the Gulf crisis continue. "There is always the option to import less in volume in 1991 in the hope that the crisis will be over in 1992."

Lombard sounded a warning about the surplus on the current account, which showed surprising strength last month despite expected higher oil imports

"The effects of the Gulf crisis will have its effects as of the fourth quarter and into 1991."

Scourge

The previously healthy looking balance of payments situation had obviously been heavily effected by the new international situation. The cost of importing oil would increase at an average 20% in 1990, but another rise of 30% on average in 1991 was not unlikely.

Apart from the Gulf crisis, said Lombard, there were no external inflationary influences operating on the economy in 1990 and this, coupled with inflationary expectations, was keeping the inflation rate at its higher levels.

In the course of the next year or two SA should rid itself of the scourge of inflationary expectations, which was destroying prospects of establishing a productive, rapidly growing, just and and free economic order.

The difference in the price trends of imported and locally manufactured goods was marked, he said, and this could not could not continue indefinitely without SA industry losing its international competitiveness.

Lombard expressed concern at the sharp upturn in domestic expenditure, apparently due to the general wage increases by government.

ANC International affairs director Thabo Mbeki and Reserve Bank senior deputy governor Jan Lombard consider the issues during Sacob's annual convention in Johannesburg yesterday.

Picture ROBERT BOTHA

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'Inflation to hit hikes in wages'

CAT Tms 1/11/90

153

By AUDREY D'ANGELO
Business Editor

CONSUMERS are facing tough times for most of next year, Old Mutual chief economist Dave Mohr warns in his latest Economic Monitor. He expects pay rises to be below the level of inflation — which he thinks unlikely to fall much lower than this year's expected average of 14,3%

And, because of the impact of higher oil prices on the balance of payments, he thinks only a moderate decline in interest rates can be expected

He also warns "it is unlikely that the income tax relief granted in the 1990 Budget will be repeated in 1991".

Discussing "the sustained high underlying inflationary pressure in the economy", Mohr points out that "by August this year the consumer price index (CPI) was still 15,6% higher than in August 1989"

He continues "In addition to this relatively high rate of increase in consumer prices in general, the probability of a further meaningful decline in the short run will be restricted by the renewed weakening of the rand and the sustained sharp increase in the unit costs of labour"

Increases in the petrol price "are expected to lead to a renewed moderate rise in inflation over the next few months.

"Although we do expect a resumption of the downtrend in inflation during 1991, the rise in the oil price reduces the chance of inflation falling to single digits in the current cycle"

Mohr also warns that industrial action which disrupts production could intensify the downturn

He expects total domestic spending to fall by a further 3% this year, following a drop of 8% last year. And he expects gross domestic production (GDP) to fall by about 1% following an increase of 2,1% last year

"As far as the commencement of the next upswing is concerned, we are of the opinion that recent events make any meaningful recovery in the domestic economy before late next year highly unlikely"

Discussing the outlook for consumers, Mohr continues: "As far as private consumption expenditure is concerned, prospects for 1991 are less rosy"

He thinks "the financial position of consumers could be considerably tighter next year"

Pay rises will probably be lower than this year, due to the generally tighter business conditions and little, if any, increase in total employment

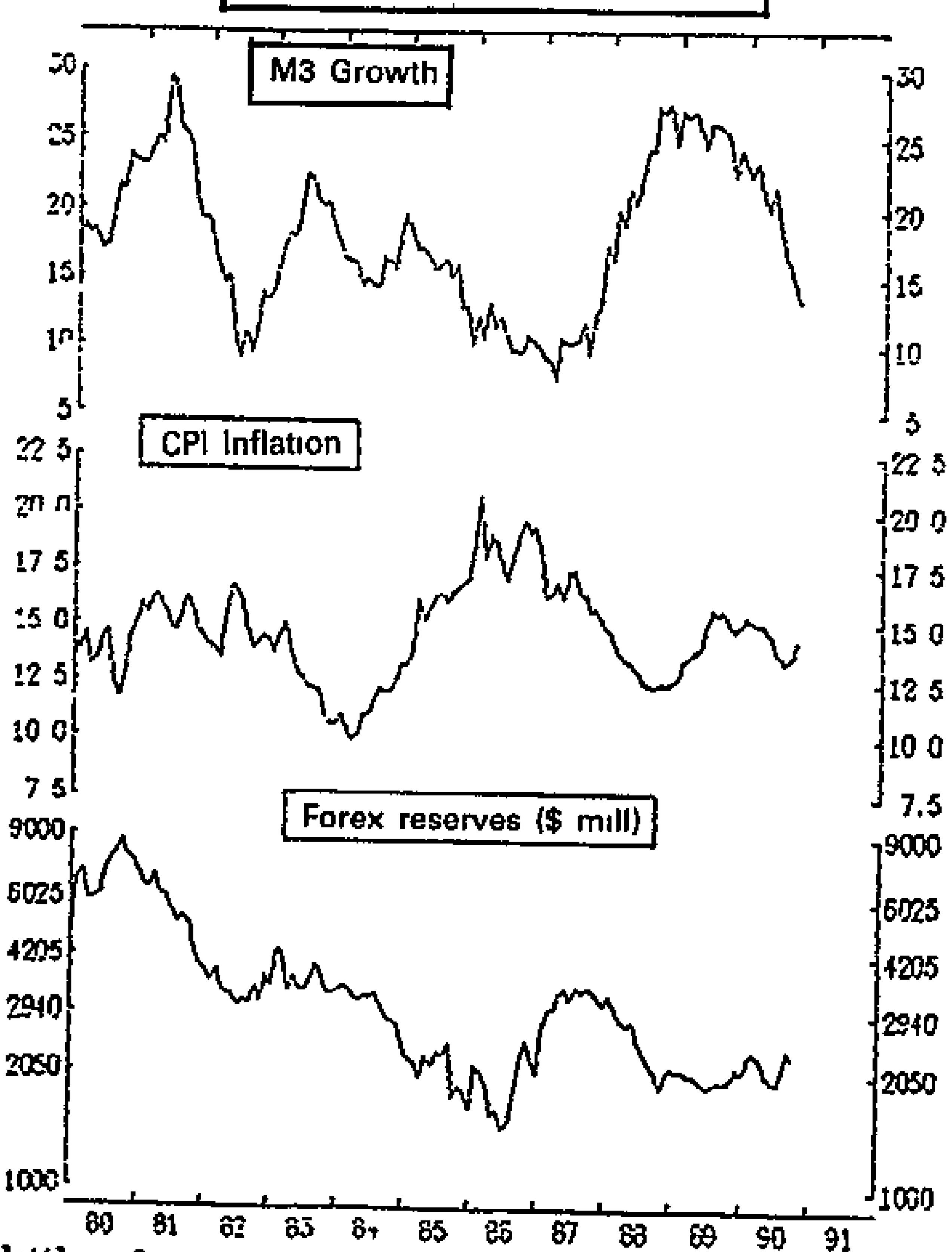
However, Mohr points out that so far, at least, the current recession has been much milder than the last while meaningful progress has been made in slowing down the growth of money supply, reducing inflation and building up foreign exchange reserves

And, although gold has so far performed disappointingly, he thinks this could improve if higher oil prices push up inflation overseas

He also thinks there is "scope for a further moderate fall in long-term interest rates over the next year.

"This view is based on the expectation of a continued deceleration in economic activity and the corresponding mild decline in short term interest rates"

Cyclical Developments



rdinated to the parochial own affairs departments to higher risk levels, as and limited affordabi- home-building industry is e process of withdrawal is y sporadic levels of civil

finance and are suspicious of the private sector " These suspicions had been strengthened by exploitation and poor selling practices

The key to resolving the housing crisis was to deliver housing at scale and on an affordable basis — Sapa

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Efforts to control inflation doomed, say businessmen

B|Day 2/11/90 GERALD REILLY (153)

PRETORIA — Government efforts to control and reduce inflation will fail, Pretoria businessmen believe.

This was reflected in a survey among 1 500 businessmen, Pretoria Chamber of Commerce and Industry chief executive Alex de Beer said.

A problem identified in the survey was that inflationary expectations were a major cause of the sustained high inflation rate.

This was in line with the view of most economists and Economic Co-operation Minister Wim de Villiers

De Beer said 70% of respondents in the survey claimed costs had increased markedly since the beginning of the year, while only 5% claimed input costs had declined.

The survey also highlighted the fact that expectations of a poorer economic performance had intensified.

De Beer said more than half the businessmen reported that inventories had declined since February.

They also said they planned to maintain inventories at levels lower than at the beginning of the year

Just more than 50% expected a further decline in sales in the months ahead.

A declining profitability trend identified in February had increased, with just less than half reporting profit shrinkage.

For the rest of the year, the expectation of business activity would continue to decline, De Beer added.

He said the report confirmed conditions responsible for an increasing number of business failures in Pretoria.

Unfortunately, the trend was likely to continue, he said.

US recession 'affects SA'

BDay 5/11/90 MARCIA KLEIN (153)

THE "mild recession" in the US should be over by March next year but would affect the SA recession by making it last longer, possibly through 1991, Prof Joel Stern, president of US group Stern Stewart & Co, said at a Wits Business School function on Friday

Stern said unlike previous recessions, the US downturn was not preceded by a contraction in the money supply.

The recession in SA appeared to have no association with the US or with Europe, Stern said, as SA usually trailed these economies by between 12-18 months.

He said the SA recession was due to uncertainty about the future of the country and a "sense of malaise" about the current situation

SA interest rates were "abominably high", he said.

SA conglomerates did not make sense. US research showed the optimal size of company ownership was 35%-40% of any particular company

In the US management bought options in a company, giving them the incentive to operate a firm well so the share price would rise. There were also new developments in incentive compensation, putting "golden handcuffs" on managers who would be unable to leave a firm without their bonus bag, he said.

Pay expected to rise 13,8% in '91

B Day 6/11/90

153

Own Correspondent

WAGE and salary increases are likely to average 13,8% in 1991 — just above an inflation rate of 13,5% — says the Stellenbosch Bureau for Economic Research.

Value added tax (VAT) may replace general sales tax (GST) next October without any change in the rate

In its latest forecast, Economic Prospects, for 1990-1991, the BER believes that in spite of rising unemployment, pay rises will not lag behind inflation as labour unions will still be able to negotiate large increases in wages.

"It is also uncertain whether the government will be able to contain next year's salary increase for civil servants to the same extent as they did this year It appears as if the total increase in the remuneration of employees for 1991 could be close to 14%," the report says.

Real disposable income is expected to fall by 1,5% per head next year compared with a drop of 2,1% this year, while real personal consumption expenditure is expected to rise by 0,9% next year compared with a rise of 0,5% this year.

BER expects the banks' prime lending rate to decline steadily next year, from its current level of 21% to about 17%. "At the same time the inflation rate could decrease from its current level of 15% to 11% by the end of next year."

The BER says that with VAT replacing GST without any change in the rate, "mo :e tax will be earned by way of indirect taxes because the base will broaden, thus leaving scope for a reduction in direct taxes on individuals.

"We anticipate, however, no more than a provision for bracket creep in next year's Budget."

Disposable incomes for 1990 will increase at a rate roughly on a par with the inflation rate. During 1991 consumer prices are expected to rise of 13,5% and consumer disposable income by a percentage point higher.

"This means that consumer spending could begin to recover fairly early in the second half of the year."

However, in real terms disposable income per head would decline.

The BER anticipates that by mid-1991 the media will give much attention to an upswing early in 1992 or earlier, and boost overall confidence.

Incentives 'can help beat recession'

Blom 6/11/90

GILLIAN HAYNE

INCENTIVE schemes could help companies ride the recession by encouraging better staff performance and minimising fixed salary costs, Ernst and Young regional director Julian Nagy said yesterday.

Companies would have to adopt innovative ways of maintaining staff's economic standards "in the face of ruinous inflation and taxation" while not locking the company into fixed costs should individuals fail to perform (153)

Incentives are "a structured approach to measuring performance and paying rewards contingent on the attainment of better than planned levels of performance".

Such schemes were a far more effective method of rewarding individuals, Nagy said, because traditionally the pay difference between the best and worst performers was usually no more than 10%, while the difference in performance was substantial.

By involving staff in decision-making and sharing financial gains with better performers, productivity would increase. One US study measured improvements in productivity of approximately 10% after three months and 24% after one year.

More than 50% of medium to large companies in SA operate incentive schemes.

BER sees pay rises above inflation rate

153

CAH Trips 6/11/90

By AUDREY D'ANGELO
Business Editor

WAGE and salary increases are likely to average 13,8% in 1991 — just above an inflation rate of 13,5% — says the Stellenbosch Bureau for Economic Research (BER)

And value added tax (VAT) may replace general sales tax (GST) next October without any change in the rate

BER's latest forecast, Economic Prospects, for this year and next, explains that it does not expect pay rises to lag behind inflation, in spite of rising unemployment, because "we are of the opinion that labour unions are still in a position to negotiate large increases in wages

"We actually anticipate a political settlement in 1992 or 1993 and this implies that the unions will use next year's political climate to further their own cause

"It is also uncertain whether the government will be able to contain next year's salary increase for civil servants to the same extent as they did this year. It appears as if the total increase in the remuneration of employees for 1991 could be close to 14%."

The forecast, prepared by a team of economists including Attie de Vries, president of economics at the Stellenbosch Graduate School of Business, and edited by BER director Ockie Stuart, says real disposable income will fall by 1,5% per head next year compared with a drop of 2,1% this year

Real personal consumption expenditure is expected to rise by 0,9% next year compared with a rise of 0,5% this year.

Income from property is expected to rise by 17% next year compared with a rise of 14,6% in the current year and 8% last year.

BER expects the banks' prime lending rate to decline steadily next year, from its current level of 21% to about 17%. "At the same time the inflation rate could decrease from its current level of 15% to 11% by the end of next year"

Discussing the expected shift of the tax burden away from individuals on to business enterprises, and from direct to indirect tax, Economic Prospects forecasts that value added tax (VAT) will replace the present general sales tax without any change in the rate

"This implies that more tax will be earned by way of indirect taxes because the base will broaden, thus leaving scope for a reduction in direct taxes on individuals

"We anticipate, however, no more than a provision for bracket creep in next year's Budget.

"In all, the 1990 disposable income of consumers is projected to increase at a rate roughly on a par with the inflation rate. During 1991 we foresee a rise of 13,5% in consumer prices and the increase in disposable income of consumers is likely to be a percentage point higher

"This means that consumer spending could begin to recover fairly early in the second half of the year

"In assessing the extent of the recovery, however, it should be borne in mind that disposable income per head is projected to decline in real terms throughout the forecast period"

(153)

BER sees recession lasting longer than first expected

CAPE TOWN — Stellenbosch University's Bureau for Economic Research (BER) forecasts a slightly lower inflation rate in 1991, but warns that the recession might last somewhat longer than previously thought.

In its review of economic prospects, it says the world economy could contract faster as a result of the Gulf crisis and impact negatively on SA.

The bureau projects an average inflation rate of 14,3 percent for 1990 and 13,5 percent for 1991

It says. "According to our assumption, oil prices could start to decline from the second quarter of 1991 onwards and therefore make room for a downward adjustment in the petrol price We do not, however, foresee a downward adjustment by the full margin of the increases"

The bureau foresees an average rise in the producer price index of 12,8 percent for 1990, followed by 12,3 percent in 1991

It foresees a downward trend in interest rates in 1991.

Investment in residential buildings is expected to diminish in 1990 and 1991

In a general overview, it says the broad outlook for the major industrial countries in 1991 and the rest of 1990 is not particularly good

The US economy is particularly vulnerable and, as a result, the dollar is projected to depreciate against other currencies

However, the outlook for gold is depressed, it says.

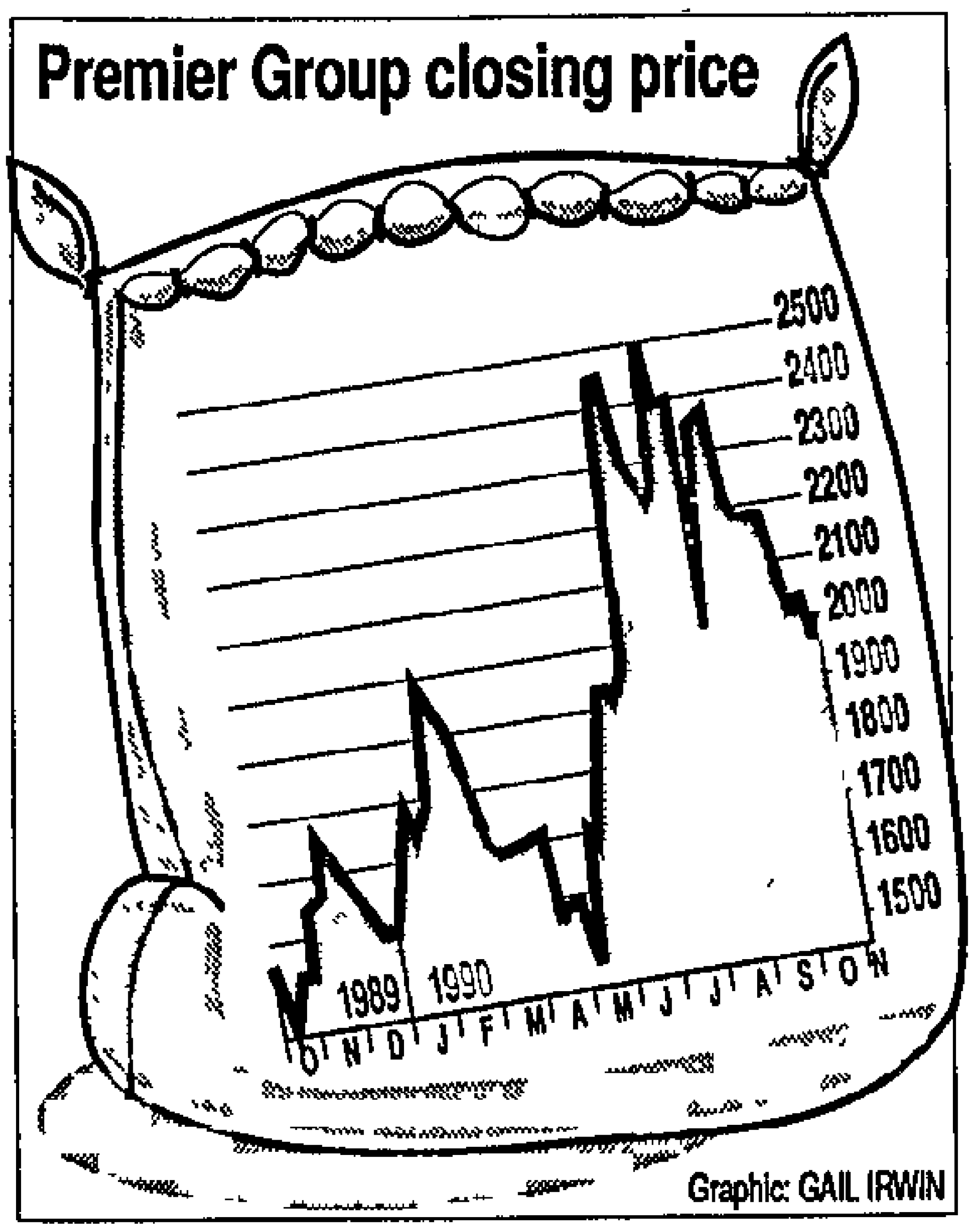
"Our forecast of an average price of $400 next year is perhaps somewhat optimistic"

The rapid changes taking place in the political environment are opening new markets for SA, it says.

"The threat of additional sanctions has subsided and many governments are now talking in terms of lifting sanctions

"The changes have caused uncertainty and, in some cases resentment, within SA. It would appear, however, as if the Government is under pressure to restructure the political system at an even faster pace

"It is also clear the Government is committed to restructure the economy and that it has opted for a supply-side approach to set the process in motion," it says — Sapa



Graphic: GAIL IRWIN

Premier lifts earnings above inflation rate

Nov. 1990

(153)

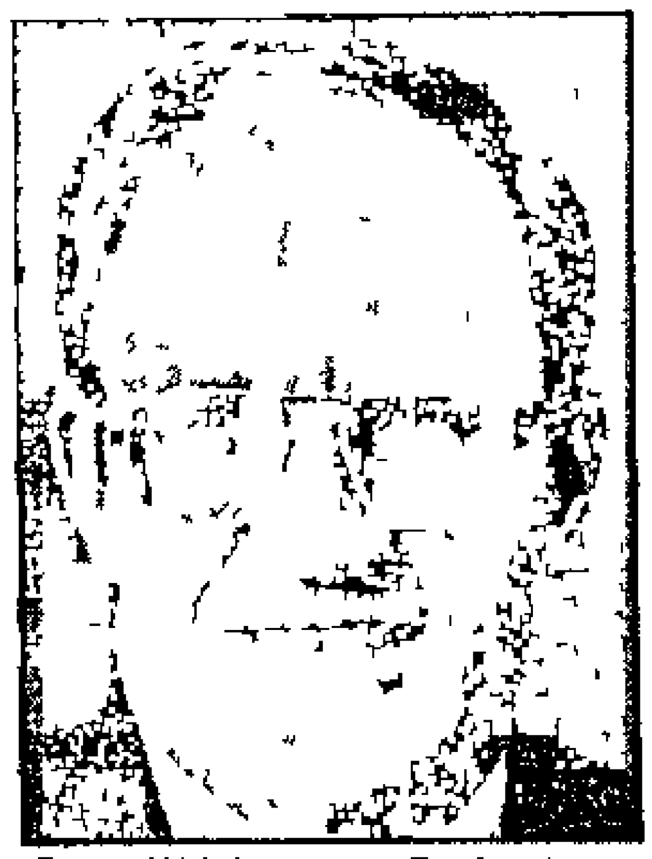
By Ann Crotty

First half figures for Premier are in line with chief executive Peter Wrighton's target for real growth with earnings up a sterling 16 percent to 84c (72c) a share An interim dividend of 28 (25c) has been declared

However, if the interest charges had not dropped by 13 percent, reduced margins at the group's pharmaceutical division would have kept the increase in earnings per share below the inflation rate

But the good news is that apart from the troubled pharmaceutical activities, the group's operations performed very well in tough trading conditions

In the six months to end-September group turnover was up 20 percent to R2,5 billion (R2,1 billion) But trading profit increased by only 11 percent to R158,4 million (R142,7 million) reflecting a squeeze on margins — down from 6,8 percent to 6,3 percent


Peter Wrighton Petfood a success story

Mr Wrighton explains that the drop in margins was largely due to the difficulties at PDC and Gresham "We had a large turnover contribution from this source but there wasn't much profit"

Part of PDC's problems are industry-related with the impact of tough trading conditions aggravated by the very high shrinkage that appears to be experienced by most of the players

PDC suffered additional problems resulting from (what its recent pre-listing statement referred to as) the blending of the cultures and the methods of operation of a mutual wholesaler (SAPDC) with those of a commercial organisation (the PWD business)

Twins, which manufactures pharmaceuticals, also had a tough six months Its performance was adversely affected by the restructuring of Safimed. And in August it had to take a stock loss following the banning of skin lighteners

According to Mr Wrighton, margins in the group's food division were virtually unchanged on the year-end figure of 6,3 percent.

Helped by last year's proceeds from the rights issue, interest-bearing debt was down to R37,2 million (R42,6 million) But the balance sheet shows interest-bearing debt at end-September '90 was up 46 percent to R554,5 million (R378,6 million) Mr Wrighton says that the increase in debt was due to the increase in working capital. He believes there is some scope for reducing the group's working capital levels

The lower interest burden helped to lift the pre-tax profit increase to 21 percent — from R100,1 million to R121,2 million

Taxed profit was up 19 percent to R84,2 million (R70,7 million) and a marginal reduction in minority interests helped to show a 29 percent hike in attributable earnings — up to R60,3 million (R46,7 million)

The increase at per share level was diluted by the increased number of shares in issue

Looking through the group's food operations, Mr Wrighton said that the milling division did very well — enjoying a substantial increase in turnover with margins unchanged

Margarine and edible oils continued to suffer but problems with these were no longer internal The factories and new plant were all operating well but market conditions were flat largely due to imported oil and a new entrant into the margarine market

Agribusiness was adversely affected by a poor crop but this was more than countered by better margins

The petfood operation did extremely well and according to Mr Wrighton it was the group's "success story"

The fishing story was the same as that told by all the other players in the industry — results were hit by the sharp cut in the Cape quota

The recent acquisition — Atlantic Fishing — is performing well

A cursory comparison between Premier and Tiger's performance in the 12 months to end-September indicates that Premier's earnings growth is benefiting signficantly from the restructuring effected over the past 18 months or so

Previously it tended to underperform its main competitor, Tiger but in the 12 months to end-September (adding the last 6 months of Premier's financial '90 year to the 6 months under review), Premier appears to have pipped its rival.

Turnover at Tiger was up 18 percent, at Premier it was up 23 percent Earnings per share at Tiger rose 16 percent compared with a 23 percent hike at Premier

In comparing the two it should be noted that Premier is in a recovery situation and Tiger is reporting good profits off a very strong base

For the full year, Mr Wrighton says that the group is trying very hard to achieve the target of real earnings but he points out that at the time the original forecast was made, inflation looked as though it was easing and there was no fuel crisis

Doubts about early economic recovery

B/Day 8/11/90

SYLVIA DU PLESSIS

BUSINESS should brace itself for a longer, deeper downturn than was considered likely and focus on cutting costs where possible, SA Chamber of Business (Sacob) chief economist Ben van Rensburg said yesterday at a media conference.

That was because it was now "open to doubt" whether the SA economy would recover by mid-1991.

Van Rensburg's warning came in the wake of a plunge in Sacob's latest business confidence index (BCI) to its lowest level in nearly four years and signs that Christmas sales could reflect a 0,7% drop in real terms over 1989.

Businesses should also expect interest rates to remain at current levels until the

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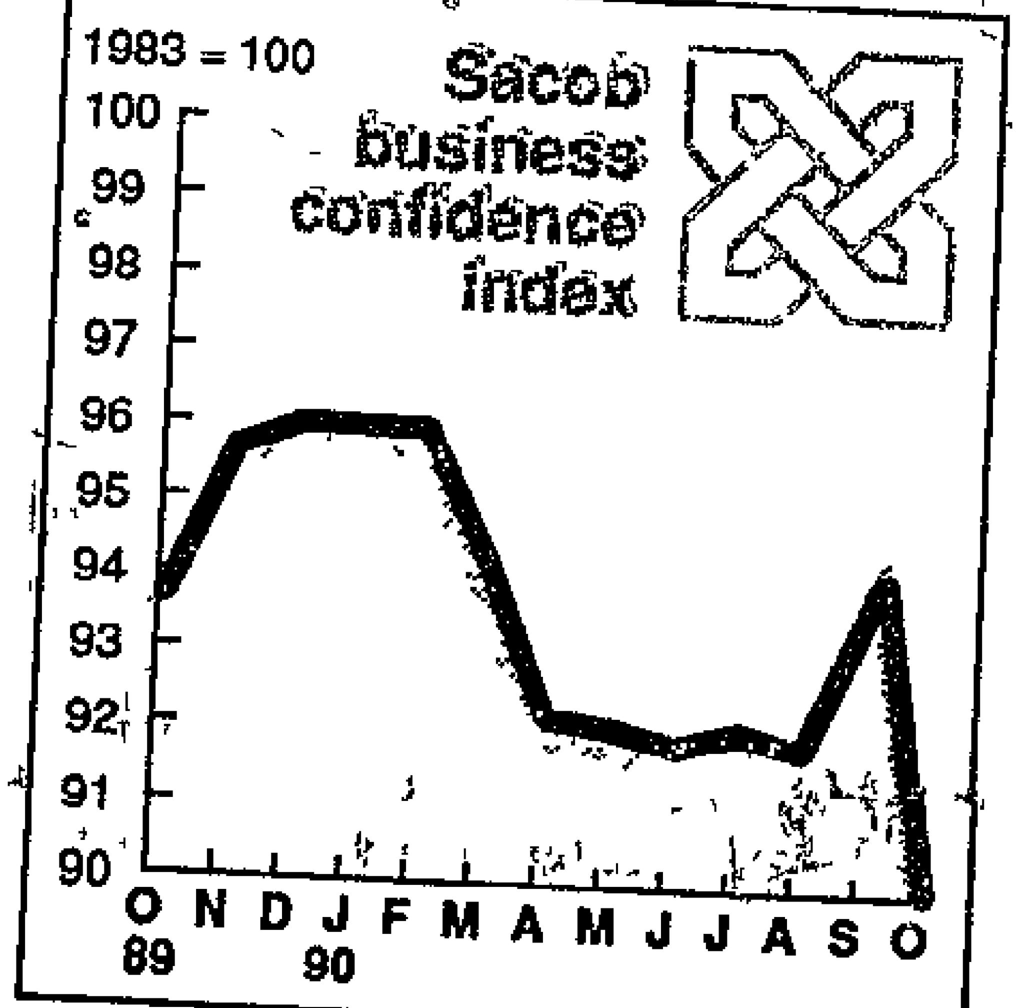

Graphic LEE EMERTON Source SACOB

Recovery

B/Day 8/11/90

(153)

☐ From Page 1

new year, exercise greater caution in granting credit and increase their provisions for bad debt, he said.

They should take measures to "last out this recession and be in a position to take advantage of the next upturn".

Sacob's BCI fell to a level of 90 in October from 94,2 the previous month — its lowest level since 89,8 in February 1987.

Van Rensburg said Sacob's view was that the September BCI had overstated the extent of confidence and nowthe full impact of uncertainties arising from the Gulf crisis had made itself felt.

The general business mood had adjusted to the fact that a slowdown in the world economy was more likely, fuel price hikes were a temporary setback for the SA anti-inflation drive and the prospect of lower nominal interest rates had probably moved to early 1991

Gloom in the business arena was mirrored in the manufacturing sector, where industrialists remained pessimistic in their short- to medium-term outlook despite a rise in the chamber's manufacturing activity index to a level of 106 in October from 90 in September

Sacob economist Keith Lockwood said negative elements included the effect recent fuel hikes would have on costs.

● See Page 3

Public asked to help with survey

STAR 10/11/90 (153)

ROY COKAYNE

A SURVEY to obtain information on spending patterns for the compilation of the consumer price index (CPI) and South Africa's inflation rate has run into an unexpected problem. People do not want to complete the questionaire.

The survey is being conducted by the Centre for Statistics of the Human Science Research Council (HSRC), which has now appealed for cooperation from the public so reliable information can be obtained and the CPI and inflation rate can be calculated.

"The fact that the general public does not realise the importance of this kind of survey makes people hesitant to provide information," the HSRC says.

"With the questionaire, it can be determined how much households spend on food, housing, transport, clothes, recreation, etc.

"The extent to which the price of such a 'basket' of goods and services changes is used to determine the inflation rate. The composition of this 'basket' is regarded as the spending pattern.

"This changes continuously and must be determined every five years."

Information obtained from the questionaires is also be used to calculate the average cost of food consumed, average housing cost and other economic and social indicators.

The CPI and the inflation rate have an influence on government policy with regard to such things as interest rates and price rises.

The survey is being done in 13 areas — Pretoria, Cape Town, Port Elizabeth and Uitenhage, East London, Kimberley, Durban, Pietermaritzburg, Bloemfontein, Free State goldfields, Klerksdorp, Vaal triangle, Johannesburg and the rest of the Witwatersrand.

The HSRC says revision of the index on which the CPI is based requires scientific calculations based on 16 000 questionaires.

Low inflation rate seems unattainable, says BER

B Day 13/11/90 153

SOMERSET WEST — Government's goal of bringing SA's inflation rate down to the levels of those of its major trading partners seemed unattainable, Bureau for Economic Research director Ockie Stuart said yesterday.

Addressing a conference on the prospects for SA's political and economic development during the 1990s, he said the bureau did not expect a structural downward movement in the inflation rate Inflation and inflationary expectations had become part of society's socio-economic fabric It had become almost impossible to reverse the process without causing considerable damage to the economy

During the negotiation process, trade unions would be in a strong bargaining position

Immense upward pressure would be caused by demands flowing from the negotiation process and this would put a strain on the country's resources

Stuart said the bureau projected an annual inflation rate of 13,2% for the period 1990 to 1995 with a low of 11,5% for 1992 and a high of 14,3% for 1990.

Interest rates were expected to remain high — especially during the remainder of this year and during 1991. For the period 1990 to 1995, the bureau estimated the average prime rate at 17,7%.

As far as the balance of payments was concerned, the most significant aspect was that net capital outflows were likely to decrease over the next five years, he said

The need to maintain sizeable surpluses on the current account was thus likely to become less urgent

Bureau projections suggested the average annual current account balance for the period 1990-1995 should be R4,5bn, the net capital outflows R3,2bn

The bureau predicted an annual growth of only 2,2% in real terms in gross domestic product during the 1990 to 1995 period.

"A factor which is particularly worrisome is the persistent preference shown by consumers for consumption at the cost of production."

Consumer spending had increased by about 1% a year in real terms during the previous five quarters

The preference to consume was clearly shown by a decline in the savings ratio from well above 10% a few years ago to its current dismally low level at about the 1% level, Stuart said — Sapa

Blow to anti-inflation fight

B10 au
13/11/90 ANDREW GILL 153

THE fight against inflation suffered another blow yesterday with producer inflation jumping 1,3 percentage points on the back of sharply higher petroleum and coal prices.

The annual rate of increase in the producer price index (PPI) increased to 11,8% in September from August's 10,5% and July's 10,2%, Central Statistical Service figures released yesterday show.

The jump was due mainly to 9,3% higher prices for coal and petroleum products on the back of the 10% rise in petrol prices announced on September 4

The effect of October's 26% petrol price rise has not yet been accounted for and the

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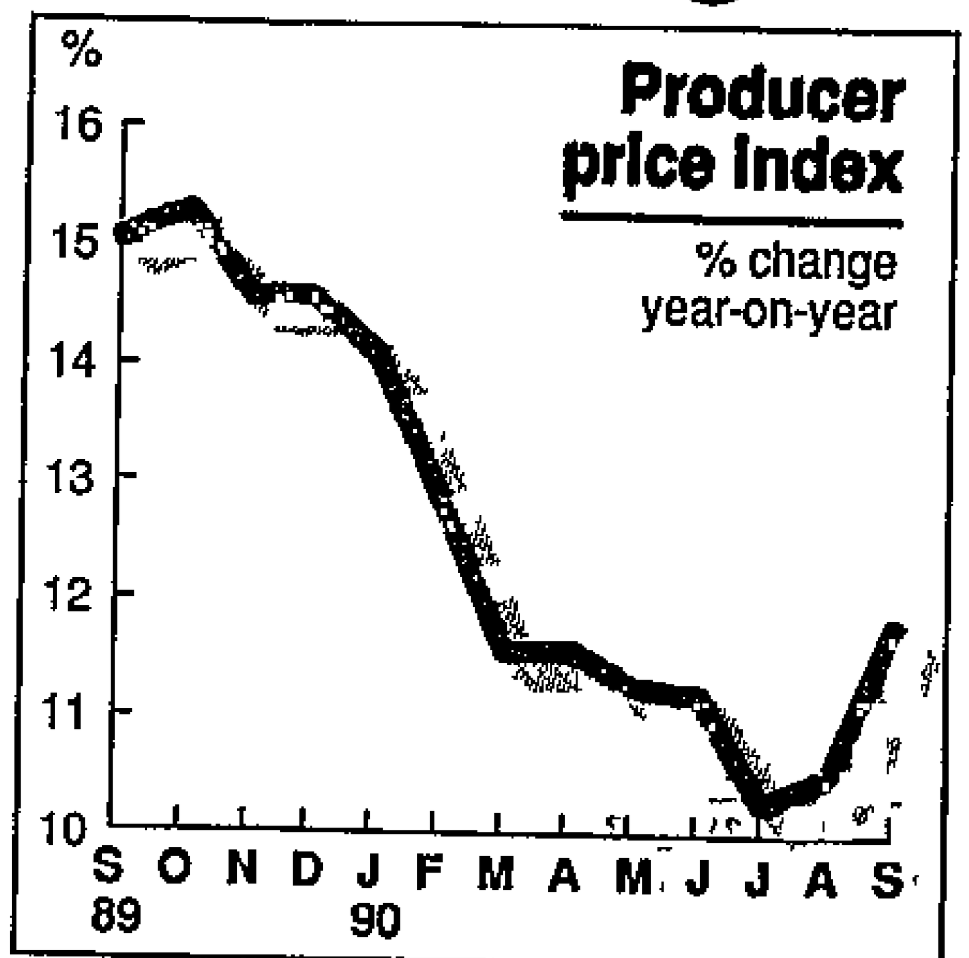

Graphic FIONA KRISCH Source CSS

Inflation

B10 au
13/11/90

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likely effect on the index is daunting. Yesterday's 15c decrease will be reflected only in November's index.

The month-on-month rate of increase in the index was a relatively high 1,7%, but seasonally adjusted was a massive 2,1%, with local producer inflation the main culprit on a 2,4% increase.

The annual rate of increase in the index for locally produced goods was 13,6% compared to August's 12% and July's 11,6%

Import inflation continued its low rate of increase at 4,4%, only 0,3 percentage points above August

Other worrying factors are food and clothing, with the latter increasing 3% in September Prices of "other" food products jumped 3,1%

Bankorp economist Johan Els said October's index could show a 14% year-on-year rise from August 1989 because of the petrol price increase last month

No easy route to success, says Sacob's Hall

BDay 13/11/90. 153

CUTTING interest rates by a percentage point or two would not in itself stimulate the economy, says Sacob's new president John Hall.

HALL

KEVIN DAVIE

Hall, executive director of Barlow Rand, says the recession could bring 50 000 retrenchments in the metal industry alone. Tens of thousands of jobs could be lost in the gold mining industry.

"Right across the country people are tightening their belts.

"Most businessmen and, indeed, Sacob, support the need to bring inflation and inflationary expectations under control.

"But if that leads to an extended recession, then I am concerned about the maintenance of law and order when a high percentage of the population is unemployed — people are talking about a 40% unemployment level.

"Even if interest rates did come down by one or two percentage points, I don't think this would trigger economic recovery. There is not enough business confidence."

The situation is made worse by global events, including the crisis in the Middle East. SA is heavily dependent on commodity exports for its foreign exchange earnings.

Hall believes the world is already in the grip of a commodities recession which could last for 12 to 18 months. Commodity prices have been slashed by up to 50% in the last six months.

"We've had a double whammy," he says, explaining the dollar is weak against other currencies (most commodity contracts are in dollars), while the rand is relatively strong against the dollar.

Where commodity prices have been dramatically reduced, there will be layoffs and even shutdowns, says Hall.

"With all this married to political uncertainty, it's not clear in my mind what is the right thing to do. Certainly housing and urban infrastructure could provide the economic engine and go part of the way to easing the unemployment problem.

"The money is probably there but the structures to ensure rapid delivery are not. Township and labour unrest only add to the problems. The lifting of sanctions would help a great deal — black politicians have a major responsibility in this regard."

He has reservations about Economic Co-ordination Minister Wim de Villiers' anti-inflation plan: "The Minister's effort to contain government spending and get realism into government departments is a good thing.

"But control of administered prices must be accompanied by the ability of those organisations to actually cut costs.

"If we just get two years of reduced costs in electricity and transport, only to have a 30% increase in two years' time, this doesn't make sense."

Hall also has doubts about plans to make factories work double or treble shifts: "It is a simplistic approach. In a country with a serious shortage of skills, it is not easy to run multiple shifts.

"First and foremost you must have a market, and if markets don't exist in SA, then you have to be committed to exports," he says.

Government's General Export Incentive Scheme (GEIS) lacks certainty at this time, so businessmen have no guarantee that double or treble shifting will actually mean that export benefits are realised: "The risks to business are significant."

Hall believes Sacob has a meaningful role to play as the voice of business. Sacob services 35 000 small and medium-sized businesses. He says it would be useful if big business used Sacob more effectively and communicated with government through this body.

"If business used Sacob's considerable expertise, 'ad hocism' could be avoided. Government would also welcome this," he says.

He sees Sacob playing a major role as a facilitator during the coming months. The key, says Hall, is not to be dogmatic.

Discussions with political groups have led him to believe there are no easy solutions. In spite of the problems he remains basically optimistic.

"In post-colonial Africa, SA has something unique going for it. You don't see this ongoing debate in the rest of Africa. Here arch rivals sit down around the table and debate.

"Negotiation prevents events from going that extra inch into chaos and anarchy. I find that encouraging," he says.

LETTERS

Higher PPI aggravates inflation

By Duma Gqubule

The rate of increase in the producer price index (PPI), which jumped 1,3 percentage points to 11,8 percent in September, has provided another setback in the battle against inflation

With October's 26 percent fuel price rise to be reflected in November's PPI figure, economists say the increase in the PPI could rise to 14 percent by year-end

But the average increase in the PPI for the year — likely to be around 12 percent — will be well below last year's average of 15,2 percent

Central Statistical Services figures show the month-on-month rise in the PPI was 1,7 percent (2,1 percent seasonally adjusted)

Higher prices for coal and petroleum products contributed 0,8 percent to the month-on-month increase

Other categories showing large increases were clothing (three percent), other food products (3,1 percent) and electricity, gas and water (4,3 percent)

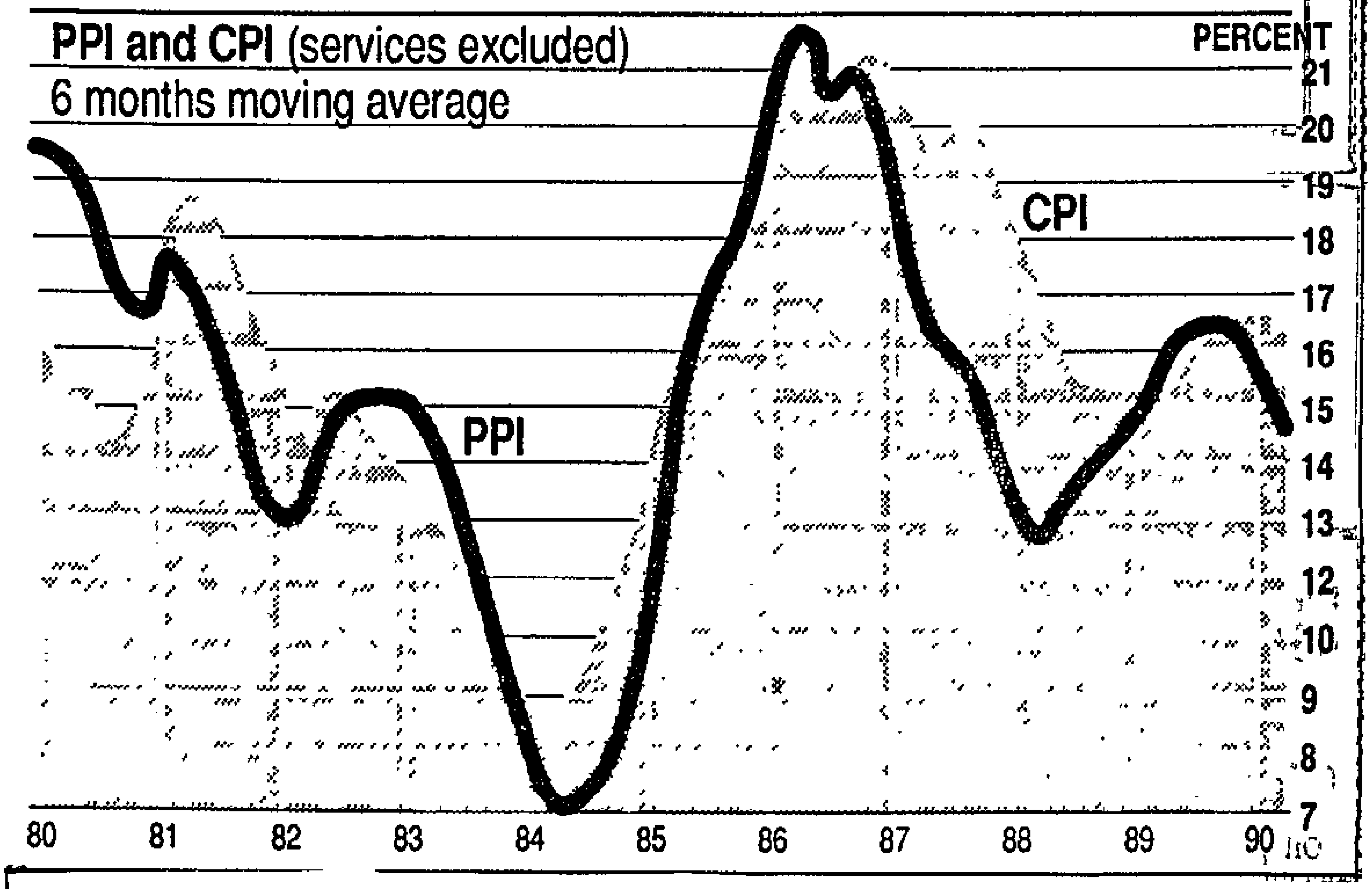
Prices of locally produced goods rose 13,6 percent (12 percent in August) on an annual basis and prices of imported goods rose at an annual rate of 4,4 percent (4,1 percent in August)

Although the basket of commodities used to calculate the PPI is different from that used for the consumer price index (CPI), price movements of the CPI and the PPI are closely correlated

The CPI has a 40 percent services component, while the PPI includes only commodities

The CPI also includes GST of 13 percent, while the PPI, which measures prices at the wholesale level, does not.

Economists say the CPI follows the PPI by two to eight months, depending on inventory levels.



Economists see a bottoming out

(153)

SA in deep recession as GDP drops

BIPcw 15/11/90.

ANDREW GILL

GROSS domestic product (GDP) estimates, released yesterday, clearly show that the economy is in the grip of a crippling recession But, say economists, there is room for optimism — it may have bottomed out

The third quarter's annualised and seasonally adjusted 2,1% decline in real GDP was largely a result of a poor performance by the agricultural sector, which contracted by 32,8%, Central Statistical Service (CSS) figures show

The non-agricultural sector showed a 0,1% growth compared with the previous quarter's 1,9% decline

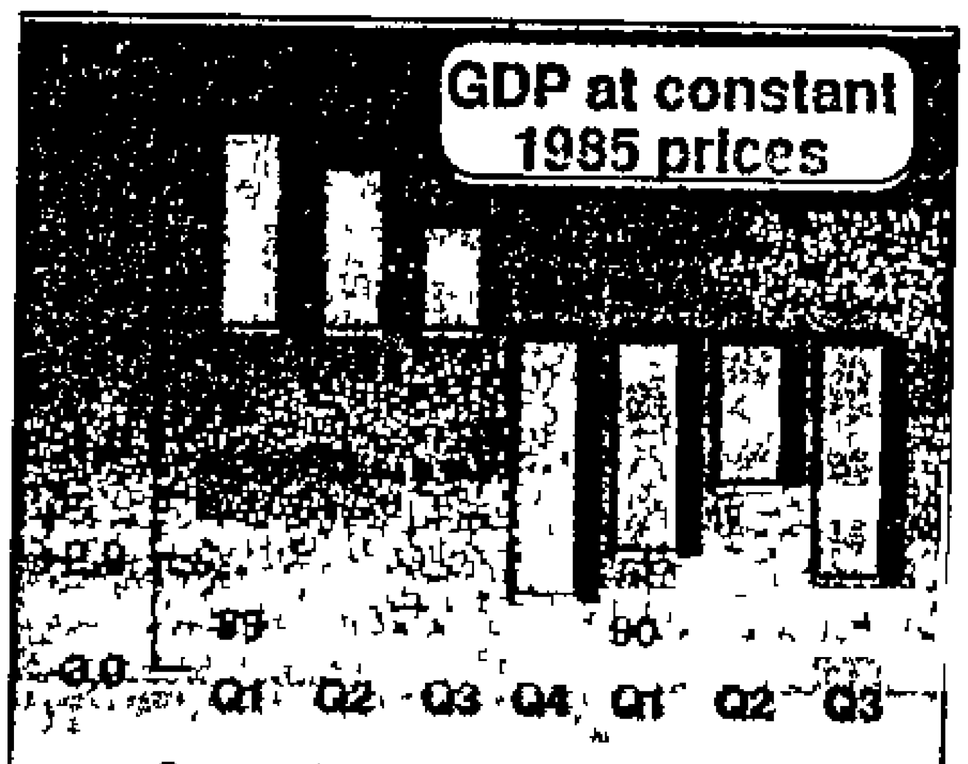
The overall picture is, however, dismal This was the fourth consecutive decline in real GDP and the largest since early 1986. Revised estimates show that it declined by 1,3% in the second quarter and not the original 0,8%

In money terms the economy has fallen to 1988 levels and the last two years' growth have been wiped out

The GDP has slipped to R131,6bn from its R134,1bn high a year ago, a 1,9% decline The figures are based on constant 1985 prices The third quarter of 1988 showed GDP at R131,5bn

Real GDP is the value of all goods and services produced in an economy in a given period, adjusted for inflation

Nedcor economist Edward Osborn said the "soft landing" that had been spoken of was more like a steep crash but he felt the the economy would now flatten out.



Seasonally adjusted annualised rate

Higher pay packages, tax refunds and an expected drop in retrenchments were likely to contribute to increased consumer power, he said

It did not look like exports could fall much further, he said

The steep decline was, however, a concern and would normally warrant an easing in monetary policy and a subsequent cut in Bank rate, which has been kept steady at 18% for over a year

Inflation and the relatively strong demand for credit were likely to be the pegs on which to maintain the current strict policy, he said

Inflation is set to continue its recent upward trend in October as a result of the 26% petrol price hike and banks are still reporting a strong demand for credit

The agricultural sector reflected the largest annualised decline with a 32,8%

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Recession

BIPcw 15/11/90 (153)

☐ From Page 1

slide compared with the previous quarter's 15% rise

Drought conditions and an expected poor early season for crops will lead to pessimistic estimates

Analysts say the sector undergoes major revision due to its wild swings

Surprising resilience was shown by the mining sector which turned around from a 2,5% decline in the second quarter to a 4,3% rise

Osborn said this was not reflected in recent gold output figures or by the spate of mine rationalisations and closedowns

The GDP figures have been revised by the CSS because of the exclusion of Namibia and a change in the base year of two of the contributing indices — physical manufacturing volumes and wholesale trade

● See Page 3

Tough times now will pay off later

By Ann Crotty

As economic activity continues to shrink with little prospect of any significant improvement within the next 12 months, businessmen seem mixed in their response to government's tough economic stance

Some are demanding a relaxation before an overkill situation sets in Others believe that the government is on exactly the right track and that more of the same is needed to ensure the viability of the economy in the longer-term

Significantly it tends to be the the chief executives of conglomerates that fall into the latter category

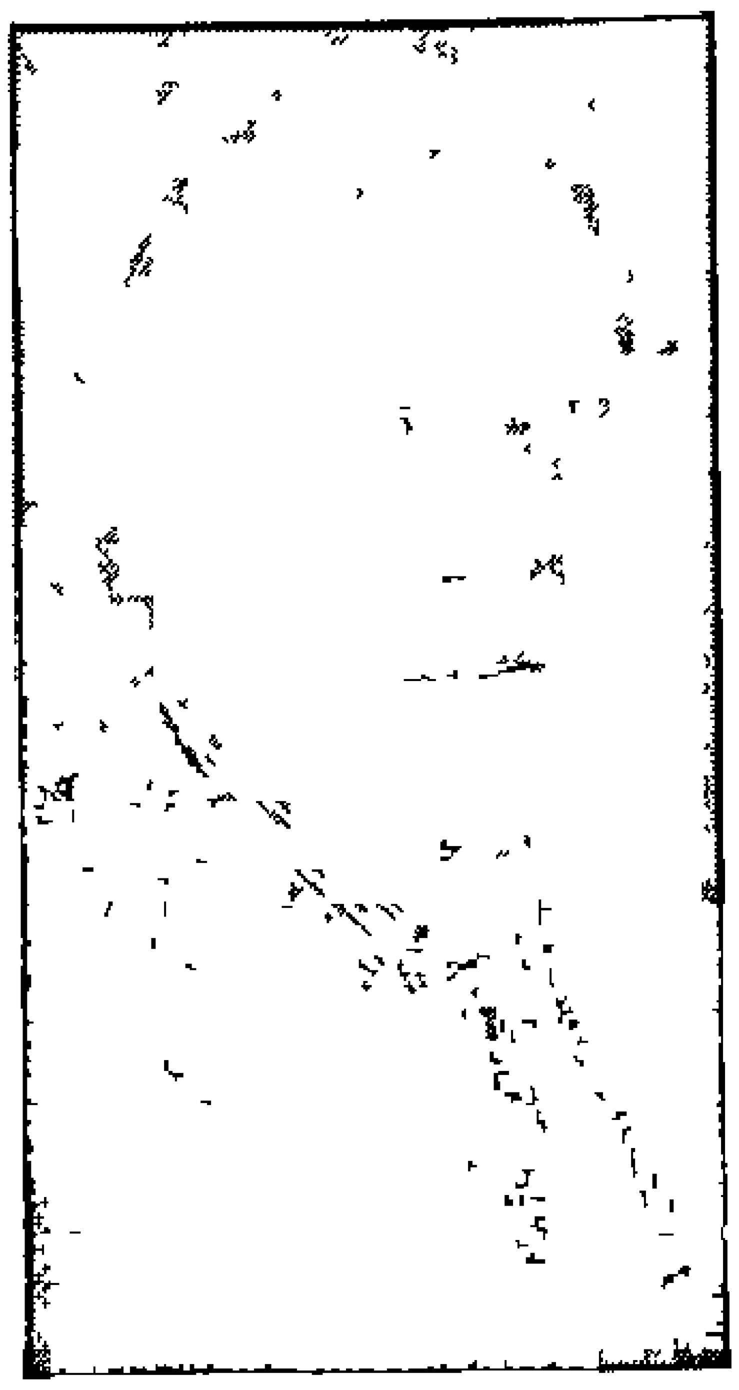
Although tough local economic conditions contributed to Barlows' 15 percent drop in earnings for the 12 months to end-September, the group's CE Warren Clewlow is not dismayed by the difficult trading conditions.

"The country has to be internationally competitive It is not enough to be able to compete in the South African market, we must be able to cope with international competition To do this we must knock inflation and increase productivity"

For this reason Mr Clewlow does not seem too perturbed by the current tough stance that the authorities are taking to curb inflation "Economic management is in sound hands — a cohesive strategy is being pursued"

Noting "In financial '90 we faced extremely difficult trading conditions but this is the only way we can get economic conditions right"

While the share market may be currently focusing on financial '90 figures and the prospects for financial '91, Barlows' management is taking a longer-term view "I hope the year ahead will see a continuation of the authorities' tough policies This means that we would have a difficult year but it also means that the groundwork would be laid for good growth in the medium to longer-term"



Warren Clewlow .. not dismayed

Also reflecting the commitment to long-term growth is the group's heavy capex plans Despite pressure on cash flow this is expected to be again in the region of R1,7 billion in financial '91 As Mr Clewlow points out· "We've got to know where we're going to be in five years time which means we've got to take long-term decisions and stick by them"

In financial '90 Barlows was also hit by trade union difficulties Indications are that these difficulties reflected a test of wills between capitalism (represented by Barlows' management) and labour (represented by the trade unions) Most of the issues were in the nature of broad principles

Mr Clewlow sees the situation with the trade unions as part of the development into a new era and accepts that "it is part of the cost of change"

Fortunately for Barlows, a strong performance from the group's overseas interests (Bibby, a 100 percent held subsidiary and exports from various divisions) managed to cushion the impact of the weak local economy In financial '90 these sources generated R273 million — equivalent to 32 percent — of total attributable earnings of R859 million.

Although this represents a drop of 17 percent on the R330 million earned in financial '89 it is a commendable performance given the fact that the contribution from Middleburg Steel & Alloys was down from R216 million in '89 to R52 million Most of MSA's output is exported

In financial '90, the strong performance from the international side and the food interests meant that the group was able to hold the drop in taxed profit at nine percent — Mr Clewlow's target was for a fall of no more than 10 percent

At this stage, he is hoping that earnings will be sustained in financial '91 — a poor performance from MSA will not have the same adverse impact on the figures

On the mining side, the extensive rationalisation at Rand Mines should see some improvement in performance

Although the share price has enjoyed some recovery since the results were published on Tuesday, its price/earnings rating and dividend yield indicate that the market is anticipating a fall in earnings in '91

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VAT will not up inflation, says tax man

B/Day 16/11/90

GILLIAN HAYNE

VAT would not have an inflationary effect on the economy because the benefit gained by businesses through input tax credits would be passed on to consumers, Inland Revenue's Norman Patterson said at a property and VAT workshop on Wednesday.

Speaking at the SA Property Owners' Association (Sapoa) function, Patterson said government believed companies would not operate for profit alone and would pass on their benefits to consumers.

This would overcome the possibility of inflationary effects caused by VAT.

Through the system of input tax credits, companies would save an estimated R7bn and "government will see that they do not keep it to themselves", he said.

However, quantity surveyor Roy Hamlyn said the building industry would face a 4% to 6% increase on the average building contract.

Assuming a current sales tax exposure of 66%, with VAT it would increase to 100% and would also include the land and professional fees, translating into a 5% to 9% rise on the whole capital investment.

Fears were also expressed that the increases would filter through to the rental market, despite its being exempt from VAT.

Inflation seen endangering export effort

Star 16/11/90. (153)

Because of the export-friendly rand exhange rate, manufacturers have been competitive on overseas markets.

But, says Wim Holtes, CEO of the South African Foreign Trade Organisation (Safto), the high level of inflation makes the competitive edge fragile.

He told Safto's annual general meeting in Sandton yesterday the problem was exacerbated by spiralling labour costs and unrealistic wage expectations

"In this respect it is ironic that, as sanctions become less relevant, labour unrest becomes a worrying constraint on export investment and foreign delivery schedules."

He said. "In the short term, export strength in value-added products remains mainly in materials-intensive products. Major export sectors falling into this category will now have to adjust to a lower level of assistance than they received previously, without the full windfall of a soft rand.

"In the long term, our future no doubt lies in the export of market-oriented, fully manufactured products.

"It will, however, take many years of further industrial sophistication before our export and employment needs can benefit from meaningful export growth in this sector of industry," he said. — Sapa.

Eastern market prospects 'good'

Citizen 16/11/90

GERALD REILLY

PRETORIA — Prospects were good that SA would find new markets for its agricultural exports in Eastern Europe, Agricultural Development Minister Jacob de Villiers said in Port Elizabeth yesterday

However, the economies of the most important industrial countries were in a downward phase, which could mean a decline in demand for farm products, De Villiers told an Eastern Cape Agricultural Union meeting yesterday.

The government's economic restructuring programme had important implications for agriculture, he said.

The programme included reducing government's share in the economy, combating inflation, tax reform with the aim of encouraging savings and investment and a more critical attitude to the protection of industry and the encouragement of a more export-orientated industry

(153)

Inflation was still the farmer's greatest enemy and success in reducing it would blow new life and hope into the farming industry, he said.

Government's aims also included gradually phasing out import surcharges and a more stable rand exchange rate

He also said that since the raising of the bank rate in May last year, the Land Bank's short term loans to co-operatives — intended for farmers' production needs — was subsidised by two percentage points

However, the interest subsidy would sooner or later phased out

Pegging policy 'could cut inflation premium'

B/Day 16/11/90 153

MARIETTE DU PLESSIS

LINKING the rand to the European monetary system could lower the inflation premium in SA's domestic rates and allow greater flexibility to be injected into the process of determining wage prices, the Bank of Lisbon says in its latest Economic Review.

An argument in favour of fixed nominal exchange rates was that they might impose discipline on domestic monetary and fiscal policies, enhancing a country's ability to achieve price stability.

However, such a policy is unlikely to be favoured by the authorities in view of the risks and costs attached to it.

In the SA context, proposals to link the rand to the Deutsche Mark have been mooted as a means of pursuing such a pegging policy.

If credibility can be established in this way, it might induce favourable changes in the structure of the local economy.

Although exchange rate stability under these circumstances could become a means through which the country achieves greater stability in prices, such a policy in the South African context will incur several hazards, the review says.

It points out that if greater economic discipline is not forthcoming such an exchange rate policy will not be credible.

Gaining sufficient credibility will be difficult, given the large inflation differential which exists, the continuing burden of capital outflows and the danger that these outflows will be magnified by adverse leads and lags influences.

Even if such a hard currency policy does acquire credibility, it will involve a heavy price.

Credibility

While inflation is being reduced in the transition phase, stringent monetary policies will lead to some loss of output, making the adjustment more painful through any external negative shocks.

However, in the longer term the economy could function more efficiently if inflation is materially reduced to eliminate inflation differentials with the country's major trading partners, sustaining credibility in anti-inflationary policies, the review said.

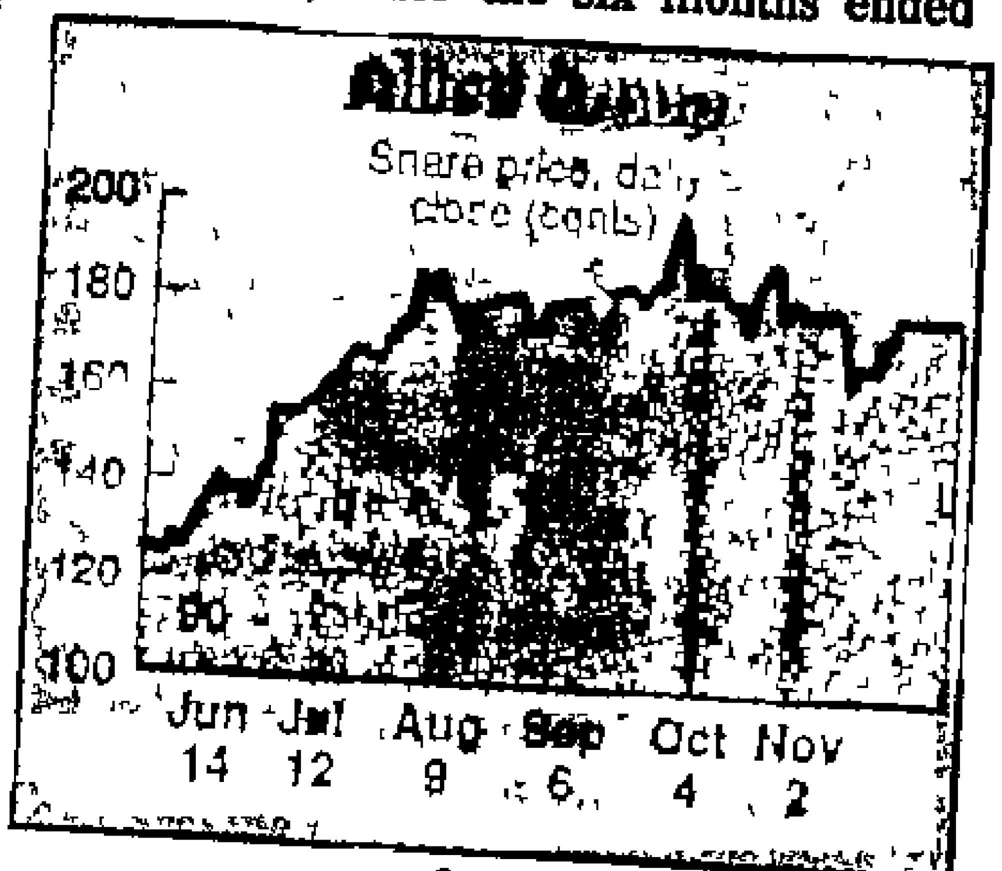
For a country without strong anti-inflationary credibility there could be a case for pegging its currency to that of a country with an established reputation for price stability as a means of disciplining the monetary and fiscal authorities as well as the private sector.

Allied results top inflation

BDay 21/11/90

GRETA STEYN

THE Allied emerged unscathed from a period of squeezed margins and high operating expenditures to announce an inflation-beating 15% increase in earnings a share to 12,3c for the six months ended September 30 1990 (153)



Graphic: LEE EMERTON Source JSE

Following the trend in the sector, the Allied — which is involved in merger talks with other financial institutions in the Rembrandt fold — also experienced high specific debt provisions, but its disclosure policy prevented it disclosing the extent of the bad debt charge.

Operating expenditures surged by more than 24% during the period, ascribed to the cost of diversification needed to evolve from a building society into a fully-fledged bank. But all major product diversification was completed with the introduction of cheque accounts two months ago.

In a statement yesterday the Allied said the "substantial costs" relating to the introduction of the cheque accounts had been

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Allied

BDay 21/11/90 (153)

☐ From Page 1

conservatively born in the current half-year

MD Kevin de Villiers said the high operating expenditures should be netted off against the impressive increase in non-interest revenues of 52% The rise in non-interest incomes partly reflected improvements in the sale of home insurance

Net interest income rose at a sluggish rate of about 10%, reflecting the squeeze on margins De Villiers noted that the April-June period had been especially tough

On the balance sheet, advances grew by about 15% — more or less in line with the Reserve Bank's monetary policy objectives De Villiers noted the former building society had in recent months notched up record volumes in mortgage lending

"Our capital position is comfortable enough to allow healthy growth in the balance sheet," he said

Monetary policy is working — Stals

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Bday 22/11/90

GRETA STEYN

AN IMPRESSIVE turnaround in three crucial indicators — money supply, credit, and foreign exchange reserves — is proof that monetary policy is working, Reserve Bank Governor Chris Stals said yesterday.

"We are moving closer to a point where policy can be eased. But this will not happen before inflation, the most important indicator, is down," he said.

His comments followed the release of the latest money supply figures, which showed growth had plunged to below the Reserve Bank's guidelines for the first time since 1987.

The Bank targets growth in the country's stock of money because it is an indicator of spending and of future inflation. Economists said the fall reflected the dramatic slowdown in spending and credit demand during a recession.

Preliminary M3 growth fell to 10,02% in the year to October 1990 from 12,87% the previous month. The expansion in M3, which consists of cash and all bank deposits including longer term savings, has been slowing steadily since April when the year-on-year increase was 21,85%.

From the base of the targets, the annualised rate of growth is 10,38% — indicating that SA is on course to end the year with M3 growth below the range of 11%-15% the bank regarded as acceptable.

Stals said. "It is especially pleasing to see credit growth finally slowing to a level closer to the inflation rate."

He noted the year-on-year rate of increase in credit extended to the private sector had slowed to 15,4% in September.

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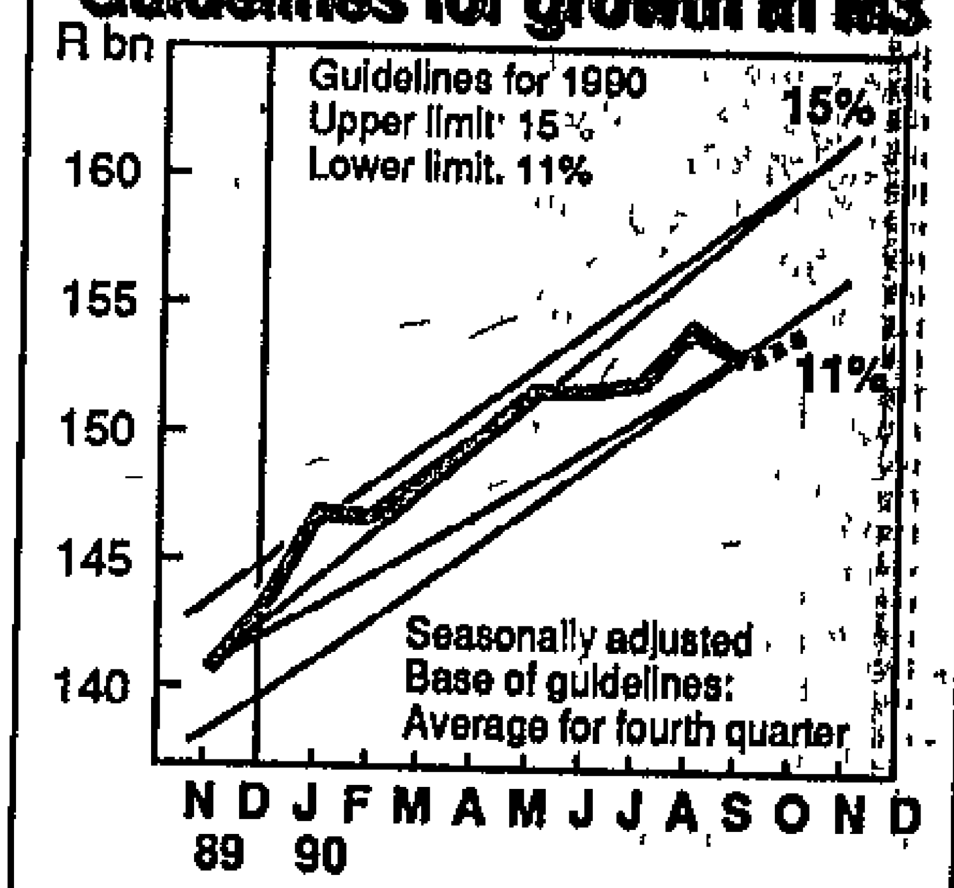
Guidelines for growth in M3



Graphic LEE EMERTON Source SA RESERVE BANK

Stals

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The figures released yesterday showed a small shrinkage in credit extended to the private sector between August and September.

Apart from money supply and credit growth, the performance of the gold and foreign exchange reserves had also been satisfactory, Stals said.

"But the most important indicator of all, inflation, is still too high. Even if the other indicators are performing satisfactorily, inflation will have to fall before an easing of policy can be justified."

Inflation figures will probably be released today, and there is general expectation of another rise after September's increase to 14,3% from the previous month's 13,6%.

Stals has repeatedly warned the market against viewing a decline in the rate of money growth to below the guideline range as enough reason to cut Bank rate. The Bank's view is that the guidelines were drawn up when money supply growth was still above 20% and the Bank was somewhat over-cautious in deciding on the range it wanted to see.

This stance, coupled with negative expectations on inflation, tempered bullish sentiment in the markets. But sentiment in the money market nonetheless pushed the 90-day liquid BA rate down to 17,90% from 17,95%. In the capital market rates ticked up slightly.

In spite of Stals's tough anti-inflation stance, many market participants still believe a cut in Bank rate before the end of the year cannot be ruled out.

RECESSION FM 23/11/90 (153)

GOOD-TIMES, BAD-TIMES SURVIVAL

More fortunes, it is said, are made in property in bad times than in good That maxim may have a ring of truth about it but offers scant comfort to the many recession-hit developers who have their backs to the wall now.

It happens every time Each time the economy sinks into a recession, you can, with some certainty, add a few more property developers' names to the growing list of business casualties.

In the Sixties and Seventies it was Corlett Drive Estates, Glen Anil and Hoffman Bros which went west In the Eighties, Natal-based TDH Holdings earned the distinction of being the first building company to list on the JSE's development capital market — only to end up as the DCM's first real failure

More recently, names like Pretoria-based developers Debruynplan and Greenfield Properties have been added to the list of developer fatalities But with office vacancies rising countrywide and rental income being squeezed, other spectacular crashes are bound to follow

John Rayner, of stockbroker Max Pollak & Freemantle, says that in most instances cash flow seems to be at the root of the problem "Property developers tend to be over-optimistic and, instead of building contra-cyclically, they build with the cycles with the result that too much space comes on stream in recessionary times "

For confirmation of that, look no further than the rising office vacancies in Sandton where vacancy levels are rapidly climbing into their upper teens There must be more than a few developers hurting as a consequence

But Rayner does add a word of encouragement He says developers are slowly learning the lessons of the past and space excesses today are not nearly as serious as they were in the mid-Eighties

"Developers are paying greater attention to pre-letting schemes and getting a feel of market needs," he says

Not that business failures during downturns — especially in the case of property developers — are a specifically SA malady Meridien's Errol Friedmann points out that SA is simply emulating the US and Britain where "the blood is flowing in real estate "

Office vacancies in most big US cities, he says, are running at around 30% "The Chase Manhattan Bank has allocated a budget of $650m to cover this year's real estate losses Another large US banker posted a $44m third quarter loss, largely because of 'sour loans' to developers And London office rentals have dropped by 25% in a year," he says

E G Chapman's David Avery concurs· "As with London," he says "things will get pretty ugly for SA developers before they get better The recession has a long way to run and I doubt that even a drop in interest rates will help many of the companies that are down "

Sapoa president and M&R Properties CE Eric Field, however, puts great store in running the business wisely and responsibly in these tight times "There are several problem firms in the industry These potential crashes were the high fliers of a year or two ago, and perhaps there is something to be gathered from that

"I disagree with the axiom that there are only three fundamentals to property location, location and location There is only one and that's timing Location is meaningless if a development is brought on in the right place at the wrong time "

Like Rayner, Field believes over-gearing is the scourge of the property industry However, he believes institutional lenders must carry some responsibility for over-development and the over-gearing of development companies The pressure to lend funds means they aren't always sufficiently careful when appraising a developer's ability to meet his obligations

"Then, unfortunately, when financiers burn their fingers they overreact and won't back viable schemes when times get tough," he says

Property economist Erwin Rode, of Real Estate Surveys, laments the fact that too many developers rely on gut feel rather than sound business principles "It amazes me just how little medium-range forecasting is done by developers Planning is the most difficult thing to perfect in property because of the long gestation period for schemes Medium-term forecasts of critical property variables are of crucial importance in terms of getting development timing right," he says

Another critical aspect, according to NBS Developments MD David Gorvan, is the relationship between total capital employed (all borrowings, equities and retained earnings) and turnover "Companies which drop below a 1 1 ratio in terms of sales divided by total capital employed are in for trouble," he warns

There are, however, several "golden rules" which developers should follow, particularly in these difficult times They include

☐ Avoid being greedy, one cannot be too conservative when contemplating a development The size of a project should be strictly related to the size of a developer's asset base,

☐ Avoid under-capitalisation and high gearing;

☐ Aim to have a minimum of 50% of a

PROPERTY

FM 23/11/90 (153)

scheme pre-let before proceeding;

☐ Developers should seek equity partnerships with institutions in the case of large schemes which they cannot comfortably finance themselves,

☐ They should avoid offering unrealistically low rentals in order to fill vacant space at any cost,

☐ Conduct medium range forecasts with best and worst case scenarios to try to anticipate the economic environment their schemes will be launched in, and

☐ Maintain a strict balance between income and total capital employed

The bottom line is that the fundamentals must be right if a developer is to survive in the hard times The good times will take care of themselves ■

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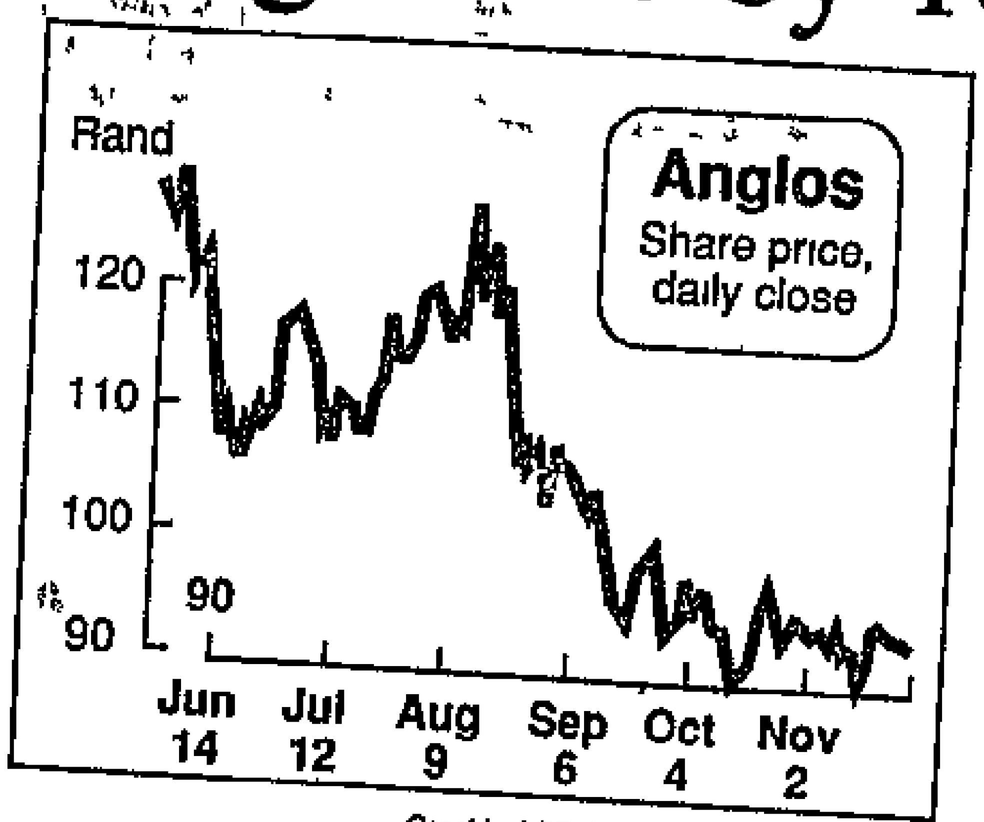
these two sectors helped to limit the drop in the overall value of building plans approved to only 1%, from R347m to R344m

Anglo hit by reduced gold earnings, recession



Graphic LEE EMERTON Source JSE

ROBERT GENTLE

ANGLO American Corporation posted a 10,4% fall in attributable earnings to 233c (260c) a share for the half-year ending September as it felt the bite of reduced gold earnings, the South African recession and the slowdown in world economies

The mid-year showing, which analysts said was below their forecasts, saw net income fall virtually across all sectors, at home and abroad

However the mining, finance and industrial conglomerate maintained its interim dividend at 85c a share

Anglo's overall net pre-tax income fell 10,6% to R839m (R939m) as all three constituent components — investment, trading and other — dipped below their previous half-year levels

Investment income, which accounts for over two-thirds of total net income, fell to R594m (R632m) Anglo attributed this largely to lower dividend income from gold mining interests and "no significant growth in other sectors"

Anglo's gold interests include Freegold, the world's largest gold mining complex, Western Deep Levels and Vaal Reefs

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Inflation

B Day 23/11/90

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the brunt of the hike and could see the rate increase to around 15%.

The figures revealed a scenario of how the inflation rate might have performed without the high oil and petrol prices in the wake of the Gulf crisis, economists said.

Underlying downward pressure reappeared in October after being outweighed by September's 10% petrol price hike.

One major bugbear, that of food inflation, showed an impressive 1,3 percentage point fall to 16%, its lowest annual rate of increase since June. The increase in the food index from September was only 0,6%, which was held back by a 3,8% decrease in the vegetable component.

☐ From Page 1

The month-on-month rate of increase in the CPI from September was only 0,7%, one of the smallest in the last two years.

Bankorp economist Johan Els said November's inflation rate was expected to be 15,1%, after which it was likely to resume its drop By the end of 1991, he said, SA could see inflation at around 11%.

After encouraging money supply figures on Wednesday, he said, economic prospects for a Bank rate reduction before the second quarter of 1991 were better.

Capital market rates fell on the news, with the Eskom 168 slipping to 16,10% from 16,16% on Wednesday.

CT 23/11/90

(153)

BUSINESS

Lower rise in food prices keeps inflation in check

By Duma Gqubule

After the setbacks provided by recent fuel price increases, the Reserve Bank's resolve to reduce inflation has received a much needed boost.

In October, the inflation rate, as measured by the year-on-year rate of increase in the Consumer Price Index (CPI), declined by 0,3 percent to 14 percent.

The decline, which was somewhat against market expectations, was largely due to a lower rate of increase in food prices, which in recent months have been holding back the rate of decline

Food prices in October rose by a month-on-month rate of 0,6 percent and 16 percent on an annualised basis, compared with September when they rose at an annualised rate of 17,3 percent.

Large monthly increases were recorded in the prices of grain products (1,8 percent), "other" (1,8 percent), sugar (1,1 percent), meat (one percent) and fruit and nuts (one percent)

Economists expect inflation to increase to 15 percent in November because of the 32c/litre fuel price rise in October

But, they say, inflation will fall back to around 14,5 in December, thanks to the subsequent 15c/litre decline in fuel prices.

Next year inflation is expected to resume its downward trend — provided there are no further increases in oil prices - and sharp declines are forecast for the second half.

Bankorp economist Johan Els forecasts inflation of around 11 percent at the end of next year.

Although the Reserve Bank is pleased with the performance of other monetary indicators — money supply, bank credit and foreign exchange reserves — it seems that meaningful reductions in inflation will be the key to a drop in interest rates

Mr Els says it will probably not be possible to reduce bank and prime lending rates before the beginning of the second quarter of 1991

"I think the Reserve Bank will want to be sure the trend in inflation is definitely downwards before it considers reducing interest rates," he says

Figures released on Wednesday show that the rate of money supply growth had fallen to 10 percent, compared with a nominal rate of growth in the economy of 12 percent, prompting some economists to warn that the tight monetary policies could lead to an overkill situation.

But Simpson McKie economist Graham Boyd says he is not too worried about the possibility of there being too little money chasing too many goods. "The accumulated stock of money in the economy is still high. In the past, the money supply grew much faster than was neccessary to finance economic activity. This is why the Reserve Bank has not yet moved to reduce interest rates," he says

Volkskas economist Adam Jacobs says it is quite normal to have low money supply growth rates at this stage of the business cycle.

Longer haul before the recesssion ends

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S Times 25/11/90

By IAN SMITH

THE recession is set to bite harder and last longer.

Hopes that the economy would show signs of revival early next year are dashed by Sanlam's Economic Survey.

"The present downturn will probably persist until late in 1991," says chief economist Johan Louw

He does not expect a return to prime overdraft of 18% before the end of next year

Respite

Economists' forecasts of the end to the recession have been pushed back steadily since midyear Early in the year many were predicting relief in interest rates by Christmas, but the Persian Gulf crisis and its effect on oil prices killed that prospect

Reserve Bank Governor Chris Stals made it clear this week that stringent monetary policy would not be relaxed until 1991. But he hinted at some early respite

"We cannot expect a change of gears until early in the new year"

Sanlam says monetary policy will not be eased noticeably before the second quarter of 1991, and the March Budget will be "largely neutral"

Mr Louw bases his prediction on an average gold price next year of $395, compared with this year's $385 and a possible relaxation of sanctions He also assumes the authorities will keep the fight against inflation a priority.

"Policy will be aimed at reducing the inflation rate and protecting the balance of payments until at least the end of the first quarter," says Mr Louw

"From the middle of 1991 the emphasis should gradually shift to the promotion of economic growth"

He expects real gross domestic spending to fall further this year, closing at 3,5% less than total expenditure last year.

But because real imports will fall fairly sharply while exports should increase moderately the drop in real gross domestic product will be limited to 1%

Mr Louw believes the year-on-year increase in the consumer price index will slow to about 11,5% at the end of 1991,

"If there are no further fuel-price adjustments we expect an average inflation rate of about 13,5% next year"

Unemployment has worsened steadily

"The prospect of no real economic growth in 1990 and 1991 does not augur well for unemployment This situation can be made worse by undisciplined action by workers.

Decline

"A complicating problem is the ever-increasing gap between those who are employed (and whose wages have increased sharply as a result of collective bargaining over the past decade or so) and those who are unemployed"

Poor economic conditions mean wage and salary increases next year are likely to be considerably lower than in the past two years Real remuneration may decline next year

Sacob seeks easing of monetary policy

B Day 28/11/90 ~~150~~ 153

ANDREW GILL

THE SA Chamber of Business (Sacob) yesterday joined the growing chorus calling for an easing in monetary policy, saying "it is doubtful continued real benefits can be derived from prolonging the level of stringency".

A 10-man Sacob delegation met Finance Minister Barend du Plessis in Pretoria yesterday, submitting a wide-ranging document calling for, among others, an easing in monetary policy in early 1991.

A one percentage point reduction in Bank rate (currently 18%) was not likely to make consumers or investors "rush to the market place", the document said.

It could, however, reduce the need for stress borrowing, have a beneficial influence on cost structures in the private sector and reduce the interest element in government expenditures.

Included in the Sacob delegation were the organisation's president John Hall and director-general Raymond Parsons. Finance Department director-general Gerhard Croeser also attended.

SA was in the grips of a recession of serious proportions which could last well into 1991, the document said.

The possibility of an over-zealous approach existed, and a continuous critical but responsible review of all policy measures was called for by the "obvious socio-political circumstances in our country".

The inflation rate was likely to resume its downward trend once the "shock waves" of high fuel prices had subsided and, barring any further fuel price hikes, could fall to 13% by the middle of next year.

Once there was certainty about the resumption of the trend prior to the oil crisis, firmer grounds for the relaxation of the strict monetary policy could have been reached, the document said.

Sacob's economic outlook for 1991 was that — even if the cycle reached a turning point in the latter part of 1991 — gross domestic product growth was likely to be zero.

In times of declining growth two reasons for government frugality arose: lack of revenue growth would be experienced in the absence of the general upward adjustment in tax rates, and a need to preserve a balance between the size of the government and the rest of the economy would become evident, the document said.

INTEREST RATES FM 30/11/90 (153)

MOVING THE GOALPOSTS?

Since he took office in August 1989, Reserve Bank Governor Chris Stals has set a series of targets for monetary policy The official rediscount rate, he warned, will not fall until

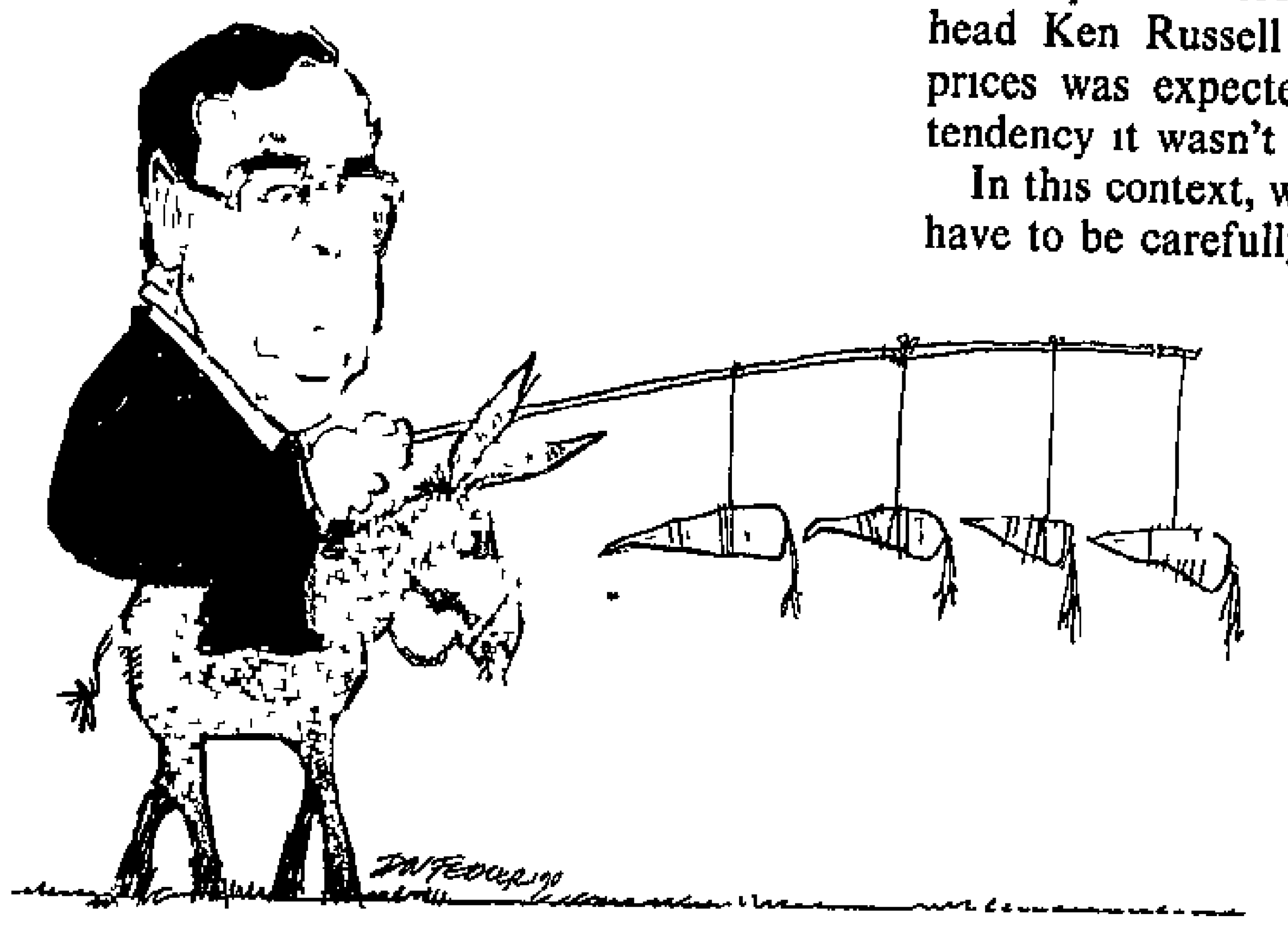
- ☐ Money supply growth is under control,
- ☐ The balance of payments improves, and
- ☐ The rate of inflation is falling

Money supply growth is now falling sharply (see "Range free"), the third quarter saw a net capital inflow of R1,5bn and October a huge trade surplus *(Economy* November 23), the annual rise in CPI in October was down (see "Yen driven"), and bank credit creation growth in the six months between March 31 and September 30 was only 6,3% which is about an annualised 12,8%

But despite these developments, Stals made no move to relax monetary policy As each of the hurdles was overcome it was simply replaced by a new one

Nevertheless, it would be simplistic to say he is simply moving the goalposts

His actions are consistent with his underlying philosophy. inflationary expectations have to be reversed if inflation is to be contained. And, until it is clear they are, he will continue to delay the decision to soften monetary policy.



Not everyone is convinced this is the best policy Says UAL economist Dennis Dykes "Given the extensive time lag between changes in monetary policy and changes in economic activity, some relaxation in policy may well be appropriate already."

Bankers and businessmen have argued for months that high interests rates are inflicting unnecessary damage Stals has countered with constant references to the mildness of the downturn compared to that of 1985-1986 Yet GDP this year is expected to decline by up to 1%, as it did in 1985

What *is* different is the strength of private consumption expenditure. This factor is clearly influencing the authorities Stals said at a banquet in Johannesburg last week "If this trend continues, we shall have to face a rapidly rising demand for more consumer goods and services but we shall not have the capacity in our domestic economy to produce these goods and services "

Ironically, recent buoyancy flows from desirable socio-economic developments, which were outlined by Finance Minister Barend du Plessis at the *FM* Investment Conference "Cyclically and structurally induced shifts in factor rewards from non-wage incomes to wage incomes and from higher-income recipients to lower-income recipients Some of these redistribution effects may obviously have social merit However the accompanying downward pressure on the savings ratio is not in the economy's long-term interest "

For months, it has been thought that this impetus to expenditure has been the mysterious factor which reversed the decelerating trend in inflation, even before increases in the oil price Moreover, says FNB treasury head Ken Russell "While the rise in oil prices was expected to slow the declining tendency it wasn't expected to send it up "

In this context, wage and salary increases have to be carefully examined An Andrew Levy & Associates survey shows settlements, as a percentage of payroll, have averaged 17,4% this year — the same, despite falling inflation, as last year But director Pat Stone perceives a change in approach by unions "In October, the level fell below 17% In recent negotiations, nearly every wage demand has been accompanied by a set of demands related to job security "

He points out the major employer, directly or indirectly, is government "At a time when trade unions are beginning to flex their muscles in this sector and the Labour Relations Act is to be extended to cover State employees, government will come under increasing pressure to establish bargaining trends in its own right "

With uncertainty on this issue, Stals will want to be absolutely certain that other spurs to demand are not present

His dilemma now is that "certain conflicts are emerging between domestic and external objectives of policy " He said this week that "the overall surplus on the balance of payments and the desire to keep the exchange rate as stable as possible require active intervention in the forex market by the Reserve Bank " This, however creates liquidity and further open market operations are needed to counter it (see "Liquidity leap")

With demand for credit falling as well, it could become increasingly difficult for the Bank to drain liquidity from the market

Dykes says the conflict is more apparent than real This argument is supported by others who say the market is signalling the time is right for a fall

However, short-term strengths and long-term weaknesses are a recurring theme in recent speeches by both Stals and Du Plessis They are likely to wait for further falls in the inflation rate before making any policy concessions How long is anyone's guess Central bankers are known for doing the unexpected ■

Pressure mounts for cut in interest rates

Star 1/12/90 153

TWO years of penal interest rates has made South African businessmen restive

They claim the high interest rates are now doing more harm than good and want them lowered

This week both the South African Chamber of Business (SACOB) and the Afrikaans Handelsinstituut (AHI) — which between them represent virtually all the country's business concerns — called on the monetary authorities to change their interest rate policies before irrevocable damage was done to the economy.

A SACOB delegation led by its president, Mr John Hall, told the Minister of Finance, Mr Barend du Plessis, that "it was doubtful whether continued real benefits can be derived from prolonging the level of stringency"

And the AHI vice-president, Mr Attie du Plessis (Mr Barend du Plessis's elder brother) called for selective relief from the strong restrictive monetary measures.

The current tribulations of businessmen began on November 3, 1988, when the prime overdraft rate was increased to what was then an extremely high 18 percent

This was done to cool the economy and pave the way for an improvement in the balance of payments, a reduction in inflation and to create conditions for sound long-term economic expansion

However, the monetary authorities were not happy with the result, and in February, 1989, put

DEREK TOMMEY

the rate up to 19 percent, then in May to 20 percent and finally in October 1989 to a punishing 21 percent, where it rests

There is no doubt the measures worked — resulting in a remarkable improvement in the balance of payments and even providing capital inflow

But inflation still remains high,company profits are sliding, confidence is waning, firms are hesitant about expanding operations and many people are losing their jobs

The belief is growing that the way business is structured in South Africa today it will need more than high interest rates to stop price increases and halt inflation

How deep the recession is, can be gauged from recent General Sales Tax returns. These suggest that there has been a sudden and rapid deterioration in the economic climate And as they are based on actual tax receipts their reliability should not be in doubt.

In July GST collections were up 20 percent on last year In August the increase was down at 12,3 percent, while in September GST proceeds actually decreased by 0,4 percent.

Full details of October's revenue collections are not yet available But preliminary figures show that Customs and Excise receipts produced only R397,2 million in that month, some 10,6 percent less than the R441,9 million collected a year ago.

While there might have been special circumstances to account for the decline, it does suggest a marked levelling off in consumer spending

Business is suffering

WARNING Attie Du Plessis (left) of the AHI and John Hall of SACOB warn the Government that high interest rates are doing more harm than good to the economy.

The mounting balance of payments surplus is also a strong pointer to the slow-down Creditable as this surplus is, it is also a measure of the difference between domestic earnings and spending — the greater the surplus the smaller must be the amount of money being spent.

Some economists believe the monetary authorities' failure to recognise the harm done by the current tight money policy is result of its under-estimation of black purchasing power

A study by Professor Jan Hupkes of Unisa's School of Business Leadership shows that in the past decade price increases in the services industries have been far less than in the goods industries — which is the reverse of overseas experiences in inflationary times

This suggests that price increases in "first world" products have met with considerable consumer resistance, which has not been the case with "third world" products.

The justification for high interest rates is that they will cause the market to contract and force companies to hold or cut their prices so as to maintain turnover and profits.

However, contrary to this view, a great many companies have done the reverse — increased prices to make up for the drop in turnover.

Dr Azar Jammine of Econometrix says that several examples can be found in the food processing industry of firms following a similar policy of chosing to increase margins rather than sales This accounts for the continued big increases in processed food prices while the prices of basic foods have increased at a much lower rate, he says.

All this indicates that high interest rates alone will not curb inflation. It raises the question that perhaps some other methods need to be tried

In this respect economists point out that a cut in interest rates could be the answer South African firms owe something like R123 billion, so even a small one percent cut would saves borrowers well over R1 billion in a full year, which would have some effect on prices

But if this doesn't bring down inflation perhaps the authorities should start thinking the unthinkable — that is to impose a short-term statutory price freeze. This would be an extremely unpopular move, but Autralia tried it recently with considerable success

More of the same — if not better in 1991

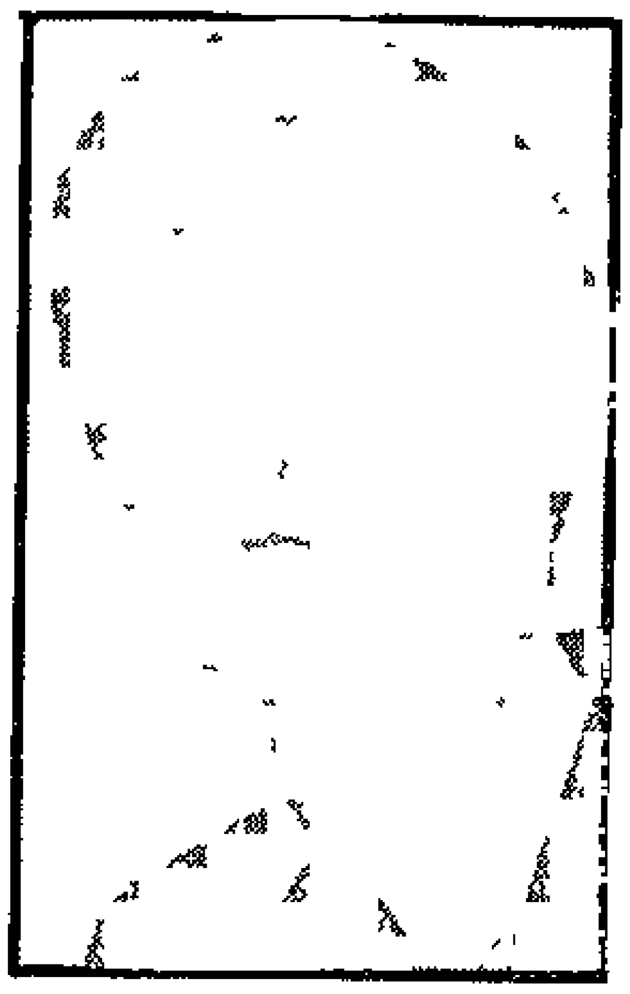
St Times 2/12/90

By CEES BRUGGEMANS group economist, First National Bank

THE South African economy is in recession with real gross domestic product likely to have fallen by at least 0,5% in 1990. After allowing for growing net exports, real domestic spending this year is expected to be 4% down on last year

This decline will be mainly attributable to destocking in response to a 21% prime overdraft rate since October last year (implying a real rate of up to 7% over the ruling inflation rate) and a pro-active business reaction to early predictions of coming adjustment.

However, the key components of final demand remained far more robust this year than they did in the 1984-1986 contraction. This was mostly due to the controlled reaction by the business sector in this adjustment Although business did destock with gusto, it maintained fixed investment to a far greater degree. All other forms of business spending were also pruned in a far more gradual and controlled manner than last time


CEES BRUGGEMANS

This mainly reflects the financial health of most larger businesses after the clean-out of the mid-1980s

Although smaller businesses were probably not as fortunate, as always suffering from undercapitalisation and exposed to the market strengths of bigger players, the overall effect of business sector adjustment remained mild, and this translated itself to consumers as well Employment levels continued to increase slowly (at least up to mid-year), wage settlements remained mostly generous (also in real terms), while liquidations and insolvencies have not risen much.

Although income growth did slow down, and the cash flows of indebted households were strained by higher interest rates, there was considerable robustness among lower-income, non-indebted households Sales trends among non-motor durables, such as furniture, domestic appliances and television sets, remained especially buoyant Clothing retail sales also held up and new-car sales fell by less than 5%.

Stimulus

The outlook for 1991 is for more of the same, although destocking should be a lesser contributor However, fixed investment spending should continue to ease while unemployment, insolvencies and the savings rate should rise. Real consumer spending should therefore slow down even further Even so, the adjustment next year is also expected to remain mild because no major real or financial excesses are in evidence, the only sizeable risk being exports.

The oil outlook is not encouraging, but it is perhaps unduly pessimistic to assume high-priced fuel for any length of time.

Monetary policy is expected to remain tight, although allowing interest rates to come down slowly so long as money-supply growth remains restrained, inflation trends lower, and fiscal policy remains disciplined

CPI inflation could be nearer 12% by late 1991, still allowing a 10% target for 1992 Any decline in interest rates next year and in 1992 will depend on this trend in inflation. Nonetheless, a cycle in real interest rates is likely to materialise over the next two years

Lower nominal and real interest rates should ease corporate cash flows and the position of indebted households. This should underwrite a reversal in stocking and a recovery in both fixed investment and durable consumer sales, especially motor vehicles However, all these effects are likely to remain relatively weak, at least in 1992 Perhaps more important will be any recovery in export performance linked to world market conditions, which would provide a more sustainable stimulus to the economy.

Given the stated policy of the monetary authorities to maintain the stability of trade-weighted rand in real terms, there will presumably be adjustment for any widening inflation differentials in 1991.

Reserve Bank Governor forecasts inflation drop

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Star 3/12/90

By Clyde Johnson
Lowveld Bureau

WHITE RIVER — Monetary policy prospects for 1991 appeared to be much better than a year ago, Reserve Bank Governor Dr Chris Stals said at the weekend

Speaking at a year-end function of the White River Sakekamer, Dr Stals predicted a "definite" reduction in the inflation rate.

He hinted at interest rate reductions as well as possible partial relaxation in monetary policy.

Dr Stals warned, however, that strict financial discipline, as in 1990, would continue in the year ahead.

"People must not expect an easy monetary policy and there is no chance of the Reserve Bank pumping money into the system to stimulate the economy."

Interest rates would remain above inflation and it would still be difficult to obtain credit.

Reduction in the Reserve Bank's interest rates which, Dr Stals said, would hopefully not have to be postponed very much longer, should not be seen as a general relaxation in monetary policy.

"In 1991 we will have to ensure that money market growth be restricted within reasonable limits, much the same as in 1990," the Governor said.

Strict policy during 1990 had resulted in the following being achieved:

"A considerable improvement in the balance of payments resulting in the stabilisation of the exchange rate."

The inflation rate had fallen from 15,7 percent to 14 percent, Dr Stals said.

Recession set to deepen

Star 7/12/90. (153)

By Jabulani Sikhakhane

The recession is now expected to deepen in 1991 and the downturn to last longer than originally expected,.

This is the view of the SA Chamber of Business (Sacob), which says the economy has experienced negative real growth in the past three quarters, with further negative growth likely in the last quarter.

Sacob expects 1991 to be a period of stagnation, or even contraction, extending the downturn to ten quarters, which is longer than both of the previous downturns

An upswing is unlikely before the start of 1992, it says.

Director-general Raymond Parsons says the economy should use 1991 as a period of consolidation to prepare for an upturn and exploit opportunities created by SA's greater international acceptance.

The Government can assist in this process by continuing its tax reform programme, with priority given to reducing individual and corporate income tax.

Import surcharges on capital equipment, which make local industry less competitive, must also be removed. Government should, wherever possible, "prioritise its spending", Sacob says

Economic growth in the world's five major economies, expected to average 2,3 percent in 1991 after the expected growth of 2,8 percent this year, should have a major impact on the economy.

Other factors include a gold price which will not differ materially from the 1990 average, the expected average oil price of \$22 to \$25 per barrel, and agricultural output.

Unemployment, which may now affect about 40 percent of the black workforce, is forecast to worsen

More retrenchments are expected from the mining industry in the light of a relatively gloomy outlook for gold.

The socio-economic impact of this increased unemployment level will be severe due to the lack of sophisticated unemployment insurance, Sacob warns

Private consumption expenditure should grow by about one percent, with most growth expected to occur in the area of basic needs, particularly food and clothing.

Disposable income may increase slightly in 1991, but because of population growth, a further decline in per capita disposable income should be expected.

Gross domestic fixed investment is likely to show a negative or zero growth.

In the first half of 1990, real GDFI fell 1,9 percent and it seems certain it will decline even more sharply

Consumption expenditure of general government should show a real increase of 2,5 percent, while further cutbacks in stock level are expected,

Import volumes are expected to show little change in the coming year, while it should be possible to achieve an increase of around 0,5 percent in exports

A trade balance of around R10 billion, translating into a surplus on the current account of R3 billion in 1991, is forecast Sacob notes that recent short-term capital inflows are encouraging

On inflation, Sacob says averages of 10,5 percent in producer price inflation and 13 percent in the consumer price index are possible for 1991

It seems likely that interest rates may start to fall early next year and it is still possible that the prime overdraft rate could come down to 18 percent by end-1991

Inflation adds to plight of pensioners

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FINANCE STAFF

THE Actuarial Society of SA has warned that the impact of inflation on pensions is not fully appreciated in South Africa and that common pension fund practices will force many pensioners into dire straits.

At the Society's recent convention, the actuaries expressed the concern that the long-term effect of inflation is not entirely understood by many members, trustees and employers involved in pension funds.

For instance, many pension funds give increases equal to two-thirds of the inflation rate. This is reasonable in the short run but leaves the pensioner in poverty in the long run.

If inflation averages 15% annually, then a pensioner receiving increases of two-thirds of the CPI would see his pension lose 40% of its original value within ten years.

Star 8/12/90

Inflation

Pension fund trustees should therefore point out to members that the benefits they expect to receive at retirement will subsequently be reduced by inflation

In the paper that set off the discussion, Mike Walker pointed out that the very high investment returns earned in South Africa over the past 20 years were partly a result of high inflation.

The Actuarial Society called on its members and all other parties involved with pension funds to strive to give reasonable increases to pensioners.

In particular, they should recommend a strategy of maintaining a minimum purchasing power of pensions.

It was pointed out that draft legislation in respect of guaranteed pensions increases has recently been introduced in the United Kingdom

In the long run, pensioners' income will be protected only when inflation is eliminated For this reason, the society strongly supports government's fight against inflation

Producers urged to seek price protection

Star 11/12/90

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Finance Staff

Fears of a worldwide recession or even a major depression have got companies scrambling for effective ways to cushion the possible fall in commodity prices.

Rod Holness, managing director of Holcom Futures, says the crisis in the Gulf, coupled with rapidly eroding confidence in the American economy, has the world economy teetering on a knife-edge.

A wordwide depression, if it happens, would have disastrous effects on industrial metal prices with severe implications for South Africa.

"No responsible analyst can possibly predict the next few days' moves in the markets, let alone trends for the next year.

"For this reason, no responsible company can possibly justify not taking a percentage of price protection on their products The instruments which afford this protection are available in South Africa."

Two experts in financial risk management from Rudolf Wolff, the internationally recognised futures brokers, have been seconded to Holcom to help South African companies weather these uncertain times.

They are Rudolf Wolff associate director Jeff Littlestone, an expert in financial risk management, and Steven Hardcastle, a specialist in the hedging of non-ferrous metals.

Holness says that after the oil crises of 1973 and 1979, the price of base metals and gold soared. In the initial aftermath of Iraq's invasion of Kuwait, most analysts expected the same to happen.

"However, three months have passed and the markets have not responded in the expected manner On the contrary, in the wake of soaring oil prices, the price of industrial metals has plunged and stock markets have taken knocks.

"These are worrying and uncertain times and producers of base metals are looking at ways of managing their risks and fixing prices at today's relatively high levels through hedging."

In the 1979-80 oil crisis, metal prices soared — gold, for example, reached \$800 — no-one bothered to hedge. Then prices plunged.

PRODUCER PRICES 153

FUELLING INFLATION

October saw massive swings in producer prices Crude oil boosted *other* mining and quarrying, to a monthly rise of 18,1%. (This is the biggest contributor to mining and quarrying, weighted at 7,55 of a total 9,72)

However, the large increase in the oil price was countered somewhat by a 23% monthly decline in the wool price. FM 14/12/90

Imported commodities rose a monthly 7,4%. The annual increase was 11% — 6,6 percentage points higher than in September (4,4%). The index of locally produced commodities was unchanged while the annual rate of increase was 12,3% (1,3 percentage points lower than September's 13,6%).

The overall index for October rose 1,3% to push the year-on-year rate to 12,1% (against 1,7% to an annual 11,8% in September).

Some economists reckon more bad news is on its way Senekal Mouton & Kitshoff economist Leon Steenkamp says 14% PPI in November is not out of the question as the international oil price rise filters through Also, he expects the 25% increase in the local pump price to boost the rate of inflation (as reflected in the CPI) in November

Sanlam economist Pieter Calitz agrees However, he sees a substantial drop in inflation next year when the oil price increases will have worked their way through "No further increases are on the horizon now — the spot oil price, having hit US$35/barrel in mid-October, is around $23 "

There is concern over possible double counting — for example, crude oil as well as the subsequent petrol price rise A CSS spokesman says this is eliminated by the weighting ■

Cape Tms 14/12/90 153

Inflation — wages 'explain' it

From GRETA STEYN

JOHANNESBURG. — The Reserve Bank says wages pressures are a major contributor to unfavourable conditions facing the economy as SA goes into 1991.

Wage increases, together with inflationary expectations, went a long way towards explaining inflation in SA, the Bank said in its December Quarterly Bulletin. It was one of the reasons why consumption spending had remained remarkably strong in the face of high interest rates and a recession.

Wages per worker rose at a year-on-year rate of just over 17% in the second quarter of 1990 from about 14% in the first quarter. These increases had occurred in the face of somewhat slacker economic conditions, declining private sector employment and increases in registered unemployment.

In the past, similar wage patterns could be explained by gold "booms" and profit surges — but no ready explanation presented itself for the current phenomenon.

Autonomous cost-push pressures on the general price level are being exerted by the stepped-up level of trade union activity and militancy in the currently prevailing business situation. Unofficial survey results indicate that trade unions in the first half of 1990 succeeded in negotiating annual nominal wage increases for their members which on average amounted to more than 20%," the Bulletin said. It noted that, to the extent that wage claims seek to provide protection against expected inflation, projections fall well short of 20%

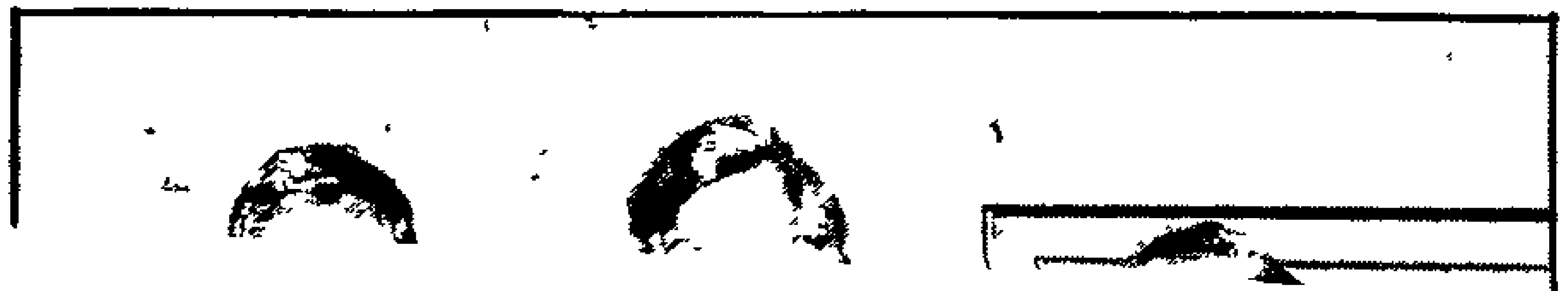
While unit labour cost rose by close to 4% in real terms in the second quarter of this year, labour productivity declined by 1% in the same quarter.

Among other negative factors for the economy, the Bank noted the effects of the Middle East crisis on inflation and poor growth prospects for 1991.

However, the Bank predicted the reacceleration of inflation would not last long: "By the end of 1991, the twelve-month rate of inflation in consumer prices may well have returned to levels lower than before Iraq's annexation of Kuwait."

The Bank also noted that real gross domestic expenditure was up by 3,5% in real terms between the second and third quarters of this year (seasonally adjusted and annualised) — fuelled mainly by the "forging ahead" of real private consumption expenditure. By contrast, spending on fixed investment continued to decline

● Strike action trebles — page 9



Volkskas consortium key player

Dalsig Mining losses now

No plan for inflation targets — Stals

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B1091 17/12/90

GRETA STEYN

THE Reserve Bank was not working on the introduction of either secret or publicly announced inflation targets, Reserve Bank Governor Chris Stals said at the weekend.

His statement followed a report in Finance Week that Economic Co-Ordination Minister Wim de Villiers was set to present Cabinet with a "major" plan to ratchet down inflation by two percentage points a year.

The report said De Villiers was preparing a confidential document suggesting the introduction of an inflation "target". The document would apparently be considered by Cabinet early in February

The Bank's wariness of targets after the repeated failure of monetary targeting led Stals to lower the profile of the annual exercise. The ritual of announcing the targets at a special function was done away with, and the targets became "guidelines".

Bank insiders said the targets were also accorded a lesser priority to avoid a situation in which Stals would be forced to act because the indicators said he had to.

However, dealers in the markets are often critical of Stals's dislike of targets, saying it makes interest rate projections impossible. He has not been specific on the declines in inflation he would like to see, and with the fight against inflation his top priority, dealers say it has been very difficult to put a time frame on monetary policy.

One economist said projecting interest rates had become a question of "reading between the lines" of what Stals was saying rather than interpreting statistics

Slowdown will continue and possibly worsen, says Sanlam

BDay 19/12/90

LESLEY LAMBERT

CAPE TOWN — A moderate slackening of monetary and fiscal policy can be expected during the first quarter of next year but the economic slowdown will continue and might worsen in the months ahead, says Sanlam's latest economic survey.

In the December issue of the survey, chief economist Johan Louw says the downturn is expected to level out towards the end of 1991.

He remains confident that its course will not be as severe as the previous two downturns in the 1980s

Louw forecasts a negative real economic growth rate of about 1% for this year and a slightly positive rate of 0,5% for next year

He says the relatively strong performance of the rand recently helped put a damper on the price increases of imported goods. The price index representing these goods rose sharply in October, largely because of the higher oil price

But the price increases of locally produced goods remain high, and fuel price adjustments will keep the pressure on production prices

In spite of the upward pressure on prices, Louw says he believes the rates of increase in production and consumer prices will tend lower, and that this slowdown will become more marked in the second half of the year

He expects the inflation rate, as measured against the year-on-year increase in the consumer price index, to average 14,2% this year and 13% next year.

A drop in the bank rate can be expected early in the new year in view of the slower growth in the money supply and the decrease in credit demand, Louw says

Long-term interest rates in the capital market are also tending downwards and should soften more next year as a result of expected reductions in short-term interest rates, limited demand for long-term loan funds by the private and public sectors and the prospect of a decline in the rate of inflation, he says.

Foreign capital

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In an economic evaluation of Namibia, Louw says the Namibian authorities need to establish an investment code to clarify the role of foreign investment in the development of the country

He says Namibia relies heavily on foreign capital for economic growth and the provision of jobs and houses A large amount of foreign capital is understood to be available, most of it strictly designated for specific projects

But investors need more clarity on the role their investments will play

While Namibia depends heavily on transfer payments from SA before independence to balance its budget, it is clear greater reliance will have to be placed on tax income

The realism of the government — to restrict expenditure largely to the available financial means rather than to accommodate the enormous needs — is encouraging, he says

He says the Namibian economy is slowing down

Mining remains the main contributor to the country's GNP, although its importance has diminished from 44% of GNP in 1980 to 31% in 1989

The manufacturing sector contributed only 5% in 1989 and has been unable to increase its contribution in the past 20 years

But, Louw says, there is reason for the Namibians to be optimistic about their fishing industry

A Directorate of Sea Fisheries survey says the exploited fish reserves are recovering satisfactorily

Fish quotas will be granted to companies, with certain incentives for Namibian companies, and it is estimated that up to R250m could be earned annually in royalties

YEAR IN REVIEW/**THE ECONOMY**

A tiny flicker of light amid the gloom

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WM and 20/12/90 – 10/1/90

RECESSION SQUEEZE

REG RUMNEY

AS THE year drew to a close, top executives wore furrowed brows as they talked of the prospects of another hard year ahead

Sure there are some gloomy signs about The economy has been in a "downswing" for one and a half years now and a "soft landing" is beginning to feel rather hard

But the year ends as it started out — looking more hopeful than those that had gone before

At the start of 1990 there was a whiff of political change in the air, particularly with the lifting of the Iron Curtain Gold at one point surged above $400 and the oil price was so low everyone had forgotten about the oil crises of the past

One event did flesh out the ghost of optimism FW de Klerk's February 2 speech opened floodgates of hopes and fears, but inexorably began to wash away the remnants of apartheid and with it South Africa's siege mentality

The new emphasis by the government on export-driven growth rather than continuing with import-substitution seemed appropriate Further moves were made to get the economy shipshape so that the lifeblood of foreign exchange from selling a range of goods particularly those with a high value added, could flow more strongly into the country

The effect of sanctions was to make foreign exchange saving a high priority, and this was the justification for surcharges, which seem to cut across the spirit of the General Agreement on Tariffs and Trade (as did sanctions) South Africa did come under pressure during the year to ease up on "protective" measures (those restricting imports) South Africa proposed a compromise and the Gatt itself underwent something of a crisis over farm subsidies, raising the spectre of renewed protectionism in the world

Surcharges had not been lifted by the time the year had ended, but the first cracks had begun to appear in the sanctions wall with the dropping of investment sanctions by the European Community

The shift to a more competitive economy was not without pain Lowering of protective tariffs on textiles was blamed by the textile industry for a traumatic contraction It must at least have aggravated the effects of a drop in demand due to recession According to the Textile Federation 6 000 jobs were lost this year

Suffering was not spread equally, but the textile industry was not the only one to be lacerated

On the coal and gold mines this year 30 000 jobs have been lost This, however, was the result of a gold price too low in dollars and in rands for the gold mines comfort The Reserve Bank showed no signs of reversing its apparent resolve to let the rand depreciate to counter falls in the gold price (so that a lower gold price in dollars would nonetheless bring in more rands) Deciding against subsidising gold production it supported the currency through the year in the interests of stability

Continuing inflation, though, will mean depreciation of the currency in time

Inflation in its costs is what hampered the ability of South Africa s gold mining industry — still the most important earner of foreign exchange — to absorb the lower gold price

The gold price failed to follow the oil price upwards, as the Gulf crisis more than doubled the price of internationally traded crude oil to over $40 a barrel in early October Since then, amid flat-out production prices have see sawed between $26 and $35 a barrel, driven up or down by weather forecasts in the northern hemisphere and the market's perceptions of prospects for peace or war Even the lower oil price levels have been bad news, since the oil price in retrospect was exceptionally low at around $16 a barrel at the beginning of the year

Petrol price increases gave a one-off spurt to inflation and put off the prospect of the Reserve Bank allowing interest rates to fall

In general, inflation proved somewhat intractable, still being way out of line with the inflation rates of our major trading partners

Plans by Minister for Administration and Economic Co ordination Wim de Villiers to boost exports by keeping the lid on administered prices such as electricity and rail tariffs attracted private sector criticism for being — horror of horrors — interventionist

Inflation continuing in double figures and the consequent necessity to keep monetary policy as strict as it has been

mean dim prospects for the year ahead

Continuing unrest has put a damper on business confidence and will deter foreign investment as long as it lasts

The SA Chamber of Business (Sacob) believes a hard year lies ahead for both business and the man in the street So does the Reserve Bank In its latest *Quarterly Bulletin* it notes "relatively poor prospects for growth in 1991 , in the light of high oil prices, a probable further slackening of growth in the major industrialised economies, the low gold price, and the current drought

The drought is unfortunate because it means we have to spend dollars on importing certain foodstuffs instead of earning foreign exchange by selling our agricultural surpluses abroad

Sacob thinks the economy as a whole will not grow at all next year (it declined over the past three quarters of this year by one percent) and the upturn will come only at the start of 1992

Interest rates may fall slightly, but are likely to stay positive (ie yielding a return after inflation unlike previously where they were several points below inflation) Sacob thinks that the prime overdraft rate (the key interest rate, now 21 percent) may have fallen to 18 percent by the year end, and inflation could be around 13 percent for the year

High unemployment, a persistent feature of the South African economy, may mean 40 percent of the black workforce is out of a job, according to Sacob and this could worsen slightly in 1991

In the light of the job losses in a cooling economy, the Reserve Bank reckons the rapid increase in wages is bad news, with disturbing implications for productivity

Sacob believes personal disposable income is likely to show only a small increase in 1991 Because of the population growth there should be a further decline in per capita disposable income

Private consumption expenditure is likely to grow around one percent next year There could be zero or minus growth in gross domestic fixed investment

Government spending will be kept up by pressure to narrow socio-economic gaps so there is unlikely to be a real decline in 1991 Sacob expects an increase in real terms of 2 5 percent.

So much for the bad news

Among the good news, according to the Reserve Bank, has been

The encouraging success of the authorities strict monetary policy in keeping in check bank credit and the money supply

The "distinct possibility" that the recent re-acceleration of inflation will not last long

The remarkable strength of the balance of payments (BoP) and the recovery of the foreign exchange reserves The surplus on the current account of the BoP rose to R4 2-billion in the third quarter of this year Net gold and foreign exchange reserves rose by R2 5 billion from the beginning of 1990 to the end of September

Even more cheering are the spin-offs of the admittedly slow death of apartheid, and South Africa's consequent shedding of its skunk nation status

For instance, the Reserve Bank notes a return to a normality in the availability of foreign trade financing and the onerous foreign debt repayments becoming more manageable

True money may not come flooding back and disinvested companies are not rushing to return

Though sanctions remain in place in the US and the Scandinavian countries, the EC move was an important signal And equally symbolic, for the first time in years a new interest was shown by overseas merchants in once taboo South African wine There were also hints towards the end of the year that South Africa might form the engine of a new Southern African trading bloc

Being part of the world once again is the one important factor which has not been present in previous low points of the economy That is reason enough for optimism

CSS acts to clear up inflation rate doubts

By Roy Cokayne

The Central Statistical Services (CSS) has taken active steps to alleviate doubts about the credibility of its inflation rate figures.

In the past two years in particular, the CSS has faced a string of claims — some by economic experts — that South Africa's inflation rate is much higher than that determined by the CSS

Now, in a brochure written by Professor Geert de Wet of the University of Pretoria, it aims to improve the credibility of its figures on inflation and to explain this economic evil

Dr Treurnicht du Toit, head of the CSS, says the inflation rate figure, published monthly, is often subject to criticism because the general public does not understand how it is calculated and what it indicates.

"The brochure explains in ordinary language how the CSS goes about the calculation of the consumer price index (CPI), from which the inflation rate is derived," Dr du Toit says.

Its publication ties in with the strict monetary policy that has been enforced by the Reserve Bank over the past two years in its stated aim of reducing South Africa's inflation rate.

The topic that receives the most attention is the reliability of the index.

Professor de Wet says the index is "undoubtedly" reliable

"The formula used has been thoroughly tried and tested in mathematical terms and is used worldwide.

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"The information on prices paid by the consumer gives very representative coverage not only of all products bought by the consumer, at all the points of sale throughout the country where consumers buy, but also of all consumers."

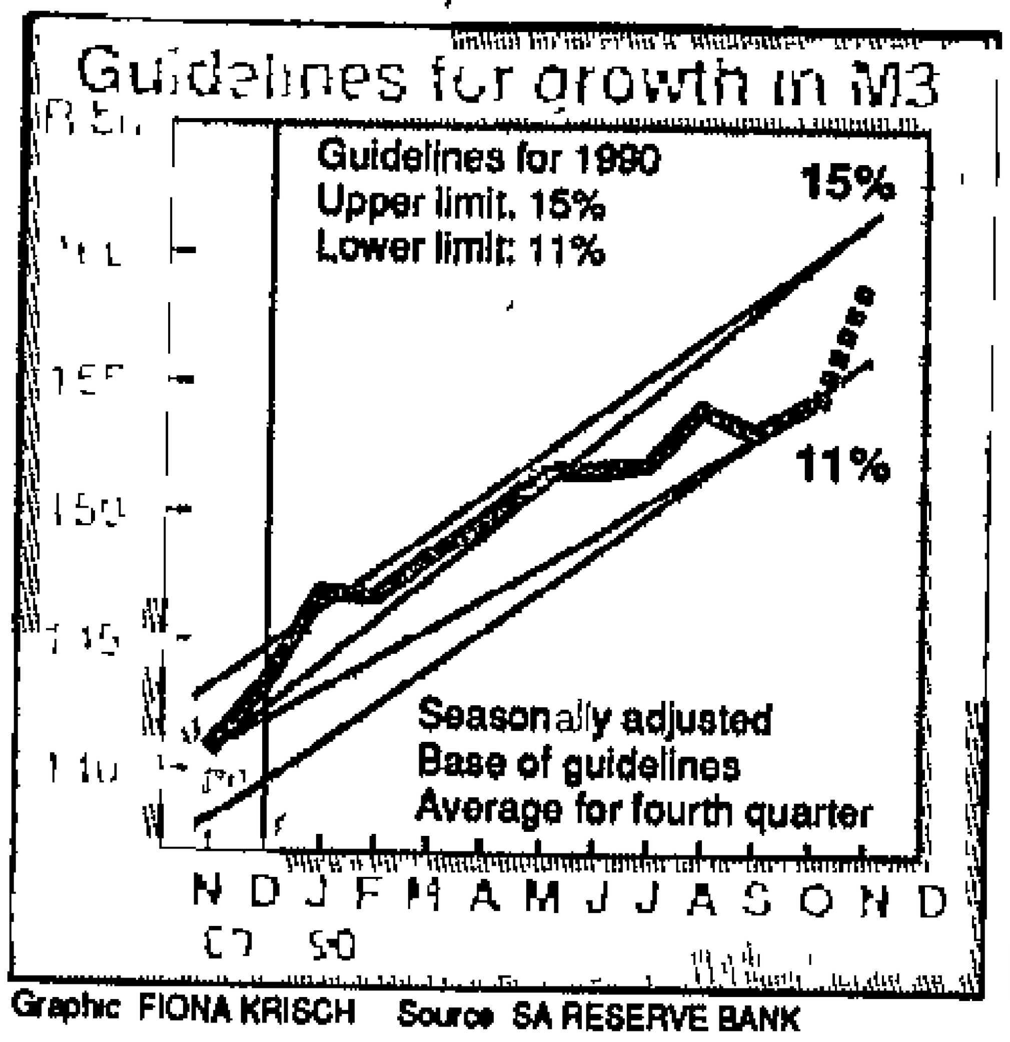
The inflation rate also ties in with other, independently calculated economic indicators, such as changes in average wages, in the money supply and in government expenditure, as it does with other price indices compiled according to other methods.

The changes in the various economic variables fit together like pieces in a jigsaw puzzle and a wrong calculation in any of them will stick out like a sore thumb

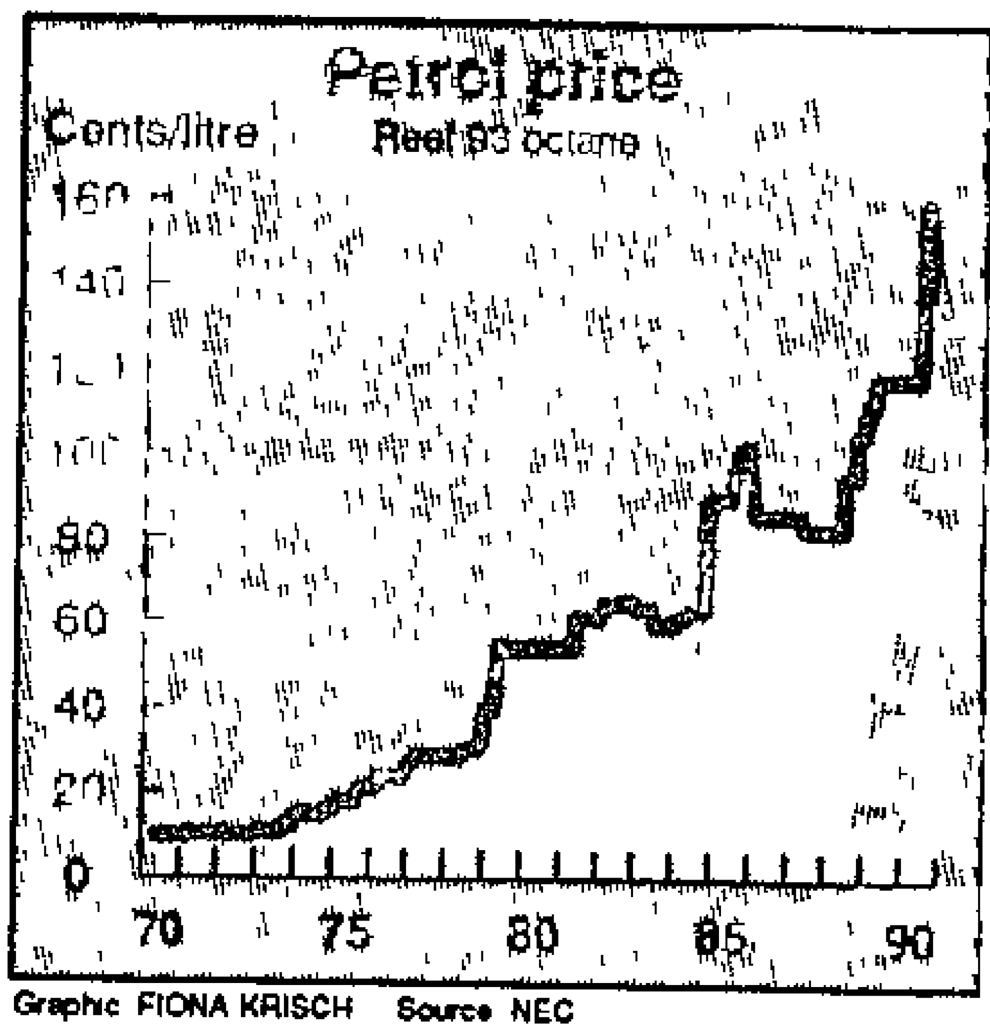
"The CPI is not meant to tell an individual how the prices of his purchases are changing It is meant to give a picture of what is happening, on average, to all consumers countrywide," he said.

It measures the average change in prices over a period for a multitude of products sold at a great number of places throughout the country and tells people what is happening, on average, throughout the country for all consumer items.

Entitled "Inflation — How the consumer price index is calculated and what it means to you," the brochure is available free in English and Afrikaans from the CSS, Private Bag X44, Pretoria, 0002



Graphic FIONA KRISCH Source SA RESERVE BANK



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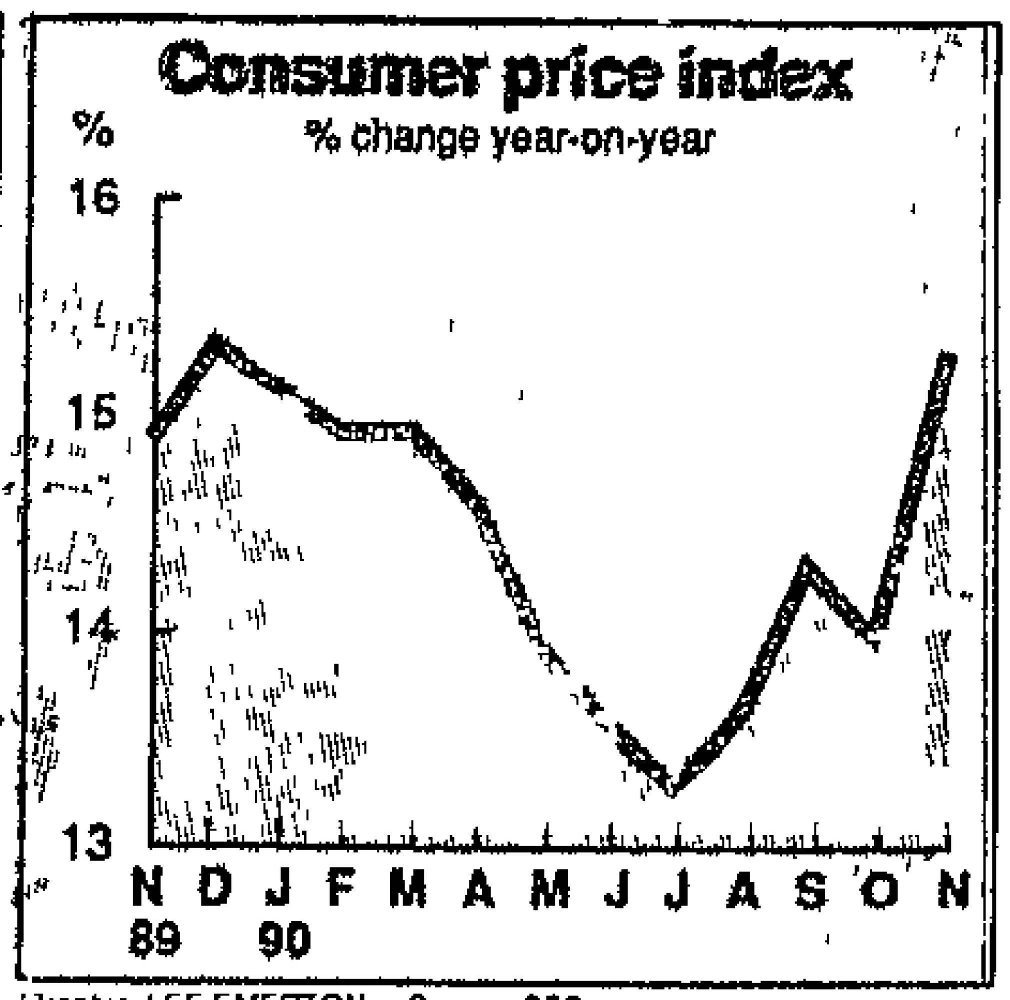

Graphic LEE EMERTON Source CSS

Bearish November CPI and M3 figures

Fuel price cut set to bring inflation relief

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B/Day 21/12/90

ANDREW GILL, ZILLA EFRAT and MARC HASENFUSS

TODAY'S 10c cut in the petrol price should mark the end of the upward trend in the inflation rate caused by the Gulf crisis, economists said yesterday.

They said bearish inflation and money supply figures released yesterday were likely to be short-lived as downward trends were firmly entrenched.

Latest Central Statistical Service figures showed a 15,3% annual increase in November's consumer price index (CPI), its highest this year.

Economists said the rise, compared to 14% in October, was likely to be the peak in the rate with November's 15c petrol price cut and yesterday's 10c cut still to enter the statistics.

Also announced yesterday were November's preliminary money supply figures which bounced off October's 10,3% low to a 12,67% annualised increase in broadly defined money supply — M3.

The uptick may have been a result of increasing credit demand over Christmas, an analyst said. October's 10,3% increase was dramatically low, he said.

M3 growth from the fourth quarter of 1989 entered the Reserve Bank's 11% to 15% guideline range at 12,68% after two months of growth below 11%.

The CPI increased at a monthly rate of 2,1% due largely to a 1,3% rise in transport costs, comprising petrol (0,9%), vehicles (0,3%) and transport (0,1%).

The 32c rise in the the petrol price in October was included in November's figures because the monthly statistics are based only on information available up to the first week of each month.

Still worrying was the 0,6% monthly increase in food prices which pushed the annual rate of increase for food to 16,5% from October's 16%.

First National Bank group economist Cees Bruggemans said the inflation figure was expected and it should start falling with the release of December's statistics.

He predicted a 14,4% annual rate of increase in December, a decline to 13% by August and possibly a below-12% figure for end-1991.

There may be short-term fluctuations early next year because of the Gulf crisis but the rate was set to resume its downward trend, he said.

The unexpected increase in money supply should not be cause for concern, Bruggemans said, as the trend was firmly in place and pointed deep into single digits.

This morning the pump price of petrol fell 10c a litre, while that of diesel dropped

☐ To Page 2

P.T.O.

Fuel price

BD 21/12/90. (153(

☐ From Page 1

by 4c a litre

Econometrix economist Tony Twine said the decrease would bring down the January inflation rate by almost 0,3%.

He said it was ironic that despite two recent reductions in the petrol price, the November CPI would still show the negative effects of the original increase

The fall in fuel prices has been generally welcomed and is seen as important step in the fight against inflation

In a statement the SA Chamber of Commerce (Sacob) said the price reduction should boost the morale of all South Africans, particularly in this holiday period

It would also bring some relief to businesses experiencing major cost-related pressures, transport being a major one.

Sacob said the price drop would have a ripple effect on the economy and may even reduce unemployment and inflation However, because of the unresolved crisis in the Gulf the decrease could be temporary and fuel users should continue to save fuel.

Other organisations, including the Consumer Council, Motor Industries Federation and businessmen yesterday appealed to consumers to still use petrol sparingly and to business to pass on the decrease.

However, Putco said the fall in the diesel price was not substantial enough to warrant a reduction in bus fares.

The Automobile Association said it was heartening to note the benefit of the decline in international crude oil prices had been passed on to the motorist at the earliest opportunity

Checkers group MD Sergio Martinengo said the decrease was very well timed

"The food industry, which is very sensitive to the fuel price, will start to renegotiate the bulk of food merchandise prices for 1991 within weeks."

A National Energy Council spokesman said service stations would face a temporary capital loss depending on their tank capacity and yesterday's turnover. However, he said they usually scored when the price of petrol increased.

● See Page 3

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Monetary policy to ease next year

BER: 1991 pay rises hit by inflation

Cape Times 2/12/90

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By AUDREY D'ANGELO
Business Editor

PAY rises at the beginning of 1991 are likely to be about 14% — "that is, marginally higher than the expected inflation rate" — the Stellenbosch Bureau for Economic Research (BER) says in its latest report on the commercial sectors.

It expects monetary policy to be relaxed thoughout 1991 "And fiscal policy in general is expected to be stimulatory rather than restrictive"

These factors, together with an expected increase in confidence from the middle of 1991, "will impact favourably on consumer spending"

Meanwhile, the report continues, "consumer confidence is still holding up well but is showing signs of deterioration As a result retail sales, which were quite buoyant up to now, are likely to decline more rapidly from early 1991 onwards

"Sales of consumer goods may, however, improve as the year progresses and in real terms the level of spending could be close to 1% above the 1990 level

"Most of this growth will be experienced in the services sector and, to a lesser extent, the nondurable goods sector Durables and semi-durables will, unfortunately, not perform at all well during 1991"

The BER survey showed that black consumers remained fairly confident about the short-term economic future "As a result of this they actually anticipate an improvement in their financial situation

"In spite of these favourable attitudes their confidence is deteriorating and the majority view the current time as being inappropriate for the buying of high-priced goods, such as durables"

The survey of wholesalers showed that sales volumes in the fourth quarter were lower than in the same period last year. "This is the second consecutive quarter that a decline has been reported"

As a result of the weak demand fewer orders were placed by wholesalers during the fourth quarter "and even fewer will be placed during tyhe first quarter of 1991"

But, since inventories are not much above anticipated demand, the implication is that any increase in demand "will immediately stimulate the manufacturing sector"

As a result of worsening business conditions "more respondents than in the previous survey reported retrenchments"

The BER also expects prices to rise more quickly in the first quarter of 1991 The increases are expected to be "evenly spread between consumer and non-consumer goods"

The survey of retailers shows that business conditions "have detriorated a lot since a year ago and eight out of every 10 respondents said that the fourth quarter's business conditions were unsatisfactory

"They project a further worsening during the first quarter of 1991"

The survey of the motor industry showed that dealers "were actually overstocked with new cars and, rather surprisingly, also with used vehicles"

Recession, debt dampen outlook

Sowetan 21/12/90

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MONEY and jobs are short and consumers at every level are struggling to keep ahead of debt - but the Western Cape has the potential to break the grip of the economic recession.

LABOUR REPORTER

This is hopeful message leading economists have for the region as consumers go on a Christmas spending splurge

But it is not all good cheer on the economic front. While the seasonal Christmas upturn is expected to bring a welcome boost, the effects of the downturn are daunting.

Many Western Cape industries have had to retrench staff and resort to short-time working for the first time in years as demand has dropped.

Some of the region's biggest industries - clothing, footwear and furniture have been hardest hit as consumers save their earnings for essentials like food, housing, transport and education.

Economists warn that one of the greatest reasons for concern is the vast and growing number of people who have little hope of finding jobs in the near future.

At the same time, the Stellenbosch Bureau for Economic Research warns that growing unemployment coupled with "unrealistic" trade union wage demands have destabilised the labour market and created a climate of social unrest.

The national debt on loans, including mortgages, has soared by a staggering 72,2 percent to R284-million in the past year - with the Cape having its fair share.

More people have had to give up their houses because they could not make mortgage repayments and, while the property market has remained buoyant, the region has a housing backlog running into thousands, especially in the low-cost sector.

While tourism in the Western Cape has remained buoyant, the recession has dampened the industry's growth rate and while steady growth is predicted, it is very sensitive to violence and unrest.

Reeling from assorted price increases - especially fuel, and the concomitant consumer price rises - consumers are struggling.

Diversity in the local economy is cited as an insurance against the effects of the recession, but certain sectors in the region are badly off

Mr Colin McCarthy, executive director of the Cape Town Chamber of Industries says the downturn has led to a reduction in buying power and industries which suffer are those manufacturing durables like the clothing, footwear, furniture.

"The Cape is the biggest centre for footwear, clothing and textiles - and there has been a huge reduction in the demand for these products.

"Regretably there have been a number of failures, especially in the clothing industry where many factories have gone insolvent.

"The country all over is in a poor state, but the Western Cape has suffered because of the manufacturing industries here."

He argues that the Cape should concentrate on building its export capacity.

A brighter view comes from Dr David Bridgman, executive director of Wesgro, the region's development agency.

He believes the Cape has had the fastest growing economy of all metropolitan areas in the country through the '80s, becoming "the leading area in South Africa"

Inflation rate puts on a sudden spurt

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By Derek Tommey

The rate of inflation accelerated sharply last month in the wake of October's huge 32c a litre petrol price increase.

Consumer prices rose by 2,1 percent, their biggest monthly increase for more than four years, reports Central Statistical Services

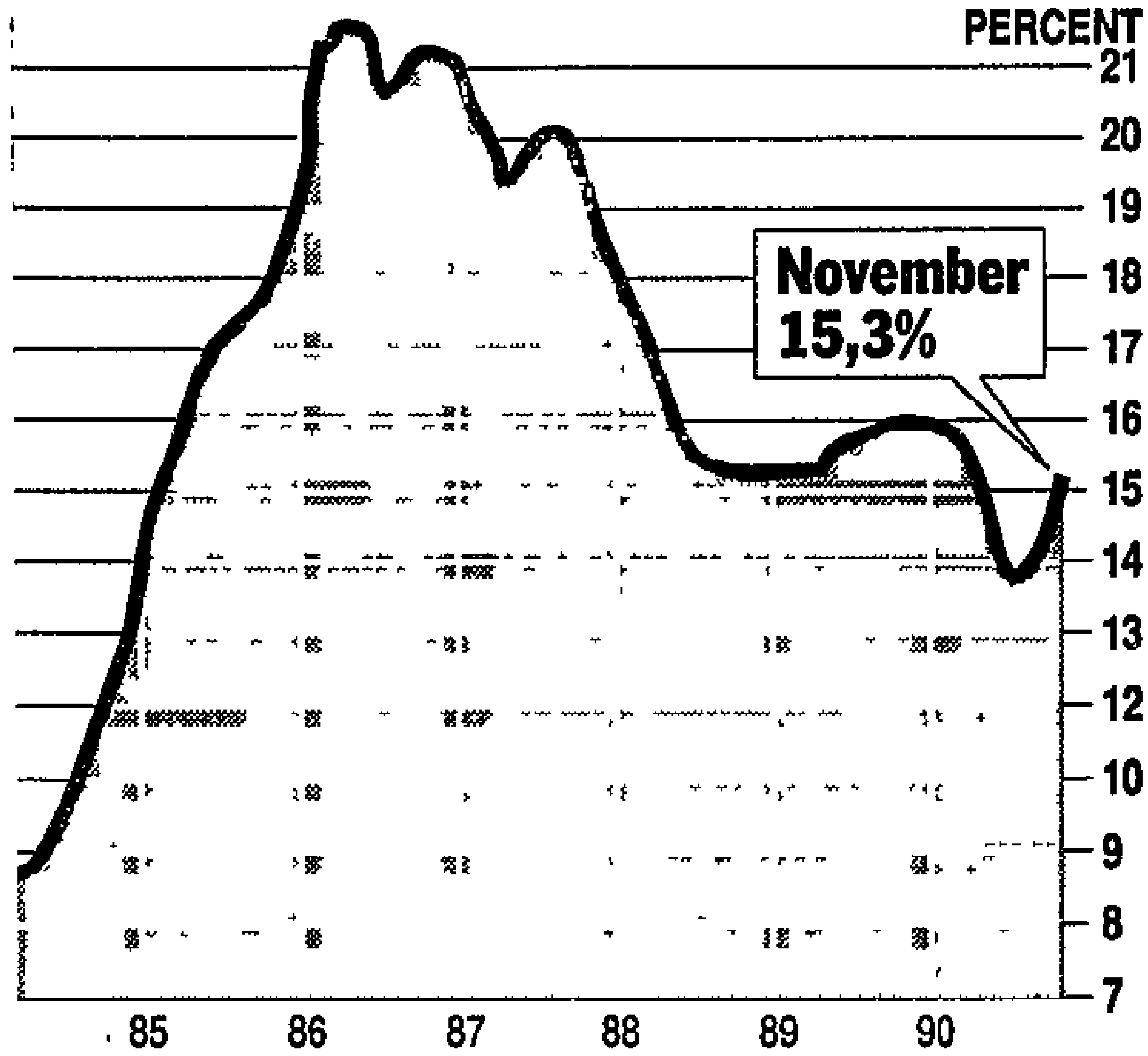
Without the petrol price increase, prices in October would have risen a more reasonable 1,2 percent

However, no one is likely to be too concerned about the 2,1 percent increase because the petrol price has fallen 25c a litre since October's shock rise

This should exert strong deflationary pressures on the economy and reverse some of the November price increases

This could result in the consumer price index this month showing only a small rise — leading to a marked levelling of in the rate of inflation

Year-on-year, the inflation rate for November was 15,3 percent — up from 14 percent in October, and the highest annual increase since December 1989.



Movements of the consumer price index

But if the petrol price increase is excluded, the year-on-year rise in the index would have been 14,3 percent

The annual rate of price increases for the lower-, middle- and higher-income groups was 15 percent, 15,5 percent and 15,6 percent respectively

The consumer price index rose from 211,1 to 215,6 in November.

The higher petrol price contributed 0,9 percent of the 2,1 percent increase

A rise in car prices added another 0,3 percent and a rise in public transport fares 0,1 percent

Dearer food pushed the index up a further 0,6 percent, while increases in the price of everything else added 0,2 percent — making the total of 2,1 percent.

The increase in food prices in November was 2,2 percent, bringing the increase for the full year to 16,5 percent

The price of fruit and nuts jumped 12,2 percent, while the price of grain products rose 5,1 percent

However, decreases were recorded in the prices of fish and other seafood (2,2 percent) and meat (0,4 percent)

On an annual basis, the Cape Peninsula showed the biggest increase, rising 16,4 percent

The smallest increase was in Bloemfontein (11,6 percent).

Living costs for pensioners in the 12 months to November rose 14,6 percent

Pensioners in the Pretoria-Verwoerdburg area were the hardest hit, with a 15,5 increase in prices

The smallest increase for pensioners in the 12 months was 12,4 percent in Bloemfontein

Economy is sluggish, but . . . (153)

B/Day 31/12/90

Battered SA has escaped full recession

GRETA STEYN

SA HAS escaped a severe recession, a comparison between the downturn in 1985 and the current one shows.

Battered by exceptionally high real interest rates, tight fiscal policy, a disappointing gold price and political upheaval, fixed investment and consumption spending have remained remarkably resilient

Economists agree that while the economy is underperforming, given the country's needs, SA has avoided the doldrums of the previous recession

In 1985, gross domestic expenditure (GDE) plunged by 8% — a much more rapid rate of decline than the 2,5% fall between the first three quarters of 1990 and the same period in 1989

The current recession has been marked by a relatively short period of real spending declines — a recovery in spending started in the second quarter of 1990 and continued into the third. (The third quarter saw a relatively strong annualised increase of 3,5% from the first quarter, seasonally adjusted) Surprisingly, spending on durable goods rose in the third quarter of 1990

The previous recession saw spending on fixed investment collapse A real decline of 7% in 1985 was followed by a massive 18% plunge in 1986 and a further fall of 2,4% in 1987

Although spending on fixed investment is down, there seems to be no question of a similar collapse

Spending on fixed investment fell by a mild 3% (annualised) in the third quarter of 1990 Economists are expecting a bottoming in 1991 at a 7% rate of decline

Robust consumption spending trends have been ascribed largely to the increase in black purchasing power. Wage increases have continued to exceed the inflation rate.

The Reserve Bank notes that spending was also supported by tax relief in the 1990 Budget, upward adjustments to the salaries and wages of lower-paid workers in the government services, and the electrification of black residential areas which gave rise to an increased demand for certain household appliances

Fixed investment avoided a collapse partly because of the need to replace machinery that had become obsolete during the slump Since only moderately high levels of spending were reached in the upswing, the downswing is similarly mild for fixed investment

While the continuation of investment in the face of a 21% prime rate is surprising, companies' balance sheets and debt levels are in far better shape than in 1985.

However, the comparison between recessions turns less favourable when it comes to gross domestic product (GDP). The fall of 1% expected for 1990 is virtually the same as the GDP decline in 1985 Predictions for 1991 are for zero growth — the same as in 1986

The reason for the discrepancy between spending and output trends lies with the balance of payments In line with continued high spending in 1990, the demand for imports remained strong This is in sharp contrast to 1985, when imports plunged 15% in real terms

The ratio of real imports of goods and services to GDP rose to 27,6% — the highest level since 1982

INFLATION — 1991

JANUARY — AUGUST.

Further delay in interest rate cut?

November PPI soars to 15,8%

16/1/91

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By PIETER COETZEE
Financial Editor

THE sharp year-on-year increase of 15,8% in the producer price index (PPI) in November — up from October's 12,1% — send ripples of concern through the economy yesterday.

According to economists the most worrying aspect is that if the oil price increase and the cost of petrol production are not taken into account the year-on-year increase would, nevertheless, have been 14,3%

This means that the higher oil and petrol prices were responsible for less than half of the rise indicating a strong underlying pressure on the inflation rate This may rule out the possibility of an interest rate cut for another few months

Import prices up 8%

According to figures released by the Central Statistical Services yesterday the PPI rose by no less than 4,3% from 206,1 in October 1990 to 214,9 in November

The seasonally adjusted price index of imported commodities was up by 8% on the October figure at 19,1% The price index for the total output of SA industry showed an annual rate of change of 14,3% which is 2,5% up on the October figure

The annual rate of increase on locally produced products came to 15,1% in November compared to the previous month's 12,3% — an increase of 2,8%

Petrol and diesel were the major culprits Petrol had price increase ranging from 25% at the coast to over 27% inland Diesel rose by between 22% and 24%

Among other contributors were the costs of other mining and quarrying products which which rose by 14,0%, agricultural products 13,8%, other chemical products 12,9% and other manufactured products 7,9%

However, the prices of electricity and water fell by 2,5% and industrial chemicals by 1,3%

Chief economist of Old Mutual, Dave Mohr, said the increase was surprisingly high This means that there is still strong upward pressure on the inflation rate

"Although the inflation rate is just one of several factors to be taken into account when determining monetary policy, upward pressure on the inflation rate could mean that interest rates will have to remain on their high present levels for longer"

John Louw, chief economist of Sanlam, said the sharp rise is very worrying and would exert strong upward pressure on the inflation rate The latest figures show that there are still strong cost-push factors present in the economy

Most of the cost-push pressure is from higher wages and salaries but it is not impossible that producers used the increase in oil and petrol prices to widen their margins — although this is very difficult to prove

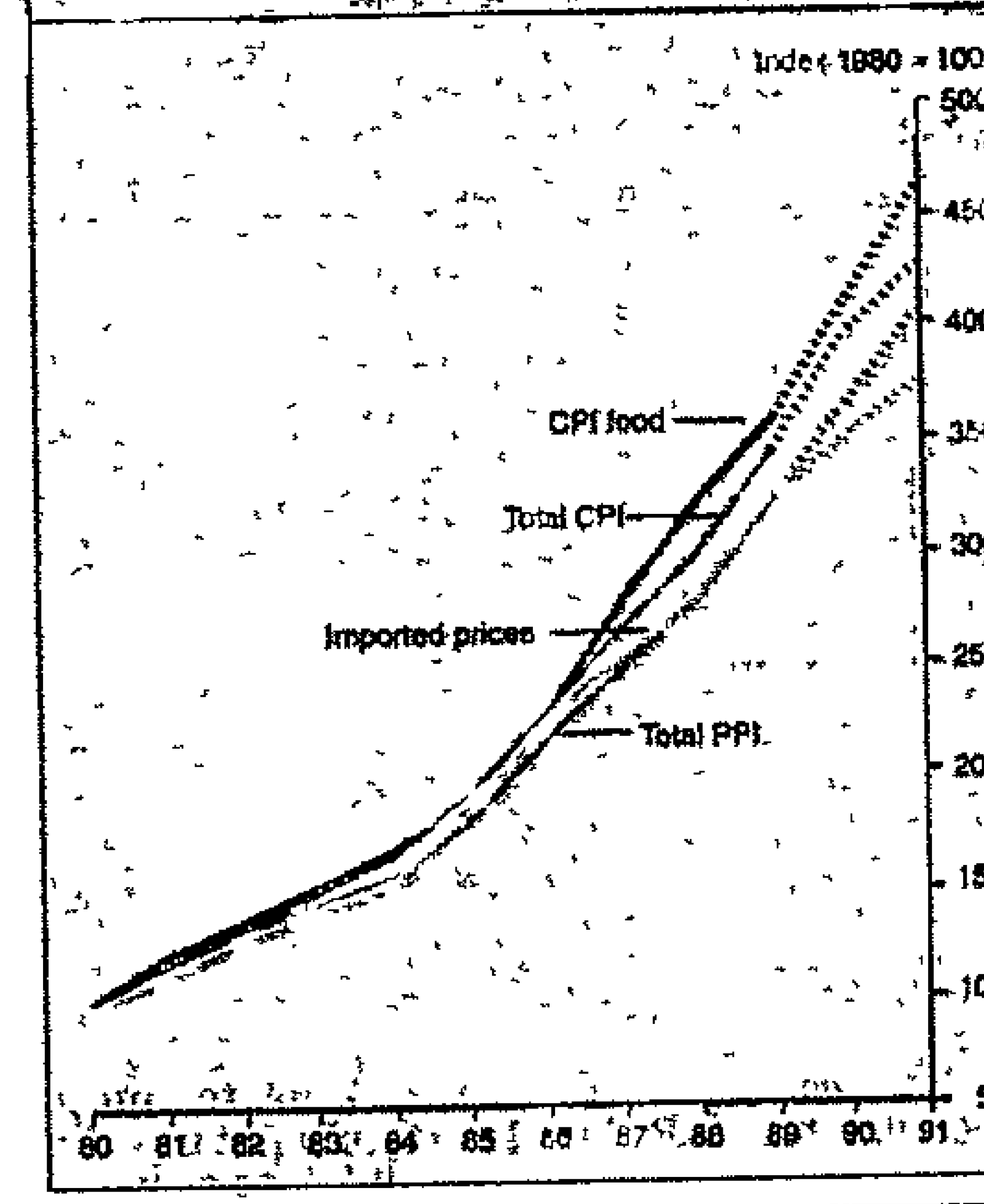
If the looming war and the effect it will have on oil and therefore petrol prices is taken into account, interest rates will have to remain at their present levels for longer

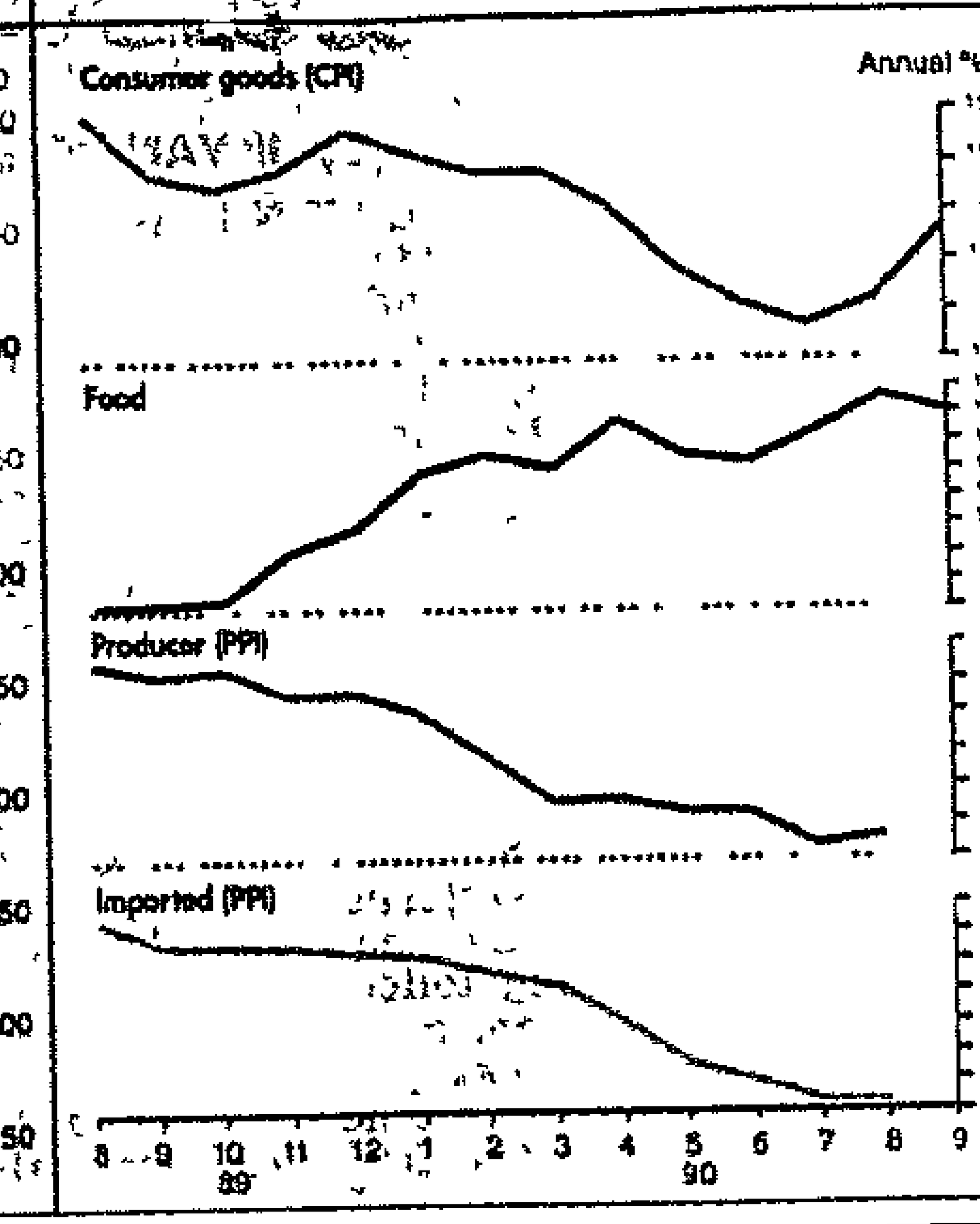
'PPI could outstrip CPI'

Chief economist of Southern Life, Mike Daly, said the latest figures show that there is still upside in the inflation rate

It must, however, be taken into account that with petrol price shocks (as was the case between 1973 and 1979) the PPI could outstrip the CPI (inflation rate) by quite a wide margin

The situation will, nevertheless, remain volatile for some time to come with the decreases in the petrol price to be reflected in the PPI in the next few months, but the possibility of higher petrol prices due to the war could again exert upward pressure on the PPI later in the year





Inflation set for a downward trend

B/Day 21/1/91 (153)

The Week Ahead
WILLIAM RICHARDS

CONFIRMATION that the SA inflation rate has peaked should emerge this week on publication of the December consumer price index (CPI).

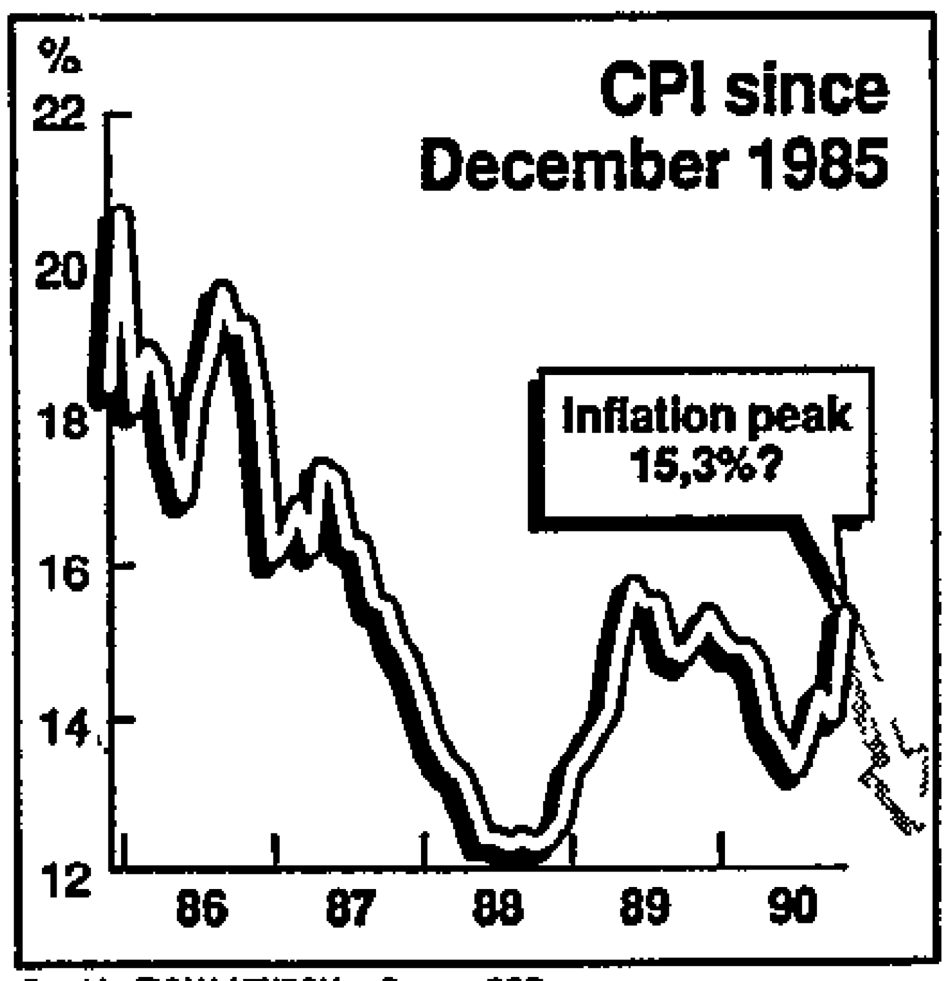
The CPI, due out later today or tomorrow from Central Statistical Service, should show that the 15,3% year-on-year inflation rate posted in November was the high point in the current, largely Gulf-driven inflation blip.

Inflation was driven up during November mainly by the record 32c/l hike in the petrol price the previous month.

The 15c/l cut in the price in November should show up in this week's CPI and set inflation firmly back on the downward path it was following until the Gulf crisis developed.

The petrol price was cut again last month and, together with the fall in the oil price on the Gulf war, should ensure that domestic inflation continues to decline.

SA's money supply growth in the year to December is also due early this week. Expansion in M3, the measure of broad money targeted by the Reserve Bank, accelerated in the year to November to 12,7% from October's 10,3%.



Graphic: FIONA KRISCH Source CSS

Although this left M3 growth within the Reserve Bank's broad money growth guidelines for calendar 1990, the authorities are about to lower the guidelines in 1991 and will want to see M3 continue to fall convincingly before easing monetary policy.

SA's December trade surplus is scheduled for release on Wednesday and should improve on November's R1,5bn to around the R1,65bn posted in December 1989.

Internationally, the meeting of the Group of Seven major industrial countries in Washington ends today with a communique dealing with official expectations of Gulf war spin-off in the financial markets.

War effects

US markets were going to be closed today to mark Martin Luther King Day, but will probably stay open to react to events in the Gulf.

US Federal Reserve chairman Alan Greenspan goes before Congress tomorrow and Wednesday to report on the state of the US economy, and he may also discuss Gulf war effects on the major economies.

The German central bank, the Bundesbank, left its credit policies unchanged last week but still looks set to raise interest rates before long.

German monetary growth in December is due out on Wednesday and the distortions of unification may keep German M3 growth near the top of its 4%-6% target bank for 1990. This would help maintain expectations of higher German interest rates.

Inflation struggle 'may be faltering'

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B/Day 24/1/91.

ANDREW GILL
and CHARLOTTE MATHEWS

DECEMBER's inflation rate registered its expected fall from November's Gulf-driven high, but analysts fear that last year's downward trend may be faltering

The annual rate of increase in the Consumer Price Index (CPI) slowed to 14,6% in December from 15,3% in November, Central Statistics Service (CSS) figures show

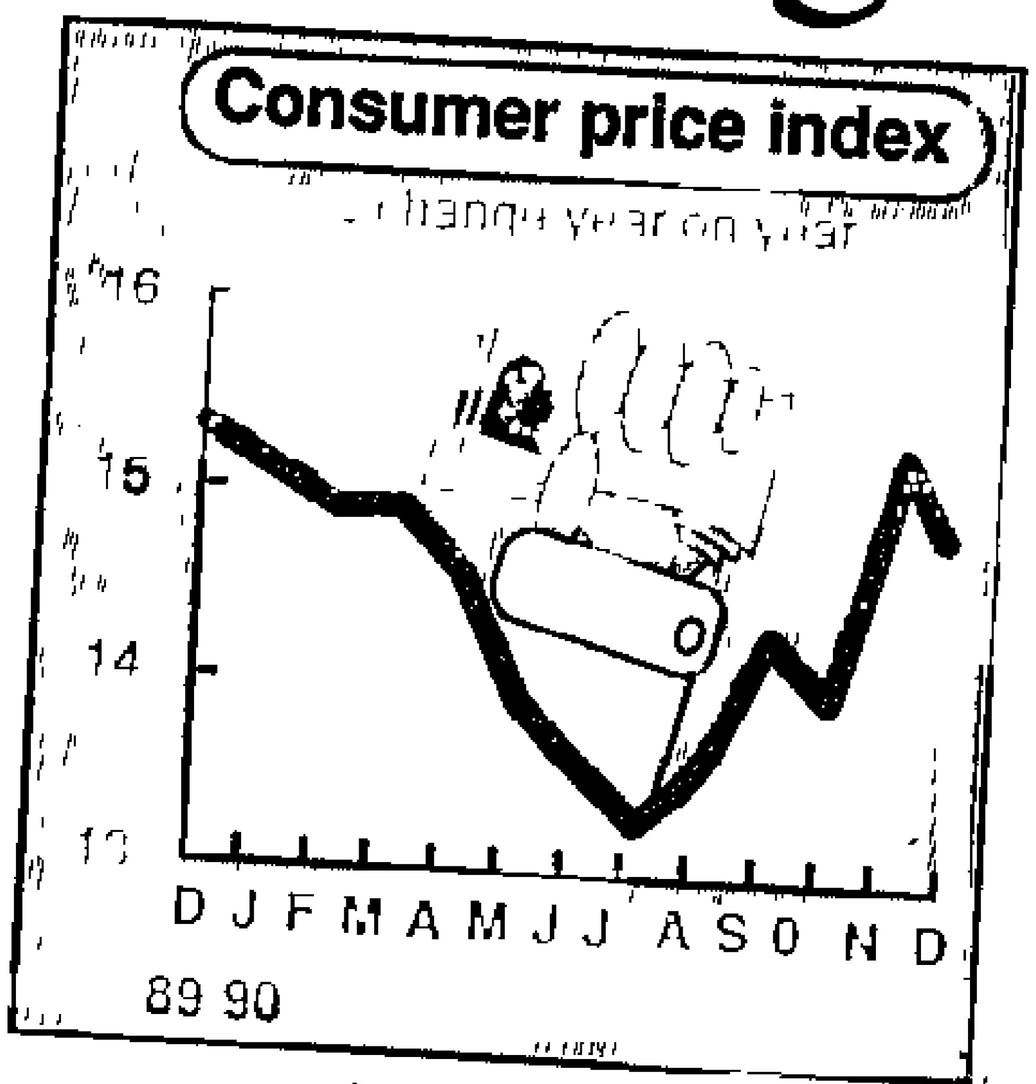
The increase in the index from November was 0,7%, which was the result of a 0,4 percentage point contribution by food, 0,1 points by tobacco, 0,1 points by clothing and textiles and 0,1 by others.

The average inflation rate for 1990 was 14,4%, only slightly below 1989's 14,7% and above 1988's 12,9%

November's 15c petrol price cut was included in the figures A 6,8% fall from November's figures in the running costs index was largely neutralised by a 5,8% increase in public and hired transport

December's 10c cut in the petrol price will be reflected in January's inflation rate, which should show another decrease.

Econometrix chief economist Azar Jammine said it was too early to tell if this was the result of the lower petrol price not being passed on to the consumer or whether it would show up in later figures



Graphic. LEE EMERTON Source CSS

He said inflation statistics over the past few months had been very disturbing and suggested inflation was not coming down in the manner originally expected

November's producer price index, an indicator of what the CPI is likely to do, showed a 15,8% increase compared to October's 12,1% It was largely due to sharply higher import inflation, the mainstay of

☐ To Page 2

Inflation

B/Day 24/1/91.

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☐ From Page 1

last year's steady declines

Nedbank chief economist Edward Osborn had forecast 14,7% It was fairly satisfactory, and it might be maintained at this kind of level, he said

"I am not altogether saying we will continue downwards The monetarists and the Reserve Bank are expecting a steady reduction on the rate of increase in money supply and restraint in bank credit, but we have been working against the effect of higher wage and salary increases during the year and the oil price In 1991 we will have the effect of a depreciated rand"

Southern Life chief economist Mike Daly said 14,6% was a relatively good figure and took into account the first petrol price fall

"We have still got to see the full petrol price cut come into the numbers If the oil price stays around $18 or $19 a barrel we can expect another 10c a litre petrol price cut before the middle of the year and that would be a positive factor for further declines in the CPI," he said

By the middle of the year inflation could be about 13,5%

Daly said another encouraging factor was the food price index which had continued to moderate It reached 17,7% in August and has come down to 15,3% However it was still high and aggravating the total CPI

There was still hope that if the drought broke it would be less of an aggravating influence on the CPI than in 1990

Technical drop in inflation

153 Star 24/1/91

By Duma Gqubule

As expected, SA's inflation rate declined in December, with the annual rate of increase in the consumer price index (CPI) falling by 0,7 percentage point to 14,6 percent from 15,3 percent in November

Economists yesterday described the fall as "technical", due largely to the 15c-a-litre reduction in petrol prices in mid-November.

Sanlam chief economist Johan Louw says the CPI figure is somewhat higher than he had expected He observed that yet again soaring food prices had prevented the CPI from declining further.

The figures brought the inflation rate for the year to 14,4 percent, compared with 14,7 percent for 1989, 12,9 percent for 1988 and 16,1 percent for 1987.

Mr Louw says that with the weak agricultural conditions and poor crops, rising food prices could make it difficult to bring inflation down this year.

Disturbing

Econometrix economist Azar Jammine thought December's inflation figure was disturbing. He says excluding the effects of November's reduction in the petrol price, there would have been a monthly increase of 1,2 percent in December

"While this is not a massive monthly increase, neither is it a sign that the underlying trend in inflation is downwards," he says.

Mr Louw says he expects the inflation rate to fall to 11 percent at the end of this year and an average for the year of about 13 percent

Like most economists he now expects the Reserve Bank to reduce the bank rate in March, possibly before the budget. The big imponderable that is now preventing a cut in the bank rate is the uncertain situation in the Gulf and the effects the war will have on oil prices

1991

Cape Times 29/1/91 (153)

Business Report

Call to raise productivity to fight inflation problem

By AUDREY D'ANGELO
Business Editor

HIGHER productivity — which must be management-led — and increased exports rather than lower pay increases will help to solve SA's inflation problem, the Minister of Manpower, Eli Louw, told a media conference in Cape Town yesterday

He said that over the past decade the inflation rate and average pay rises had been more or less the same

"It is not the increase in wages and salaries per se that contributes to inflation, it is the (low) productivity of labour"

But, the minister said, labour costs were not the most important factor in pushing up inflation Materials, high interest rates and inflationary expectations were all contributory factors

Stressing the need for the Reserve Bank to control the growth in money supply, he said this had been done in every country where the inflation rate had been brought down

The disadvantage in this process was that unemployment tended to rise It was important that the Reserve Bank should not be too drastic in applying this policy, causing too much unemployment

The minister was speaking after the fourth annual conference of industrial councils, at the Holiday Inn in Woodstock

In his opening speech at the conference, he said there could be "no doubt about the consequences of prolonged unemployment of large numbers of people on mental, social and racial tensions and on attitudes to work and society as a whole"

However, "the government can create only the economic framework and the climate favourable for job creation

"It primarily remains the function of the private sector to create employment opportunities"

It must be made worthwhile for the private sector to do this, through the ability to earn good dividends

"Growth in job opportunities, in the final analysis, depends on the rate of economic growth in the country SA's economic momentum for the future will have to come mainly from exporting manufactured goods

"Exports and excellence in general depend on our level of productivity which, in turn, must be management-led

"For a firm or an industry to become more competitive through productivity, management must be trained in productivity concepts and techniques

"They must know how to measure productivity, how to set productivity targets in co-operation with the workers, suitable training and how to develop teams of excellence in which management and workers jointly work towards a successful goal"

The minister pointed out that if more wealth had been created through higher productivity it should be shared in three ways

"The owners of capital should get a share in the form of greater profits, the customer should get a share in the form of lower prices and the worker should get a share in the form of higher wages"

The minister said it was not only management who needed training to achieve higher productivity "Workers must also be taught to have the right attitude to work, productivity and wealth creation for us to succeed"

Inflation seen at 16% by mid-year

CAPE TIMES 1/2/91

Business Editor

INFLATION is likely to bottom out at about 12% in the middle of the year, United Building Society (UBS) chief economist Hans Falkena says in his Economic Monitor

He expects the bank rate to come down to 16% by the middle of the year

But he thinks the rand will weaken to R2,75 to the $1 by the end of the year, "largely as a result of the inflation differentials between SA and its main trading partners".

In spite of the slowdown in world economies, Falkena expects SA's merchandise exports to grow by about 5% in 1991 due to the collapse of sanctions

"Merchandise imports and net service payments are expected to edge up owing to an improvement in growth, to commence by about the fourth quarter of 1991

"In the light of the aforementioned developments the current account surplus for 1991 should be marginally higher than in 1990 "

He thinks the foreign debt obligation for 1991 will be $1,6bn at most.

"On the assumption that the current keen interest of foreign banks in SA continues and that short-term trade credits remain readily available, the actual net debt repayments could be even lower "

He expects the gross foreign exchange reserve position to improve from about $3,2bn at the end of 1990 to about $3,9bn, roughly the value of three months' imports

However, Falkena says current recessionary trends are expected to persist in the first three quarters of this year "A slight upturn is expected only in the fourth quarter "

And he warns that growth could be adversely affected, not only by a sudden deterioration of the Gulf situation but by "possible disruptive domestic developments "

He expects the SA authorities to persevere with their restrictive monetary and fiscal policies in an effort to continue the fight against inflation

"In spite of the resultant high interest levels, private consumption expenditure is expected to grow by about 2% "

Mathematically, inflation statistics don't lie

Star 2/7/91

DES PARKER

(153)

PEOPLE who doubt the authenticity of the inflation statistics produced each month — claiming the figures bear little relation to price increases — should remember that they represent the average effect of all price changes on everybody in the country

Frequently (always, some would say) prices increase by considerably more than the official rate of inflation, particularly in the grocery department.

A belief that this made a mockery of Government cost-of-living statistics led Durban mathematics academic Karl Posel in 1989 to put forward his own "Mathematical model" for calculating the ravages of rising prices on different types of family

He concluded that annual inflation was of the order of 31 percent, rather than the level of about half that published by the Government's Central Statistical Service

There was a groundswell of support for his findings, but a phalanx of economists and analysts criticised his calculations, decribing them as a measure of absolute price rises rather than the average effect of those increases on the whole population

It had to be remembered, said one, that the consumer price index (CPI) measurement of inflation also measured changes in things like fuel prices, bond rates and rentals, which often for considerable periods, remained stable

Because these items comprise a sizeable proportion of average household spending, they tend to keep the lid on inflation. Likewise, when interest rates are rising or fuel prices are raised substantially — as happened last October after world oil prices had risen sharply — they influence the CPI.

A booklet produced by the Government's Central Statistical Service, the Pretoria organisation which calculates and publishes the CPI monthly, describes the inflation figure as "an average of an average of an average"

"It measures the average change in prices over a period for a multitude of products sold at a great number of places throughout the country, taking into account a host of representative consumers and spending practices," says the document, written by Professor Geert de Wet of the University of Pretoria

In compiling the CPI, prices of about 600 different goods and services are recorded For example, food is divided into 11 main groups and further broken down into numerous subdivisions

Beverages, alcohol and otherwise, are taken into account, as are cigarettes and everything from different types of cloth and material to the hire of a dress-suit and rents on residential property Add to that insurance rates, refuse removal charges, municipal rates, car prices, parking tariffs and the cost of bus, train and air tickets, not to mention TV licences, visits to the zoo, funeral expenses and the cost of a tube of toothpaste, says Professor de Wet, and it can be seen that "The price of almost every conceivable item a consumer could buy is taken into account"

"If there is a product, including one or other service, not directly taken into account, it will definitely have been taken into account indirectly through the price of a related product that has shown a similar trend"

The things people spend their money on are given a weighting according to what proportion of their income people spend on them Surveys of prices are done in the 12 major urban areas of the country and the findings assimilated into the national index

Describing the weighting method, Professor de Wet says "When the index is compiled the price of every product is weighted with its relative importance in the expenditure of the average household Were the price of milk or bread to increase, this would certainly play a more important role in changing the total index than if, for example, the price of matches rose, because the average or typical household spends more on milk and bread than on matches"

Some 3500 points of sale are monitored, ranging from small stores to hyper-stores and from cinemas to hairdressing salons situated both in suburbs and in city centres

Professor de Wet swears by the reliability of the system It has, he writes, been mathematically tried and tested and is used worldwide

If the index shows a change of say two percent from one month to the next, price increases in shops may range from 1,9 percent to 2,1 percent Likewise, if the index increases by 15 percent in a year, the change experienced from one household to the next or from one part of the country to another might vary between 14 percent and 16 percent

"However, it will not be 30 percent, or even 20 percent if the index shows that it was 15 percent The spread and representativeness of the information is too good for that to be possible"

Professor de Wet says the CPI rates fit like a jigsaw puzzle piece with other economic variables, such as changes in average wages and money supply, and a wrong calculation would "Stick out like a sore thumb"

For people who continue to doubt, the professor cites the example of rainfall figures Measurements in two different places in the same area may well differ widely, yet an average will be given for that area relying on those statistics

The average for the country will vary by even more "Yet these rainfall figures are significant, they do provide a picture of what is happening in the country, even though they do not tell us what is going on in the backyard or on the farm of a specific person

"The same applies to the CPI"

Lower inflation is key to end of finrand

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Star 4/2/91

By Sven Lunsche and Neil Behrmann

Although the discount between the financial rand and the commercial rand has narrowed dramatically over the last four months, it is unlikely that the finrand will be abolished as long as inflation stays at its current high levels.

The financial rand has soared by 15 percent and the discount between the two currencies has narrowed from 30 to under 20 percent since last November when Reserve Bank Governor Dr Chris Stals said in London the investment currency would eventually be supported by the central bank

The mere hint succeeded in driving up the investment currency

In the past three months, the Reserve Bank, however, has not supported the financial rand It has surged because international investors have bought SA bonds on the expectation that the finrand would soon disappear

The finrand has strengthened further over the last two weeks on the positive political developments inside South Africa

This week Finance Minister Barend du Plessis confirmed that he would like to see the financial rand's demise, but emphasised there were no immediate plans to scrap the two-tier currency

This must be seen against the background of the conservative slant of monetary policy at present of protecting the value of the rand and bringing down inflation

Depreciation

"In the event of a unitary rand having been established this would carry the risk of a renewed sharp depreciation of the rand and a substantial escalation of inflation," says Econometrix in a recent publication.

Econometrix estimates that at the present discount of roughly 20 percent, a unitary rand would probably settle at a level about 10 percent below the current level of the commercial rand, enough to push the inflation rate up by at least 2,5 percent almost immediately.

Certainly the volatility of the commercial rand has declined significantly since the finrand was reintroduced in 1985, despite the substantial political turmoil.

"So long as the country is beset by substantial political uncertainties it would be foolish to make life more difficult for international traders by subjecting their investment decisions to the vagaries of events in the townships," Econometrix adds

"From an inflationary angle," the economists say, "the discount would need to decline to single figures and stay there for a period of time to prove its stability, before abolition of the finrand can be contemplated"

This would be in line with Reserve Bank strategy on the abolition of the finrand

When it decides to end the dual exchange rate system, the Reserve Bank is likely to buy financial rands. The eventual aim would be to eliminate the finrand's discount to the commercial rand

Dr Stals has indicated that if foreign countries agreed to abandon sanctions and the IMF lends funds to South Africa again, the Reserve Bank would be in a more favourable position to buy the currency

But in a speech at an investment conference this week he added another variable — the present status of the debt standstill

Up to $7 billion of foreign debt remains trapped in the standstill net and this amount is, at least in theory, eligible for either investment in local equities through the finrand or for liquidation through the finrand system

Standstill

"In case the currencies were unified the debt standstill would become defunct .. and only those creditors who whish to maintain an exposure in SA on a voluntary basis will remain within the debt arrangements," Dr Stals said

"Thus an automatic ratchet effect has been built into a continuous appreciation of the finrand rate which must be taken into account when speculating on an early abolition of the finrand," he said

In the meantime, foreign investors continue to gain on their investments in SA bonds as yields have dropped in line with the appreciation of the finrand

Since November, for example, their total return on Eskom long-term bonds, considering that income was accrued at nearly two percent a month, was almost 20 percent.

While the financial rand has appreciated substantially, the underlying bond has risen only slightly

This is hardly surprising, considering South Africa's high inflation rate

As a result foreigners can still buy Eskom stock on yields of 20,6 percent and the returns are the best in the international capital market.

The yields compare with bonds in Spain of 14,3 percent, Italy 12,1 percent, Australia 11,6 percent, United Kingdom 10,2 percent, Canada 10 percent, France 9,6 percent, Germany 8,6 percent, United States 8,2 percent and Japan 6,8 percent.

Cap

Scaling down of wage demands seen

Cape Times 5/2/91

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By AUDREY D'ANGELO
Business Editor

IT will be "very difficult to manage inflation in SA to below the psychological 10% to 15% range," Boland Bank economist Louis Fourie says in his February Economic Review

Forecasting an average inflation rate of 13% for the year, Fourie says the high cost of labour is a major obstacle to bringing it down further.

This, he says, is "undoubtedly one of the heaviest prices claimed by the prevailing political dispensation"

But he thinks difficult conditions expected over the coming year "will contribute to a scaling down of expectations and wage demands"

On a more positive note, he continues, "the unexpected slump in the oil price after the outbreak of the Gulf war will surely contribute to a downtrend in inflation in the first part of 1991

"The squeeze on domestic demand and the anticipated stability of the exchange rate will complement this easier trend"

Discussing interest rates, Fourie says that although lower inflation remains the ultimate monetary policy objective "relief on the balance of payments and depressed credit demand should, nevertheless, pave the way for at least a three percentage point cut in the leading bank rate over the year as a whole"

He thinks the current recession "will in all probability only begin to subside towards the end of 1991"

He continues "Regarding the outlook for 1991, the SA economy is without doubt facing a relatively weak — if not negative — growth year, considering the sustained tight monetary policy, less favourable export conditions, the effects of the 1990 drought and still disruptive political climate

"Credit-linked spending, such as consumption expenditure on durables, and capital spending is likely to take a pounding"

Unions defy recession

S/Times 10/2/91

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By ADRIAN HERSCH

DISPUTES under way indicate that trade unions are pressing strongly for wage increases far ahead of the inflation rate in spite of the recession.

Pressure for higher pay in the public sector is also strong judging from demands by the largest union in the Post Office It wants an increase of 77% on the minimum wage

SA Clothing and Textile Workers Union (Sactwu) members have been on a legal strike since the beginning of February at SA Nylon Spinners in the Western Cape

The strikers demand an overall average increase of 17%

Management's offer represents an average 14,5% increase The offer would take the minimum wage to R1 105 a month for an unskilled employee.

In a wage dispute between PG Glass and the Chemical Workers Industrial Union (CWIU), the union is asking PG Glass for an average increase of 20,5% The company's offer averages 15%.

The Transport and General Workers Union TGWU) is demanding an average increase of 34,2% at three Renfreight companies — Renfreight Aircargo, Renfreight Forwarding and SA Container Depots.

Management offers between 18% and 29% more and a minimum wage of R1 000 a month. The union seeks a minimum of R1 300 a month.

The public sector, as in 1990, could again experience a spate of pay disputes. The 19 000-member Post and Telecommunications Workers Association (Potwa) will meet the Postmaster-General to discuss wage issues

Potwa wants a minimum wage of R1 300 a month — currently R735 It also demands a R500 across-the-board increase

Other demands include six months' paid maternity leave and three months' paid paternity leave.

Price of food higher than inflation rate

Star 15/2/91

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By Paula Fray
Consumer Reporter

Food prices soared above the inflation rate during 1990, with the cost of vegetables alone increasing by a whopping 33,5 percent, statistics compiled by the Consumer Council show.

The cost of general foods rose by 16,1 percent, while the increase in all other items was an average of 14,3 percent during 1990.

Lowest

The price of fruit and nuts increased by an average of 25,7 percent. Meat increases were the lowest, with an average increase of 9,6 percent during 1990. Dairy products — milk, cheese and eggs — increased on average by 20,2 percent at the same time.

According to Dr Azar Jammine, director and chief economist of Econometrix, food prices at consumer level have risen faster than at producer level.

"What is disconcerting is that at producer level the farmers are not getting the benefit of the increase."

He said many factors contributed to the high consumer price, including monopolies and the poor weather conditions.

In the end the consumer paid.

"Unfortunately the situation in South Africa is different from other countries where there is increased competition at producer and distribution levels," he said.

Increased competition would be the answer, he said.

Relief may not be in sight for consumers. Farmers in Natal have recorded high prices for poor quality fresh produce, with one farmer receiving the highest average price for lettuce in the past few years. The lettuce he sold were described as "of the worst quality".

High-quality lettuce was fetching R35 a crate — five times the "normal" price of R7 — in Durban last week.

Buying power of money may halve in about five years

Investing against inflation

(153) Star 18/2/91.

Do people have a right to spend or invest their hard-won retirement annuity savings as they please Or is it the State's responsibility to protect them from themselves by obliging them to buy a pension?

"The compulsory annuity requirement, which dictates that two-thirds of the value of a matured RA policy be used to buy a pension, is intended to protect people, with the foresight to plan for their old age, from impulsive extravagance Instead, they can starve slowly, as victims of inflation," says Berns Block & Associates MD Arnold Berns

He maintains that the inflexibility of conventional RAs makes them a poor hedge against inflation Yet the way they are marketed means that many investors, who are trusting to their RAs to meet their needs during old age, are living in a fool's paradise

"Inflation is built into the socio-political environment of South Africa and must be factored into every individual's long-term financial plan — yet no conventional retirement-oriented investment

One of the problems facing older people is that they invest too little, too late for their retirement

makes adequate provision for the rule of the half-life of money"

This dictates that 72 divided by the current rate of inflation will give the number of years in which the value of money will halve

Conservative estimates put South Africa's current inflation rate at about 14,5 percent, which, if it is sustained, will cause the buying power of money to halve in less than five years

The problem is exacerbated by the tendency of almost all investers to invest too little, too late in their retirement funds

"It doesn't matter how magnificently a fund performs — if the investor has committed too little money to meet his needs he will be totalled by inflation," says Liberty Life assistant general manager of legal and technical marketing Gavin Came.

"Added to this, the cost of delay could spell the difference between a fixed pension and one that escalates to keep pace with inflation

Another characteristic which meets with a mixed response from critics of the RA is the locked-in nature of the fund

"Funds cannot be withdrawn before the age of 55 — making the RA a form of self-imposed compulsory saving for retirement

"In addition, it cannot be attached by creditors," says AA Life broker division assistant GM Luc Orlando, who considers the inflexibility of RAs in this regard a distinct advantage

Some consultants, however, consider it a disadvantage, since younger investors shy away from the prospect of locking themselves into a fund which could take 25 unpredictable years to mature

Over the years, annuities have become more flexible It is, for instance, possible to buy an inflation-linked option which maintains the real value of the investor's pension at a steady level

"The cost of this option, when the retiree is heavily dependent on his annuity income, is an immediate drop in his standard of living," says Ilpa Fellow Laurie Brickhill "Most people find it preferable to

Luc Orlando, AA Life broker division assistant GM.

take a chance on not living too long"

Another major criticism of the conventional RA is the fact that it ceases paying out upon the death of the investor, and both outstanding capital and earnings are lost to his estate

In effect, more short-lived investors cross-subsidise those who live longer than the actuarial average

The new equity-linked RA from Crusader Life and UAL Merchant Bank tackles both these difficulties — but can do so only at the cost of security

High returns are achieved as a result of a high risk factor, making it unsuitable for individuals who depend on their annuities for a steady income flow

And while outstanding capital and income is paid into the estate of a deceased investor, the fund offers no lifetime guarantee

"We believe guarantees are an essential attribute of a good RA," says Mr Came, whose company has chosen to keep to the traditional RA route

"Investors may initially take a RA to save tax — but at the back of their minds is the assumption that it will provide a secure source of income during retirement."

And conventional annuities can be structured to pay out either for a specified minimum period — which may extend beyond the death of the investor — or until the death of the longest-living spouse

But this, again, is an expensive option — and one which few retirees with limited resources can afford in the short term

THE WEEK AHEAD by William Richards

Economic indicators overdue

BDay 25/2/91 (153)

FINANCIAL markets have been on tenterhooks all weekend following the delay in publication of SA's inflation and money supply figures for January. The figures — of critical importance in forming interest rate expectations — were both due out last Thursday.

However, computer problems at Central Statistical Service (CSS) in Pretoria snared the consumer price index data, and CSS officials expect to have the January inflation figures ready only tomorrow. This is a full five days later than the usual release date for the monthly consumer inflation outturn, and comes at a crucial time in the inflation and interest rate cycle. Markets are trying to gauge the pace of inflation's decline and whether the downtrend is sustained enough to justify action to ease credit conditions by the Reserve Bank.

SA's money supply figures are equally important in the influence they exert on the future course of domestic monetary policy, and they have also been delayed. All the commercial banks were meant to have certified their liabilities to the public with the Reserve Bank by last Thursday morning; from these figures the Bank calculates the rate of expansion of the money supply.

It is understood, however, that one of the "big five" failed to certify on time and, in the absence of the data, the Reserve Bank had to suspend compilation of the figures.

The delay will have caused considerable frustration among analysts trying to assess the financial authorities' monetary stance. In addition, it has deprived the local money and capital markets of key information about progress — or otherwise — in the authorities' fight against inflation and undue credit creation.

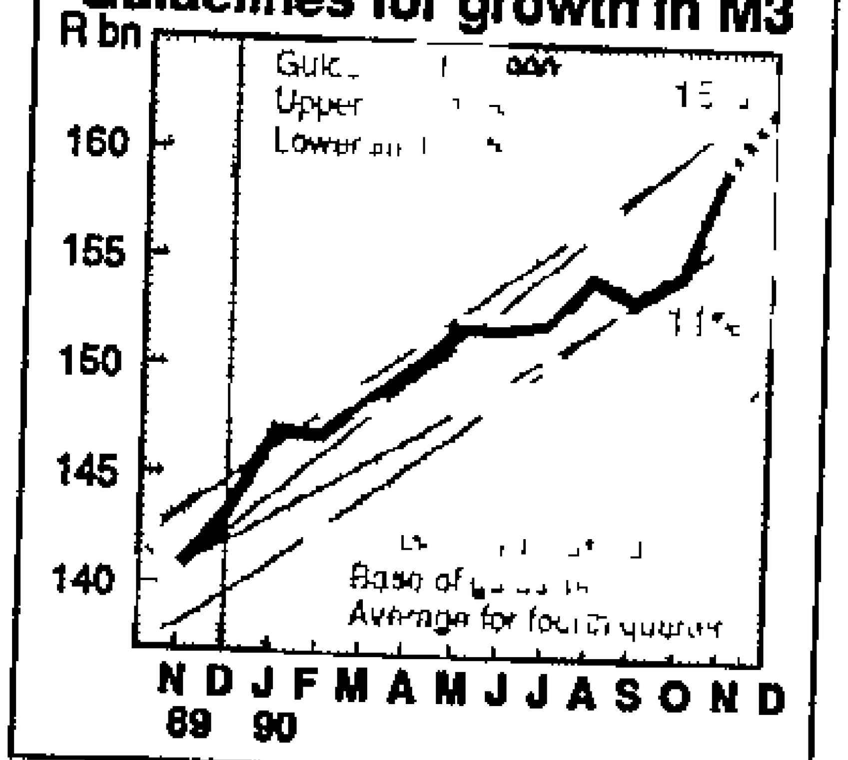
Expectations remain, however, that the inflation rate will slow somewhat from the 14,6% posted in the year to December. This is likely to be partly due to the lower petrol price and lower seasonal food prices.

Money supply growth, conversely, is likely to be stuck at around the 13% annual rise in the broad M3 measure of money recorded in November and December. This is probably the result of re-intermediation, as banks bring facilities back on balance sheet to comply with the provisions of the Deposit-Taking Institutions Act.

Internationally, the growth rate of the US economy comes under the spotlight again this week when the revised rate of America's GNP growth in the fourth quarter of last year is published.

The primary fourth quarter US growth rate, released a month ago, showed the economy contracting at an annualised rate of -2,1%. This was the biggest fall in economic activity since the last recession in 1982, and was the first stage in confirming that the US economy is officially in another recession.

Guidelines for growth in M3



Graphic LEE EMERTON Source SA RESERVE BANK

Two consecutive quarters of negative GNP growth are needed to fulfil the formal definition of recession. The current quarter is also expected to show economic contraction in the US, thus formally showing the US in its first recession in 10 years.

The preliminary GNP figure for the fourth quarter is unlikely to show change from the preliminary -2,1%. Any deepening of the contraction, however, will raise the likelihood that the US Federal Reserve will again lower US interest rates sometime this quarter to boost economic activity and restrict the recession to two quarters.

Other indicators of US economic performance are also due this week. On Friday the index of US leading indicators for February is due out. The index showed a small rise of 0,1% in December, but needs three consecutive monthly increases to show any sure sign of economic recovery. This is unlikely now.

Also on Friday, the monthly purchasing managers' index emerges. This shows the percentage of around 300 manufacturing firms reporting higher levels of activity compared to the previous month. Index levels below 50 show a contracting economy. The index has been below 50 since June last year and fell below 40 last month. The February outturn is likely to show another fall.

The January level of construction spending, which reflects the interest rate-sensitive building sector, is revealed on Friday. The monthly outturn has not been positive since March last year and, given the state of the US economy, is set to remain negative for some months yet.

Govt might allow relief groups to distribute R600m

BDay 26/2/91

KEVIN DAVIE

GOVERNMENT could make use of up to 2 000 non-government organisations (NGOs) to distribute R600m in poverty relief to millions of South Africans.

The role of the NGOs was discussed at meeting in Midrand yesterday between government officials and poverty alleviation organisations such as Operation Hunger and World Vision

Another issue discussed was the possibility of applying a zero-rating on foodtsuffs when VAT is introduced later this year.

While government initially insisted that there would be no exemptions, there are now signs that it might be prepared to allow zero ratings on some food items

The senior IMF delegation which is in SA to advise government on the implemenation of VAT, also attended yesterday's meeting

One participant said the IMF seemed to be stressing that it was not desirable to set up a new bureaucracy to provide aid to the poor.

"Government doesn't have the infrastructure, so NGOs will have to be used," another said.

Government apparently does not have any qualms about using political organisations The test will be whether the NGO can service the poor, and whether it is financially accountable

Another criterion will be whether the NGO runs programmes which can provide upliftment The idea is not simply to provide handouts if this can be avoided

The meeting follows the completion on Cabinet instruction of an urgent investigation into poverty in SA An interim report has been handed to the Cabinet.

Sources say that government is likely to vote at least R600m this Budget for two million critically poor people These are families which do not have a single person with access to an income.

Government was represented by Finance deputy director-general Estian Calitz and the IMF by senior staffer Ved Ghandi.

Calitz heads the committee instructed to investigate a poverty alleviation or "life net" strategy for SA

World Bank

The committee summarised the extent of poverty in SA by drawing on major reports, including those by Francis Wilson (the second Carnegie report), the Bureau for Market Research, the Development Bank and the Food and Nutrition Strategy for Southern Africa.

In formulating its approach to poverty, the committee is understood to have drawn heavily on World Bank research, particularly the World Development Report published last year.

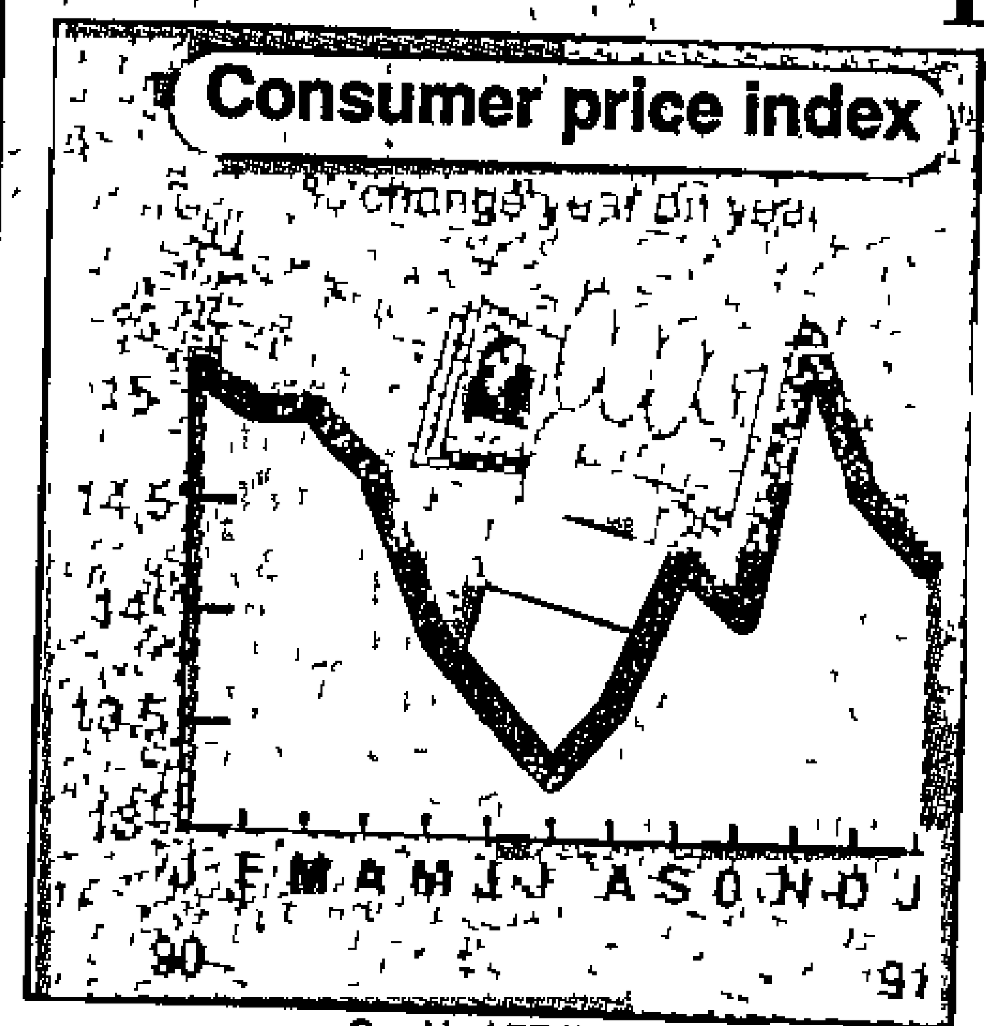
Sapa reports that Finance spokesman Fred Browne confirmed the meeting. He said the IMF had been invited to submit recommendations on the new tax system.

"We have invited the IMF to study our proposals and assist us in devising a system which will not affect the poor," Browne said.

Estimates are that besides the estimated two million who have no fixed income, about 40% of the population earn less than internationally accepted minimum wage levels.

● Comment: Page 10

Bank rate hopes take knock



Graphic LEE EMERTON Source CSS

ANDREW GILL

DISAPPOINTING inflation figures for January have put a damper on market hopes of an immediate Bank rate cut. "Structural" problems have put a brake on the decline in the inflation rate. (153)

The annual rate of increase in Central Statistical Service (CSS) consumer price index declined slightly to 14,3% in January from December's 14,6%.

The index itself increased to 219,5 points from 192 points in January last year and from 217,1 points in December 1990, a 1,1% increase. B/Day 26/2/91

The reason for the 0,3 percentage point fall to 14,3%, said economists, was the 10c petrol price cut in December which was only reflected in January's figures

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Bank rate B/Day 26/2/91.

(153) ☐ From Page 1

This fall, however, was offset by continuing high rates of increase in other areas of the index

Food inflation was the main contributor in this regard as its index showed a 1,9% increase from December's index and a 15,4% jump from January 1990

Medical care and health expenses also recorded a large jump with the annual rate of increase in that index running at 17,7% as a result of a 9,6% increase from December

Bankorp economist Emile van Zyl said the figures were unlikely to make Reserve Bank Governor Chris Stals very comfortable when contemplating a cut in interest rates

Continuing increases in food prices were still a major problem, he said, while the effects of the original fuel price rises on other index components were still being felt, although this was hard to calculate

Large monthly increases occurred in various food items, with vegetables up 5%, fruit and nuts up 5,3% and fish and other seafood up 4,3%. These components alone make up almost 5% of the CPI

BUSINESS

Star 26/2/91

Inflation rate continues on a downward trend

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By Sven Lunsche

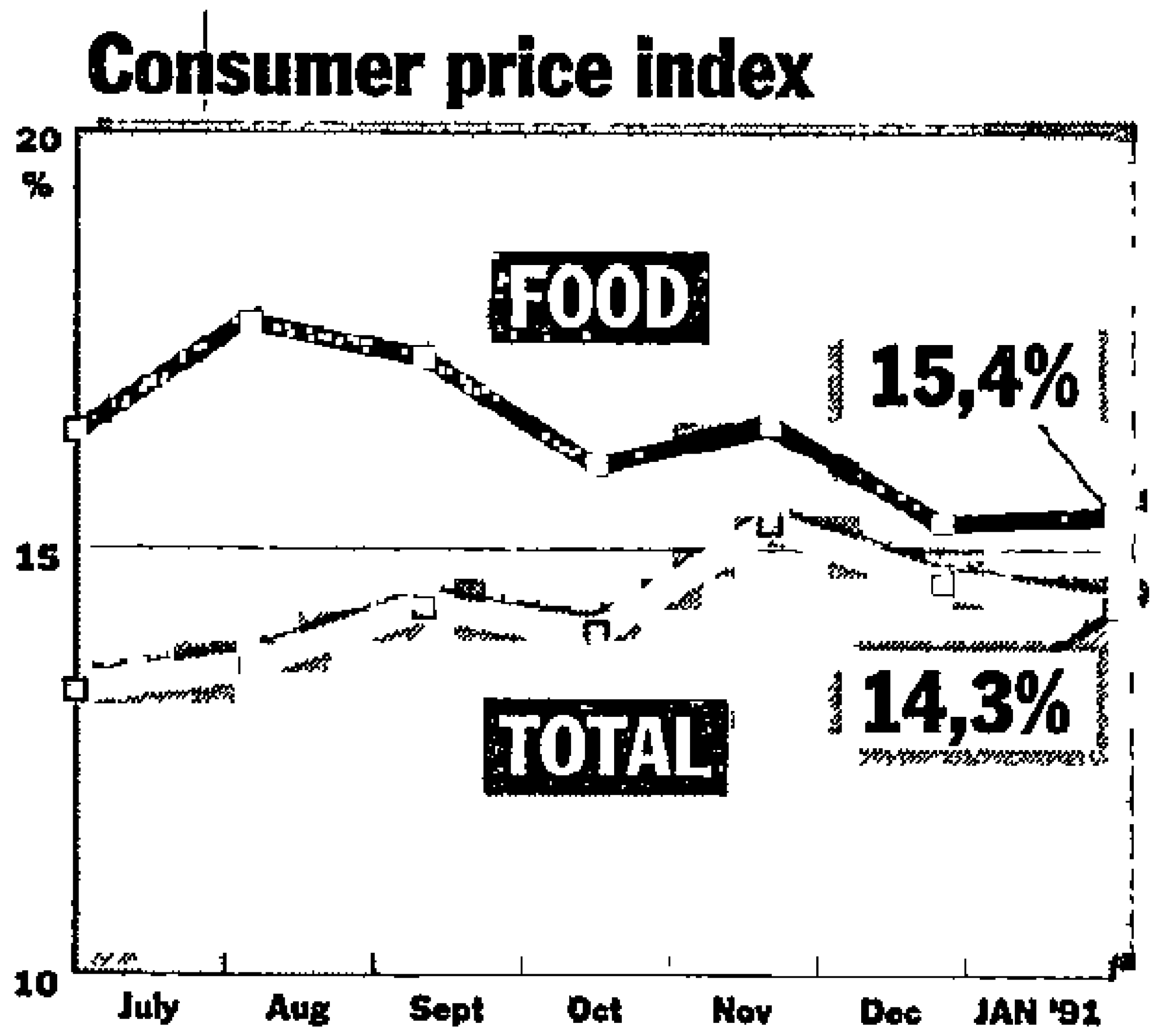
December's 10c reduction in the petrol price helped cut inflation to 14,3 percent in January from December's 14,6 percent

Since last November the consumer price index (CPI) has been shadowing the petrol price; the initial 25 percent increase in October pushed the November inflation rate — the year-on-year increase in the CPI — to 15,3 percent

Subsequent drops in the fuel price — 15c on November 12 and 10c in December — lowered the rate of inflation in December and January

This is also reflected in monthly increases in the CPI. In November the CPI rose 2,1 percent, in December 0,7 percent and in January 1,1 percent.

Central Statistical Services says of the January figure that without the previous petrol price fall, the inflation rate in January would have been 14,5 percent.



Events in the Middle East and their impact on international oil prices will continue to impact strongly on local consumer prices.

If, however, as Old Mutual's economist David Mohr says, the influence of this factor is ignored, inflation should trend lower.

His view is based primarily on the recession and the fairly stable exchange rate, but also takes into account the impact of restrained electricity and rail transport tariff increases this year.

However, sharp food price increases continue to burden the consumer

The year-on-year increase in food prices accelerated sharply from less than eight percent in April 1989 to nearly 18 percent last August

Since then, food inflation has declined and in January was 15,4 percent — virtually unchanged from December's 15,3 percent

But underlying trends do not point to a further material slowdown in food price increases over the next few months

On an annualised basis, the last three monthly CPI food increases — 2,2 percent in November, 1,6 percent in December and 1,9 percent last month — point to an inflation rate for food commodities of well over 20 percent by year-end

Since food has a weighting of about 23 percent in the CPI, this could partially offset gains derived from the recession and leave the average inflation rate for 1991 at about 13 percent — only marginally down from last year's average of 14,3 percent

'CCB document' slates Govt

Star 28/2/91

By Julienne du Toit

A man claiming to be a CCB operative yesterday contacted The Star to hand over a document allegedly drafted by 30 other CCB members to express their indignation over the Government's "dubious integrity".

They complained that once the "hit squads" had been exposed the Government had refused to honour their contracts

The Government was lacking in integrity by discrediting its own organisation and saying it had its own agenda, read the statement

The CCB was a covert organisation formed during "multiphase conflict" with different parties and its establishment had blessing from the highest levels

Their duty was to act against the country's enemies "by using methods the rest of the security force did not have".

They said the SADF had involved them in this type of "evil" without thinking of the political consequences and now refused to accept responsibility

Paid well

"Could the bureaucrats not see in 1986 that these 'murderous scum' (a reference to a description by the press) would lead to political embarrassment

"Is the label now being hung around their necks for convenience?"

In similar organisations in other countries, members were paid well, they said

The CCB budget was large, they admitted, but said whether it was large compared to the budgets for covert organisations overseas was debatable.

That voters had been taken by the idea of a new South Africa was understandable, they added

Even the CCB adapted its spirit and attitude in support of the new politic, and was waiting for orders in that connection, they said

The alleged CCB operative who contacted The Star refused to give any details about himself.

When the statement was ready, it was placed in a brown envelope and hidden behind the tariff board of a parking garage in the centre of Johannesburg.

"We don't want to see you face-to-face, or they'll subpoena you and you'll have to tell the truth," said the man in a telephone conversation

Labourers beat inflation

(153

Staff Reporter Star 28/2/91

Wage increases from July to December 1990 exceeded expectations, says a survey by the Labour Research Service (LRS) in Cape Town

Despite the poor economic climate, labourers won an average 21,9 percent increase

The LRS found that 93 percent of settlements were above inflation

But economic predictions for 1991 indicate that real increases in wages will be difficult

In the July to December 1990 survey, labourers in the food, beverage, hotel and catering sectors received the highest average increase of 27,8 percent The auto sector paid the lowest settlement of 15,9 percent

But the auto sector paid labourers the highest average wage of R285 a week and was also the only sector to pay a living wage to the lowest grades

The mining and local authorities sectors paid the lowest wages, the LRS found.

Its survey covered a total of 280 bargaining units

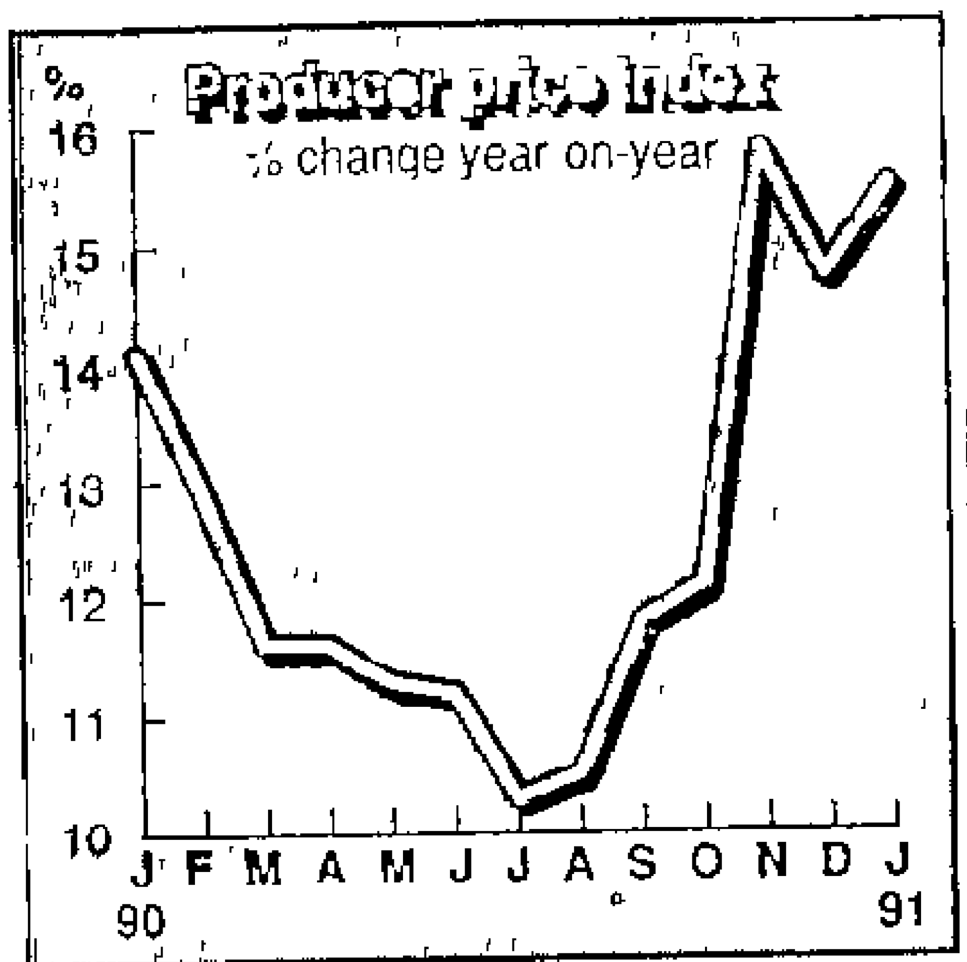
Pretoria zoo shows off its tiny pudu

The National Zoological Gardens in Pretoria is now one of only 10 zoos in the world to display the pudu — the smallest of all deer species. It originates from Chile.

The Pretoria Zoo said this week other new arrivals were five more Waldrapp ibises, two scarlet ibises and one male and two female Geoffrey's cats.

All the animals were obtained through exchange programmes

"The Waldrapp ibis is a highly endangered bird species found in Algeria,



Graphic FIONA KRISCH Source CSS

PPI rise a setback in inflation fight

153

B/Day 14/3/91

SHARON WOOD

THE fight against inflation suffered another setback yesterday with producer price inflation unexpectedly rising to 15,5% in January from 14,7% in December.

Disappointed economists said the figures had dampened expectations of another cut in interest rates in the near future. Reserve Bank Governor Chris Stals's statement last week firmly linked a further easing in policy to "real" progress in the fight against inflation

The 1,5% month-on-month rate of increase in the PPI in January was a sharp turnaround from the previous month's 0,1% decline

The annual rate of increase in the producer price index (PPI) was generally expected to decline as pressures from high global oil prices and lower petrol prices eased during January

But imported prices remained the primary source of pressure, rising by an annualised rate of 18,1% compared with 15,4% in December, according to Central Statistical Service figures released yesterday Domestic prices provided no relief, with the local component of the PPI rising by 14,8% in January year-on-year compared with 14,6% in December 1990.

Economists said the continued high rates of increase in domestic prices were disturbing They said there would probably also be an uptick in consumer price inflation for February which would be released later this month. Movements in the PPI generally precede movements in the CPI by two or three months

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PPI rise

B/Day 14/3/91

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Higher fuel prices since October had obviously taken longer to work through the whole production sector, Bankorp economist Jacques du Toit said He predicted producer inflation would remain above 14% until the middle of the year

A large part of the increase in the price of imported commodities in the PPI was probably a result of oil bought on forward contracts in October and November, when the oil price was the highest, said SA Chamber of Business (Sacob) The decline in oil prices in subsequent months should reduce the price of imported commodities in the next few months

First National Bank international economist Simon Willson said technical factors could explain part of the rise in producer price inflation in January The annual increase in the PPI had come off a low base in January 1990, which would magnify the monthly movement in the index in January 1991

The prices of a wide range of manufactured products increased in February

The category which measures the landed cost of crude oil, "other" mining and quarrying, rose by 2,8% month-on-month — well below the monthly surges of around 15% in this category experienced in October and November 1990

● Comment. Page 8

Is Stals quietly giving up the fight against inflation?

BDay 18/3/91

GRETA STEYN

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LESS than a week after Reserve Bank Governor Chris Stals announced a cut in Bank rate, disturbing inflation figures were released. At 15,5%, the rate of increase in the producer price index (PPI) is uncomfortably close to its peak of 15,8% at the start of Stals's war against inflation. Is the governor quietly giving up the fight? What are the odds on him winning a decisive victory?

Before Stals took the monetary policy reins, the central bank's mission included the pursuit of economic growth. Stals removed that objective last year, and honed in on the fight against inflation and for a stable exchange rate. Rejecting the short-term, cyclical approach of his predecessor, he declared the Bank had a responsibility to maintain the domestic and external value of the currency. It had no responsibility for getting SA out of recession.

Yet Stals's interest rates cut contradicts this hardline approach Stals acknowledged monetary policy "must have sympathy for the many hardships being suffered by some sectors of the economy in the present adverse economic climate".

But there can be little room for sympathy when the prime focus of monetary policy is to combat inflation, as the "monetarist experiments" of the early 80s in Britain and the US showed.

In Britain, the Thatcher government wanted to squeeze inflation out of the system by cutting the money supply and reducing government spending. It succeeded in bringing down inflation from an average of 18% in 1980 to 4,6% in 1983. At the same time, it suffered a worse collapse in output and employment than in the Depression of the 30s

Manufacturing employment fell by 21% — or 1,5-million jobs — between 1979 and 1982. Total employment was down 9% — 2-million jobs — over the period Real GDP fell by 2,2% in 1980 and a further 1% the next year. In the first year of the monetarist experiment, inflation rose, peaking at 22% in May 1980

Scottish academic John McInnes wrote: "Critics of Thatcherism . saw it as a programme to use high unemployment to force down wage rates and therefore labour costs in order to boost profits and increase competitiveness. Put in rather different terms, this was also what the monetarists expected.

"Squeezing inflation out of the system through controlling the money supply would force employers and unionists to bargain down wages in order to maintain production, profits and employment. By making money tight, and making it clear that it would not intervene to stop unemployment rising, the government would force workers to price themselves back into jobs. Thus the vicious circle (of forces) fuelling an inflationary spiral would be broken."

The US monetarist experiment had a similarly dramatic effect on jobs, with the level of unemployment in 1983 67% higher than four years previously. Nominal wage increases fell and IMF statistics show inflation was down to only 3,2% in 1983 from 11,4% in 1979

Ten years after the rest of the world, SA embarked on its own version of the "monetarist experiment" — an anti-inflation strategy relying heavily on high interest rates. But the SA experiment takes place at a time of rising political and economic expectations.

Stals realises SA cannot afford to pay the same price in unemployment that the major industrial economies did to beat inflation He admits "inflation cannot be cured by monetary policy alone, at least not without intolerable hardships"

In theory, high interest rates will put some firms out of business and force others to become more efficient. This, in turn, will dampen the demand for labour. As a result, the rate of increase in nominal wage levels should fall, pulling the inflation rate down.

The process will be reinforced by the depressing effect on demand emanating from high interest rates A tight monetary policy should also have a positive effect on the balance of payments, preventing inflationary pressure caused by the depreciating exchange rate

Can this be achieved without inflicting "intolerable hardships"? What is the ideal interest rate?

In spite of 18 months of relatively high real interest rates, little progress has been made in combating inflation The rate of increase in the consumer price index (CPI) is little more than a percentage point lower than its previous cyclical peak. This places a question mark over the effectiveness of monetary policy in combating inflation — especially a policy tempered by sympathy and the need to avoid "intolerable hardships".

Why did inflation remain stubbornly high in the face of 18 months of tight monetary policy? Stals answered that question in his statement: "Various cost-push factors such as the temporary fuel price rises in the wake of the Gulf crisis and excessive increases in wages and salaries continued to support a relatively high level of inflation, and also propped up obstinate expectations of further price rises"

Stals has repeatedly noted that the labour market is an essential link in the strategy "One major further action is required, and that is for wage and salary adjustments also to come into line," he said last year, noting that domestic demand was not exerting any undue pressure on prices The Reserve Bank's December Quarterly Bulletin laid much of the blame for inflation on "wage pressures" in a cooling economy

Figures released by the Labour Research Service show the labour market has not behaved as the classical model says it should Labourers won wage increases averaging 21,9% in the period July to December 1990 against average inflation of 14,2% over the same period. This occurred despite Stals's and Finance Minister Barend du Plessis' repeated calls for wage restraint to help the fight against inflation.

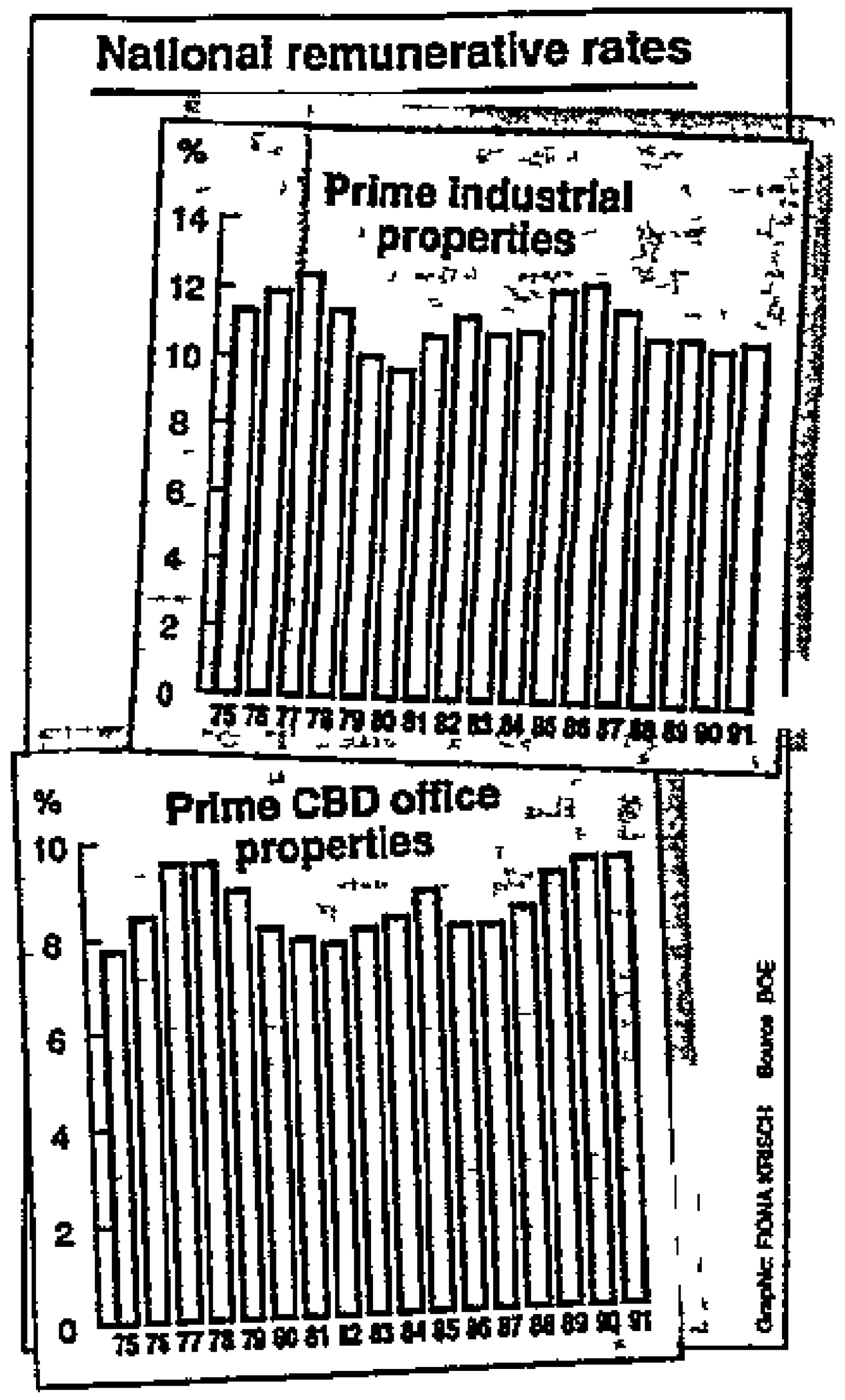
It is only logical to expect unions to continue fighting for large real wage increases, especially against a background of rising expectations. The IMF, in its confidential report on the SA economy last year, noted the danger that increased claims on the available national income could cause an upsurge in inflation in the "new" SA Stals's moral suasion is unlikely to cause the unskilled and semi-skilled section of the workforce to scale down its claims

Stals's statement clearly linked the next cut in the Bank rate to evidence of "real" progress in combating inflation But it is doubtful that the current level of interest rates is high enough to make a visible dent in inflation — in reality, reducing the rate to single figures

Minimising economic hardships might become an overriding factor even before progress is achieved. At best, monetary policy will check further rises in inflation But to believe SA is poised to enter an era of single-digit inflation is wishful thinking.

Business Day SURVEY

If predictions of higher inflation and a weakening economy become a reality, the property industry will suffer in the medium to long term. But investors must take these factors into account if they are to be realistic about investing in the new SA. **MELANIE SERGEANT** *reports*



Rate of inflation is expected to increase as social focus alters

B/Day 19/3/91

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PREDICTIONS are that the new South Africa will face higher inflation during the second half of the '90s than during the first half.

Property economist Neville Berkowitz says: "Assuming we have a multiracial government by the second half of 1994, priorities will be shifted from combating inflation and focused on reducing apartheid's inequalities.

"This implies substantial spending by government and a coerced private sector on investments, with long-term returns such as education, health services and housing."

Social spending comprises about 40% of government's budget, and there are four ways to increase this.

"Either one prints more money or increases government borrowings, both of which are inflationary. Thirdly, by increasing taxation, which harms economic growth.

"The fourth method is to allow the economy to grow in real terms thus increasing the pie for everyone."

Throwing money at redressing apartheid's wrongs without a concomitant increase in real productivity during the second half of this decade could mean a higher inflation rate than at present.

Suffer

"Property investment will suffer in real terms from any potential hike in the inflation rate," says Berkowitz.

If the prospect of higher inflation rates in a new SA and a weakening economy become a reality, the property industry will suffer in the medium to long term, and investors must take these factors into account.

Berkowitz says with a higher inflationary environment there will be reduced demand for corporate and private space as real economic growth suffers.

"Interest rates would rise, to offer savers real returns on their savings.

"The other side of the coin, however, is that mortgage interest rates will rise substantially and mortgage finance may be in shorter supply as savers and investors look for hard assets to protect their savings from higher inflation."

On the construction front, he says rapidly rising building costs caused by higher inflation will reduce the affordability of new construction.

This would lead to a fall in construction activity in the private sector market.

"For investors, it's expected there will be a flight of savings capital into hard assets such as immovable and movable property, such as collectors' items."

Relationship

Berkowitz says annual rental escalations would be forced up so they bear some relationship to the value of money.

However, a fall in construction and a drop in real economic growth will initially see a static rental growth position, and falling rentals could become common as the economy worsens.

As far as residential property is concerned, the outlook is less bleak initially, because the flight into hard assets could increase the demand for homes, and prices could rise.

"On the downside, though, falling individual wealth in real terms will eventually bring these prices down.

"For the commercial and industrial property markets, reducing business activity will impact negatively on the demand for non residential space, rentals will soften and investment values decline.

NEVILLE BERKOWITZ

The outlook may seem gloomy, but one must be realistic if planning investments in the new SA.

"The current fight against inflation may be won, but the cost in economic casualties will be substantial," he says.

Syndication a hedge against inflation

B Day 19/3/91

AS AN investment medium, property syndication is a relatively new concept

However, Board of Executors' national syndications manager Barry Steinberg says syndication is gaining acceptance as an important element in a balanced portfolio.

The average syndicate combines a degree of capital growth with interest income to give an above average return.

"The investment is secure as it is a stake in a fixed commercial or industrial property which has a net worth on realisation at least equal to the value of the investment

"One should consider syndications as an inflation hedge. The average syndicate can be expected to yield a combined compound income and capital return of a least 21,5% before tax and about 16,5% after tax, based on a marginal rate of 44%," says Steinberg

Comprises

Gearing — which is borrowing a percentage of the investment (usually around 50%) — will also see returns of over 20%

He says return in a syndicate comprises two elements — an income return and a capital return

The income return is derived from the capitalisation rate, which will be around 10%-12%, depending on the property

"This will grow with the escalations in the leases which also range from 10%-12% a year.

"Renegotiation of the leases to the property, usually after five-year option periods, can see rental, and thus income to shareholders, jump higher than this if leases are operating at below market rates"

The second element is a capital return, which is the growth in value of the investment.

"Property syndications can suit a range of investors' needs — from those who want to maximise income, to those wanting to maximise capital growth.

Inflation headache persists

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Star 21/3/91

DOUBLE-DIGIT inflation and unemployment have become entrenched in the South African economy, the Department of Finance said yesterday in its review of last year

Listing serious structural problems confronting the economy, it said poverty was still "extremely great".

In 1989, about 44 percent, or 16 million people, were estimated to be on very low incomes. A considerable number of people were functionally illiterate

"The real gross domestic product (GDP) per capita has fallen since 1981 at an average annual rate of about 1,5 percent," the review said

On unemployment, the review said the economy's capacity to absorb workers coming on to the market had gone into "daunting" decline

From 1965-70, the formal sector could accommodate 73,6 percent of the increase in the labour force This fell to 62,7 percent between 1970 and 1975, and then very sharply to 35,4 percent in 1975-80.

Between 1980 and 1985 it sagged to 21,9 percent and to 12,5 percent between 1985 and 1989

"The implication is that only about 125 out of every 1 000 new entrants to the labour market between 1985 and 1989 were accommodated as fulltime employees in the formal sector," it said "Unemployment, therefore, has largely become entrenched in the economy as a structural problem."

There was an uneven distribution of income in all societies. But it was particularly severe in South Africa when measured by international standards

Turning to double-digit inflation, it said this had also become a structural characteristic of the economy, having been present since 1974

"It has become institutionalised, it is a process feeding on itself as a result of the role played by expectations in specific wage, salary and price-formation processes," it said

Inflation in South Africa was, for much of the '80s, considerably higher than the rates of its leading trading partners From 1970 to 1989, the price of goods (a reflected by the CPI) rose three times faster than those of the trading partners

High inflation and inflation expectations affected consumption and investment decisions which were, in turn, harmful to long-term economic growth

Inflation also had a seriously distorting effect on society's less privileged groups "Particularly affected are those who depend on pensions and interest income and people without inflation hedges such as real estate," it said □

Curbs blamed on inflation and wages

(153)

Sowetan 21/3/91

INFLATION and wage expectations had still been unrealistically high during the past year and the gold and other foreign reserves had not yet reached a satisfactory level, the Minister of Finance, Mr Barend du Plessis, said in his Budget Review tabled in Parliament yesterday.

"A reasonably restrictive monetary policy will have to be continued if these problems are to be confronted."

The prospect was, at best, one of a gradual and very slight relaxation that did not thwart the objectives of slower growth in the money supply and lower inflation.

On the exchange rate policy, Du Plessis said that, during the past year, the authorities had been able to meet an important precondition for containing inflation - a stable rate of exchange.

"In a country such as South Africa, with a very open economy - imports and exports of goods and services comprise about 60 percent of the GDP - the stabilisation of the prices of internationally-traded goods is absolutely necessary."

And, in turn, the stable course of the exchange rate had been to the benefit of the balance of payments.

After the sharp depreciation in the value of the rand since 1985, the slight fall in the average real rate of exchange had benefited exporters still further.

In addition, the more stable course of the nominal exchange rate tempered expectations of further depreciation of the rand and helped deflect unfavourable leads and lags in foreign receipts and payments, which contributed to the improvement in the capital account

During the past year, the Reserve Bank had continued with the more effective application of various administrative measures regarding exchange control and with stern action against those contravening the regulations.

Further restrictions had also been imposed on the financial rand to improve administrative efficiency and to lessen the possibilities for fraudulent transactions in the financial rand - *Sapa*

Surprise move on input credits 'could aggravate the recession'

B/Day 22/3/91

GILLIAN HAYNE

GOVERNMENT's surprise decision to allow full input tax credits on capital and intermediate goods from September 30 could be the catalyst to push SA into a major recession, economists have warned

Experts said the move could see businesses delaying the purchase of capital goods until after the introduction of VAT, thereby seriously affecting capital goods suppliers' performances and distorting the economy

University of the Western Cape economics professor Lieb Loots said. "With the economic growth rate already zero, any performance deferral would deepen the recession "

DP finance spokesman Ken Andrew said he had serious concerns about the short-term effect VAT would have on suppliers of capital goods

"During this recessionary period any delay in purchases could knock a big hole in a major sector of the economy which would make the recession worse "

However, he added that by allowing immediate input tax credits the cost-cutting structures would filter through to consumers more rapidly which would be anti-inflationary in the longer term

Barlow Rand group economist Pieter Haasbroek did not expect any serious disruption to business

He said capital investment plans were decided well in advance and it was unlikely major capital projects would be put on hold, although he admitted that new business may be stalled.

Haasbroek added that it was unlikely consumers would see any benefits from the decrease in production costs in the course of this year.

Ernst & Young tax partner Ken Walton advised capital goods suppliers to rent goods as one way to help bridge the gap.

He also said it was unlikely that consumers would feel the benefit of decreased costs, unless for example big retail companies dropped prices for the marketing advantage

"The best consumers can hope for is a delay in future increases," he said

KPMG Aiken & Peat tax partner Pat McGurk said the positive effects of granting capital goods input tax credits from day one was that it would reduce the extent of cascading GST and thus hopefully reduce the prices of goods to consumers.

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Stals is definitely winning the fight against inflation

BDay 25/3/91

(153)

NICK BARNARDT

LAST Monday's main leader page article posed a cynical question does the recent Bank rate cut show that the Reserve Bank Governor has "quietly given up the fight against inflation?" In the same vein, the goal of a single-digit inflation rate was described as "wishful thinking"

Implicitly, the thousands of key business decision-makers who read this highly esteemed newspaper were told to continue feeding double-digit inflation expectations into the wage-price spiral

In fact, the rate cut actually signals that Stals is winning the battle against inflation

Furthermore, the business sector can look forward to substantial declines in the inflation rate in the next two years — with a real possibility of a single-digit rate by early 1993 In this context, business people would be well advised to reduce sharply the expected inflation rate built into wage and price bargaining and other decisions in the foreseeable future.

The explicit aim of monetary policy is the "protection of the value of the currency" — a low rate of price inflation

In working towards the eventual goal of a single-digit annual inflation rate, the major prerequisite of monetary policy is to lay a foundation of general financial stability Financial stability — and a consequent reduction of underlying inflationary pressures — can be seen as the "intermediate" target of monetary policy en route to the final prize of a single-digit consumer price inflation rate

This intermediate target of overall financial stability is an important key to eventual success in the inflation battle It exerts a partial, but entirely legitimate and significant, influence on the operational stance of monetary policy and consequently on Bank rate

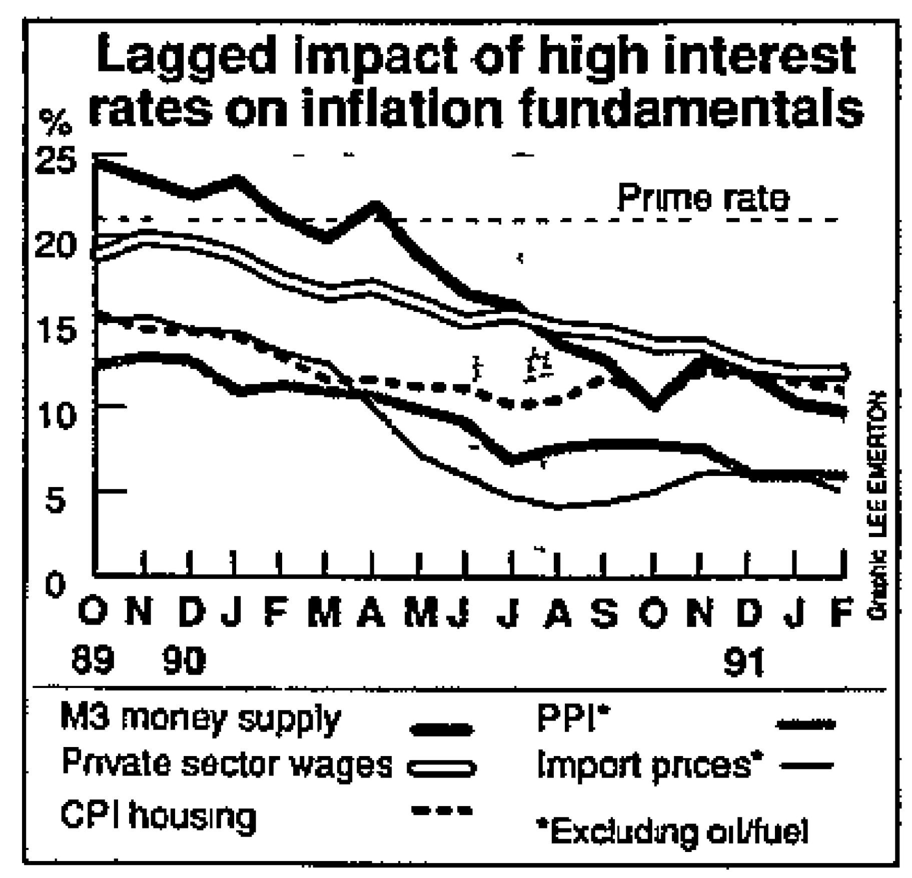
Readers will recall the extreme financial instability experienced around mid-1989 — embodied in credit and monetary growth around 25%, wage increases close on 20%, the accompanying general overspending and high imports, a perceptible balance of payments deficit and extremely low foreign reserves, a dangerously depreciating exchange rate, and a 20% import price inflation rate

But the strict monetary policy applied since then — with Bank rate having settled at a peak of 18% and prime at 21% from October 1989 to early March 1991 — has curbed the financial instability of 1989

Credit and money growth has been cut in half, overall private sector wage increases have fallen to their lowest level in about four years (notwithstanding the Labour Research Services' selective high figure for recent labourers' wage increases), total spending is within affordable limits, imports are down, the balance of payments has shown a net surplus of more than R4bn in the past 15 months, the rand's depreciation rate has slowed to a trickle, and import price inflation consequently fell to a six-year low of 4% before oil prices shot up late last year

No SA central banker could have wished for a more emphatic financial turnaround in such a brief time span — particularly in the absence of a high gold price Thus, the one percentage point Bank rate cut earlier this month can be seen as a tentative declaration of victory regarding the intermediate policy target of financial stability

Simultaneously, it acknowledges that the return to financial stability of the past year will be reflected — with a traditionally long time-lag — in a declining inflation rate as measured by the Consumer Price Index (CPI) in the coming year



The time-lag phenomenon is crucial to the entire equation Experience shows clearly that the impact of high (or low) interest rates takes a long time to work its way through the macro-economic system and finally to be reflected in the behaviour of the inflation rate

Merely to establish underlying financial stability — to achieve the "intermediate" monetary policy target discussed above — takes time Credit demand, overall spending, the business cycle, fixed investment, imports, the balance of payments, the exchange rate, corporate cash flows and the rate of wage increases can take two years to react fully to high interest rates

The accompanying graph illustrates that a range of financial indicators really reacted only in 1990 to the rising interest rate phase which began in 1988

The high levels which these underlying inflationary factors had reached in 1989 were, in turn, a lagged reflection of the extremely low interest rates of 1987

By the same token, the underlying financial and inflationary fundamentals depicted in the graph will continue improving later this year and into 1992 as a lagged reflection of the high interest rates of 1990

The actual year-on-year rate of inflation then reacts fully to the financial fundamentals with a further time lag of a year or more For example, the non-food CPI inflation rate dipped to 10,8% in mid-1988 in response to the improving financial fundamentals of 1986/87 — which in turn largely reflected the high interest rates of 1984/85 Consequently, the total time-lag between interest rates and the CPI inflation rate can be as long as three years.

This implies that the stubbornly high inflation of the past 12 months reflects not only specific factors such as high food inflation and the oil price spike, but fundamentally also reflects the artificially low interest rates of 1987 and the subsequent financial instability of 1988-89.

It also implies that the high interest rates of 1990, and the consequent improvement in financial fundamentals projected into 1992, will reflect in a declining inflation phase lasting into 1993 It is entirely possible that the CPI inflation rate could drop to around 12% by the end of 1991, 10% by late 1992 and 8% in the course of 1993 — especially if the technically favourable cost effects of moderate interest rate declines in 1991-92 are factored into the equation

Of course, the precise behaviour of the inflation rate in the next year or two could also be affected by factors such as oil prices, the introduction of VAT, climatic trends and fresh produce price movements, and reduced import surcharges And, of course, the trend in wage increases as well as business price/margin decisions — both of which have already been heavily constrained by the effects of a strict monetary policy — will be important.

Especially crucial are the expectations built into wage and price demands and decisions in the next two years If business people and workers ignore the favourable leading indicators of future inflation, depicted in the graph, and continue feeding 15% inflation expectations into the wage/price spiral, the achievement of single-digit inflation will be very difficult

Also, such workers and business enterprises will run the serious risk of pricing themselves out of domestic and foreign markets, and therefore out of economic existence.

The devotion of a single phrase in Stals's 10-page Bank rate statement to the sympathy factor should not delude economic participants into expecting that they will be shielded from the terrible consequences of excessive wage and price increases by way of easy monetary policy in the next few years This is the fundamental message of a Bank rate standing seven percentage points above the rate of money creation in the midst of a painful recession.

☐ **Barnardt is chief economist at Bankorp.**

Inflation setback 'only temporary'

(153)

B/Day 26/3/91

GRETA STEYN

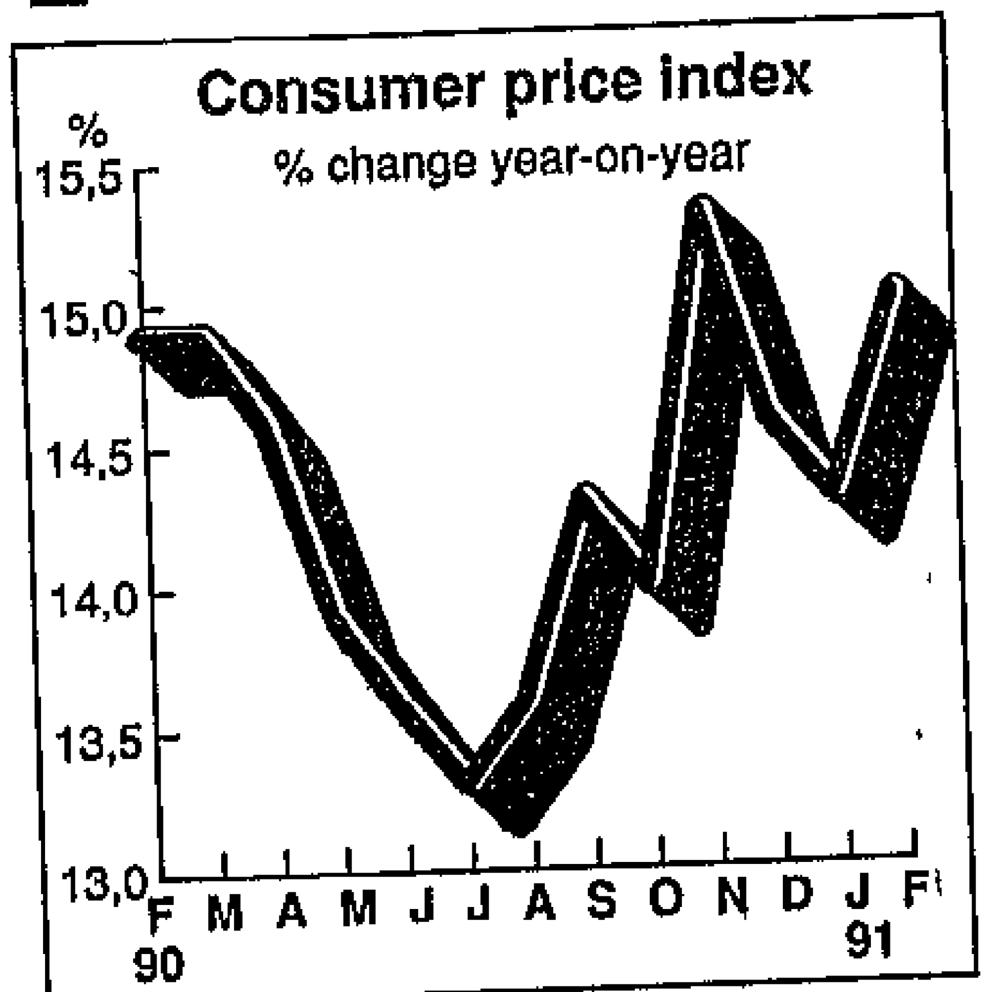
INFLATION rose 0,7 percentage points in February to 15%, losing most of the ground gained after the last petrol price drop.

The year-on-year change in the consumer price index (CPI) had eased to 14,3% in January from a peak of 15,3% in November at the height of the oil price shock. However, economists say February's increase was only a temporary interruption of a new downward trend and inflation could still average about 13,5% for 1991

The release of the figures by Central Statistical Service (CSS) yesterday morning caused hardly a ripple in the markets but fuelled expectations that interest rates would remain at their present levels for the rest of this year, as indicated last week by Reserve Bank Governor Chris Stals

The index advanced to 222,2 from 219,5 in January. This means it now costs R222,20 to buy the same consumer goods a shopper could buy with R100 in 1985

The increase in the index between January and February was 1,2% — up from the 0,7% increase between the two months last year. The main contribution to the increase was a signficant rise in transport costs, mainly reflecting soaring prices for new vehicles but also increases in vehicle running costs and transport



Graphic FIONA KRISCH Source CSS

Economists said it was disappointing that January's sharp downward reaction to the petrol price fall had been offset by new increases in February Vehicle running costs bounced back slightly (1,1%) after a

☐ To Page 2

Inflation

B/Day 26/3/91

(153) ☐ From Page 1

sharp fall in January (down 3,8%)

Other factors in February were the higher cost of running a home and continued pressure from food prices Food prices continue to rise at a faster rate than the overall inflation rate, with the year-on-year increase in the food index up 0,3 percentage points to 15,7% The price of alcoholic beverages rose by 3,6% between January and February

Econometrix economist Michiel Bester said positive factors were emerging for food prices, including heightened competition between dairies and the increased supply of red meat A negative factor, however, would be the abolition of the bread subsidy this month

CSS said the annual rate of increase in the indices for the lower, middle and higher income groups for February, compared with February 1990, was 14,0%, 15,2% and 15,3% respectively

Relatively large monthly price increases were reflected in meat (1,5%), fats and oils (1%), and other food (1,4%) Decreases occurred in the prices of fruit and nuts (2,4%), vegetables (2,4%), and sugar (0,9%)

The largest annual price increases occurred on the Witwatersrand (15,7%), the lowest in the Bloemfontein area (10,7%)

VAT will boost inflation rate, says economist

CAR 28/3/91

By AUDREY D'ANGELO
Business Editor

VALUE ADDED TAX (VAT) will probably push up inflation by two percentage points, Sanlam chief economist Johan Louw forecasts in his March Economic Survey.

He thinks higher food prices "could hamper efforts to push down the consistently high inflation rate" and that it will be between 13% and 14% by the end of the year

He expects consumers' spending power to diminish significantly, with pay rises lagging behind inflation.

"The sluggish growth overseas has considerably weakened the possibility of an export-based recovery in the SA economy.

"The relatively weak performance of gold is another factor that dampens the prospect of an upswing in general activity in the near future

"We also expect the financial position of consumers to weaken this year, partly as a result of adjustments in labour remuneration not keeping pace with inflation."

Discussing the impact of VAT, Louw says: "We estimate that the introduction of VAT on September 30 will increase the inflation rate as measured by the rise in the consumer price index (CPI) by about two percentage points"

He expects this to cause demand for pay rises which will boost inflation further.

"The elimination of double counting of taxation on capital and intermediate goods could curb inflationary pressure.

"But, owing to the underlying propensity for inflation in SA and the increase in expenditure experienced by individuals because VAT will be levied on a much wider range of goods and services, the chances of demands for higher wages and salaries — with obvious implications for inflation — are good."

He goes on: "The sustained sharp increases in food prices in recent times are visibly countering the underlying downward trend of our inflation rate.

"Food prices are subject to large seasonal fluctuations and they could — particularly in the short to medium term — seriously thwart the government's attempts to lower the inflation rate significantly."

But, he concludes: "The expected lower interest rates, moderate growth in the money supply and continued fiscal discipline should help to curb the rate of increase in consumer prices in due course.

"Taking everything into account, we predict that the inflation rate will be about 14% for 1991 as a whole compared with 14,4% in 1990."

Stow your surfboards and Fite

W/mail 28/3-4/4/91 (153)

By CARMEL RICKARD Durban

DURBAN'S mayor Jan Venter has urged "mass action" by the people of the region to curb inflation and improve the lot of consumers.

Venter officially launched a new initiative against inflation in Durban on Tuesday. Called Fite (Fight Inflation Together Effectively), it urges all consumers to stand up for their rights and badger their political representatives on issues such as inflation

He said he could see the day when consumers took to the streets in protest against increased costs, adding: "In the new South Africa even whites should become used to demonstrating and making their voices heard and not accepting things like inflation."

Venter said consumers could be most effective in groups and encouraged the formation of community groups which would question and lobby against shoddy products and services, excessive price increases and other issues.

An immediate challenge is the government decision to levy VAT on rates, a move which could push Durban rates from an estimated eight percent increase to 18-20 percent.

Councillors, including Venter, have urged residents to "get the guts to speak up against the decision" and a public protest meeting has been called by the mayor for April 3.

"There is no doubt in the mind of accounting experts in all the major cities, that adding VAT to rates will make a tremendous contribution to inflation.

"This will be money taken out of the budget of the man in the street and I don't think we must accept that.

"For that reason I'm very happy to note the response to the public meeting and I hope that Durban people of all races will come to the meeting to make a statement.

"The statement we want them to make is: 'We are no longer prepared to accept increases like this You represent us and it is your duty to look after us and to also join in the fight against inflation'."

VAT will push up inflation – Sanlam

Consumer Reporter Star 28/3/91

(153)

The inflation rate could rise as much as 2 percent when value added tax is imposed on September 30, Sanlam said yesterday in its latest economic review

However, VAT would eliminate double taxation on capital and intermediate goods, which would curb inflationary pressure

"But, owing to the underlying inflation propensity in South Africa and the increase in expenditure experienced by individuals because VAT will be levied on a much wider range of goods and services, the chances of demands for higher wages and salaries — with obvious implications for inflation — are good"

Higher food prices could also hamper efforts to force down the persistently higher inflation rate, Sanlam added

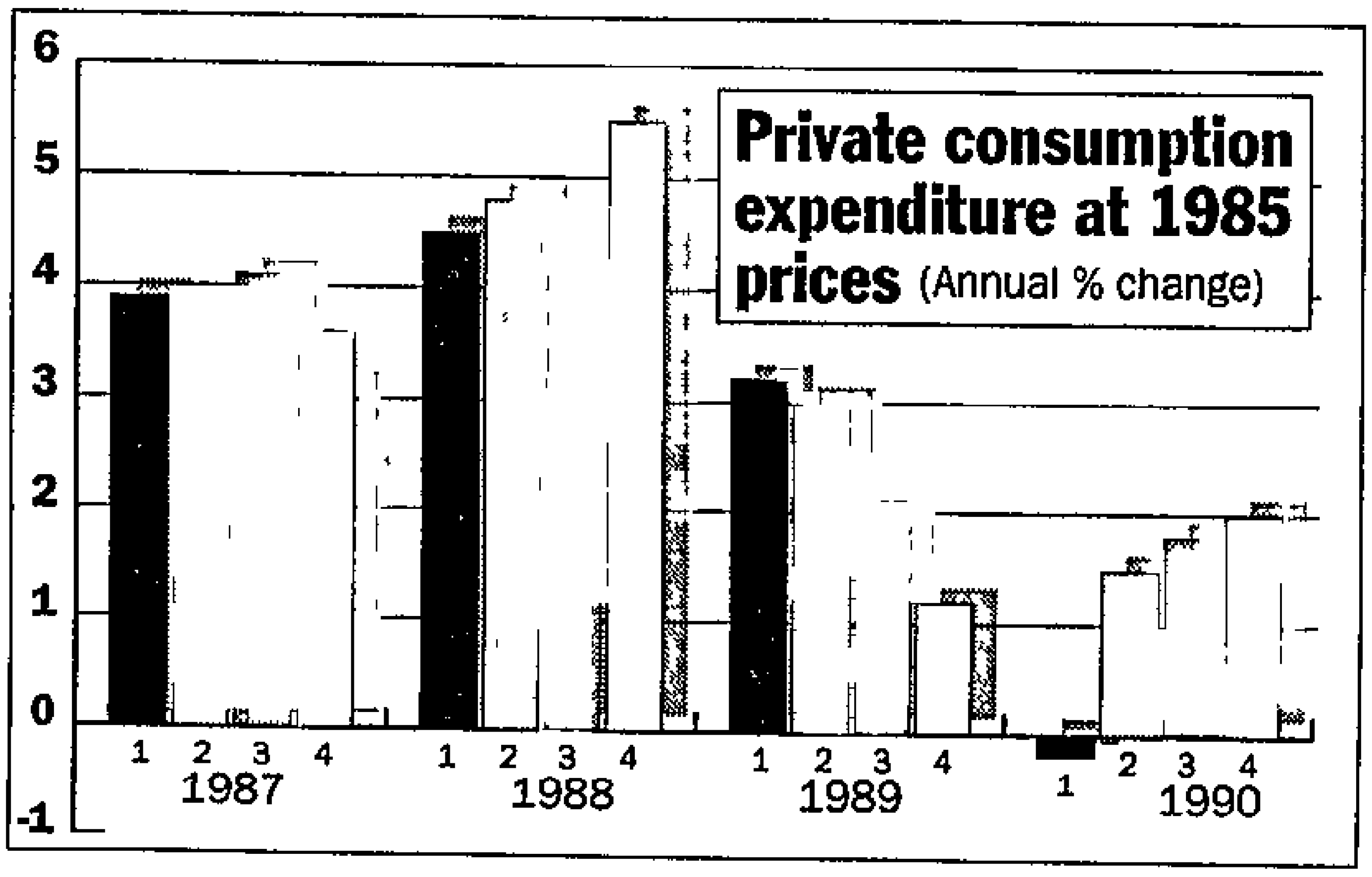
"Food prices are subject to large seasonal fluctuations and they could — particularly in the short to medium term — seriously thwart the Government's attempts to lower the inflation rate significantly," said Sanlam

Consumer spending fuelling inflation rate

Star 4/4/91.

(153)

By Sven Lunsche



Consumer spending is continuing at unusually high levels, which does not favour a substantial reduction in the inflation rate this year

These are the key findings of a survey by the Bureau for Economic Research at Stellenbosch University (BER) and will prove a further headache for the Reserve Bank in its efforts to lower the rate of increase in consumer prices

Retail sales have proved surprisingly resilient to two years of restrictive monetary policies, which have seen key interest rates rise by around five per centage points

It is therefore surprising according to the BER, that consumer spending has been mostly credit-financed and might increase even further, given the recent one percentage point cut in key lending rates

On balance, the BER predicts that growth in real consumer spending could be close to one percent this year, compared with the 1990 level

In 1990 overall growth was in excess of 1,5 percent

Latest available Reserve Bank statistics show that private consumption expenditure picked up by two percent in the last quarter of 1990, compared with the same quarter in 1989 (see graph) and was widely spread over most household categories

Real outlays on consumer durables in particular, advanced at a firm annual rate of five percent, with lower growth achieved by semi-durable and non-durable goods

In the current year the situation is likely to be reversed, the BER says, assessing the survey responses it received from retailers

In the first quarter of 1991 "a majority of retailers reported higher sales, compared with a year ago, a trend made largely possible by greater-than-expected sales of semi durables (especially women s clothing) as well as non durables,' the BER says

"What is remarkable in the present economic contraction is that retailers expect even better sales in the second quarter of 1991, with dealers in non durable and semi-durable goods being the most optimistic"

This lively sales report can be largely explained by the low ratio of cash to credit sales, the BER comments

'Sales, particularly in the semi-durable goods category, have been largely credit-financed, and can be attributed to the more lenient approach of large chain stores, which have changed over to a credit policy, greatly favouring consumer spending"

What is good news for retailers, however, is bad news for the consumer

The continued firmer trend in spending outlays is likely to lead to an acceleration in price increases over the next few months

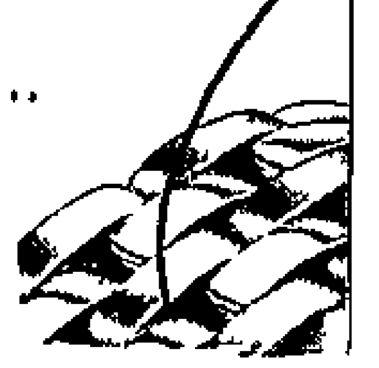
The Stellenbosch economists say wholesalers expect that both their buying and selling prices will increase faster in the second quarter of this year than in the first three months

On the retail front, 50 percent of the respondents in the non-durables sector in general, and the food sector, in particular, expect increases in selling prices at a higher rate

"Inflationary expectations are thus high, which does not favour a substantial reduction in the inflation rate for the year"

This should be worrying for the policy-makers who are aiming at a lower inflation rate as a matter of priority, the BER says

The bureau's survey of the motor industry shows that orders for new motor vehicles in the first quarter were down from a year ago, but better than expected



Sentrachem sets up new marketing unit

Sentrachem has rationalised the distribution and marketing of flotation reagents for the mining industry into a new unit called Senmin

These flotation re-

The new unit will be responsible for the marketing and distribution of frothers and depressants (NCP) and collectors (Karbochem)

Senmin ...

with an improved customer service facility

Apart from its product range, Senmin will also provide a host of technical support services to

Subtle changes in revised economic plan

BDay 8/4/91 153

SHARON WOOD

AT FIRST glance, government's revised long-term economic strategy hardly differs from the first attempt in 1987, apart from the new emphasis on urbanisation and development. But close scrutiny of the two documents reveals subtle policy changes

The new Economic Advisory Council document differs from the original economic strategy in its suggestion that government should have an even smaller role in the economy than first suggested. The revised strategy breaks away from the popular IMF-suggested maximum for government's deficit before borrowing of 3% of GDP It says the deficit should be confined to government's level of capital expenditure to prevent dissaving.

This is a major move away from the original document in which the council used the 3% of GDP as a benchmark for government's role in the economy The council suggested that it may even be desirable to exceed this to provide a boost to the economy during a recession

However, the envisaged smaller role for government did not materialise in the 1991/92 Budget in which the deficit before borrowing exceeds capital expenditure by some R5bn — an indication of the extent to which government dissaves to finance current expenditure. The government has consistently dissaved during the 1980s

The revised document shifts the emphasis of monetary policy away from the concentration on targeting monetary growth that was evident in the 1987 document. The Reserve Bank's main function in the new document is "protection of the internal and external value of the country's currency" To fulfil this function the Bank's independence must be respected, it says

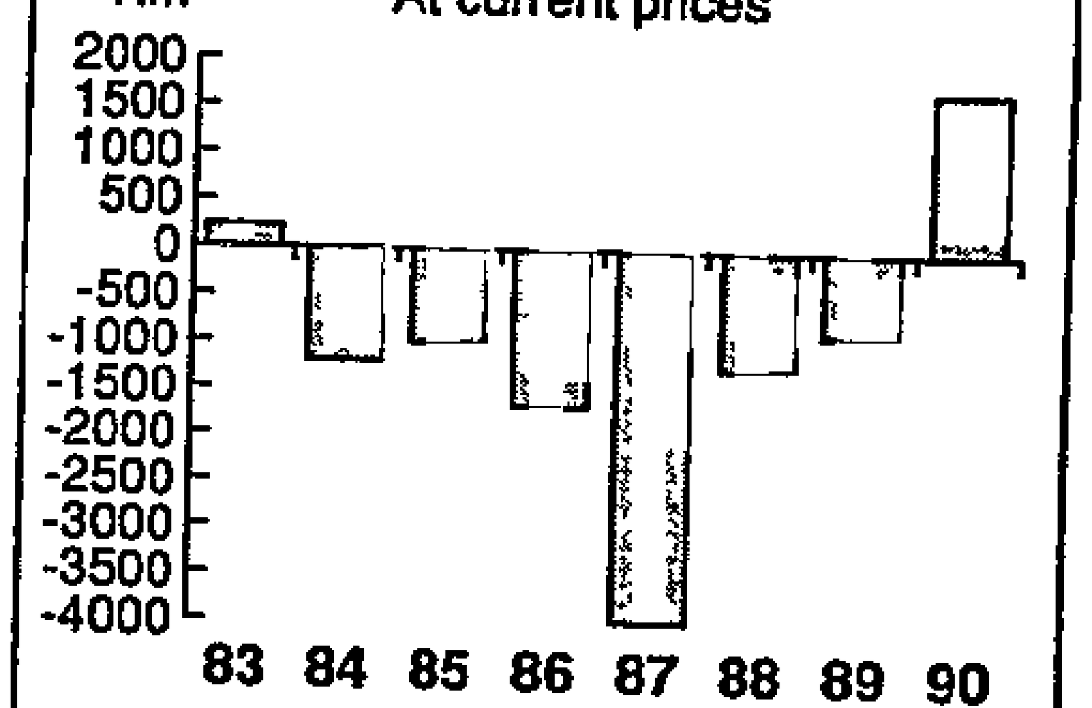
The original document addressed monetary targeting in depth, focusing on the role flexible interest rates would play in stabilising business cycle fluctuations. The new document's shift in monetary policy emphasis followed Reserve Bank Governor Chris Stals's move away from strict money supply targeting to "guidelines"

Despite this official move away from monetary targeting, monthly Reserve Bank money supply figures remain an important indicator to markets of the success of Stals's anti-inflationary policy

The priority given to a stable exchange rate in the revised document differs markedly from the original council position when it was envisaged that policies to encourage growth could come before exchange rate stability.

On combating inflation, there is also a marked difference between the old and new strategies The new document suggests that the inflation rate should be brought down even further than originally suggested The original document targets inflation "considerably closer to single figures" while the revised document suggests it is brought down at least to the level achieved by of SA's trading partners.

Saving of general government



Graphic LEE EMERTON Source RESERVE BANK

The lower priority given to inflation in the original document is indicated by the council's suggestion that inflation should not be reduced by depressing local demand at the expense of exploiting the growth opportunities presented by the balance of payments

There is a slight shift in emphasis in trade policy in the revised document, in reaction to SA's changing position with respect to availability of foreign capital and export markets

The document says the "advantage of import replacement has become more restrictive" and that stronger promotion of exports after local beneficiation of raw materials is necessary

The council still advocates tariff protection as preferable to direct import control measures But it says "tariff protection policy requires fundamental reform" It says tariffs should be revised continuously and be instituted only to protect infant industries

The call for fundamental reform of tariff protection policy reflects the late Economic Co-Ordination Minister Wim de Villiers' concern with "import parity pricing" — when local producers price their commodities at the level of similar imported commodities, although the price could be lower.

The council gives recognition to the increasingly important role urbanisation and informal sector activity have had, and will continue to have, in providing a financial safety net and as an incubator for small businesses

While there are differences in nuance, the revised document adheres closely to the original. The focus is on the role of economic growth in improving living standards for all South Africans It says these objectives will only be achievable in a market-oriented system, with government in a supportive role

Fight against inflation will continue, vows Stals

From GRETA STEYN in Bellagio, Italy

S Times 14/4/91

RESERVE Bank Governor Chris Stals's blunt warning this week that South Africa was heading for economic disaster was both a plea for foreign capital and a message to the ANC to stop asking for sanctions.

Dr Stals explained in an interview after an Idasa conference that his message was aimed at a future government and at the international community

He denied the interpretation by some conference delegates that his call was an appeal to hasten the process towards a political settlement, or that he was softening his anti-inflation stance to allow for more spending on poverty alleviation.

Dr Stals was also emphatic that he had not wanted to "get involved in any political discussions" — a claim that has led to speculation among delegates that he may have been rapped across the knuckles for coming out strongly about the link between politics and economics.

He explained that in the group discussions he had chosen to be in a group of "pure economists" that did not include any of the ANC delegates, who preferred to join a group focusing on the political economy.

Dr Stals's group included Rand Merchant Bank economist Rudolf Gouws, and Sacob economist Ben van Rensburg.

ANC delegates were reluctant to discuss the ANC's stand on sanctions and the topic was glossed over in the group discussions that involved ANC head of economic planning Max Sisulu and National Executive Committee member Sindiso Mtenyana.

But Dr Stals said at the weekend: "If SA does not gain access to foreign capital soon, a future government will face economic disaster by the time it comes into power. The belief that we can generate the growth needed by going it alone is fallacious.

"The mass home-building and electrification programme suggested at this conference as an urgent measure to get the economy going cannot be contemplated without access to foreign capital The programme may not seem import-intensive at first, but the effect on incomes will soon enough see SA run into balance of payments problems," he said.

Old Mutual and Nedcor are promoting a home-building and electrification programme in presentations to local and foreign businessmen and governments, but have refused to release the details of the programme It was one of the key points under discussion this week. Dr Stals said foreign capital would give SA more scope for programmes such as this.

Asked whether the government should not spend more on social services to try to end unrest, Dr Stals said this would only be a short-term solution

"It would entail using the nation's savings for consumption spending, leaving less money available to finance growth There is also the danger of inflation. Who knows how bad the unrest situation would get in a situation of hyper-inflation?"

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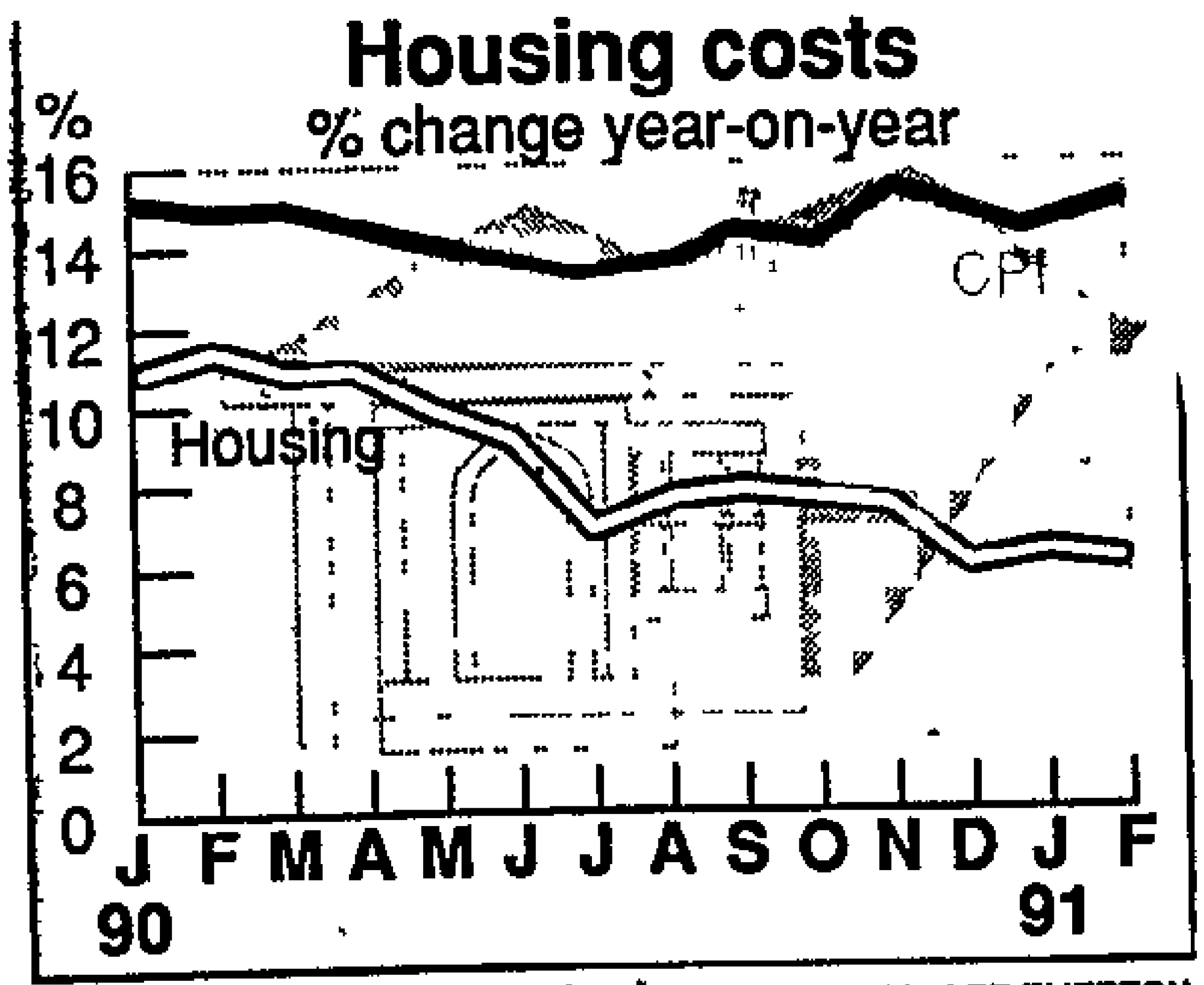
He did not agree that the investment in "human capital" justified the use of savings to finance social spending

The message that Dr Stals wanted to get across is certainly not the message received by conference delegates. Mr Sisulu and other left-leaning economists saw Dr Stals's speech as an acknowledgement that SA's economic problems could not be examined and discussed in isolation Dr Stals said later that he had wanted to remain apolitical.

A general comment was that Dr Stals's criticism of the Budget last month as being too expansionary was inconsistent with his statement that poverty and unemployment were major factors behind township violence

But Dr Stals said home building and electrification did not present a long-term solution to SA's economic growth problem, as there would only be a "first round" effect on growth until the homes were built



Graphic LEE EMERTON

B/Day 17/4/91.

Housing costs put the brakes on inflation

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THE costs of accommodation have put a brake on general price inflation over the past year — inflation would be 17% if housing costs were excluded from the calculations.

> In this second of four articles examining inflation, **SHARON WOOD** looks at the impact of housing costs on the CPI.

A major factor restraining housing prices has been stable interest rates, with housing costs rising by only 6,2% year-on-year in February 1991. This month's declines in home lending rates after the March cut in Bank rate will have a further positive impact, leading to an actual annual decline in mortgage interest rate repayments in April.

The annual rise in housing costs was mainly a result of flat and house rent increases, because the year-on-year rise in interest rates had been zero since October 1990, as prime remained at 21% from October 1989 to March 1991.

Property analysts estimated that flat rents had risen by about 15% over the past year. But official figures on the actual rise in flat rents will only be available in May, when the Central Statistical Service publishes the results of its annual flat survey.

In contrast to slowing accommodation prices, the costs of keeping a home clean and well maintained have risen above the general inflation rate. Household operation costs have been well above an annual 15% during the past two years.

Inflation in the prices of cleaning materials averaged about 20% during 1990, and the cost of employing domestic workers rose about 14%.

The positive effects of low housing costs on inflation are technical and do not reflect any real progress in the battle against inflation. When these costs are excluded from the basket, the spiralling prices tell a different story to the overall rate.

Some economists have questioned the use of interest rate policy to fight inflation, as higher interest rates have a direct and significant effect on the CPI basket. Why aggravate the situation by raising housing costs, especially as housing is one of the biggest items in the CPI basket after food?

Interest rate policy is often misunderstood because it does not have any direct, quantifiable effect on the CPI basket. It works indirectly by affecting "demand-pull" inflation. Low interest rates promote spending because borrowing becomes more attractive than saving. Heightened demand indirectly fuels inflation as it is easier to raise prices when consumers want to spend.

A vicious circle emerges with consumers wanting to spend more because inflation is already high. For this reason, the central prong of a policy to combat inflation is to maintain high real interest rates.

But in spite of almost two years of high real interest rates, consumer spending has remained high, prices have risen apace and housing has been the only major category to fall significantly over the past year.

Progress in curbing housing costs simply reflected unchanged interest rates. Spending in many other areas of the economy continued.

Private consumption spending rose by 1,5% in real terms last year amid conditions of no real economic growth. In the 1985 recession, it fell 3,5%. Increases in durable goods and recreational items, usually sensitive to a downswing, remained strong. The Reserve Bank has expressed concern over rising propensity to consume.

Some economists, including First National Bank's Cees Bruggemans, have suggested real interest rates could be kept at higher levels, even as high as 6%-7%. That would put SA in the same league as Germany, which last year had inflation of 3%. But it is unlikely the Reserve Bank, faced with unemployment and political uncertainty, will be able to go to German extremes.

Transport, food costs are main culprits

BDay 19/4/91

(153) · (2##4)

In this final article in the series, SHARON WOOD examines the obstacles to a single-digit inflation rate for SA

DOMESTIC inflationary pressures remain high and the road to single-digit inflation will be long and painful — high and rising food and transport costs continue to outweigh slowing housing costs

With underlying inflationary pressures in the economy still strong, it is unlikely that single digit inflation figures will occur within the next two years, economists say. A Business Day survey of economists' inflation forecasts showed the most optimistic view is that consumer price inflation will reach 12% by year-end and 10,5% by end-1992

Food prices continue to rise rapidly, along with transport prices and most other commodities contained within the consumer price index. The only exception to steadily rising prices has been the significant reduction in the cost of housing, which is directly influenced by moves in mortgage interest rates.

Consumer price inflation looked as if it had entered a well-entrenched downswing during 1990. But the outbreak of the Gulf crisis halted this trend, although this was widely believed to be only a temporary set-

not yet responded to the end of the Gulf war and show that there has been no significant decline in price pressures.

The recession has intensified pressure on the Reserve Bank to ease monetary policy. But the high level of credit-financed consumption has kept private consumption expenditure at higher levels than in previous recessions and limits the possibility of further near-term interest rate cuts

While consumer demand has remained strong, the pressure on prices is given further impetus by entrenched inflationary expectations. This key factor has emerged strongly in the past year and the monetary authorities have taken note of this.

Inflationary expectations of below 10% are essential for a fundamental reduction in cost-push pressures emanating from wage demands on domestic prices. But this task is diffi-

tions have ranged between 12% and 15% for at least the last four years.

The introduction of VAT in October is widely expected to add an immediate two percentage points to the consumer price inflation rate during that month. Thereafter, prices are supposed to fall with the elimination of the "cascade" effect on prices which occurs under the GST system. This should be reflected first in the PPI and then in the CPI. But many have countered this argument saying that general prices will probably rise under VAT.

The direction in consumer price inflation is thought to follow the trend in producer prices, with a lag

lieved that the more volatile PPI will peak higher and fall lower than the CPI.

Historical data, however, show that consumer prices are downwardly rigid, with the producer price inflation peaking at about the same level as consumer price inflation, while falling further than consumer price inflation

This is a possible explanation for the longer-than-expected removal from the system of the pressures generated by higher petrol prices Air fare prices, in particular, have failed to react promptly to falling petrol prices

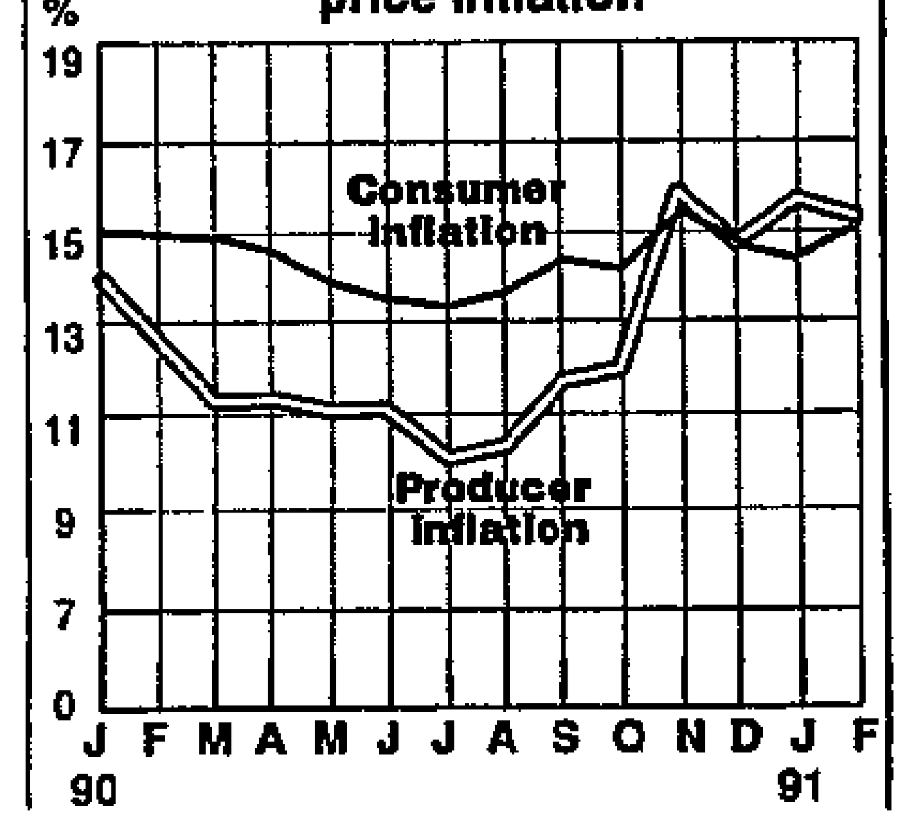
Success in the battle against inflation will only be really secured if the inflation rate is brought into line with that of SA's major trading partners — which averaged 5% during 1990.

This would at least curb the depreciation of the rand which occurred during the 1980s, and was halted in

certed policy action A weak rand fuels domestic inflation through the imported component of the PPI.

But the necessary reduction in inflation to single digit figures will occur only through severe economic hardship. This, however, is not politically feasible at present. The determination of Chris Stals is not questioned, but it is debatable whether he can follow through his aims with due regard to the consequences.

Producer and consumer price inflation



PPI FM , 19/4/91 153

REVERSING TREND

Once again the rate of growth of the production price index (PPI) has taken a tentative step down A small decline in the year-on-year 15,2% rise in February (January 15,5%) mainly reflects the base it's compared with (only 12,9% in February 1990), but the month-on-month figure is more encouraging a mere 0,6 of a percentage point

The 0,3 point drop in the year-on-year figure indicates that inflation most likely won't fall into single-digit figures by next year as some optimistic economists expect In fact, some, like First National Bank group economist Cees Bruggemans, believe consumer price index (CPI) inflation will probably stick within 12%-15% "Every year the downward inflationary trend is pushed upwards by some kind of shock," he says "Last year it was oil, this year it will be VAT"

PPI inflation had been falling since February last year But when the Gulf War threatened to send oil prices soaring in August, it shot up from a low of 10,3% in July to 15,8% in November It declined marginally to

FM 19/4/91

14,7% in December and rose again in January A similar short-term upward push is expected when VAT is introduced in September, though the size is uncertain

It is expected the upward push will be greater on CPI than PPI, as CPI includes services which will now fall under VAT But PPI will feel the impact of taxing food

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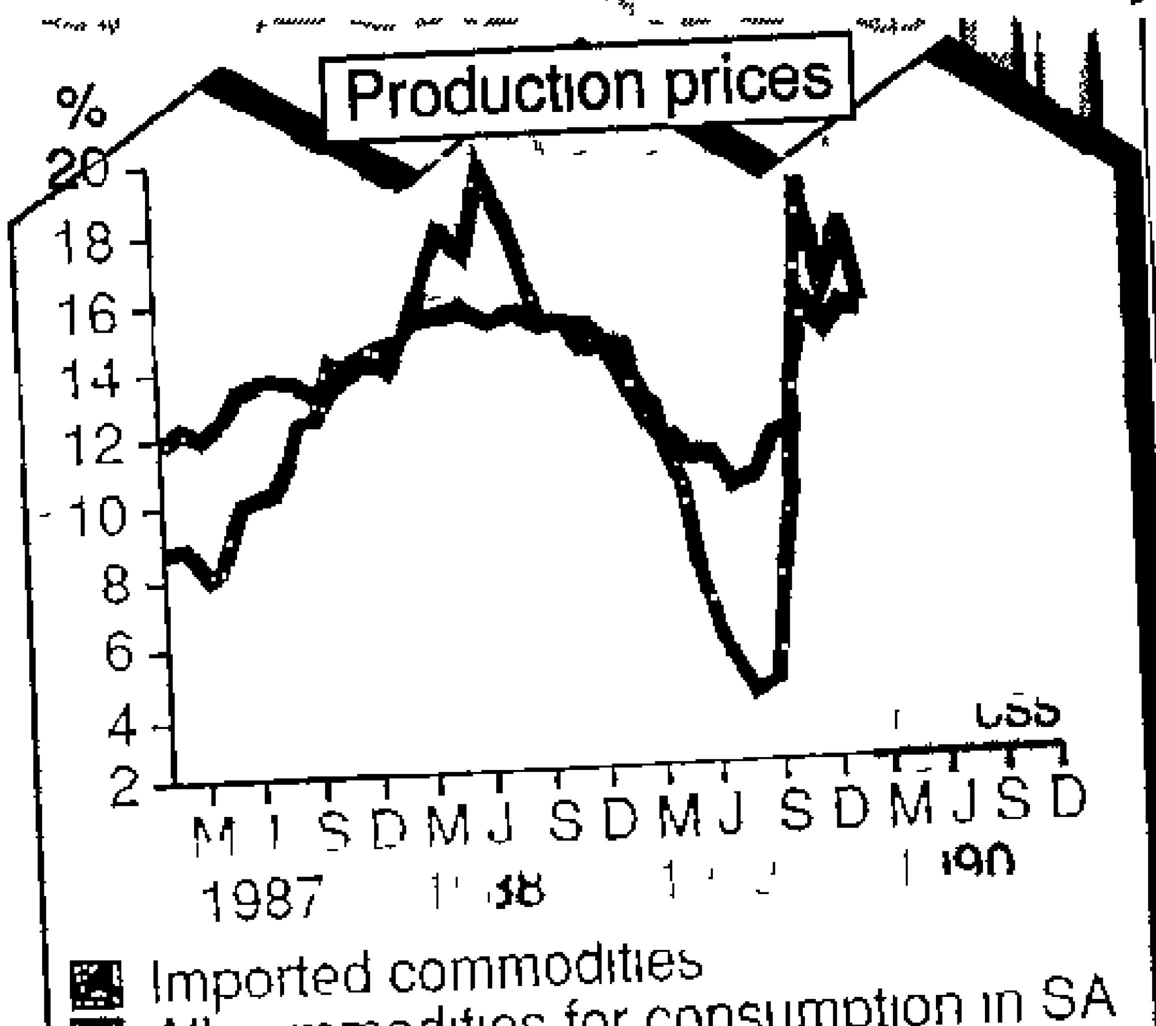
The tight monetary policy of the Reserve Bank is finding difficulty working its way into inflation as people expect to be compensated for inflationary shocks Wage demands made in line with inflation therefore keep the momentum going

Internal inflationary momentum is evident in the 0,4 point rise in the year-on-year

continue → P.

Still stressed



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rate of increase in locally produced commodities to 15,2% Imported inflation, on the other hand, fell 2,8 points, to 15,3% ■

THE WEEK AHEAD by William Richards

Slowing in rate of inflation likely

(274) (153)

B/Day 22/4/91

MOVEMENTS in the consumer price index 12 months ago look set to slow up the SA inflation rate quite significantly when the March CPI figure is released, probably later today.

The rate of inflation in the year to March should drop by up to a full percentage point from the February rate of 15%.

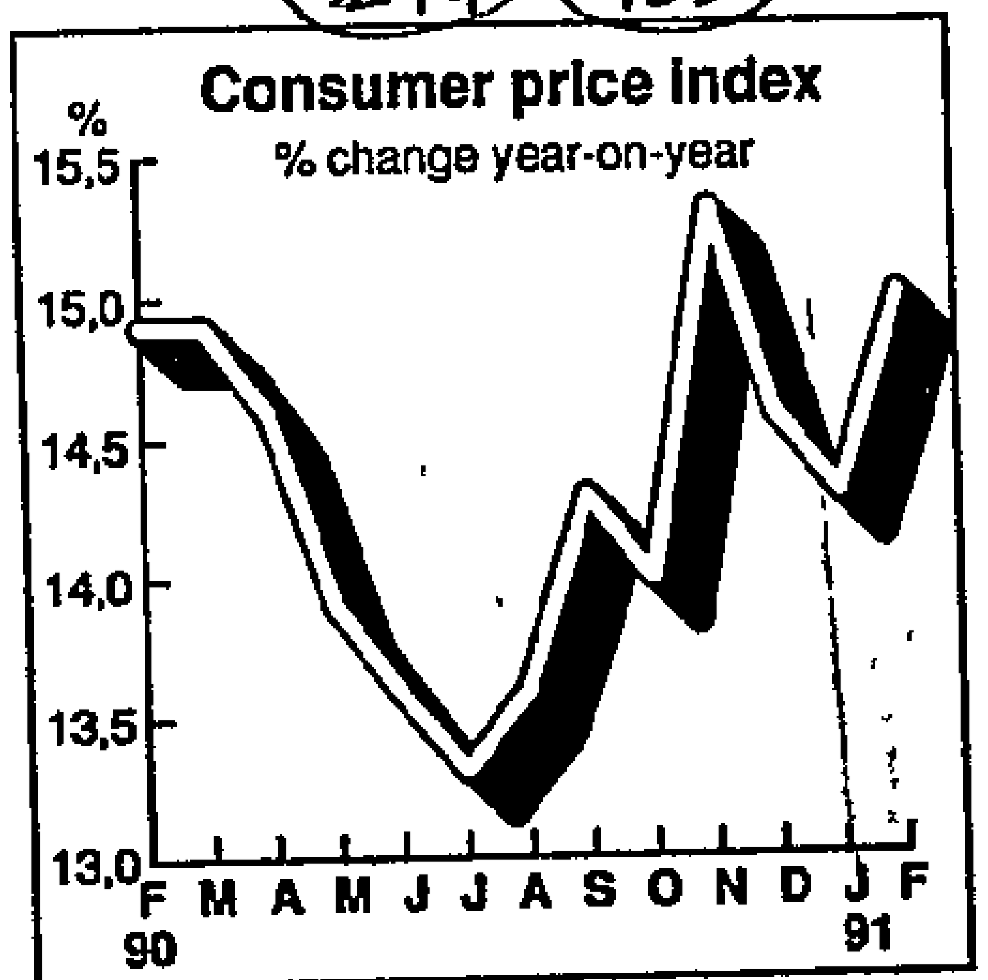
A statistical quirk was partly responsible for prompting the surge in the inflation rate to 15% in Feburary from 14,3% in January

The month-on-month increase in the index between January and February 1990 — 12 months earlier — was a mere 0,7%. This gave the year-on-year measure of increase in the CPI — that is, the official SA inflation rate — a freakishly low base for calculation and boosted the February inflation rate

For March, the index movements 12 months ago move back in favour of a more modest rate of annual growth in the index The month-on-month CPI increase between Feburary and March 1990 rose to more than twice the miserly January-February increase, giving the annual calculation a higher base

An apparent slowdown in food price rises seen during February should have extended into March and may also help restrain the month's overall inflation rate

Release of the March level of money supply growth is also imminent, and can be expected later today or tomorrow unless



Graphic: FIONA KRISCH Source CSS

there is a reappearance of the statistical gremlins that have delayed publication of the figure for the past two months.

Part of the difficulty in releasing the M3 figure on time has involved the need to accommodate previously off-balance sheet bank facilities in the aggregate

Incorporation of the former grey-market facilities has led to the issue of a two-tier rate of M3 growth by the Reserve Bank The authorities now release a headline rate of annual increase in the M3 aggregate, as before, but supplement this with another figure net of "repurchase agreements conversion"

The headline figure is likely to be higher than the netted-out figure, as it was for February at 14,6% headline and 12,2% net

To the extent that the money stock was swollen by end-financial year government spending in Feburary, the March figures may be more moderate. M3 growth is still, however, likely to exceed the Reserve Banks growth guideline of 8-12% from a base in the fourth quarter of 1990

Internationally, the main event of the week occurs on Friday when the preliminary readout of the US economic growth over the first quarter of this year is published.

Annualised US GNP, at -1,6%, turned negative in the fourth quarter of 1990 for the first time in four years The financial markets now await formal confirmation that the US economy is in recession, a technical definition that will be fulfilled by a second consecutive quarter of negative growth

A long series of dismal and sluggish monthly economic indicators during the first quarter leaves no doubt that the US economy did indeed shrink again, the point at issue is by how much.

Market expectations are for a figure of between -3,0% andf -4,0% as a preliminary figure, subject to two revisions during subsequent weeks.

The closer to -4,0% the preliminary GNP outturn is, the greater will be the pressure on the US monetary authorities to cut interest rates and pull the economy out of its recessionary dive Stronger signals that US interest rates are poised to fall carry the risk of adversely affecting the doll yield prospects and eroding the curren value

US economic prospects are likely have been softened up earlier in the we by another grim figure, due tomorrow, durable goods sales during March.

Markets looking for statisitical eviden of the reported upturn in US summer con dence since the end of the Gulf war are s therefore, to remain disappointed for t time being.

Finance ministers from the worl major industrial powers gather in Wash ington DC this weekend ahead of nex week's semi-annual meetings of the IM and World Bank. An informal G-7 meetin is therefore timetabled for this weekend i the US capital, and exchange rates a sure to be on the agenda. This may be a di incentive to traders to take speculati positions ahead of the weekend

Last week's higher UK unemployme figure — up to 7,4% in March from 7,2% i February — looks as though it will be fo lowed up by adverse retail sales levels fo the UK during March, raising pressure o the British authoreities to cut interes rates again — especially if the governmen is contemplating an early general electio

The Japanese inflation rate for Marc due out on Friday, seems certain to sta stubbornly close to the 4,0% level that unacceptable to the Japanese authoritie This should ensure continued firm Japa ese interest rates

Inflation, VAT bite into budgets

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Star 22/4/91

THE BASIC household budget needed by the average black family in Soweto to keep living standards above the breadline level has been pushed well over the R1 000-a-month mark by the inflation spiral

New studies run by Industrial Relations Information Surveys show that the minimum monthly income needed to sustain a black family of five on what the researchers call a very modest level a shade over the breadline' jumped from less than R985 in 1988 to R1 199 71 in a 1990 count

Nationwide the average basic budget required by a black township family of similar size has climbed from R809 72 to R1 033,26 over the past three years

The cost of living in Soweto was surpassed only in Mamelodi, outside Pretoria, where minimum income requirements were put at R1 245 86 a month

The data has been collected in a joint exercise between SPA Consultants and Business Performance Strategy researchers The information is widely used in socio-economic studies and as guidelines at trade union/employer wage negotiations

SPA researcher Andrew Sparks explains that the budget levels leave little room for frills considered as virtual necessities by most white families let alone scope for any luxuries

All essential items have been hit by inflation An accompanying table explains where the cash goes in Soweto

The average budget needed to cope with food bills alone for five members of a family has grown from R304 16 three years ago to R352,85

The small amount allocated as discretionary spending — covering items such as cigarettes drinks cinema visits and news papers and magazines — last year remained stuck at only R214 26 a month for the entire family

The modest overall average budget was still beyond the reach of many black families The researchers found that national average wages of labourers last year even allowing for increases of 20 percent or more still stood no higher than between R219,93 a week in the metals industries and R123,37 a week in jobs with catering firms

According to the Institute for Planning Research at the University of Port Elizabeth the rock-bottom budget needed by a black family of six to eke out a standard of living even down at subsistence level had grown to a minimum of at least R581,22 in the Johannesburg metropolitan area by the latest count.

It was higher still in Germiston (R586 50) Benoni (R591 62) Boksburg (R608 02) Cape Town (R591 78) and Kimberley (R600 07) It hit a peak of R630 06 in Windhoek

The institute put the national average wages of black workers with jobs in the manufacturing sector at R842 a month at a 1989 count

In surveys made last year the Bureau of Market Research at Unisa found that the monthly budget needed to keep a family of six on a bare minimum living level in and around Johannesburg increased from R730 02 in February to R772 64 by August as inflation took its toll

Allowing for snippets of recreation and entertainment — R51 42 for the whole family — and a few more rands to spend on basic items to lift families to supplemented living levels Unisa estimates minimum needs to be R1 018 44 a month

The next issue in the pipeline that is bothering black families perhaps more than most white families is what impact the new value-added tax system will have on household budgets

What happens when the entire family food shopping basket — with the sole exceptions of mealie meal and brown bread — has to carry the load of the 12 percent VAT tax? Lots of basic items have so far escaped the GST net that will be scrapped on September 30

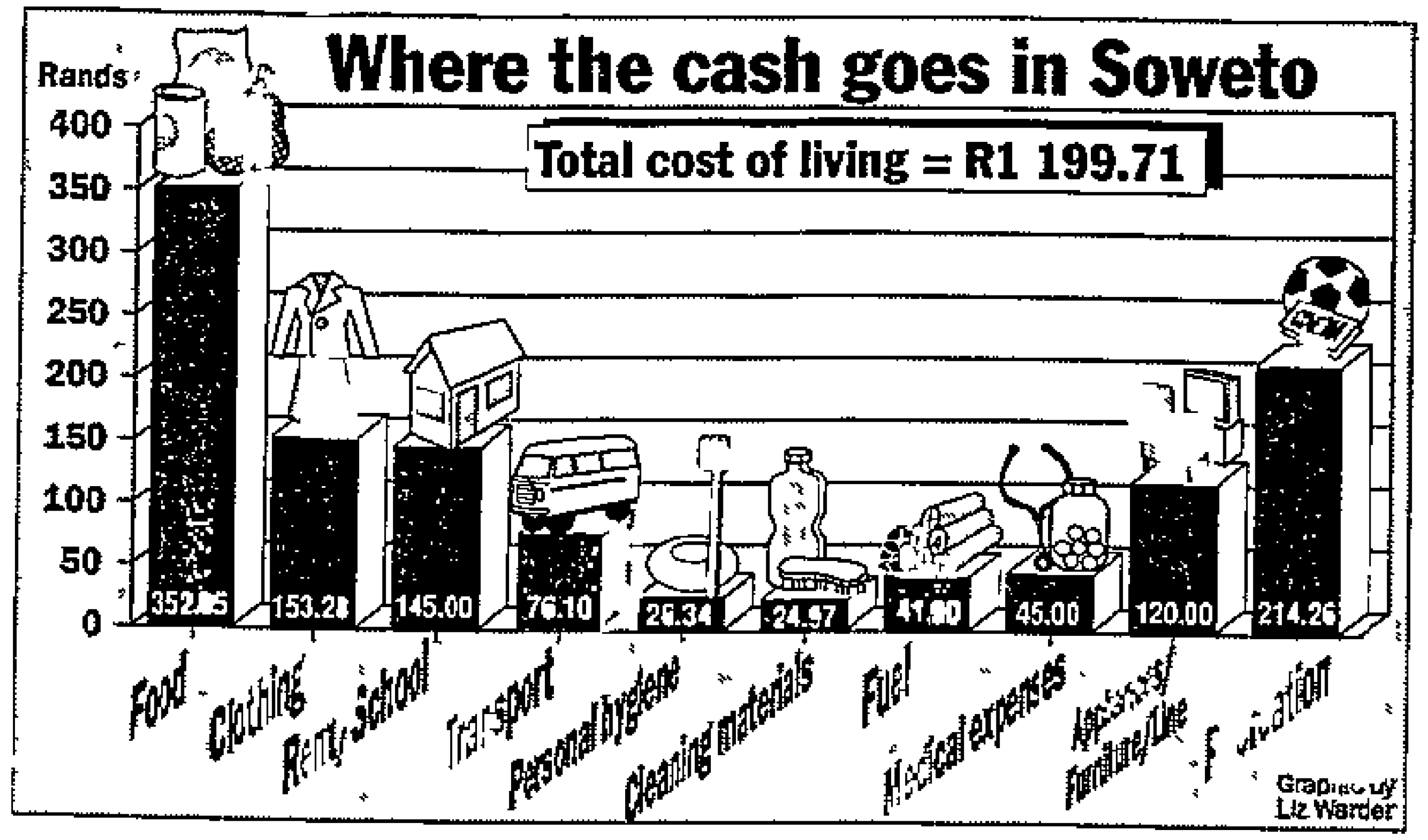
Housewives League national president Lynne Morris has estimated that VAT will load an extra R50 a month on average food bills

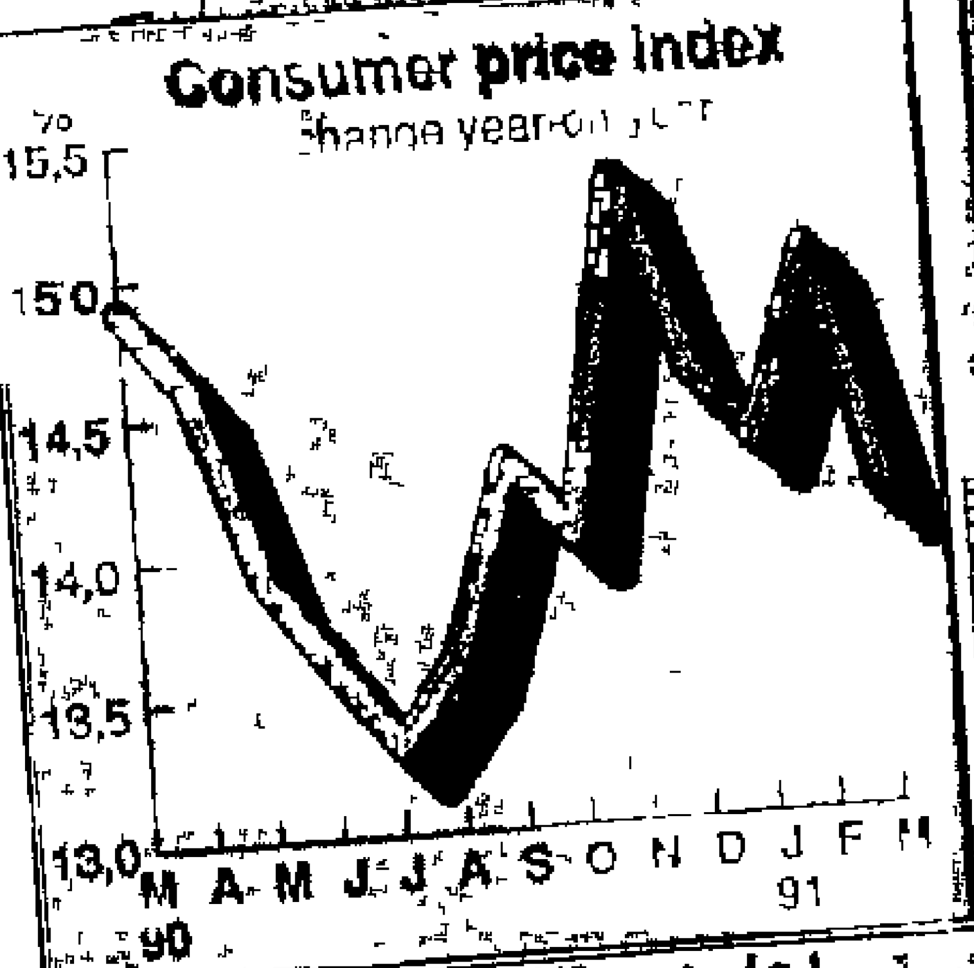
The impact was put into broad perspective when Org Marais Deputy Minister of Finance until his recent switch to become Minister of Trade and Industry calculated that no less than an additional R420 million was expected to be collected from families on or below the breadline as VAT cast its wider net (All the extra cash he said would be ploughed into social upliftment programmes)

Mr Marais also explained that the Government was investigating the creation of programmes targeted specifically at the poor — such as feeding schemes for children and pregnant women mobile feeding units for the aged and new subsidies for services

In the countdown to the introduction of VAT most black families in struggles with the breadline wait in tense anxiety to hear how the Government proposes to save their budgets from more agony □

As recession brings the axe down on more and more jobs, renewed focus is falling on the plight of black families struggling to stay above the breadline Inflation adds to the problem So do worries about the impact of VAT on food bills Special writer MICHAEL CHESTER reports





Graphic: FIONA KRISCH Source: CSS

B'Day 24/4/91

Inflation rate falls to 14,1% in March

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SHARON WOOD

THE fall in consumer price inflation to 14,1% in March from 15,0% in February was slightly lower than anticipated but inflation was still expected to fall at a slow rate this year, economists said.

The decline in inflation was largely technical because it came off a low base in March last year, when the month-on-month rise was particularly small.

The consumer price index (CPI) rose by 0,9%, month-on-month figures released yesterday by Central Statistical Service show. Food prices rose by a relatively small 0,7% month-on-month to 15,9% year-on-year

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Inflation

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There was a small 0,2% monthly rise in housing prices between February and March. Housing price increases will probably be low in April as a result of the fall in the prime overdraft rate in March

Transport prices were up a small 0,1% month-on-month, but these prices are measured only on a quarterly basis and will be measured again in May.

Rand Merchant Bank economist Rudolf Gouws said the inflation situation was slightly better now but inflation continued to hover around relatively high levels.

"It looks like the worst is over for food prices because there have been two months of relatively small rises in food prices", he said

Bankorp economist Jacques du Toit said consumer price inflation was slightly lower than the 14,3% expected.

Inflation would continue to decline this year, but at a relatively slow rate, he said

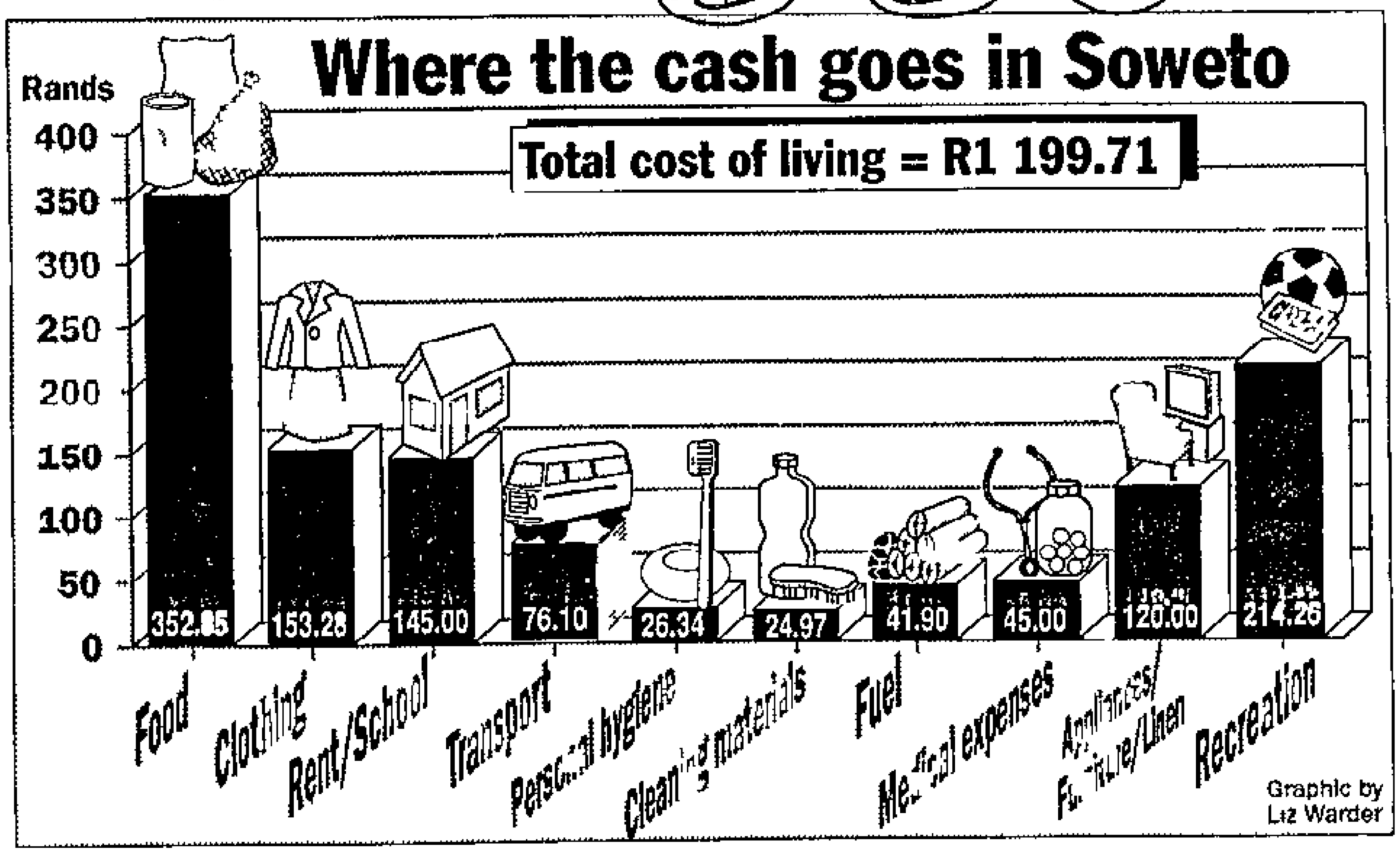
The implementation of VAT in October would definitely have an upward impact on inflation

The agony of high food bills

Sowetan 24/4/91

(153)

As recession brings the axe down on more and more jobs, renewed focus is falling on the plight of black families struggling to stay above the breadline Inflation adds to the problem. So do worries about the impact of VAT on food bills.



Graphic by Liz Warder

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Average wages

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The next issue in the pipeline bothering black families perhaps more than most white families is what impact the new Value Added Tax system will have on household budgets

What happens when the entire family food shopping basket - with the sole exceptions of mealie meal and brown bread - has to carry the load of the 12 percent VAT tax? Lots of basic items have so far escaped the GST net that will be scrapped on September 30

> ***The issue bothering black families more than white families is what impact VAT will have on budgets***

Housewives League national president Lynne Morris has estimated that VAT will load an extra R50 a month on average food bills

The impact was put into broad perspective when deputy Minister of Finance Org Marais, until his recent switch to Minister of Trade and Industry calculated that no less than an additional R420 million was expected to be collected from families on or below the breadline as VAT cast its wider net (All the extra cash, he said, would be ploughed into social upliftment programmes)

Marais also explained that the Government was investigating the creation of programmes targeted specifically at the poor such as feeding schemes for children and pregnant women, mobile feeding units for the aged and new subsidies for services

In the countdown to the introduction of VAT, most black families in struggles with the breadline wait in tense anxiety to hear how the Government proposes to save their budgets from money agony - *Sowetan Correspondent*

> ***Most families wait in anxiety to hear how the Government proposes to save their budgets***

Inflation adds to the problem

Inflation offensive 'doomed'

B/Day 24/4/91

SEAN VAN ZYL

SOUTHERN Life chief economist Mike Daly believes the Reserve Bank's fight against inflation will not succeed in pushing the rate down to the 12% level that is widely predicted.

Daly told a media briefing yesterday the recession had not put a large enough dent into disposable incomes to crush demand-pull inflation He said positive growth in real personal disposable income (PDI) would dilute monetary restrictions on inflation He expected the rate of increase in the consumer price index (CPI) would, as a result, drop to about 13% by the end of the year.

Furthermore, Daly noted that an adequate drop in inflation was not likely to occur before the first quarter of 1992, which would then signal more active moves to lower the real interest level to re-stimulate the economy

He expected the prime interest rate would drop marginally to between 18% and 16% by the year's end

'We could expect lower nominal interest rates down by 2% by the end of 1991, which will improve confidence "

(153)

Daly added Minister of Finance Barend du Plessis had indicated in his Budget speech he expected the economy to "bottom out" in the final quarter of the year

But, Daly said, unless there was an upward surge in the gold price coupled with a major inflow of liquidity through the balance of payments, the "new growth phase" was likely to be extremely gradual in the beginning stages

The outlook on the gold price would remain bleak for the remainder of the year due to the surge in the value of the US dollar The rand-dollar exchange rate was also expected to weaken sharply this year

Daly said consumers would be more hard-pressed, despite the cut in personal tax rates The introduction of VAT in October would have "a nasty effect on the CPI initially"

Inflation rate falls to 14,1%

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Star 24/4/91

By Sven Lunsche

The inflation rate showed a slight decline in March, but economists expect the downward trend to be reversed by the introduction of VAT in October

Central Statistical Services said yesterday that the inflation rate, as measured by the annual rise in the consumer price index (CPI), fell to 14,1 percent in March from 15 percent in February

As consumer spending continues to decline and the oil price has returned to its pre-Gulf war level, economists have generally expected inflation to fall to an average of 12,5 percent this year from 14,4 percent in 1990

However, the introduction of VAT on October 1 will inevitably raise this figure, with estimates ranging from 14 percent by Sanlam's Johan Louw to 13,6 percent by Southern Life's Mike Daly

Mr Daly says in Southern's Economic Comment "The proposed fully taxable status of unprocessed foods (with exemptions for brown bread and maize) under VAT will probably offset any other positive factors for the food price inflation rate"

He adds that under VAT, almost 85 percent of the consumer goods comprising the CPI will be taxed; under GST this figure is less than 50 percent.

The Central Statistics figures show that the monthly rate of increase in the CPI was 0,9 percent in March, with large contributions coming from price hikes in food products (0,2 percent) and alcoholic beverages (0,1 percent)

In March, food prices rose by 15,9 percent year-on-year and 0,7 percent on a monthly basis, with large monthly increases recorded for fruit and nuts (6,6 percent) and vegetables (3,2 percent) The price of meat, however, declined by one percent in March

Lower housing costs increases were largely responsible for the decline of inflation last month, rising by only 5,9 percent compared with March 1990

Housing costs amount to more than 21 percent of the total CPI, with the payment of interest on bonds representing 45 percent of this

The recent drop in the bond rate subsequently contributed significantly to the slower rate of price increases

Inflation rate drops to 14,1% in March

CMT 7/1 H 24/4/91 (153)

By PIETER COETZEE
Financial Editor

IN spite of the relatively sharp drop in the inflation rate to 14,1% in March from 15% the previous month, it should remain relatively high throughout the year, said economists

They said the inflation rate could drop to about 13% by the end of September but that the introduction of VAT in October could push the inflation rate up to about 15% before it would start levelling down again.

On average, however, they expect the inflation rate to be around 14% this year with a levelling off to about 11,5% next year before rising again due to the expected upturn in the economy in 1993.

Economists said the decline in inflation in March was largely technical because it came off a low base in March last year, when the month-on-month rise was particularly small

The Consumer Price Index (CPI), against which the inflation rate is measured, rose by 0,9% month-on-month Food prices rose by a relatively small 0,7% month-on-month to 15,9% year-on-year

There was a small 0,2% monthly rise in housing prices between February and March Housing prices increases will probably be low in April as a result of the fall in the prime overdraft in March

Transport prices were up a small 0,1% month-on-month, but these prices are only measured on a quarterly basis and will be measured again in May.

Boland Bank economist Louis Fourie said the inflation rate should come down to 12% in the course of the year before rebounding due to the introduction of VAT before levelling off to 13% by the end of the year.

Monetary policy would therefore have to remain tight in spite of the 6% positive real interest rate at the moment and Fourie does not expect a drop in interest rates for the next three to four months

Sanlam chief economist Johan Louw said the drop was due to technical factors and he does not expect the inflation rate top drop much below the 14%-level over the next couple of months

The introduction of VAT, however, should see to a sharp rise in the inflation rate before a levelling off later in the year

He expects the inflation rate drop to 11,5% by the end of next year with the average being 12,5% for 1992

Rand Merchant Bank economist Rudolf Gouws said the inflation situation is slightly better now but inflation continues to hover around relatively high levels.

"It looks like the worst is over for food prices because there have been two months of relatively small rises in food prices," he said.

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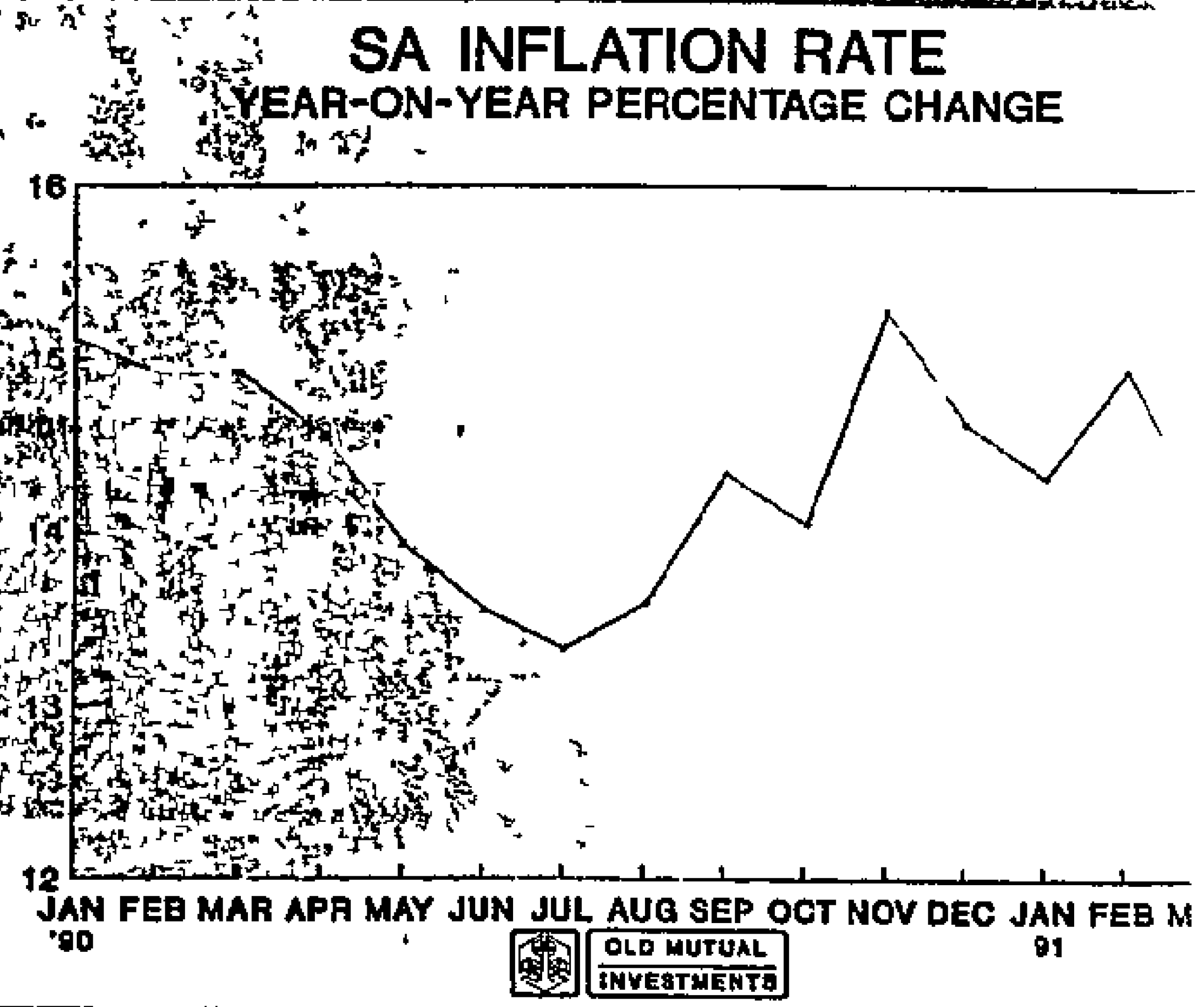
Bankorp economist Jacques du Toit said consumer price inflation was slightly lower than the 14,3% expected.

Inflation will continue to decline this year, but at a relatively slow rate, he said. The implementation of VAT in October will definately have an upward impact on inflation.

● The European Community's average annual inflation rate fell to 5,2% in March, its lowest level in 17 months, the EC statistics agency Eurostat reported. Inflation across the EC was 5,5% in February.

March's annual rate matched the previous low of 5,2% of October 1989 and compared with 4,9% and 3,8% in the US and Japan respectively



VAT to bring two inflation rates

B Day 26/4/91 (320) (153)

GRETA STEYN

THE Central Statistical Service (CSS) would publish two inflation rates after the introduction of VAT — one including the new tax and the other excluding — CSS head Treurnicht du Toit said yesterday

If GST had to be excluded from the current consumer price index, it would make no difference to inflation as the sales tax rate had remained at 13% for years However, the introduction of VAT on goods and services previously not taxed would see the two rates differ for at least a year

CSS has not yet calculated how much the introduction of VAT would add to inflation, but economists say an increase of up to 2,5 percentage points is possible This means SA could end the year with inflation at much the same levels or above the current 14,1%

Du Toit said "Logically VAT should be included in the calculation of inflation because it is part of the cost of living But there appears to be a need to monitor the behaviour of the CPI excluding VAT"

He preferred not to be drawn on who had expressed the need for two sets of inflation figures Economists said the rate of change in the CPI excluding VAT could be used to monitor inflationary pressures inherent in the economy However, they added this argument could be extended to say interest rates should also be excluded from calculating the cost of living, as they are part of the monetary policy strategy aimed at combating demand-pull inflation

The publication of two-tier inflation figures will follow a similar move on money supply after certain off-balance sheet banking transactions were brought back on balance sheet SA already has two money supply growth rates

Govt plan for better economic structure

CAPE TIMES 26/4/91

Political Staff

THE Minister of Economic Co-ordination, Dr Dawie de Villiers, yesterday announced a new expanded economic restructuring programme rearranging government spending to place more emphasis on safer economic reform.

He said the economic restructuring announced by the late Dr Wim de Villiers was already reaping benefits and the revised plan agreed to by the cabinet involved economic policy directives that included:

- Increased competition through further deregulation.
- Cutting growth in state spending after a review of its responsibility in the economy.
- A determined application of business principles such as cost-benefit and other evaluative techniques in the public sector.
- The elimination of the practice of funding part of government consumption spending through loans.

He said a much more co-ordinated approach had to be followed. Job creation and economic growth were the highest priority for SA and "we must guard against striving after other objectives, such as regional development, in a manner that is at the cost of economic growth and job creation".

He also indicated that he was investigating appointing a group of consultants from the private sector rather than one adviser to assist with economic policy formulation and co-ordination (as announced recently by President F W de Klerk).

With the greater stability in exchange rates, greater wage stability over the past few months and the recent decrease in the petrol prices there could be a lessening of price rises in the foreseeable future.

This would enable businesses to cut costs, be internationally more competitive and have lower price increases, resulting in a lowering of inflation.

During the next two years the government's programme for curbing inflation would be scrupulously supervised and provide for a variety of measures to promote a more efficient functioning of the market system.

Inflation flies with SAA

153 209

B Day 30/4/91.

TONY LEON

MAY last year, Public Enter-
es Minister Dawie de Villiers
"Regulation is no substitute for competition . . the government
ld go out of its way not to intro-
regulation if it could be
ded"

that is the wish, what is the
ity? One of the primary causes of
ation is not just an oversupply of
ey It is the serious in-built infla-
ry mechanisms in SA's eco-
y inefficient, cost-increasing
ctures which push prices up

this regard, SAA as a state en-
rise is public enemy number one.
e 1983 fares between London and
nnesburg have risen an average
% every year. This is a direct
lt of the conservative protec-
st attitudes and practices of this
rnment, where the profitability
AA is their first priority and the
ests of and costs to the consum-
e their lowest priority.

hile our airfares have soared
than 160% in six years, robbing
ut "A" and "B" income group
Africans of the right to travel
ad and killing our tourism mar-
into the bargain, in the same period the liberalisation of air service agreements between the US and Europe has led to an average 22% fall in economy class airfares on the North Atlantic route.

In a study of nine air routes in 1989, including the North Atlantic and the routes within Europe, it emerged that the Europe-southern Africa route was the most lucrative. It yields the highest ratio between the actual and break-even weight load factor obtained by carriers on such routes. The ratios were: SA-Europe 1,16 to 1; North Atlantic 1,03 and within Europe 1,03.

Three major factors contribute to profitability of the SA/Europe route. Firstly, capacity is vigorously controlled by SAA, preventing competitors from scheduling more flights a week than SAA chooses to permit — thus reducing capacity and creating an artificial shortage of costs

The second factor is the price-fixing or tariff agreements masterminded by SAA due to its being obliged to fly around the bulge of Africa This factor is built into the standard tariff schedule enabling the average European airline, which does not have to fly around the bulge, to pocket the difference, earning a more attractive rate of return on this route than on comparable routes elsewhere in the world. Thirdly, SAA profits from its compulsory revenue sharing arrangements with its pool partners — the details of which are never published in open forum

I warmly welcome the brave sentiments expressed by SAA CE Gert van der Veer on April 23 when he spoke of abolishing price controls on the SA route. But he immediately qualified this by saying it must happen "on an evolutionary basis" Van der Veer also sticks to the demand that capacity and frequency allocation should continue on a bilateral basis and be based on third and fourth freedom traffic demand

Yet, at the same conference at which Van der Veer spoke, it was indicated that bilateral agreements, the system which has rigorously and religiously been applied in SA, encouraged bureaucracy, higher costs and much higher airfares.

Furthermore, he says, this new policy departure indicated by SAA should only be applied "to a post-sanctions environment, when SA can overfly Africa" However, it is interesting to note that Cyprus Airways, one of the world's most profitable airlines, does not own a single aircraft It simply charges a fee to other airlines flying to the island Perhaps an alternative would be for SAA to lease out its aircraft on the overseas routes until sanctions are lifted

The fares cartel of SAA and other foreign carriers is, in essence, a government-controlled entity Yet SAA and government frequently blame IATA for increasing airfares What government does not tell us is that IATA stopped setting airfares back in 1979

It is generally agreed that cut-rate charter operations to SA would be much cheaper I am advised that it could lead to savings of up to 40% on regular overseas airfares I am told it could discount the return fare to London down to R2 500 Yet government, acting on the advice of SAA, still shies away from breaking up international airline cartels operating from SA

British Airways and other carriers would like to add many more flights a week to their SA route This would increase capacity and could drive down prices. Yet they cannot do it because SAA has the right to block applications to the Department of Civil Aviation

SA needs a market-driven carrier, not a state-controlled carrier without a market-orientated pricing regime

☐ **This is an edited version of DP MP for Houghton Leon's speech in Parliament during the debate on the Public Enterprise budget.**

LETTERS

Recession on the way out, says BER

Star 11/5/91

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By Sven Lunsche

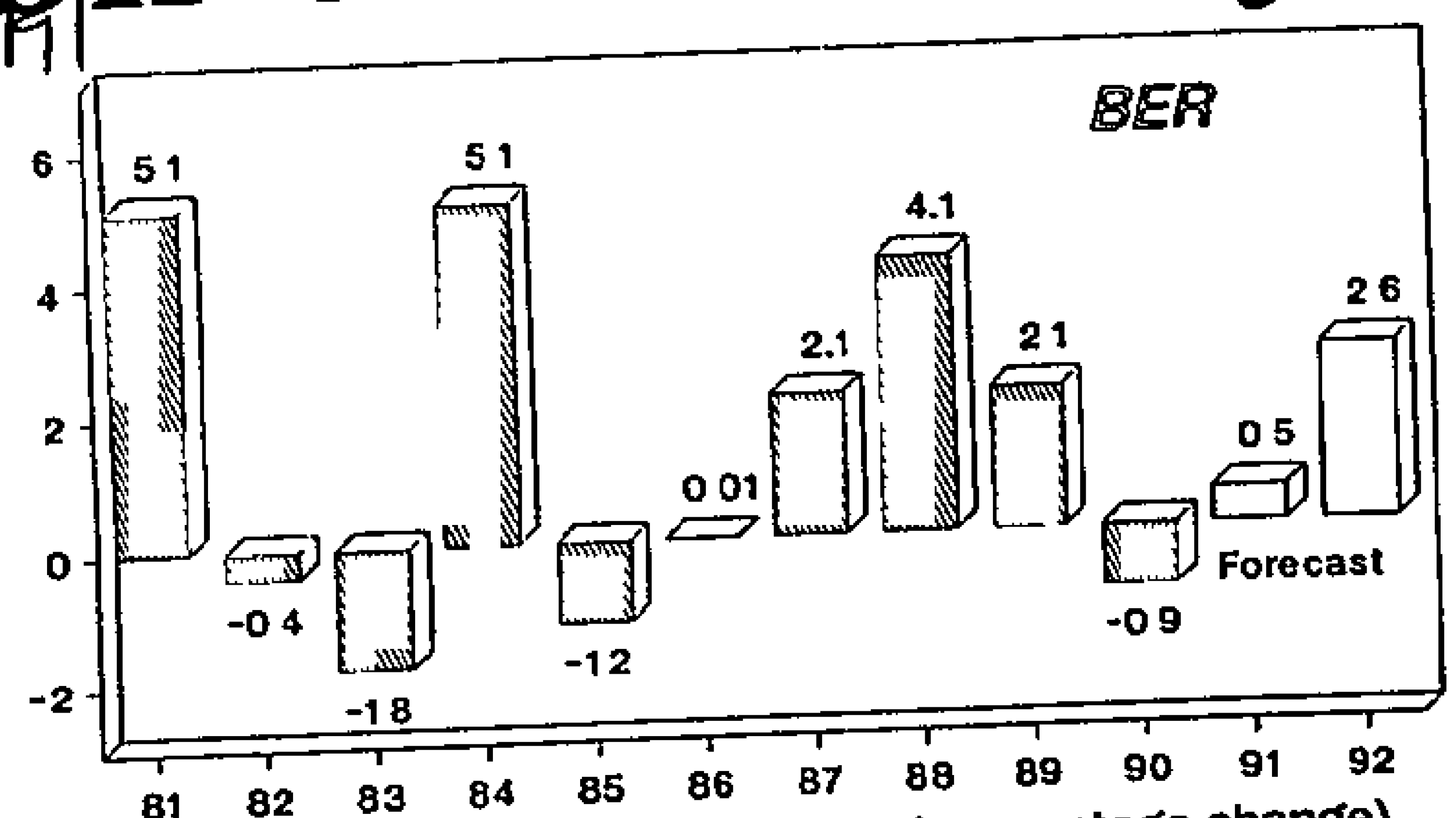
The economy is set for an upturn from the third quarter of this year, which could see growth in 1992 reach three percent

The Bureau for Economic Research at Stellenbosch University (BER) says in its annual forecast that the current recession will be reversed over the next few months

The impetus for the economic recovery should come in the main from higher consumer spending on durable goods and a strong performance by merchandise exporters

In the second quarter of the year BER says gross domestic product (GDP) will fall by 1,1 percent, but recover to a peak of 3,2 percent in the same quarter next year before levelling off to 2,2 percent in the fourth quarter.

This will result in annual growth rates of 0,5 percent in 1991 and 2,6 percent next year.



Real gross domestic product, (annual percentage change).

The BER highlights two areas of rapid growth until the end of 1992

● Consumer spending, which has remained surprisingly healthy throughout the downturn, is projected to show marginal growth this year and then decline in per capita terms

"In 1992, however, upward pressure on wages, increases in employment and a somewhat lower inflation rate will result in a marginal increase in real per capita taxed personal income," the BER says.

This will lead to a keener demand for consumer goods, particularly in the durable goods sector. It says growth in spending on durable goods should reach 6,9 percent in 1992, but only after declining by 8,3 percent this year

Spending on semi-durables should rise by a marginal 0,3 percent in 1991 and by 2,1 percent in 1992, while non-durable expenditure should remain at two percent for both years

As a result of the spending boom, inflation will remain at high levels — the BER forecasts an average inflation rate of 13,7 percent this year and 11,9 percent in 1992 — and the prime interest rate in turn will only reach 16 percent by the end of next year

● The other growth area over the next few months will be exports, says the BER.

In real terms, exports should fall by 0,5 percent this year, given the weaker international environment, but should rise by 4,3 percent next year

A similar trend is expected for imports, so that the benefits for the current account of the balance of payments will be limited, it says

Fiscal drag will act as a brake on consumption

6 10 au 2/5/91

(153)

GRETA STEYN

FISCAL drag will cut into real disposable incomes this year, putting a brake on the surprisingly rapid increases in private consumption spending seen during the recession, says the Bureau for Economic Research (BER) at Stellenbosch University in its latest Economic Prospects

Real after-tax income will rise marginally in 1991 and will decline in per capita terms Falls in inflation will not be enough to offset the erosion of real incomes and the BER predicts a slowing down in consumption growth to 0,4% this year The BER remains "relatively pessimistic" about the success of the anti-inflation measures

During 1992, however, upward pressure on wages and salaries, increases in employment and a somewhat lower inflation rate will reverse the decline in per capita personal disposable income This will lead to a keener demand for consumer goods. At the same time, robust exports and an improvement in the fixed investment outlook should see real GDP grow by 2,6% next year, after virtually no growth this year.

The BER report emphasises the unusual nature of the current recession, with consumption spending failing to respond to the cyclical pressures by falling and fixed investment spending declining at a slower-than-expected rate The main components of demand have fared surprisingly well, with the main impetus for the fall in overall spending coming from inventory de-stocking

Structural reasons for the firmness in spending include the increase in black spending power and inflation

CAH Trib 3/5/91 153

'Inflation enemy number one'

By ARI JACOBSON

LOOKING at the banking industry — "if one accepts that asset growth in the balance sheet of lending institutions is fundamental to earnings growth, then the year ahead appears to offer little in the way of good news"

So says Davis, Borkum Hare's banking analyst Graham Baillie, adding "with inflation remaining enemy number one — there will be continued robust intervention by the Reserve bank in controlling credit expansion"

He says the end result is the level of economic activity in 1991 will decline further, while the level of non-performing assets in the balance sheets of banks will increase

"Banks will be better placed nursing some of their troubled customers through the difficult times than competing for marginal business"

On the positive side, he says, with the bank rate coming off to 17% in a relatively liquid market has allowed banks to increase their interest turn to about 4%

"Operating efficiency and quality of service will drive earnings growth in 1991 and it is expected that greater contributions to earnings will come from fee income sources"

He adds that those institutions with already revamped information systems will be better placed to provide levels of service akin to customers' expectations

"While market share remains a significant measure of success in the banking sector — business will only be written if it measures up to a pre-determined profit contribution"

Looking at individual banks Baillie considers Standard Bank at R45 to be fully priced (Investors are advised to hold and accumulate on weakness)

First National Bank (FNB) has strong upside potential in spite of the strong run to R38

"With a projected forward dividend yield of 4,7% investors should continue to accumulate the counter"

Amalgamated Banks of SA (ABSA), the recently formed banking giant, should on the back of operating efficiencies make these shares an attractive proposition

Baillie said this investment should be viewed as long term

Bankorp has some way to go to restore operating margins to acceptable levels

"As a result it is anticipated that the share will underperform relative to the rest of the banking sector"

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W/mail 3/5 - 9/5/91

Slump hits medical schemes

By MONDLI MAKHANYA

THE RECESSION and increased unemployment have begun to hit medical aid schemes

Medical aid, being a luxury, is one of the first items which people drop from their budgets.

Sizwe Medical Fund, which has 50 percent membership on the mines, has lost a sizeable portion of its membership as a result of retrenchments Sizwe has retrenched 21 employees as a result of rationalisation measures

Sizwe representative Sibongile Ziyambe said the worst effect of the recession has been in cutting off of prospective business

"Companies are downscaling costs We now require much more effort when we market our medical aid to companies and have to spend a lot more time convincing them," said Ziyambe.

She added medical aid was not a tangible product and it was necessary to persuade people they needed it.

AMA managing director Timothy Gelman said AMA was likely to start feeling the effects of recession in the next few months AMA has a miniscule membership on the mines but is contracted to some companies in allied industries.

"We've restructured our company for cost containment. We've created a hierarchy of medical products that will enable more people to have access to medical aid cover," said Gelman.

While unemployment may lose some medical aids members, the Wits Chamber of Commerce and Industry's scheme believes it may gain membership as result.

"When professionals lose their jobs they may decide to move into small business So unemployment on its own can bring in members for us," said chairman Pat Corbin.

Corbin said the high cost of health care which had the effect of pushing people off medical aids in bad times, would put a burden on public health care. "We have been trying to get doctors to prescribe generics."

Pulse Medical Consultants' Louis Esterhuizen said a recession might have the effect of forcing people to take out medical aid cover.

"When recession comes people have less disposable income People with no medical aid may therefore be compelled to get on to medical aid in order to save on the high costs of medical care," said Esterhuizen

BUSINESS

Disclosure proposals detailed

B/Day 10/5/91

(153)

SHARON WOOD

THE SA Institute of Chartered Accountants has identified certain disclosure requirements as a "first step" towards inflation accounting after a survey of major companies.

A minimum requirement is that companies split turnover between real and nominal to separate real growth and growth through inflation.

Other recommendations are the publishing of replacement costs of non-monetary assets, seven-year indexed cash flows in today's money and the splitting of cash flow into real and nominal terms.

Saica has moved away from trying to implement a compulsory inflationary standard after the failure to win widespread acceptance for past proposals.

Instead the institute will leave decisions on inflation accounting to the company, but will encourage companies to take up its minimum recommendations.

Inflation accounting has been a controversial topic abroad and locally. The central obstacle to its formal implementation has been the inability to come up with a perfect theoretical solution. But JSE president Tony Norton says it is important companies arrive at broadly correct real performance figures — they do not have to be absolutely correct.

Dozen

At the core of the problem is which price index must be used to reflect realistically the inflation rate in the economy.

Companies have repeatedly expressed their concern that a general price index might not reflect the internal inflation rate of the company.

Some have argued that inflation accounting would index inflation into the economy — in much the same way as wage indexation based on inflationary expectations contributes to rising inflation.

Less than a dozen companies provide inflation adjusted statements.

These include Afrox, Chemserv, SA Breweries and Anglo-Alpha. They do so despite the fact that the practice depresses profits and earnings, because current cost adjustments can only be made on profits after taxation.

Saica accounting director Monica Singler points out that inflation accounting must be instilled in all the workings of the company and in management thinking. Norton adds company accounts based on historical costs are becoming increasingly meaningless.

Saica's latest decision in the inflation accounting arena is based on a survey of the top 30 SA companies, which showed only a quarter of respondents were willing to comply with the proposals.

It's crunch time in the inflation battle

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Star 11/5/91

DEREK TOMMEY

TOP Government officials, bankers and businessmen are waiting on tenderhooks for the publication of the consumer price index (CPI) for April

This figure will show how the battle against inflation is going and whether the Reserve Bank can givea boost to the stagnating economy

The Governor of the Reserve Bank, Dr Chris Stals, is reasonably optimistic that the inflation rate is getting lower

He said last night that the Gulf war had unfortunately been a setback

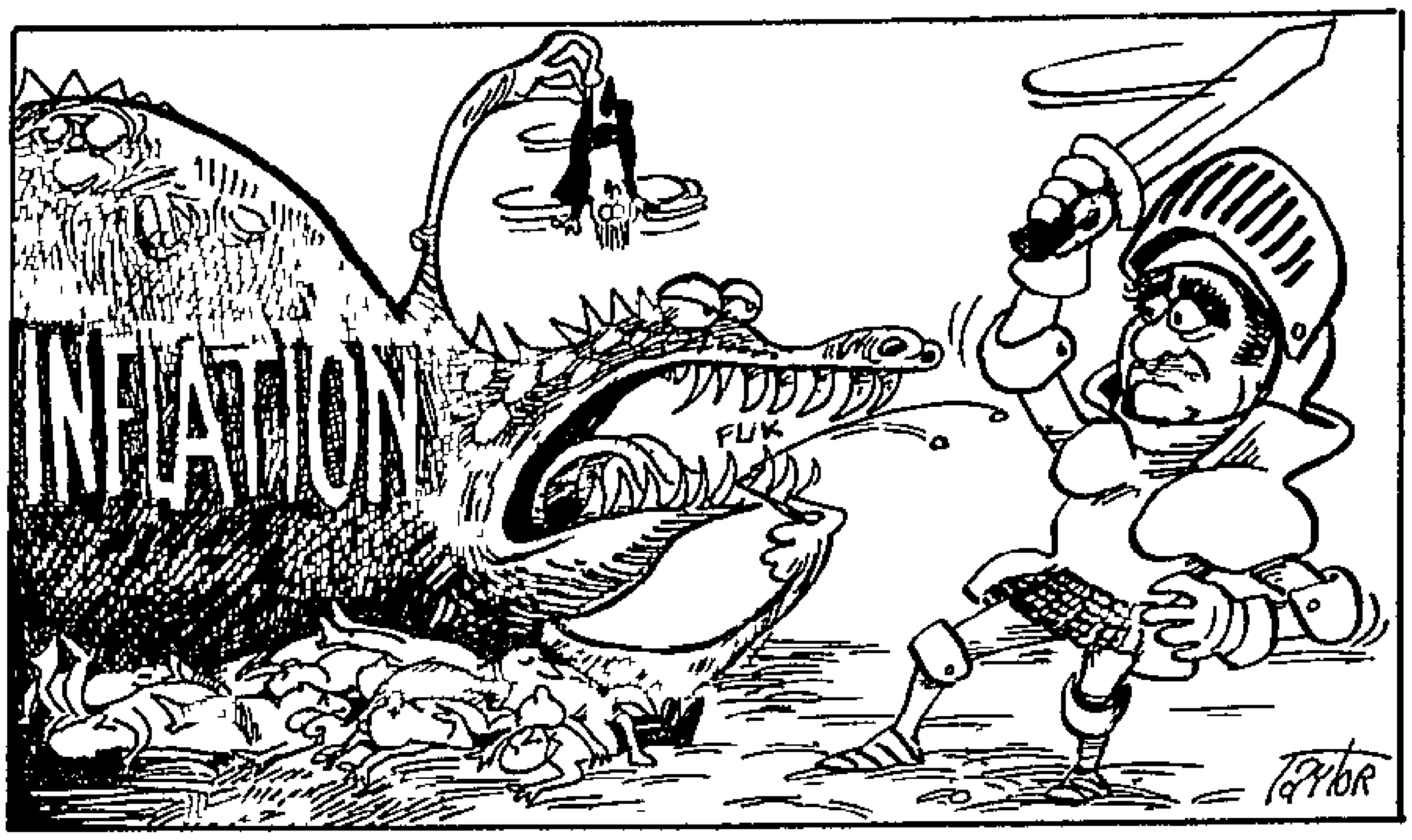
In July last year the CPI dropped to 13,5 percent But the outbreak of the Gulf war set the inflation rate rising again By the end of the year it was back to 15,3 percent

However, the effects of the Gulf war are slowly working their way out of the economy and the CPI has started to decline

Dr Stals expects this trend to continue, but said inflation was still at a high level

Referring to the strong downturn in wholesale and retail turnovers, he said the Reserve Bank would like to get inflation down without affecting the real economy

He would not be drawn on how long it would take to bring down inflation to a reasonable level or when he could cut interest rates and set the economy moving



IT'S WAR: Casualty toll in inflation fight continues to grow

The fight by the authorities against inflation has been a long and hard one It began early in 1988 when the prime rate (the rate the banks charge their best customers) was increased from 12,5 percent in January to 16,0 percent in July and to 18 percent in November This increased the cost of borrowing money by about 50 percent

By doing so the authorities hoped that the increased cost of money would deter people and firms from borrowing it

This did not happen Expectations that anything bought today would cost more next month overcame any reluctance to borrow This forced the Reserve Bank to increase interest rates to 21 percent At this point inflation did start to come down, but was halted by the Gulf War

Since then a number of other factors have strengthened the authorities' hand in the fight to curb spending

Personal tax

One has been the gradual increase in personal tax The Treasury's refusal to adjust tax rates fully for inflation has led to a significant increase in income tax rates in real terms

It is estimated that since 1989 this trend has effectively cut individual consumer spending (and therefore living standards) by between 4 percent and 5 percent

The world recession and the drop in the gold price has reduced this country's export earnings and also played a major role in trimming consumer demand and lessening pressure on prices

The published value of South African exports in the first three months of this year is only slightly less than last year But if the figures are adjusted for inflation they are actually 14 percent lower And the resultant loss in domestic spending for the quarter in real terms is anything between R4 billion and R6 billion, depending on the multiplier used

Reserve Bank pressure on banks to hold down lending has curbed the supply of money as well, as has the slower but continued outflow of capital To some extent this can be blamed on the continued violence in the townships which is seriously disturbing foreign investors

Although money has been coming in to South Africa through the financial rand, this is not new money It is money which the financial institutions in this country have paid foreigners for South African shares and which the foreigners are reinvesting here

However, these developments have had a cumulative and increasingly severe effect on consumer demand This showed up sharply this week in the profit figures issued by OK Bazaars — one of the country's top three food retailing groups

Turnover in the six months ended March turnover was only 10 percent higher than a year ago, in spite of a 14 percent to 15 percent inflation rate In other words turnover dropped in real terms

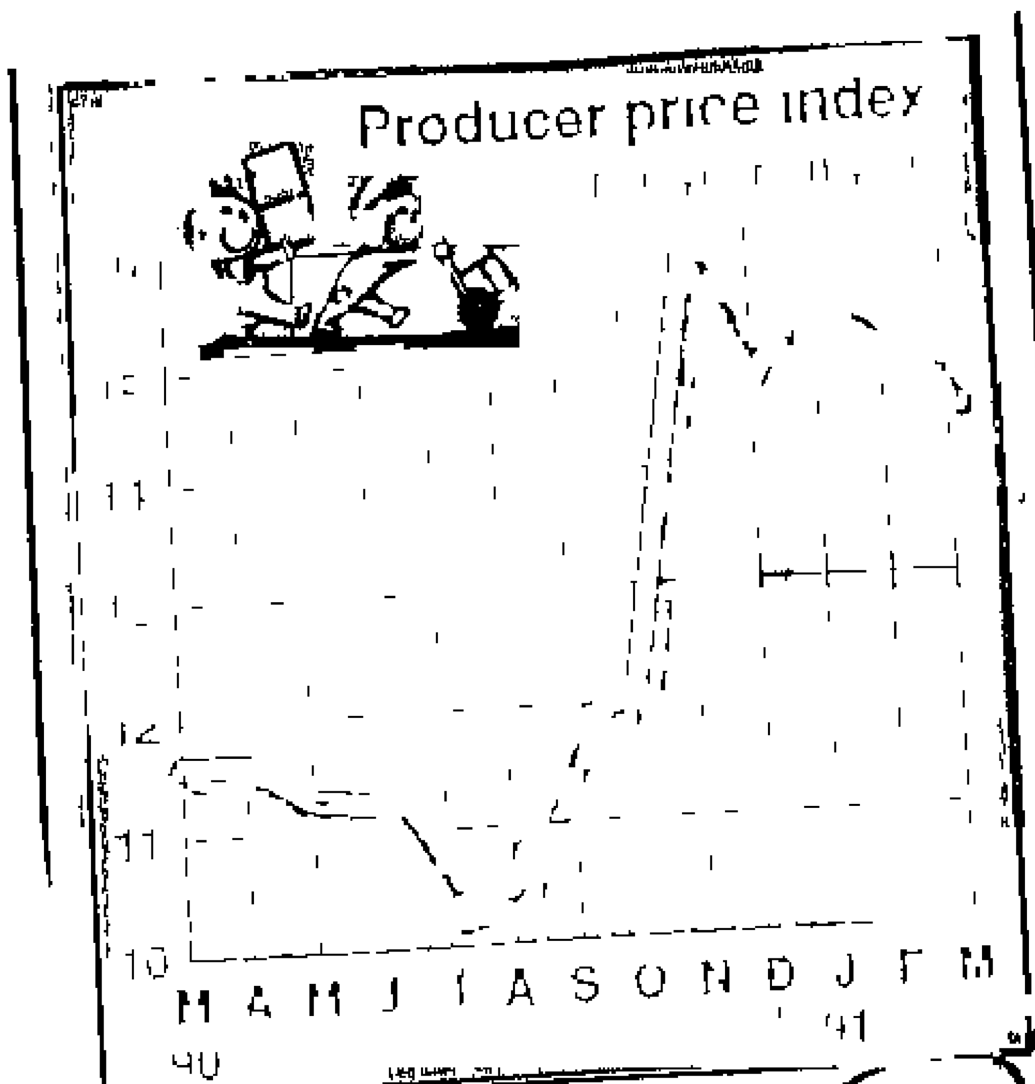
The result was that earnings in this six months' period were halved to 49,3c a share from 100c a share a year ago — which shows how tough business has become

There are other economic indicators to show that spending is drying up Car sales dropped sharply from March to April though they were higher than a year ago Lay-offs and retrenchments are steadily increasing Insolvencies are rising All these developments point to extremely tight economic conditions

In this situation the demand for goods must be dwindling — and the inflation rate falling

If this hasn't happened it's going to be a long hard slog

We'll know when the next CPI figure is announced in about 10 days' time



Graphic: FIONA KRISCH Source CSS

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Producer price inflation drops

BDay SHARON WOOD 14/5/91.

LOWER imported oil prices and slowing domestic price increases led to an easing in producer price inflation, which fell to 14,5% in March from February's 15,2%

Falling import prices were the primary reason behind a 0,4% month-on-month decline in the Producer Price Index (PPI) in March, figures released yesterday by the Central Statistical Service showed

Imported prices fell by 4,7% month-on-month — directly a result of lower imported oil prices in March This brought imported price inflation down to 8,3% from 15,3% in February

Domestic price inflation remained relatively high, at 15,9% year-on-year, and still exceeded the overall increase in producer price inflation But very few products registered large monthly price rises in March, resulting in a relatively low 0,7% month-on-month increase in domestic prices.

Economists warned the price distortions created by the higher oil prices and local fuel prices were still present and it would be some time before they were totally removed from the system

The PPI declined to 218,5 in March from 219,3 in February — indicating that producer prices had risen by 118,5% since 1985, the base year for the index. Monthly increases of note were a 4,5% rise in clothing and a 2,3% rise in tobacco prices

-ERENCE

Recession will not end this year, says Gouws

(153)

BDay 15/5/91

LINDA ENSOR

CAPE TOWN — The economy was likely to remain in recession this year, Rand Merchant Bank economist Rudolph Gouws said at the conference yesterday

"I disagree with the view that the economy is at the point of a recovery. I do not think the fundamentals for that to occur are in place," Gouws said. There would be no reversal in the deterioration of SA's terms of trade, especially as commodity prices and the rand-gold price were falling

However, he said all signs pointed to a cut in Bank rate in the third quarter of the year as the Reserve Bank was meeting its intermediate objectives on money supply, credit extension, interest rates, and reserve levels. Long-term rates could also drop.

Gouws expected a further drop in the inflation rate as the rand was relatively stable, wage increases and domestic expenditure were slowing, and import volumes had dropped substantially

He foresaw a substantial decline in consumer spending and manufacturing production.

Gouws gave as reasons for the expected continuation of the recession the further decline in SA's terms of trade, the imminent weakening in export volumes, continued tight monetary policy and pressure on disposable incomes.

He said personal debt ratios were high while wages and salaries had not increased dramatically. Consumer spending, which was affected by township violence, would drop because of the effect of fiscal drag on incomes

On the upside, there would be no further tightening of monetary policy; corporate sector and government finances were in better health than during the previous recession, large capital projects were under way, and sanctions were easing Labour legislation conflict had also been resolved

Gouws estimated that there would be a current account surplus of about R3,5bn this fiscal year with between R2bn and R3bn in net gold and forex reserves

GDP keeps falling as recession bites deep

CT 16/5/91

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By ARI JACOBSON

THE recession continues unabated with the real Gross Domestic Product (GDP) for the first quarter of 1991 perpetuating the negative trend by falling 0,9%, according to the Central Statistical Service (CSS).

This declining pattern has occurred over the last six consecutive quarters with economists predicting a full two years of recession, before an eventual kick-start by year end

Frankel Kruger's Mike Brown said a bottoming of the recession would be depicted by a growth in export volumes and the easing of monetary policy — none of which have occurred.

On a positive note Brown pointed out that capital inflows of R1,5bn for the first quarter were the best since the moratorium was declared in 1985

Old Mutual's Ursula Maritz said the deterioration in the production performance across all sectors was symptomatic of 1990

First National Bank's (FNB) Simon Law said that forecasts of a 1,2% to 1,6% growth in the GDP for 1991 meant the economy was underperforming and required a severe turnaround to meet projections.

Law was not optimistic this would be achieved with the tight credit stance aimed at bringing down inflation.

The seasonally-adjusted real GDP for the non-agricultural sector declined by 1,3% in the first quarter of 1991 after a slight increase of 0,2% in the preceding two quarters.

The sectors largely responsible for dwindling GDP were mining at -4,3% and manufacturing, which fell 3%.

Law said the poor manufacturing performance was of a cyclical nature while the negative mining output was in line with expectations.

"The government's budgeted revenue from the mining arena has dropped sharply, providing a sound indication of the likely effect on GDP and underlines the problems inherent in this industry."

The contribution of the secondary industries decreased by 3,1% in the first quarter of 1991 against the fourth quarter of 1990 — while the tertiary industries added a mere 0,7%

Slump: some sectors feel only mild pain

B/Day 17/5/91

(153)

GRETA STEYN

WHILE the mining and manufacturing sectors are plunged in deep recession, other sectors of the economy are surviving with only mild pain

Mining and manufacturing output fell by a real 4% and 3% respectively in the first quarter of 1991 from the fourth quarter of last year (seasonally adjusted and annualised), according to Central Statistical Service (CSS) figures

CSS figures also show employment in these sectors has been falling in recent months SA economic policy-makers hope that a rise in manufactured exports will be a major force for growth in the next upswing.

Agriculture turned in positive growth in the first quarter, as did finance and real estate, transport and communication, and general government

Despite falling overall output, South Africans increased their spending in the first quarter in a continuation of a trend that has surprised economists for most of the upswing

Buoyed by both private and government consumption, overall spending rose by 1% from the fourth quarter — compared with a decline of similar magnitude in overall output

Against the background of an economy shrinking in real terms, sales of "luxury" household items have continued to rise rapidly

Sales of television sets and other domestic furniture rose by 6,4% in the year to February, in spite of high overall interest rates. CSS retail figures show cash sales rising at a faster rate than credit sales, which could explain why tight monetary policy has done little to depress consumption

SA's propensity for consuming is reflected in the decline in fixed investment and savings as a percentage of GDP over the past few years

Fixed investment has fallen from 23,3% to 19,6% between 1985 and 1990, while private consumption increased over the same period

But economists predict that the consumption has little scope for further increases Forecast declines in real disposable incomes because of a drop in real remuneration should hit consumption spending soon

SINGLE DIGITS A LONG WAY OFF

Ironically, it may be easier to reduce hyper-inflation from 1 000% to 30% than to get it down from 14% to 5% Confronted with four-digit inflation, authorities have little choice but to impose Draconian measures of the type used in Brazil to shock the economy out of a rampant wage-price spiral. But when inflation is only a little into double digits, governments feel the political costs of squeezing out the last few stubborn percentage points outweigh longer-term benefits

To their credit, Reserve Bank Governor Chris Stals and Finance Minister Barend du Plessis seem to be resisting these pressures March inflation of 14,1% is still disappointingly high but it might have been far worse in a more permissive environment It nevertheless raises questions about why inflation remains so obstinate and what is required to reduce it

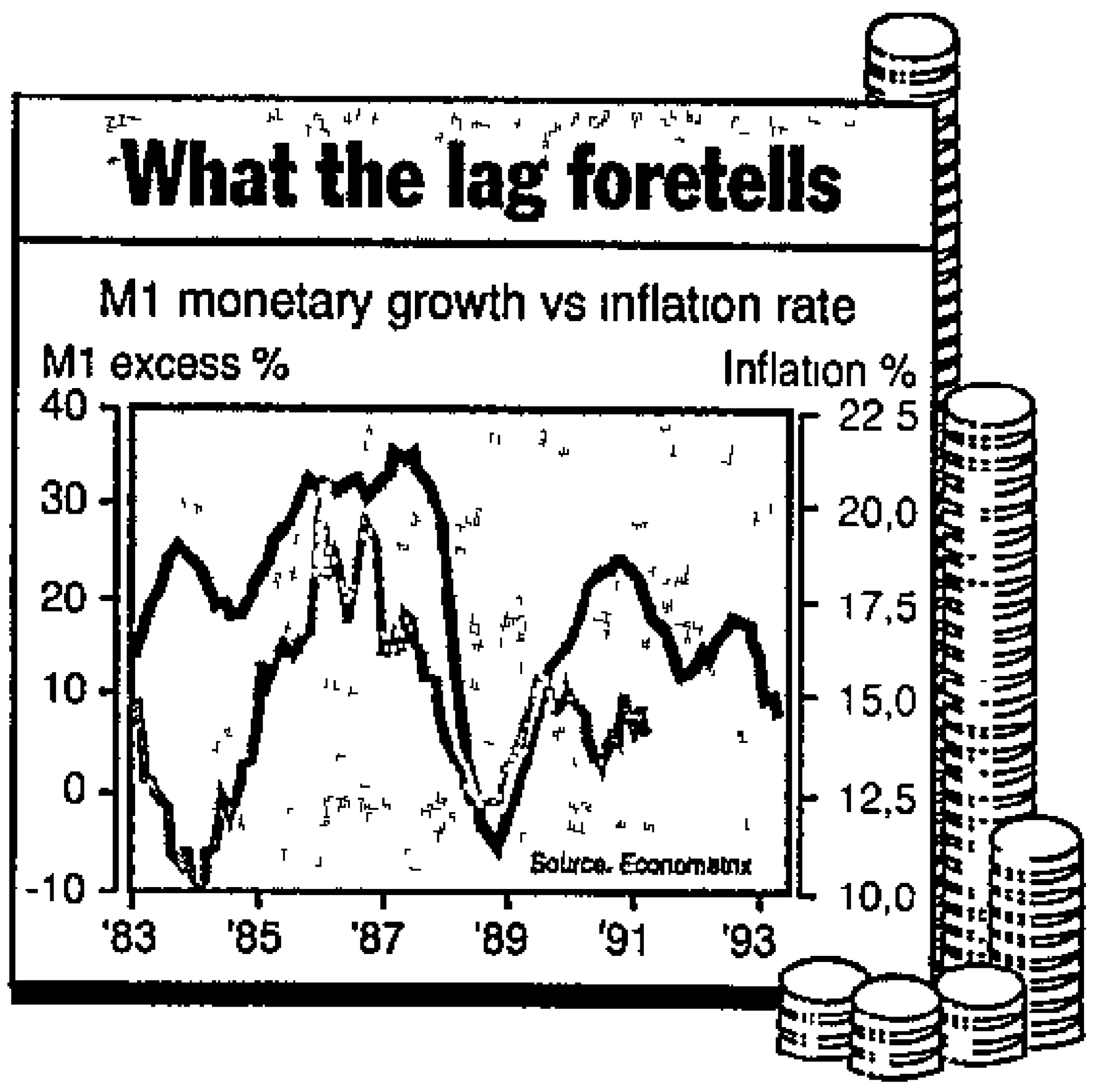
Inflation resumed its upward path in the second half of last year. It was given great impetus by the Gulf War which

□ Sent the oil price to a high of US$40 a barrel from $14-$17,

□ Raised the imported component of PPI from an annual 4,4% in August to 18,1% by January, and

□ Led to two rounds of fuel price increases

But the war has come and gone, oil has fallen to around $19 a barrel and the fuel price has been reduced — though not to pre-war levels The rate of imported inflation has been reduced — in February imported producer prices rose only fractionally more than the local component at a 12-month rate of 15,3% and in March, 8,3%, compared to an increase of 15,9% in local prices



Can we expect to see the official inflation rate subside further? This depends on several factors.

□ SA's open economy makes it vulnerable to increases in the import prices Fluctuations in these usually follow exchange rate changes, but the rand's recent decline against the dollar does not account for the current inflation rate, since it is too recent Nor will it exert undue pressure in subsequent figures

Simpson McKie economist Graham Boyd says the dollar-rand rate affects exports more than imports, which are mostly denominated in yen, sterling or D-mark. The rand has performed reasonably well against the trade-weighted basket of currencies,

□ Wage increases not matched by productivity gains perpetuate the inflationary spiral as producers pass on higher costs to customers In the present political context, and in the face of union pressure, many companies have granted substantial increases This trend has been moderated in recent months by recession and falling corporate profits,

□ Lack of competition, though it does not explain the phenomenon of inflation, may account for its stubbornness.

One supporter of this view is Azar Jammine of Econometrix "Consumer prices for food have risen faster than producer prices for five years Consumers are footing the bill for huge wage increases and exorbitant rentals." But Rand Merchant Bank's Rudolf Gouws says company profit growth has slowed dramatically and it is difficult for companies to pass on cost increases

Standard Bank's Nico Czypionka points out that reducing industrial concentration need not stop firms passing on price increases "This depends also on the strength of demand Some sectors, such as retail, are fiercely competitive and there is active discounting But others say they are reluctant to reduce prices that have become accepted, in case they have to be raised again", and

□ VAT is expected to increase consumer price inflation (though the effect will be statistical), but should reduce producer prices Whether VAT has any long-term impact will depend on the extent to which this rise is included in expectations.

Prices can keep rising only if money is available to finance them. So the crucial indicator of future inflation is growth in money supply Unfortunately, this is obscured by technical factors — transactions that previously fell outside the definition of the targeted measure M3 have been included since February Economists are nevertheless confident that Stals has money supply largely under control

But his efforts may be undermined. Though fiscal spending has been disciplined, Jammine is concerned about the increase in off-Budget financing. "The R1bn from the sale of strategic stockpiles that will be spent on socio-economic development should not, in theory, be inflationary But the extra liquidity that results may have a negative impact on money supply, which filters through into inflation "

It is important to bear in mind the lag effect of monetary policy on inflation. Bankorp's Nick Barnardt stresses that indicators of financial stability — credit demand, overall spending, fixed investment, imports, the balance of payments, the exchange rate, corporate cash flows and the rate of wage increases — can take up to two years to react fully to high interest rates. The recent reduction in Bank rate shows that greater financial stability has been achieved, but the real fall in inflation will be seen only later

Assuming a 27-month lag between excess monetary growth and inflation, research by Jammine suggests that the damage done in 1988-1989 may remain with us until the end of 1992 (see graph). By then demand pressures may neutralise subsequent policies

The strength of the link and extent of the lag are points of debate but the figures don't augur well No one is thinking in terms of single-digit inflation, optimists project it around 12%

Since positive real interest rates are the key to lower inflation, nominal rates will have to remain high

These people need help

(241)

Star 21/5/91

Homeless Manfred sleeps in trains

By Jacqueline Myburgh

Temperatures have plummeted in the past few days, and none are feeling the cold more than people with nowhere to shelter when the chill sets in at night

Manfred (54) — he would not give his surname — is one of those without a home, bed or blankets. He sleeps in railway carriages at the Johannesburg station

"We're not allowed to, but we take chances anyway," he said

With dirty hair combed over the back of his head, and two rotten teeth protruding from his bottom lip, Manfred was dozing in the sun on a Joubert Park bench last week

He said he had last eaten a few days ago, but he preferred not to remember exactly when, since it only made him more hungry

The Star Operation Snowball

Manfred came to South Africa from Germany in 1953 He worked on the mines until two years ago when he was retrenched He has not been able to find work since

He has no family in South Africa, although his children live in Namibia — he does not know where, exactly.

"I walk alone, I am alone," he said

Please spare a thought for people like Manfred this winter There are thousands like him who are without blankets to provide warmth, and they need our help

If you would like to help The Star to relieve the plight of the needy by providing them with blankets, please send a

SINGLE DIGITS A LONG WAY OFF

Ironically, it may be easier to reduce hyperinflation from 1 000% to 30% than to get it down from 14% to 5% Confronted with four-digit inflation, authorities have little choice but to impose Draconian measures of the type used in Brazil to shock the economy out of a rampant wage-price spiral. But when inflation is only a little into double digits, governments feel the political costs of squeezing out the last few stubborn percentage points outweigh longer-term benefits

To their credit, Reserve Bank Governor Chris Stals and Finance Minister Barend du Plessis seem to be resisting these pressures. March inflation of 14,1% is still disappointingly high but it might have been far worse in a more permissive environment It nevertheless raises questions about why inflation remains so obstinate and what is required to reduce it

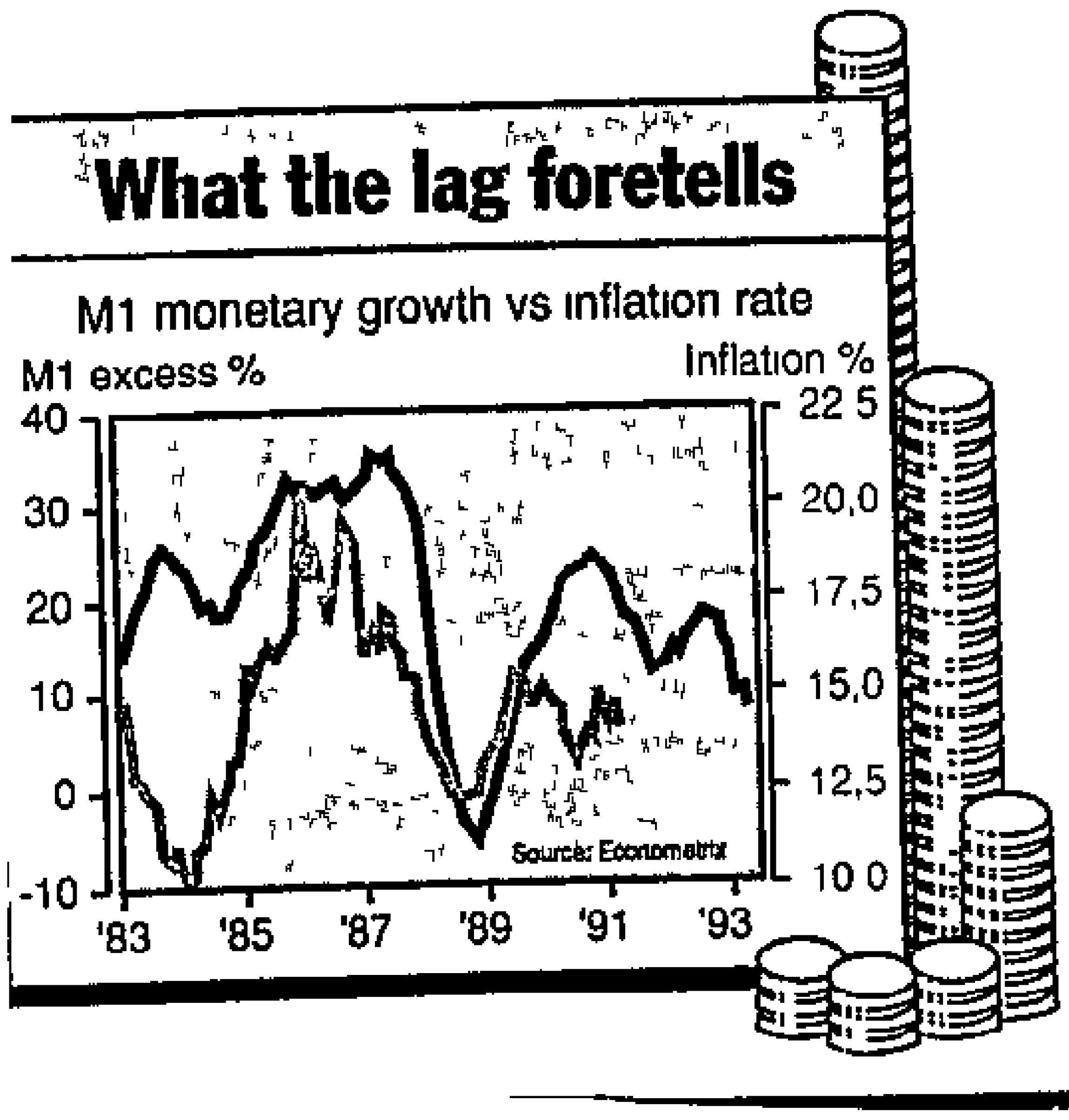
Inflation resumed its upward path in the second half of last year It was given great impetus by the Gulf War which

☐ Sent the oil price to a high of US$40 a barrel from $14-$17;

☐ Raised the imported component of PPI from an annual 4,4% in August to 18,1% by January, and

☐ Led to two rounds of fuel price increases.

But the war has come and gone, oil has fallen to around $19 a barrel and the fuel price has been reduced — though not to pre-war levels The rate of imported inflation has been reduced — in February imported producer prices rose only fractionally more than the local component at a 12-month rate of 15,3% and in March, 8,3%, compared to an increase of 15,9% in local prices



Can we expect to see the official inflation rate subside further? This depends on several factors

☐ SA's open economy makes it vulnerable to increases in the import prices Fluctuations in these usually follow exchange rate changes, but the rand's recent decline against the dollar does not account for the current inflation rate, since it is too recent. Nor will it exert undue pressure in subsequent figures

Simpson McKie economist Graham Boyd says the dollar-rand rate affects exports more than imports, which are mostly denominated in yen, sterling or D-mark. The rand has performed reasonably well against the trade-weighted basket of currencies,

☐ Wage increases not matched by productivity gains perpetuate the inflationary spiral as producers pass on higher costs to customers In the present political context, and in the face of union pressure, many companies have granted substantial increases. This trend has been moderated in recent months by recession and falling corporate profits,

☐ Lack of competition, though it does not explain the phenomenon of inflation, may account for its stubbornness

One supporter of this view is Azar Jammine of Econometrix. "Consumer prices for food have risen faster than producer prices for five years Consumers are footing the bill for huge wage increases and exorbitant rentals" But Rand Merchant Bank's Rudolf Gouws says company profit growth has slowed dramatically and it is difficult for companies to pass on cost increases

Standard Bank's Nico Czypionka points out that reducing industrial concentration need not stop firms passing on price increases "This depends also on the strength of demand Some sectors, such as retail, are fiercely competitive and there is active discounting But others say they are reluctant to reduce prices that have become accepted, in case they have to be raised again", and

☐ VAT is expected to increase consumer price inflation (though the effect will be statistical), but should reduce producer prices Whether VAT has any long-term impact will depend on the extent to which this rise is included in expectations.

Prices can keep rising only if money is available to finance them So the crucial indicator of future inflation is growth in money supply Unfortunately, this is obscured by technical factors — transactions that previously fell outside the definition of the targeted measure M3 have been included since February Economists are nevertheless confident that Stals has money supply largely under control

But his efforts may be undermined Though fiscal spending has been disciplined, Jammine is concerned about the increase in off-Budget financing "The R1bn from the sale of strategic stockpiles that will be spent on socio-economic development should not, in theory, be inflationary But the extra liquidity that results may have a negative impact on money supply, which filters through into inflation "

It is important to bear in mind the lag effect of monetary policy on inflation. Bankorp's Nick Barnardt stresses that indicators of financial stability — credit demand, overall spending, fixed investment, imports, the balance of payments, the exchange rate, corporate cash flows and the rate of wage increases — can take up to two years to react fully to high interest rates. The recent reduction in Bank rate shows that greater financial stability has been achieved, but the real fall in inflation will be seen only later.

Assuming a 27-month lag between excess monetary growth and inflation, research by Jammine suggests that the damage done in 1988-1989 may remain with us until the end of 1992 (see graph) By then demand pressures may neutralise subsequent policies.

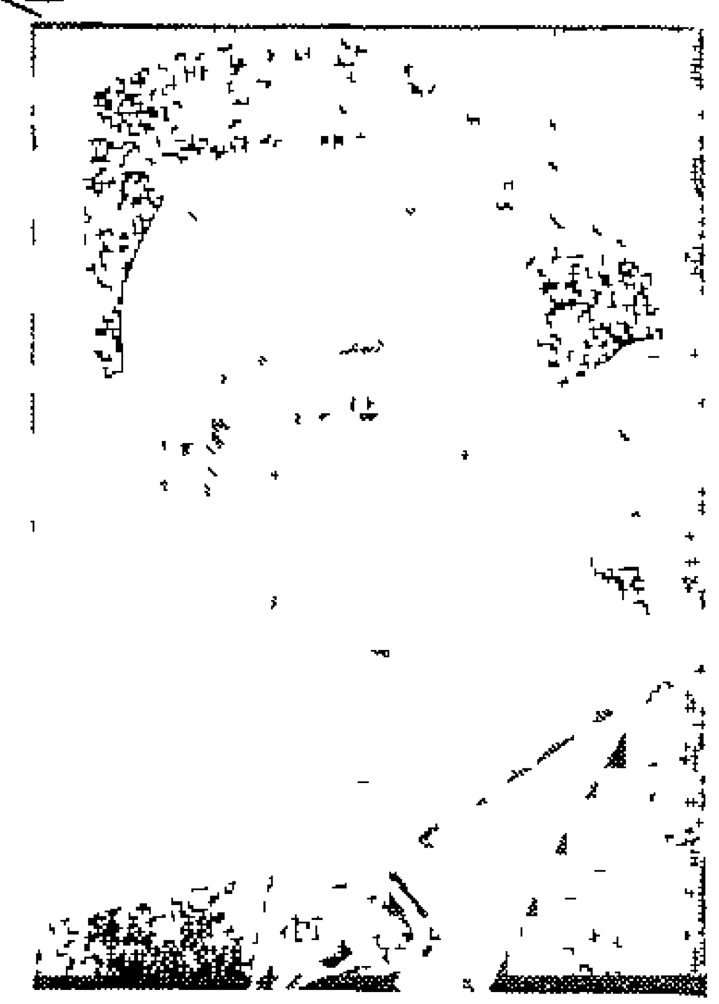
The strength of the link and extent of the lag are points of debate but the figures don't augur well No one is thinking in terms of single-digit inflation, optimists project it around 12%

Since positive real interest rates are the key to lower inflation, nominal rates will have to remain high

Collusion among competitors the main cause of food inflation

Star 18/5/91 153

South Africa, with its unique problems, needs every possible edge not only to survive economically but to become the powerhouse of Southern Africa Although Dr Chris Stals, Governor of the Reserve Bank, is curtailing money supply and, hopefully, state spending, he cannot contain inflation unless he can also promote vigorous competition. So says ROBIN McGREGOR of Who Owns Whom and one of the authors of Economic Alternatives which, among other things, investigated concentrations of power in business. Commissioned by Saturday Star, he examines the cartels issue.



THE inflation rate may have been down to 14,1 percent in March, but the cost of food is maintaining its upward spiral — now at about 15,9 percent.

Food prices are dictated primarily by weather conditions, agricultural productivity, marketing efficiency and vigorous competition among processors and distributors

In South Africa we have control boards dictating what and how much a farmer should produce and what he should be paid for his crops

We have little or no competition among processors and distributors — an extraordinarily fertile environment for runaway food prices.

In fact, ideal circumstances for the proliferation of cartels, which are rife in South Africa

Cartels exist where producers collude to share markets, control production, subsidise transport or discounts to fix prices and exclude competitors

Collusion is only possible if there are a limited number of producers of the same product — both from an administrative and secrecy point of view

In order to detect collusion, therefore, one must look for industries where there are few participants sharing the major part of the market

With South Africa's relatively small economy, this information is readily available from industrial associations

Industries

In 1977, the Mouton Commission found that no fewer than 57 industries — over 75 percent of the market — was controlled by three or fewer producers

Nothing was done

In the Competition Board's report No 15 of August 1985 it was alleged that there was price fixing in no fewer than 32 industries and collusion on tendering in a further 20

The report added "On account of the confidential nature of the practice, it is not possible to establish its (collusion) magnitude in the South African economy

"That it does, however, occur fairly generally, in fact more than was supposed originally, is certain"

The only action the Board took on this damning finding was to outlaw cartels and leave it at that

Indications are that where there are three or fewer suppliers holding more than 75 percent of a market, price increases are above those of inflation — in other words fuelling inflation.

Where there are many suppliers, price increases are below inflation — decreasing inflation.

Two of the major objectives of the Competition Board are to promote competition and to prevent the operation of cartels

It has the provisions of the Maintenance and Promotion of Competition Act of 1979 and subsequent amendments to give it the teeth to do so.

These teeth have never been used

Not only have the teeth never been used, but the board — like many of South Africa's industrial and agricultural statutory boards — doesn't seem to know what its functions are, or the powers it has to carry them out.

This has just been illustrated by the takeover of Bonny Bird by Rainbow Chickens which gives Rainbow 58 percent of the broiler market

Does the Competition Board believe this is promoting competition? One broiler operation buying its way to 58 percent of the market?

Under the late Stan Methven, the broiler industry was one of the few truly free enterprise sectors left in the economy.

The Competition Board has made it almost impossible for it to remain so.

To rub salt in the wound, the simultaneous 50 percent merger of Premier Feeds with Rainbow gives Premier Feeds, under the management of Rainbow, a massive share of the animal feed market

The promotion of competition must be taken out of the hands of politicians and incompetents

Objective criteria must be introduced and made retrospective

No progressive industralised nation allows a producer to control more than 25 percent of the market by any other means than internal growth

The Herfindahl-Hirschman Index (HHI) developed in the United States is a simple, easily administered measure of industrial concentration

The index, which I have modifed to suit South African conditions, is calculated by adding the squares of the market share of all producers in an industry

If the resultant sum exceeds 2500, the merger or takeover is not allowed

If it is between 1800 and 2500 there would be a mandatory investigation by the Competition Board

Between 1000 and 1800, thre is an optional investigation at the discretion of the Board

Below 1000, there is no objection

The HHI in the clear beer industry in South Africa is 9050

I estimate it is approximately 3600 in the maize and flour milling, and bread industry — the staple food industry of the majority of South Africans

In the broiler industry it is now about 3800

This objective measure of concentration could be introduced immediately

The only problem is that it would show 90 percent of our industries are not competitive.

Therefore it would require a great deal of courage to introduce it, never mind apply it immediately to the existing business concentrations.

But, of course, offending industries could be given say five to ten years to get their houses in order.

● Mr McGregor is chairman of McGregors On Line Information (Pty) Ltd, an electronic corporate information company

Official inflation figures are out of touch with reality

BDay 20/5/91 (153)

KARL POSEL

BUSINESS Day recently published a series of articles on the main contributors to our inflation rate, now officially estimated at some 15% The hundreds of surveys I have of real, living South Africans indicates the figure is closer to 25%

The difference lies not only in the price movements themselves but also in monthly expenditures, and consequently in the weighting factor Central Statistical Service (CSS) gives to each item in its calculation of SA inflation

I criticised CSS methods in Business Day in January 1989 Nothing has occurred to alter my initial standpoint. CSS is still committing two prime errors, the weighting factors and the year-on-year increase in expenditure incurred

While I agree with the equation CSS uses to calculate our inflation rate, I dispute the magnitudes of the various quantities which CSS inserts into it.

The weighting factor is the proportion of the consumer's total monthly expenditure on the item specified If our consumer's total monthly expenditure is R4 000, and he spends R1 200 on food alone, the weighting factor for the food item in the inflation rate equation follows as 1 200 divided by 4 000, or 30%

The weighting factor is a ratio Two families with widely differing monthly total expenditures and different amounts spent on food may still emerge with the same weighting factor for food.

How is a valid figure to be attributed to monthly total expenditure, and how is a justified magnitude of food expenditure to be obtained? The crucial mathematical necessity is to deal with *real live family models*.

One such family model would comprise two pre-teenage children and a bond on the family home A second, different model would have at least one university-going child, and the possibility of the home having been paid off A third would consider a retired couple, and so on. Each family model will have its own weighting factor magnitudes.

CSS does not use this concept of family models They send out thousands of questionnaires and average out the magnitudes of the answers obtained. I protest mathematically against this procedure.

My fundamental standpoint of two years ago remains unchanged Calculation of the postulated inflation rate figure is to me an applied mathematical procedure, not a statistical exercise or an economic project.

In Table 1 the family model has two school going children and the home is either rented or has a bond In each case the expenditure on this score is R1 200 per month. Monthly food expenditure is calculated on the basis of R400 per adult and R200 per child. There is one family car, "mom's taxi", and father is transported to the bus stop each day

On this detailed basis, Table 1 can be compiled. Some items, such as clothing and car repairs, represent a monthly average of a year's expenditure. Total monthly expenditure emerges as R4 000

I have shown comparable values of the weighting factor as offered by CSS in the four most important categories as assessed by decreasing

Item of expenditure	Expenditure	Weighting factor %: as calculated here	Weighting factor %: as offered by CSS
1 Home	R1 200	30	21 21
2 Total food	1 200	30	22 72
3 Transport	650	16,25	17 23
a) Petrol	250		
b) Repairs renewals	250		
c) Licence insurance	100		
d) Bus fare	50		
4 Clothes & footwear	400	10	5 98
5 Chemist, personal care	100		
6 Electricity and water	100		
7 Books newspapers	100		
8 Medical	50		
9 Telephone	50		
10 Entertainment	50		
11 Sundries	100		
TOTAL MONTHLY EXPENDITURE. R4 000			

magnitudes of monthly expenditure.

An accurate assessment of the inflation rate of a given family model relies on updated values of typical expenditure. Yet, quite unbelievably, CSS's weighting factors have remained unchanged since 1985

A possible counter-argument is that since the weighting factor is a ratio, the effect of individual changes in each item of expenditure is neutralised. The large discrepancies shown to occur in the family model analysed negate this.

Armed with accurate weighting factors for each expenditure item in a real family's budget, the final step is calculating the contribution of each item towards the final inflation rate figure This is shown in Table 2

A crucial point arises the first two columns contain the word "expenditure" The word "prices" does not appear It is an important difference.

Consider food expenditure, for which CSS states that the year-on year change is 15,7% They use the basket-of-commodities approach. A basket of *one of each* of a large number of different foodstuffs is obtained, and the total cost in February 1991 is compared with the total figure for February 1990

The percentage change is then substituted into the inflation rate equation to indicate the year-on year change in the food item.

This not mathematically correct. As the table shows, what is required is not price changes in single items, but their cumulative effect on total food expenditure.

In the period of one month our family model may consume 60 litres of milk, 30 loaves of bread, 10 jars of peanut butter and yet only one packet of porridge. It is the total monthly expenditure change year-on-year which is to feature in the inflation rate equation, not the cost change in a basket of single item commodities

In 1990 the SABC radio programme, Price Tags, pounced on this difference When CSS put the year-on year food basket cost change at 13%, listeners were asked for their change on food expenditure. The overall increase to emerge from a large input was 25%

Thus, compared to the current stated figure of a 15,7% year-on-year increase in food, my research shows that 30% is far more accurate.

A second large point of discrepancy concerns clothing and footwear CSS offers the year-on-year increase of a mere 12,8% From personal experience, I find this to be in the realm of fancy

Parents of teenage children will surely have found that a pair of shoes which cost R28 in 1990 is now some R45 My own shoes, R52 last year, are now R78 for the identical pair From similar experience with other clothing items, I find a year-on-year increase of a minimum of 50% a more accurate reflection of clothing and footwear changes

Car repairs have increased year on-year by 50% A large advertisement which appears regularly in a Durban newspaper offered, in 1990, a comprehensive tune-up for a four cylinder car for R140 In 1991 the advertisement has one change — the price is now R220 The price of a tyre for my car was R99 in 1990; it is now R150 for the identical item.

All this stands in sharp contradiction to the mere 17,8% increase offered by CSS

On the basis of what I regard as more accurate magnitudes involved I compile the first four columns of Table 2 The final column is the contribution of individual items of expenditure to the total inflation rate figure, obtained by multiplying the item's weighting factor by the year on-year percentage increase

The inflation rate for our family model under analysis is 27,25%

If our family was paying off a mortgage bond on its home instead of renting it as shown in the table, the year-on-year percentage increase on this bond repayment would be only 5% The weighting factor does not change, but the contribution to the total would be reduced to 0,3 x 5% or 1,5% instead of 6% The final figure would be 4,5% less, or an inflation rate total of 22,75%

Finally, of course, there must be some averaging to obtain a single national inflation rate figure I have detailed expenditure figures for some 400 families, many of which I have canvassed personally, and each family's inflation rate differs, but surprisingly not all that much

From unmarried to retired, their inflation rates are all just under or just over 27% for rented accommodation and 22% otherwise. This suggests there is something very wrong with the price and expenditure changes and the weighting factors CSS uses to proclaim that SA inflation is only 15%

☐ Dr Posel was Professor of Mathematics at Durban-Westville He is currently a consultant on actuarial mathematics and an author on the mathematics of finance.

Item of expenditure	Expenditure	% Weighting factor	Year-on-year % increase	Contribution to inflation rate %
Home rent	R1 200	30	20	0 3 x 20 = 6
Total food	1 200	30	30	0 3 x 30 = 9
Transport:				
a) Petrol	250	6,25	10	0 625
b) Repairs	250	6,25	50	3 125
c) Licence Insurance	100	2,5	20	0 5
d) Bus fare	50	1 25	20	0 25
Clothes and footwear	400	10	50	5 0
Remainder	550	13 75	20	2 75
TOTAL INFLATION RATE. 27,25%				

LETTERS

'Gulf war' inflation hangs in the air

B/Day 21/5/91. (153)

SHARON WOOD

INFLATIONARY pressures which erupted during the Gulf Crisis have faded far more slowly than have memories of the conflict

The effect of higher oil prices are still reverberating through the system.

The annual rate of increase in the prices of all categories directly affected by high global oil prices — the petrol price, prices of products of petroleum and coal, and the price of oil when it lands in SA — have fallen rapidly since the end of the conflict. But they are still substantially higher than pre-crisis levels.

The petrol price remains 12c above the pre-crisis level, at R1,30 a litre compared with August's R1,18, and air fares have not yet been brought down after their spectacular surge during 1990. Prices of products of petroleum and coal are growing at an annual rate of 22%, compared with 3,5% recorded in August 1990.

The category measuring the price SA pays for oil grew 17,6% year-on-year in March, well up on the 4,3% recorded in September 1990

In addition, the resistance of general prices to falls in fuel and oil prices is particularly worrying.

Downwardly rigid domestic producer prices, originally buoyed by the oil price pressures, are still a full three percentage points higher than before the crisis erupted.

Domestic price inflation was 15,9% in March compared with 12% in August 1990

The experience of price movements since the Gulf crisis highlights the central hurdles facing Reserve Bank Governor Chris Stals in his fight against inflation

High-inflation expectations are still entrenched in the minds of consumer and producer.

Producers, in particular, are reluctant to drop prices as promptly as they increase them.

On the positive side, the March Producer Price Index (PPI) recorded substantial falls in the prices of oil and petroleum-based products and this trend should continue

A fall in the PPI year-on-year rate is unusual But it will be some time before the pressures inflicted on prices by the Gulf crisis are eliminated from the system.

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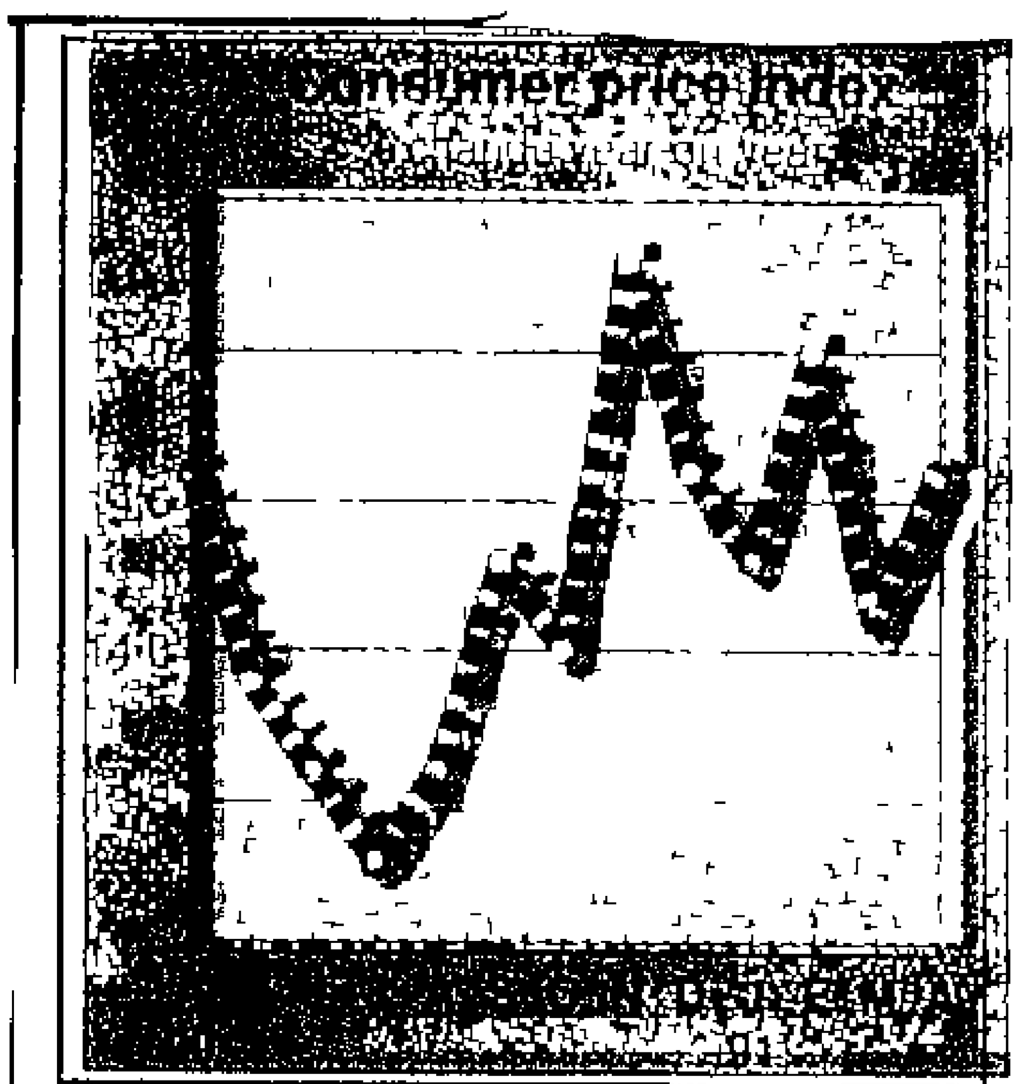


Graphic FIONA KRISCH Source CSS

Food prices bring inflation shock

SHARON WOOD (153)

HOPES for progress towards single-digit inflation have been further eroded with consumer price inflation in April rising to 14,6% from March's 14,1%

Big food price rises were the main culprit behind the relatively large 1,4% monthly increase between March and April in the CPI, figures released yesterday by Central Statistical Service (CSS) indicated. BDay 23/5/91

The 2,3% month-on-month surge in food prices outweighed monthly declines in the other two major categories — housing and transport The major movers in the food category were fruit and nuts prices (up 10% month-on-month) and vegetable prices (up 6,3%)

Housing costs fell by 0,3% between March and April as a result of the one percentage point reduction in the prime overdraft rate in March to 20%.

The 5c-a-litre cut in the petrol price in the March Budget was reflected in April CPI figures — transport costs dropped by 0,1%. A 2,3% decline in vehicle running costs negated the effect of a 3% monthly rise in public transport costs on total transport costs

Lower income consumers bore the brunt of the hike in food prices in April, with lower income group inflation rising by

☐ To Page 2

Inflation

BDay 23/5/91 (153)

☐ From Page 1

2,0% month-on-month.

But the inflation rate for middle income earners remained the highest, at 15,0% in April, compared with 14,7% for the higher income group and 14,1% for the lower income group

Economists were shocked at the rise in inflation, which came about despite falls in the petrol price and the bond rate

Old Mutual economist Ursula Maritz said the figure was disappointing

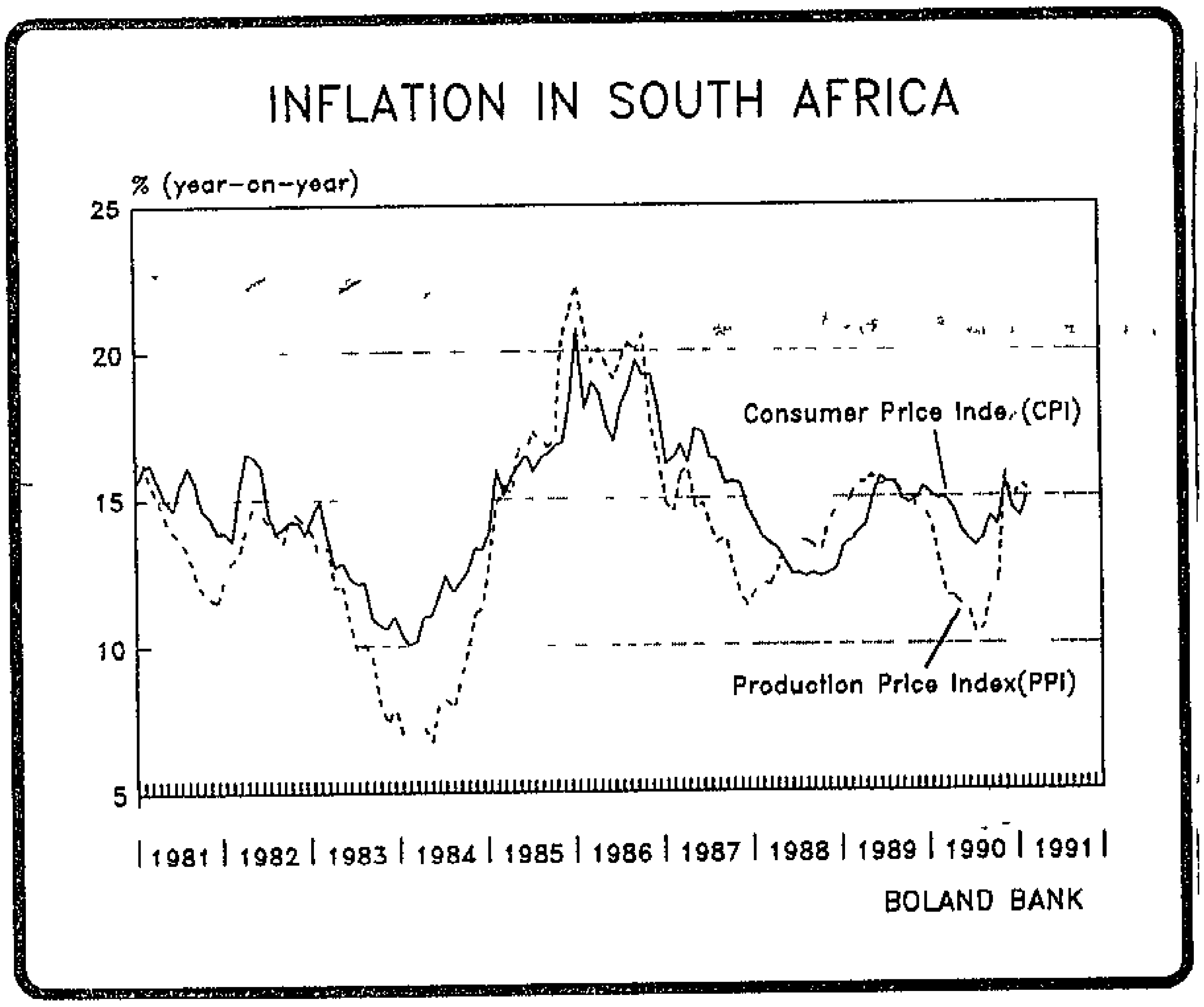
It showed underlying inflationary pressures were still particularly strong, given that the economy had been in recession for two years

Bankorp economist Emile van Zyl said the inflation situation did not look very good He said interest rates would probably remain high for the remainder of the year, with little possibility of another cut in the Bank rate this year

Soaring food prices boost inflation rate

CT 23/5/91 (153)

By ARI JACOBSON



INFLATION which must be cured before interest rates can be lowered, failed to overcome the rising trend — with the consumer price index (CPI) increasing once again in April to 14,6% year-on-year

This represented a jump from the 14,1% annual growth in March and an increase of 1,4% month-on-month — with food prices largely to blame — soaring on a monthly basis by 2,3% and a whopping 16,6% for the year

Old Mutual's Ursula Maritz said this performance was disappointing showing the strong underlying inflationary current — even though the economy had been slowing down for the past two years

Economists support this view, saying the trend was deeply disturbing as the oil price shock had dissipated — only to be replaced by the rising food price pattern

Added to this, said Frankel, Kruger economist Mike Brown, was the wage settlement factor which would impact on the CPI in the immediate future

He pointed out that wage packages were aligned with the CPI — so higher inflation meant larger wage demands

Brown said the food price gains over the last four months amounted to a massive 20% on an annualised basis.

He said that shortage of supply had helped to boost market prices for agricultural products — which in turn had been caused by the poor performance of this sector

A Standard Bank source said the CPI figures were more disheartening when the implications of VAT were included

According to the bank 1,5% to 2% will be added to the inflation figure when the indirect tax is introduced in October

The annual rate of increase imnpacted heaviest on the middle-income earners at 15%, followed by the top echelon at 14,7% and then the lower group at 14,1%

The other large contributors to the monthly non-seasonally adjusted percentage change of 1,4% were alcholic beverages (1%), clothing and footwear (0,1%) and medical care and health expenses (0,1%)

The food index breakdown showed that the high price impact occurred in grain products (2%), fruit and nuts (10%), and vegetables (6,3%)

There was a decrease of 2,3% in the transport index cost

The urban areas of Port Elizabeth/Uitenhage and Witwatersrand reflected the largest annual increase of 15,3%, while the smallest annual increase, 10,1% was in Bloemfontein

The CPI for pensioners shows an annual growth of 14,3% for April

'Inflation feeding on itself'

153 23/5/91

By PIETER COETZEE
Financial Editor

SA finds itself in the classical situation of "inflation feeding on itself", says Boland Bank in its latest Economic Review

"This is clearly evident in, for instance, labour costs rising at a positive real rate amidst a recession and serious unemployment problem in the economy.

"In this environment, one has great difficulty in envisaging an average inflation rate of below 13% in 1991 and 11% in 1992"

According to the review, SA's socio-economic environment is causing a structural rigidity in the country's price mechanism

It will therefore be very difficult to reach the ideal situation of an inflation rate comparable to those of SA's main trading partners

"The social and political structure underlying the SA economy is the critical force behind the country's double-figure inflation rate

"Conflicting, and increasingly unanswered claims on SA's shrinking domestic product makes an 'affordable' fight against inflation more and more difficult.

Anti-inflation policy

"While the accumulating socio-economic side-effects of the anti-inflation policy speak for themselves, policymakers remain committed to lowering inflation to a satisfactory level before stimulating growth again",

Counteracting inflation has become the predominant policy attitude in SA since around the middle of 1989

This policy approach manifested itself in lending rates exceeding inflation by a margin of more than five percentage points, and growing efforts to keep the country's fiscal deficit at an acceptable and financially more responsible level

Recessionary conditions, and especially the negative socio-economic impact thereof on the labour market, have surrounded the viability of a continuation of this anti-inflation policy with growing uncertainty

Although the government's fiscal stance, as reflected in the 1991/2 Budget, can surely be regarded as mildly stimulatory, it is especially monetary policy that remains extremely tight and worrying

The Reserve Bank, however, remains unequivocally clear on its view that, by sticking to its objective of protecting the value of the rand by means of fiscal discipline, monetary policy is in fact making a contribution to economic growth, albeit of a longer-term nature.

"Therefore it remains clear that monetary policymakers are not going to opt for a trade-off between inflation and short-term growth"

Inflation takes turn for worse

(153)

Star 23/5/91.

By Sven Lünsche

The stubborn inflation rate is pushing back the date at which a relaxation of monetary policy can be considered, says Reserve Bank deputy governor Dr Jaap Meier

He was commenting yesterday on the inflation rate for April, which, according to the Central Statistical Service, rose to 14,6 percent from 14,1 percent in March.

The monthly rate of increase in the consumer price index (CPI) from March to April rose by a seasonally adjusted 1,2 percent after a 0,5 percent rise from February to March

Economists had generally expected a rise of 0,8 percent and described April's figures as unfortunate and disappointing

Dr Meier agreed, saying it was disappointing to see that a tough monetary stance had failed to reduce the rate of increase in consumer prices.

"The high inflation rate is set to push back the date at which a possible drop in bank rate can be considered," he said.

Wage increases

The inflations rate's strong resistance to a tight monetary policy reflects the impact of cost-push factors in price determination, particularly the continued high level of wage and salary increases.

This has been blamed partly on the fact that wage increases are determined by collective bargaining, with little account taken of market factors.

Furthermore, economic concentrations in some sectors and price maintenance agreements ensure that retailers simply pass on higher costs to the consumer

Food price increases in particular have accelerated in the past few months.

From April 1990 to April this year food prices rose 16,6 percent, compared with 15,9 percent in March.

The CSS says large monthly increases occurred in the price of grain products (two percent) and vegetables (6,3 percent).

However, recent falls in the petrol price were reflected in a 2,3 percent drop in the index of transport costs for April.

Inflation dampens interest rate hopes

Finance Staff Star 23/5/91

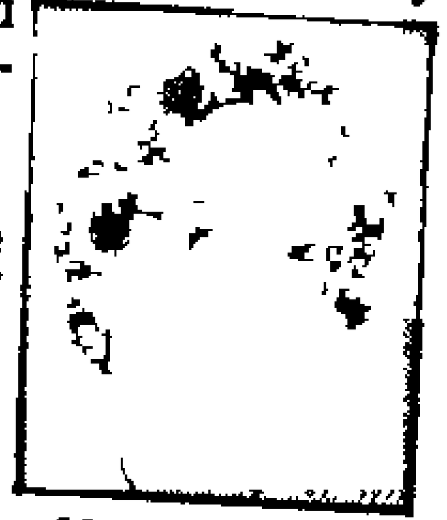
(152)

The inflation rate remained stubbornly high at 14,6 percent in April, dashing hopes of an early interest rate cut

Reserve Bank Deputy Governor Dr Jaap Meier said yesterday "The high inflation rate is set to push back the date at which a possible drop in the bank rate could be considered"

Economists said the inflation rate rise, despite a tough monetary policy, was disappointing.

The largest contributors to the monthly, non-seasonally adjusted percentage change were the prices of food, alcohol, clothing and footwear and medical care.



Morris "we have to eat".

The percentage change in the price index for food for April compared with April 1990 is 16,6 percent. Relatively large increases occurred in grain products, fruit, nuts and vegetables.

Housewives' League president Lyn Morris said the food inflation rate increase was particularly worrying as "we have to eat every day"

Another cause for concern was the effect Value Added Tax would have on foods not currently taxed.

Curbs stay until inflation tamed

S| Times (Buss Times) 26|5|91.

THERE is no chance that interest rates will fall this year. That is the word from Reserve Bank Deputy Governor Jaap Meijer.

Dr Meijer says "If we were to relent now and stimulate the economy our credibility would fly out of the window"

153

He says any hopes of interest rates falling this year have been killed by annualised increases in money supply from 14,4% to 15% and inflation from 14,1% to 14,6% between March and April

By DIRK TIEMANN

Dr Meijer says the Reserve Bank remains committed to achieving single-digit inflation and aims to bring it down to 10% by 1993

He put forward what he calls a "conceivable scenario" this week of inflation dropping to 13,5% this year, 12,5% next year and 10% by 1993

He says "Obviously we hope to achieve these targets even sooner

"I do not think that continuing high interest rates will kill the economy We are going through the darkest patch The first half of next year should bring mildly positive growth But the real problem is that there is no confidence in the economy and no new investment"

Critics of Reserve Bank policy say inflation has not fallen even though interest rates started to rise in August 1989 and restrictive monetary policy has been in place for at least two years

Remedy

They ask whether it is not more important to stimulate the economy to create jobs than to continue with restrictive policies that have failed to tame inflation

Dr Meijer says "A Keynesian stimulatory policy to create employment would undo everything the monetarist remedy has tried to achieve. We must show our determination to fight inflation and to curb wage demands and the tendency to raise prices

"Already we see VAT reflected in trade-union demands Such expectations will raise prices Inflationary expectations have been fuelled by the strengthening of the dollar against the rand, the oil shock and the trade unions"

"We have made progress since 1989 in bringing down inflation, but the public still sees it as high as it was then"

Nedbank chief economist Ted Osborn agrees with Dr Meijer that the time to kill inflation is now

"We are still locked in heavy inflation VAT will undermine anything the Reserve Bank does to control inflation

"I am pessimistic that we can get inflation down without tremendous social costs," he says.

"Debt repayments totalling R5,5-billion this year require adherence to strict monetary policy We have to roll over 50% or more of our debt because of the lower current account surplus If we used our oil reserves, we could bring the current account surplus to R4-billion — closer to the foreign commitment

"Another R3-billion payment falls due in 1992 and R5-billion in 1993"

Bankorp chief economist Nick Barnardt believes the Reserve Bank has no choice but to hang tough

He says "The fundamental problem is that there is a shortfall in savings We need high interest rates to encourage people to save"

Mr Barnardt expects inflation to drop to the Reserve Bank's target of 10% by the end of 1992 accompanied by prime interest rates of between 16% and 17%

Mr Barnardt believes the recession will bottom in the first half of 1992 He says SA's external position has improved with the balance of payments posting a net surplus of R2,2-billion in the first three months of 1991

"It is imperative that we increase non-gold manufactured exports and secure large capital inflows Our manufactured exports equal a quarter of a percent of world trade If we increase our market share by a tenth, it means an increase of 40% in export volumes Capital inflows are necessary to offset the dissaving in the domestic economy"

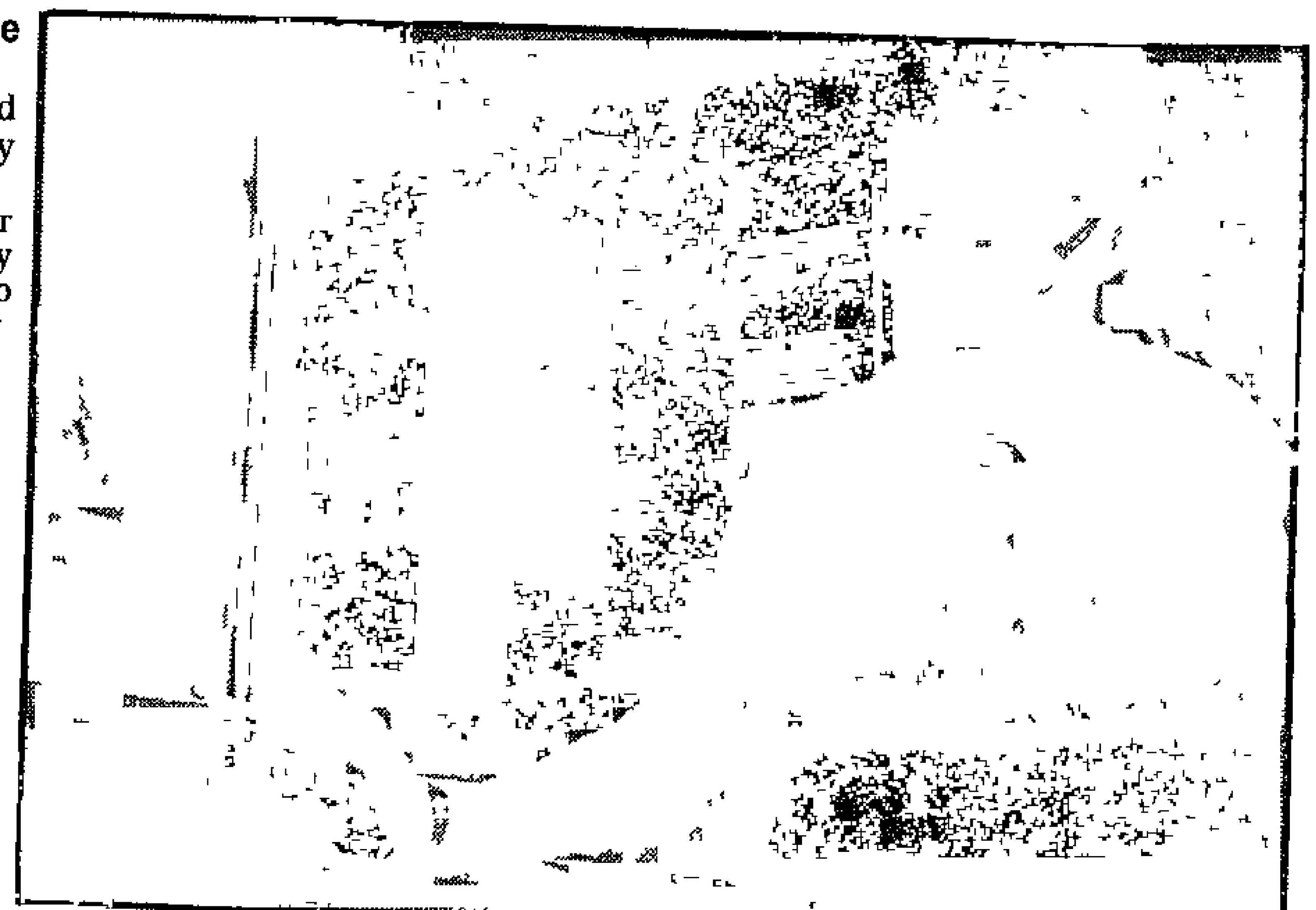
Bankorp's Econovision estimates growth in gross domestic product for 1991 will be negative It sees 0,8% growth in 1992 and 2,5% in 1993

Rand Merchant Bank economist Rudolf Gouws says the two main factors needed for an upswing, higher export volumes and higher household incomes are not in place

Works

Economists do not agree on how the economy should be revived, but public works programmes feature strongly on most agendas A restructuring (not increase) of government expenditure to priority areas and spending according to cost benefit principles is recommended by JCI group economics consultant, Ronnie Bethlehem (see page 5)

Dr Meijer warns that crash home-building programmes are inflationary because housing is essentially a consumption item He says money spent on schools and technikons is a better investment for achieving productive returns



JAAP MEIJER. Ease up on tough policy now and our credibility flies out of the window

Civil debt jumps 25% in recession's worst period

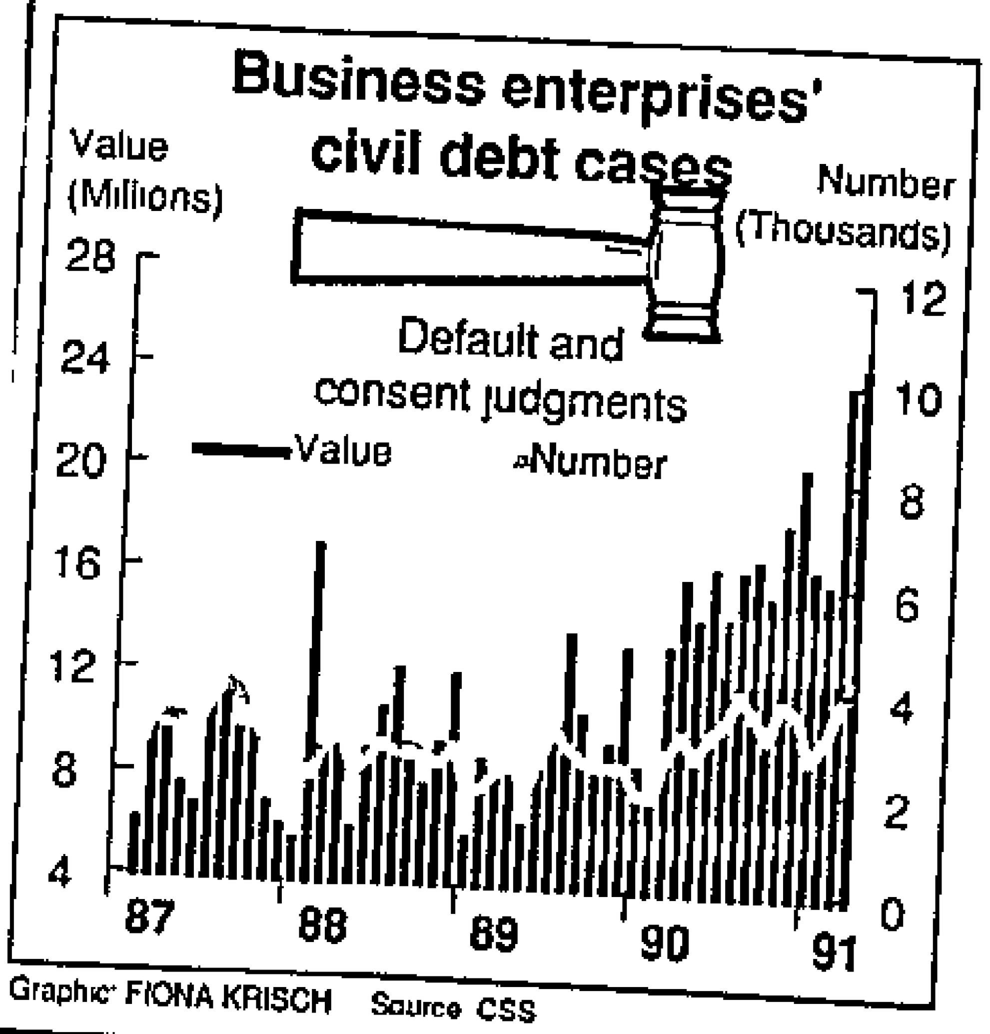
B Day 27/5/91 (153)

SHARON WOOD

RECESSIONARY conditions drove civil debt cases for businesses up 24,8% in the first quarter of this year compared with the same quarter in 1990, to their highest level in four years

Figures released by Central Statistical Service (CSS) show that summonses issued for business civil debt rose by 29,5% to 26 865 from 20 752 in last year's final quarter

The total number of civil debt cases was 29 560



Graphic: FIONA KRISCH Source CSS

Credit Guarantee economist Luke Doig said in a statement that these were the highest figures for business civil debt cases in four years

Taken together with the disappointing inflation and money supply figures, it could be argued that the economy was currently at its darkest point of the recession, he said

The economy contracted by a further 0,9% in the first quarter of the year

Total civil debt cases rose 3% in March to 97 008 from February's 94 138 Civil summonses were up 4,2% in March

Trends

During the first quarter this year debt cases were up 3,7% on the first quarter of 1990

The number of default and consent judgments rose 8,1% from 40 508 from 43 800

Sacob economist Ben van Rensburg said the figures indicated the deepening of the recession in the first quarter this year, though these recessionary trends were not necessarily an indication for the rest of the year.

In the last month there may have been indications of a bottoming out in the recession, he said

Lower inflation is unlikely — ANC

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B/Day 28/5/91

SHARON WOOD

THE ANC believes a stable inflation rate at around current levels is a more realistic and achievable goal than reducing inflation to single digit figures.

ANC representative Maria Ramos said in an interview that while bringing inflation down to single digit figures was desirable, the organisation did not believe this was possible, given the causes of inflation in SA.

Ramos said the Reserve Bank had probably realised it was not possible to bring inflation down to single digits in the short to medium-term.

"Despite a significant period of austere monetary policy, inflation is still nowhere near the single digit figures we were promised," she said.

Damage

"Indeed, it is difficult to imagine how much longer Dr (Chris) Stals can pursue this strategy — clearly the benefits of it for inflation have now been maximised."

She said it could even be argued that the current levels of interest rates were causing more damage to the economy than the benefits derived from the relatively marginal declines in the inflation rate.

Ramos stressed that fiscal and monetary policy alone would not address the inflation problem, but added the ANC had committed itself to exercising responsible fiscal and monetary policy to avoid initiating an inflationary spiral.

Fundamental structural problems were the root cause of the high core inflation rate in SA and only once these had been resolved would single digit inflation be feasible.

"Added to this is the fact that the current growth path of the economy has simply not yielded the kind of growth in real national income which is required to meet the growth of effective claims on this income," she said.

The recession would continue and exacerbate structural problems.

"In the current environment, where the pie gets smaller and the claims on the pie continue to rise, it is difficult to see how inflation can be brought down to single digits," she said.

The present economic crisis, and inflation, would not be overcome unless the economy was restructured and steered on a new growth path.

In the growth path envisaged by the ANC, the major goal would be the creation of employment and the alleviation of poverty, she said.

In this light, the ANC was looking at policies that would begin to address the critical problems of unemployment, poverty, land redistribution and social welfare. Ramos added that the ANC had stated its commitment to a democratic mixed economy.

Ramos said "The ANC is fully aware that these policies have the potential to trigger off inflation.

"However, we also know that we must begin to address the critical economic problems which we face."

Economists defend the way government sums up inflation

B/pay 30/5/91 B/pay

SHARON WOOD

153

THE debate about the validity of official inflation statistics provided by Central Statistical Service (CSS) rages on while SA heads for its 20th year of double-digit inflation

Retired mathematics professor Karl Posel has expressed doubts about the accuracy of the consumer price index (CPI) — the general measure of inflation in the economy — and criticises the way it is calculated

Posel's calculation of an inflation rate of about 25% vastly exceeds the 14,6% recorded by the CSS in April.

But banking and mining economists and statisticians say the CPI is a more than adequate account of general price movements They say the CSS achieves what it sets out to do — to provide a nationwide indication of "average" price movements

The index covers a vast number of prices for goods and services and slots these into the index, via a weighting system, to reflect the "average" SA household's spending pattern In this respect it suffers from the problem any average has — it is not directly relevant to any single individual.

This is particularly true in SA where the difference between incomes and living styles is so vast. But a directly relevant, or personally real, inflation rate is achievable only if individuals or smaller groups calculate their own personal inflation rates

Nedbank chief economist Edward Osborn says "Posel's approach may well be of interest to any particular family wanting to conduct their own personal calculations of their inflation rate. But it has no scientific basis"

In essence, Osborn says, the only way to approach the CPI is through the internationally accepted form followed by the CSS It has to be done through an index and weighting system, and this can be done only through a comprehensive and complicated survey of family budgets

Osborn adds that there is no contradiction between mathematics and statistics in the CPI He says the construction of the index is in line with principles of mathematics The CPI is an example of mathematical statistics with a firm mathematical basis

A statistician says the construction of the CPI is soundly based in mathematical principles and is an example of a nominal index of consumer spending

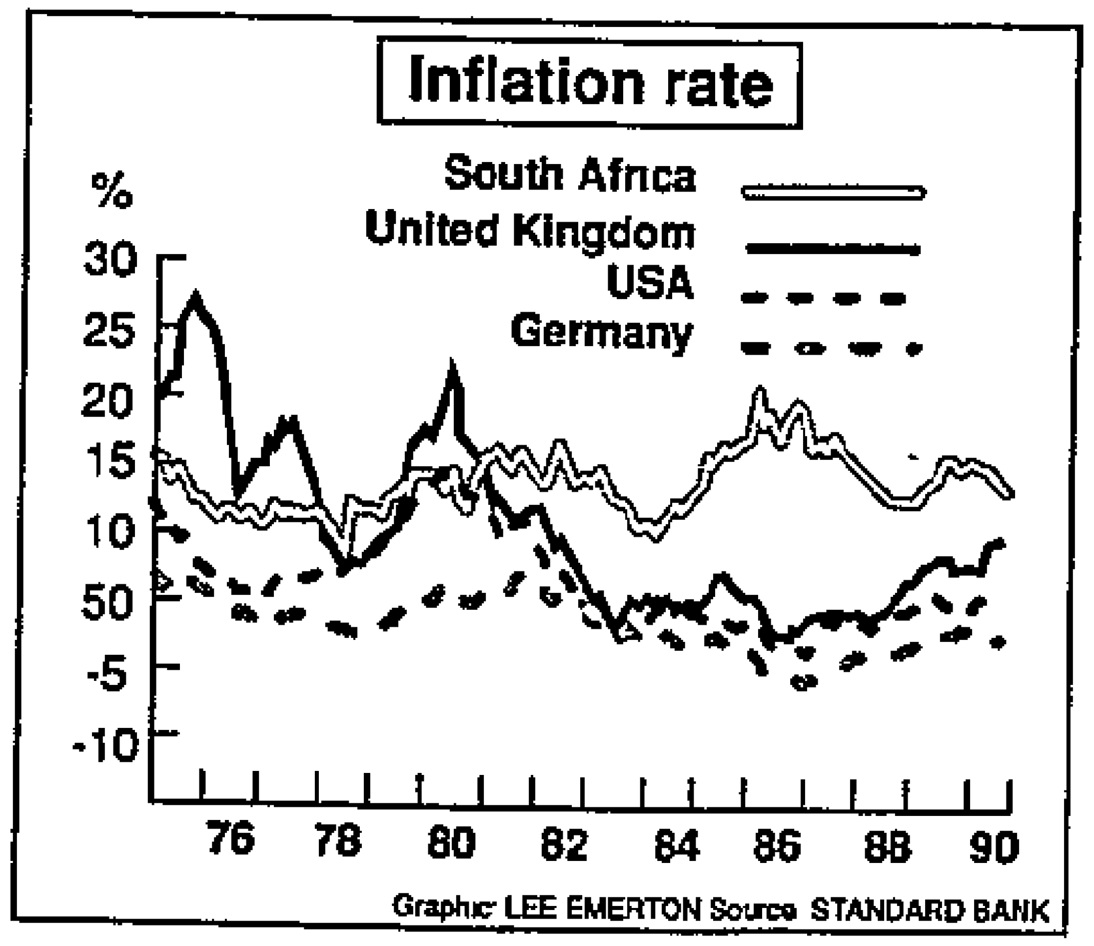
A mining economist says the CSS method of calculating the CPI is based on international statistical standards and as such is internationally comparable He contends that the CPI can never fit a personal profile.

Unisa head of economics Philip Mohr says there are very few countries that have a better CPI than SA The coverage of geographic areas, income groups and its frequency are very good, and the methods of collection the same as everywhere else

Mohr says the CPI ranks among the best statistical service in SA, and is equal, if not better, to the US CPI. He says the CPI is not a perfect measure, but that there are no perfect measures

Posel criticises the way CSS incorporates different prices in the index to reflect the "average" consumer's spending pattern.

But CSS defends the weighting system used from two angles Firstly,



Graphic LEE EMERTON Source STANDARD BANK

each item in the index is given a weight according to the importance of the item in the consumer's monthly budget This weight is determined from the results of an extensive nationwide consumer spending survey conducted every five years

Thus, says CSS head Treurnicht du Toit, Posel's criticism about the CSS's use of a single item basket of commodities is incorrect. The CSS's weighting system takes into account whether one or more of a commodity is consumed by the "average" consumer in a month

Another criticism made by Posel is that the weighting system is unrepresentative of consumer spending patterns because it is changed so seldom The CSS changes the base year and weighting system every five years The weighting system is currently being adjusted, along with the base year, and will be implemented in the second half of the year, says Du Toit

Changing the base year every five years is in line with international standards, because of the extent of the work involved

The CSS's second line of defence of the weighting system and changes to it is that consumer spending patterns do not change much in the short term Du Toit says if a variation does arise, it will not necessarily have a meaningful effect on the CPI.

The CSS and economists canvassed criticise Posel's method of calculating the inflation rate They say he has used selective prices which exaggerate the inflation rate and the sample group covered is also too small to be indicative of a generally relevant inflation rate.

Du Toit says there are a number of internal and external checks and balances which indicate that the inflation rate published by the CSS is broadly on track with actual SA price movements According to CSS, a pattern has been established between the consumer price inflation rate and producer price inflation, despite the fact that the two indices are calculated independently It also corresponds with other national statistical indicators

Rand Merchant Bank economist Rudolf Gouws says that if Posel's inflation rate were true, surely there would be massive declines in real expenditure and corporate turnover figures would be a lot higher

"Macro-economically CSS's inflation rate makes sense," he says

Osborn says if inflation were 30%, then government expenditure, growing at about 14-15%, would be showing a huge decline in real terms. This is not feasible

Inflation is an emotional issue, says Du Toit, and thus large price rises will inevitably stick in the mind of the consumer, while prices that do not change will not be acknowledged. He says it is also important to bear in mind that, as an average, many consumers will experience an inflation rate above the total released by the CSS, and some will experience a lower inflation rate

The breakdown of the index into inflation groups for lower, middle and higher income groups makes the CPI more relevant to various groups of people.

Double digit inflation has been a feature in the SA economy since 1972, peaking at 20,8% in January 1986 Since then inflation has been brought down to around 14,5% but is still way above the inflation rates of SA's major trading partners

The debate is set to continue — at a time when success in the battle against inflation seems most unsure. The Association of Corporate Treasurers of SA will bring together several key economists next month to debate the question of what inflation is and how it should be fought

Posel will be on the platform to stimulate debate on whether SA actually has further to go than it believes in achieving a single-digit inflation rate.

All fall down as the recession bites deep

S|Times (Bus Times) (153)

2/6/91 By JULIE WALKER

A CROP of losses reported this week underlines the depth of the recession.

The losses came from a broad spread Steel-maker Usko lost R11,4-million in the six months to March Two weeks earlier Middelburg Steel & Alloys announced a R17-million loss in the same time.

Insurer and engineering group Rentmeester's turnover in the six months to December 1990 fell 22% to R73-million, and the pre-tax loss was R11,2-million compared with a previous profit of R400 000. The interest bill was a little lower at R3,1-million

Rentbel lost 183,2c a share compared with earnings of 44c last time It warned shareholders that negotiations were under way

Office-furniture supplier Grant Andrews' sales rose 1% to R29-million, but a pre-tax loss of R312 000 was incurred at the February interim. The directors estimate the market shrank by 35%, but they are optimistic about the second six months

Property company Grovewalk, which repelled a takeover bid earlier this year, lost R2,7-million before tax in the year to February It also provided R1,4-million as an abnormal item against the affordable housing division and another R2-million extraordinary loss based on discontinuations and disposals and costs associated with repelling the takeover bid

Financial and project management services group Disa Development Corporation lost R1,2-million in the six months to February

Handful

"The prevailing bond-boycott mentality has resulted in a reluctance by lending institutions to fund construction , " in Disa's market, says managing director T Sterglanos

In addition to five losses, another 13 companies out of 28 reporting fared worse than in their previous comparable periods Six of the rest changed the length of their reporting periods, making comparison irrelevant

Among the handful to do notably better was Metkor Its turnover edged up to R1,4-billion in the six months to March, but higher income and lower interest and tax lifted net attributable earnings by 43% to R15,7-million. In spite of the economy's decline, Metkor aims to beat last year's earnings

Presmed's earnings a share rose by 43% to 22,3c on turnover growth of 32% to R51-million in the year to February The group manages seven clinics and three hospitals, with two more to open this year

Its annual compound profit growth in the five years since listing has been 63%

Absa reported earnings for the first time under the new banner Its earnings a share reached 93,4c — 14% higher than the notional sum of its separate entities before the amalgamation

Chairman Herc Hefer says demand for credit is expected to slow further and the number of defaulters remain high "despite possible further declines in interest rates in the latter part of 1991"

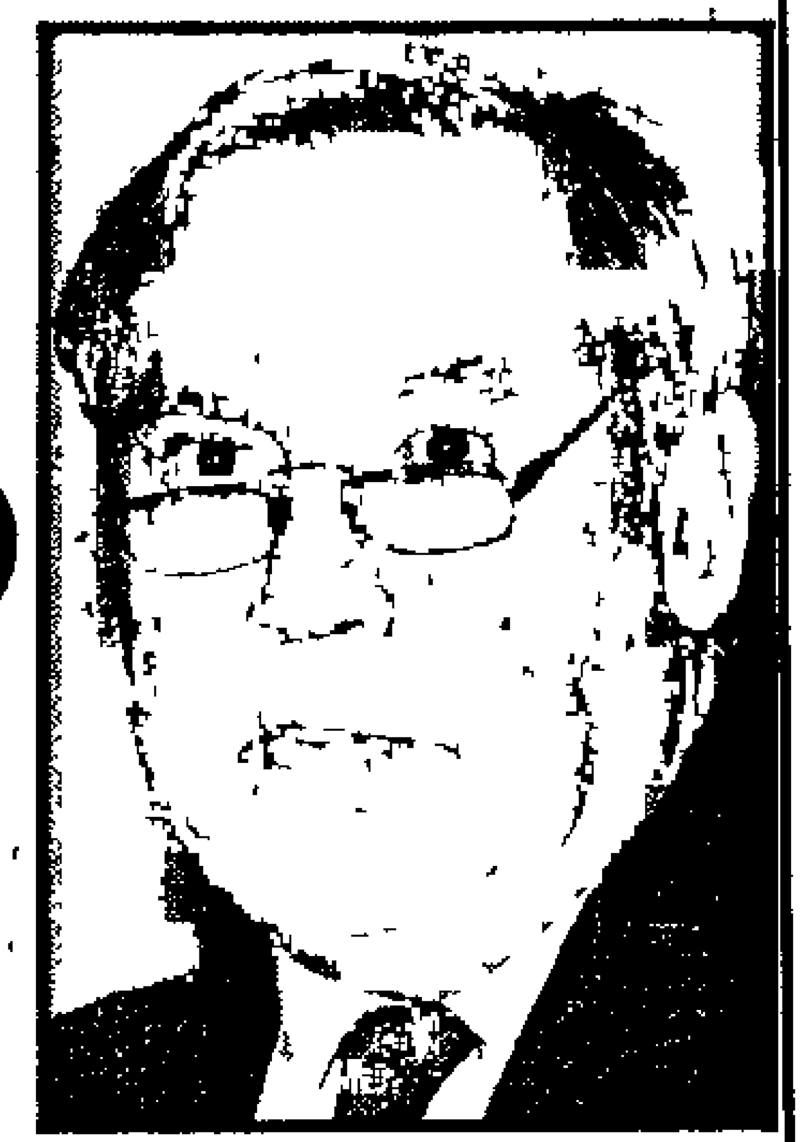
He says forecasting performance is difficult, but he expects an increase in weighted average earnings a share

Financial services and plastics group Rubenstein Holdings' earnings a share reached 15,3c compared with the 4,9c in the previous eight months The group bought back businesses from Compak and sold its holding in Compak. Chairman Jeff Rubenstein expects satisfactory results in the current year

Sanctions

Several companies returned results down by more than half They include Hyperette, Leppin, Quorum, Milstan and Aida

Computer group Ohio staged a recovery of sorts Its permanent capital rose tenfold to R651 000 and net current liabilities fell by R50 000 to R932 000 after a return to profitable operating



HERC HEFER Credit demand to slow

Its turnover in the year to February fell 58% to R14,3-million, but operating income topped R1-million against last year's deficit of R4-million

More than half went in interest, but R433 000 was left over — R7-million more than previously Chairman Robert Brothers is confident of satisfactory earnings this year

PAG, which reversed into Mynkar, made 3,2c a share in the 10 months to February The personnel agency expects the easing of sanctions to help it PAG says demand for skilled, experienced professionals remains at a premium

Inflation — new approach urged

(153)

From SVEN LUNSCHE Argus 3/6/91

JOHANNESBURG. — As evidence mounts that the Reserve Bank is having little success in fighting double-digit inflation in the face of high wage settlements, calls are mounting for a new approach to monetary policy

The Bank recently expressed its frustration over the high level of wage increases agreed to by employers and trade unions, in spite of a tight monetary policy demanding massive sacrifices in terms of growth.

The Bank is set to air its concerns at an economic summit, organised by the Congress of South African Trade Unions (Cosatu) and the South African Coordinating Council on Labour Affairs (Saccola), in July

But its arguments are likely to fall on unsympathetic ears, particularly of trade unionists who argue, with some justification, that the problems of stagflation (a high inflation rate coupled with high unemployment) need to be addressed through a fundamental restructuring

Much of the blame has been shifted to the high wage rises agreed to by employers and workers

Since the second quarter of 1987 annual wage rises have exceeded the average quarterly inflation rate

"Wage pressures are a definite cause of resistance by consumer prices to tight monetary policy, as well as a major contributor the high level of unemployment," said Reserve Bank Deputy Governor Dr Jaap Meier

Experience had shown that employers and employees took little account of the Bank's inflation rate targets when it came to adjusting their incomes to compensate for past and future inflation expectations, said former FNB economist Dr Johan Cloete

There was a likelihood that wage and price increases in the year ahead would continue to exceed the Bank's targeted rate, thus deepening the recession and further raising unemployment.

Part of the reason for this could be found in structural impediments in the form of collective rather than market-determined bargaining and the passing on of a large portion of such wage costs by a concentrated business sector.

But Dr Meier was optimistic that high interest rates would eventually stop increases in excess of inflation rates as companies' operating surpluses shrunk and unemployment rose even more

Dr Cloete, therefore, expected the Reserve Bank to maintain real interest rates at around 5 percent throughout the year to discourage borrowing to finance inflationary wage increases, in particular.

But many commentators now argue that a new approach has to be found to combat stagflation because socio-economic claims on resources will make an affordable fight against inflation increasingly difficult

The basis of such an approach is that employer and employee groups assume greater responsibility for the control of inflation, if prolonged recession is to be averted

Dr Japie Jacobs, special adviser to the Department of Finance, outlined some of these ideas in a recent speech

"Nobody in South Africa is advocating a low-wage policy as an inducement for greater employment and growth

"It is, however, our function to point out that higher wages can only be soundly based if they are supported by higher productivity from capital and labour

"This is a function of managements To the extent that labour contributes to higher productivity and thus production, they should be duly rewarded for this

"It is obvious, moreover, that old management styles will have to be changed and that labour should be seen as a partner in the running and management of enterprises," Dr Jacobs said

The trade union movement takes an even harder line on the issue

"Workers bear the brunt of the high inflation rate and umemployment, but the economic problems are not going to be solved by re-introducting starvation wages," said Cosatu's information officer Mr Neil Coleman.

"Wage increases are certainly not the real causes of the high inflation rate and massive unemployment"

He rejected any kind of social contract between employers, workers and the state "above the heads of the workers" without a fundamental restructuring.

New ideas sought as inflation fight falters

(153) Star 3/6/91

By Sven Lünsche

As evidence mounts that the Reserve Bank is having little success in fighting double-digit inflation in the face of high wage settlements, calls are mounting for a new approach to monetary policy

The Bank recently expressed its frustration over the high level of wage increases agreed to between employers and trade unions, despite an extremely tight monetary policy demanding massive sacrifices in terms of economic growth.

The Bank is set to air its concerns at a major economic summit, organised by the Congress of SA Trade Unions (Cosatu) and the SA Co-ordinating Council on Labour Affairs (Saccola), in July

However, its arguments are likely to fall on unsympathetic ears, particularly from trade unionists, who argue, with some justification, that the problems of stagflation (a high inflation rate coupled with high unemployment) need to be addressed through a fundamental economic restructuring.

Over the past two years, the authorities have kept interest rates at high levels, protected the external value of the rand and lowered money supply targets to shift inflation from its stubborn level of around 15 percent

To no avail. Inflation still sits at this level and the tight monetary policy has impacted severely on economic growth and employment creation

Much of the blame has been shifted to the high level of wage increases agreed to by employers and workers

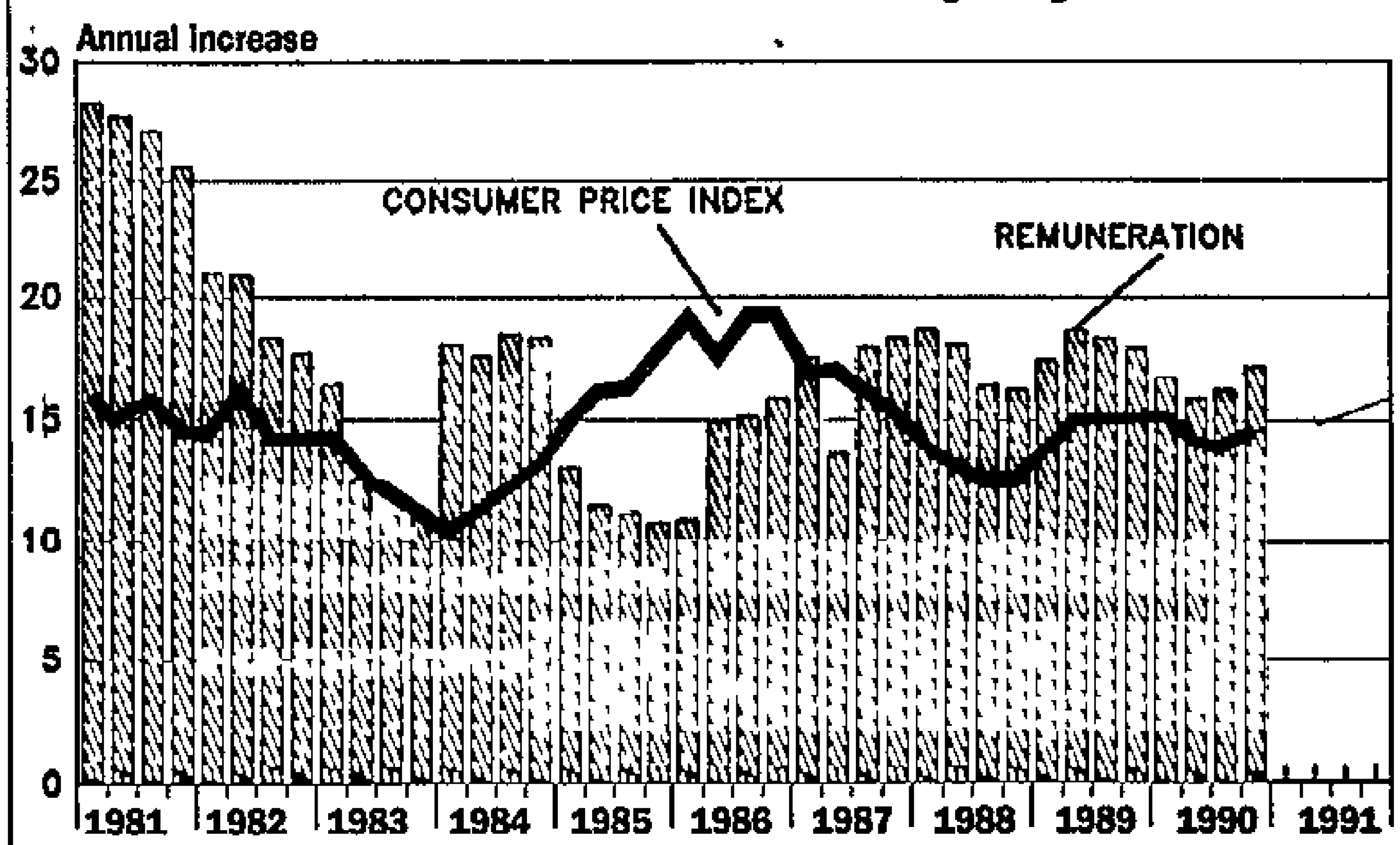
Since the second quarter of 1987 annual wage rises have exceeded the average quarterly inflation rate (see graph).

"Wage pressures are a definite cause of resistance by consumer prices to tight monetary policy, as well as a major contributor the high level of unemployment," says Reserve Bank Deputy Governor Dr Jaap Meijer

Experience has shown that employers and employees have taken little account of the Bank's inflation rate targets when it comes to adjusting their incomes to compensate for past and future inflation expectations, says former FNB economist Dr Johan Cloete

There is a likelihood that wage and price increases in the year ahead will continue to exceed the Bank's targeted rate, thus deepening the recession

Consumer price inflation vs Remuneration of employees



Source Boland Bank

and further raising unemployment

Part of the reason for this can be found in structural impediments in the form of collective rather than market-determined bargaining and the passing on of a large portion of such wage costs by a highly concentrated business sector.

Dr Meier is, however, optimistic that high interest rates will eventually stop increases in excess of inflation rates as companies' operating surpluses shrink and unemployment rises even more.

Dr Cloete, therefore, expects the Reserve Bank to maintain real interest rates at around five percent throughout the year to discourage borrowing for the purpose of financing inflationary wage increases, in particular

However, many commentators are now arguing that a new approach has to be found to combat stagflation because socio-economic claims on resources will make an affordable fight against inflation increasingly difficult.

The basis of such an approach is that the large employer and employee groups assume greater responsibility for the control of inflation, if prolonged recession is to be avoided

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"This is a function of managements. To the extent that labour contributes to higher productivity and thus production, they should be duly rewarded for this

"It is obvious, moreover, that old management styles will have to be changed and that labour should be seen as a partner in the running and management of enterprises," Dr Jacobs says.

The trade union movement, understandably, takes an even harder line on the issue

"Workers bear the brunt of the high inflation rate and umemployment, but the economic problems are not going to be solved by re-introducting starvation wages," says Cosatu's information officer Neil Coleman

"Wage increases are certainly not the real causes of the high inflation rate and massive unemployment.

"What is required is a more dynamic economic approach and a fundamental restructuring of the racially based economy," Mr Coleman says

He rejects any kind of social contract between employers, workers and the state "above the heads of the workers" without such a fundamental restructuring

But there seems little doubt that in the long run unions and employers will have to take on greater responsibilities in determining the course of the economy

THE MONEY MARKETS by Andrew Gill

Banks squeezed as Stals goes after inflation

B Day 3/6/91

RESERVE Bank Governor Chris Stals brought out the big guns last week as he put the squeeze on the banks at a time when they suffer most — month-end

Interest rates returned to favour as the means to kill (or maim) the inflation rate after a set of "shocking" key statistics were released late in the previous week.

Inflation's stubbornness prevailed again in April as the annual change in the CPI climbed to 14,6% from 14,1% and money supply growth clambered up to 15% from 14,4%

The bearish CPI and M3 figures were exacerbated by Deputy Governor Jaap Meijer's comments last weekend when he ruled out any Bank rate drop until inflation had reacted appreciably to the tight curbs

Stals's relatively *laissez faire* role of the past few months disappeared and he moved into proactive mode through various instruments at his disposal

On Wednesday he rolled over a seven-day R500m special TB issue into a 21-day R500m special TB issue It isn't new that he rolled over an issue but it happened at the month-end, the first such move for a long while

Reasonably brisk swapping of dollars to take rands out of the market continued, which again was not unusual. However, this happened close to and during month-end and that had not happened for some time.

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On Friday the weekly TB tender realised an unchanged low rate of 16,69% discount but bills on offer were increased by R20m to R150m, the highest since August 12 1983.

The extra R20m which had been taken out was not significant in itself but the message was, especially over month-end

The three factors combined confirm that message. "Less liquidity, higher rates"

Stals has decided to take a more hands-on approach to curbing inflation if last week is anything to go by The Bank seems to have changed its shortage "ranges" to above R2bn and possibly closer to R3bn and players do not expect any sustained moves below R2bn again.

Rates, however, have so far failed to react to the measures. The TB rate was unchanged at 16,69%, the three-month liquid BA rate held at 16,9%, and NCDs have shown little movement.

Also showing little movement were assets. Trade was thin during the week and demand for paper longer than three months all but dried up

Market sees another rate cut coming soon

Star 5/6/91.

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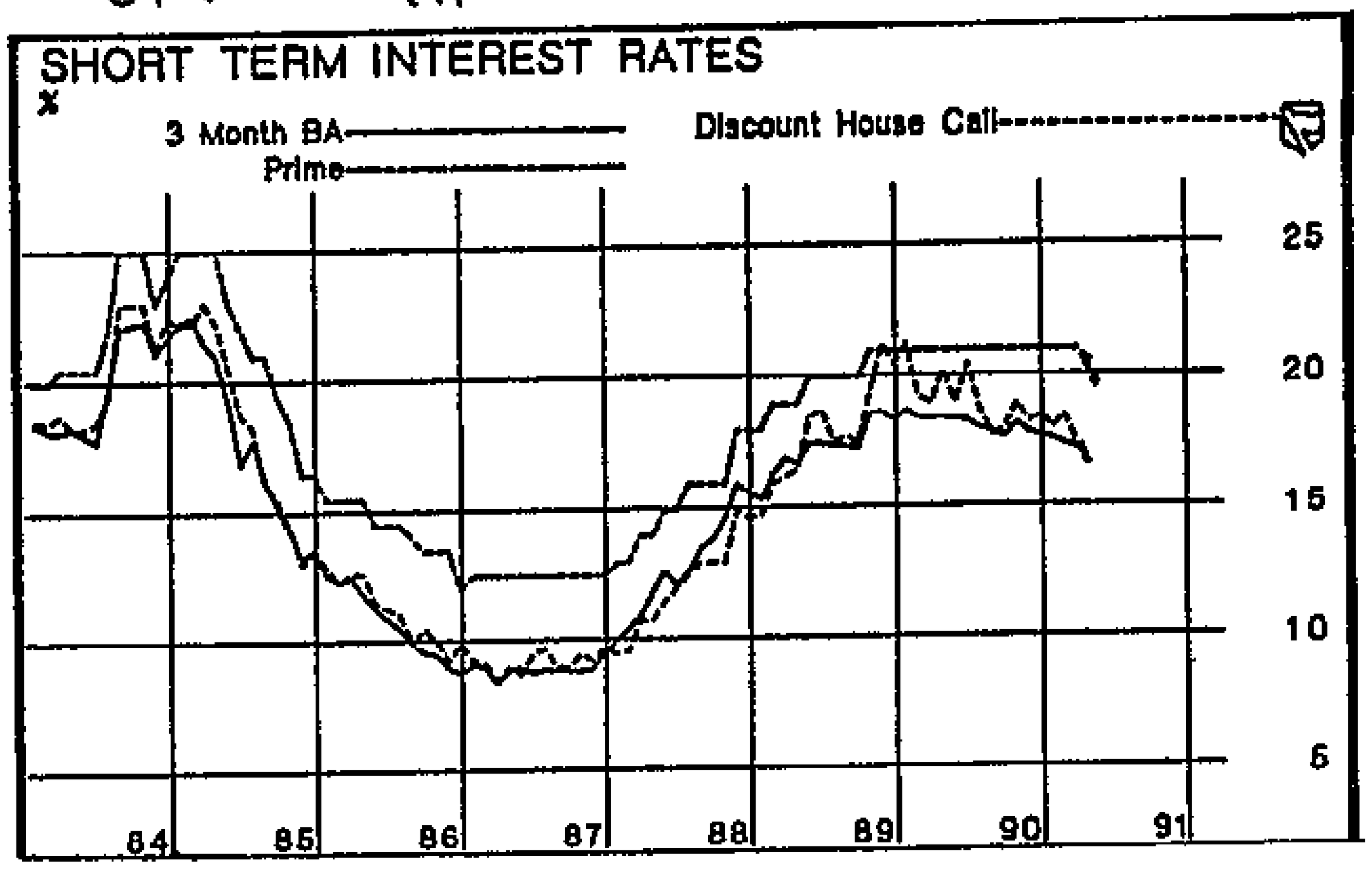
Finance Staff



Despite the continued high level of inflation and stronger money supply growth recently, economists are optimistic that interest rates will be cut within the next few months.

Rudolf Gouws, economist at Rand Merchant Bank, told a property seminar yesterday that demand for credit was weakening and that "rates should be coming down soon"

"There is no reason for any more belt-tightening The corporate sector is in better shape and companies don't have to cut back to the same extent as they did in the 1984-86 period," Mr Gouws said

In his latest Economic Monitor, Dr Hans Falkena of the United Building Society, echoes these views

"In the light of further declines in the inflation rate up to September 1991 and a further weakening in economic conditions, the authorities are likely to consider a further lowering of the Bank rate to 16 percent," Dr Falkena says

He adds, however, that the "considerable probability of too high money supply growth and high inflation in the near term might postpone the announcement of the next reduction"

The Reserve Bank has recently expressed concern at the continued high level of money supply and inflation and Deputy Governor Dr Jaap Meier told the Star last week that this could further delay a cut in Bank rate

However, attempts by the authorities to drain cash from the money market, through a regular market shortage in excess of R2 billion, and thus prevent a further fall in short-term interest rates have had little impact

The BA rate has actually fallen by 10 percentage points this week, closing yesterday at 16,8 percent compared with an average rate of 17,3 percent in the first quarter this year

Dr Falkena expects the BA rate to fall to an average of 16,4 percent in the third quarter this year, which will put further pressure on the Reserve Bank to lower its Bank rate

A major impact on the Bank to lower rates is also expected to come from declining interest and inflation rates among South Africa's major trading partners.

Mr Gouws said that South Africa "was part of the world again and we are much more dependent on economic conditions abroad.

"Inflation in the US, UK and Germany is on the way down and South Africa could well follow that trend on the back of the comparative stability of the rand and the slowing of wage increases and domestic expenditure"

Dr Falkena adds "The downward movement of the business cycle and declining German real prime rates could induce the authorities to lower the Bank rate ever further to 15 percent by year-end

"The prime rate would then be some 18 percent or roughly five percent in real terms"

● Participation bond mortgage rates took a tumble yesterday as Syfrets announced a cut in the rates for both depositors and borrowers because of a flood of money into its participation mortgage bonds fund

Tom Hood reports from Cape Town that investors will now earn 18 percent interest while borrowers — including many property developers — will now pay 19,46 percent instead of 20,54 percent This is the first cut since the rate was raised 13 months ago

Part bonds are popular with pensioners and others who seek a high fixed rate for five years or more.

Syfrets runs the country's biggest participation bond business and other institutions are expected to follow the downward trend

A spokesman said there had been exceptionally large inflows of cash from investors since the banks' prime rate was lowered by one percentage point to 20 percent earlier this year and short-term deposit rates softened.

Manufacturing industry plunges into recession

B/Day 6/6/91 153

SHARON WOOD

THE manufacturing industry slid deeper into recession in March with production volumes down 5,2% year-on-year, according to preliminary figures released yesterday by the Central Statistical Service (CSS).

Manufacturing production had been in a shallow downward trend since the recession began in the first half of 1989, but the latest figures show a steepening fall

The manufacturing production index fell to 105,6 (1985 = 100) in March from 111,5 last year

Production of durable and semi-durable goods has been particularly hard hit by recessionary conditions in the industry

The industries contributing to the slump in March were beverages (down 0,4% year-on-year), clothing (-5,2%), paper (-9,5%), other chemical products (-2,8%), machinery and equipment (-3,0%) and motor vehicles (-1,7%)

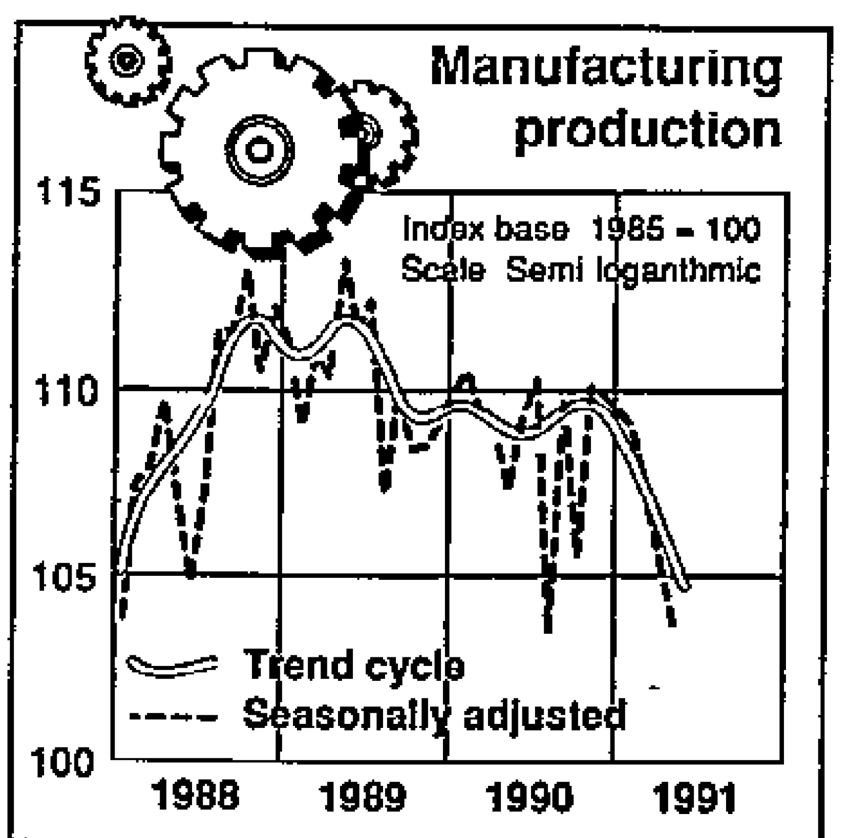
The figures followed recent concern expressed by Sacob and economists about the poor performance of the manufacturing industry, which is considered to be the growth engine in the development of the SA economy

Sacob, in its recently published Industrial Policy document, said industry's contribution to growth had declined steadily during the 1980s and remained significantly lower than in most developed and newly industrialising countries

The manufacturing industry as a whole contracted by 0,3% a year between 1981 and 1989, said Nedbank chief economist Edward Osborn in his latest Guide to the Economy

Osborn pinpointed several problems behind the poor performance of the industry during the decade

The cutback in fixed investment and capital formation in the manufacturing industry during the 1980s had a severe impact on the industry



Graphic: FIONA KRISCH Source CSS

"SA has inflicted greater damage on itself through curbing of capital formation activities than international sanctions," he said

Sacob says fixed investment in the manufacturing industry has been insufficient to meet capital replacement needs This is reflected in the declining trend in the level of fixed capital stock during the 1980s

The share of investment in the manufacturing sector in total fixed investment declined to 18% from 26% between 1980 and 1989

Manufacturing production stagnated during the 1980s despite high growth in domestic comsumption and demand Osborn said increases in consumption demand had been met by imports instead of local production

Analysis showed only 16,7% of local production had been stimulated by the rise in domestic consumption over the period

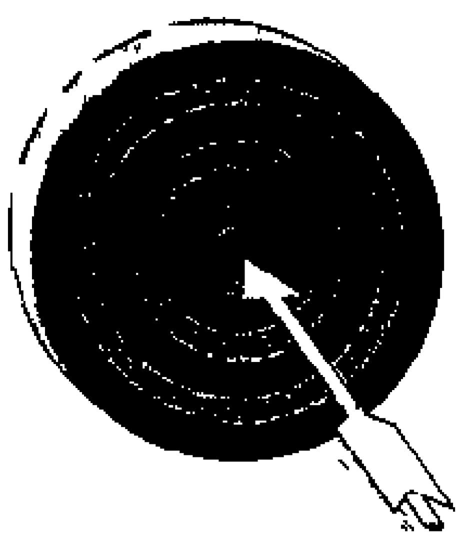
The analysis also indicated that, apart from a few exceptions, SA manufacturing was not export-oriented — a mere 7,0% of the industry produced goods for export

INFLATION

NO SOFT OPTIONS

(153) FM 7/6/91

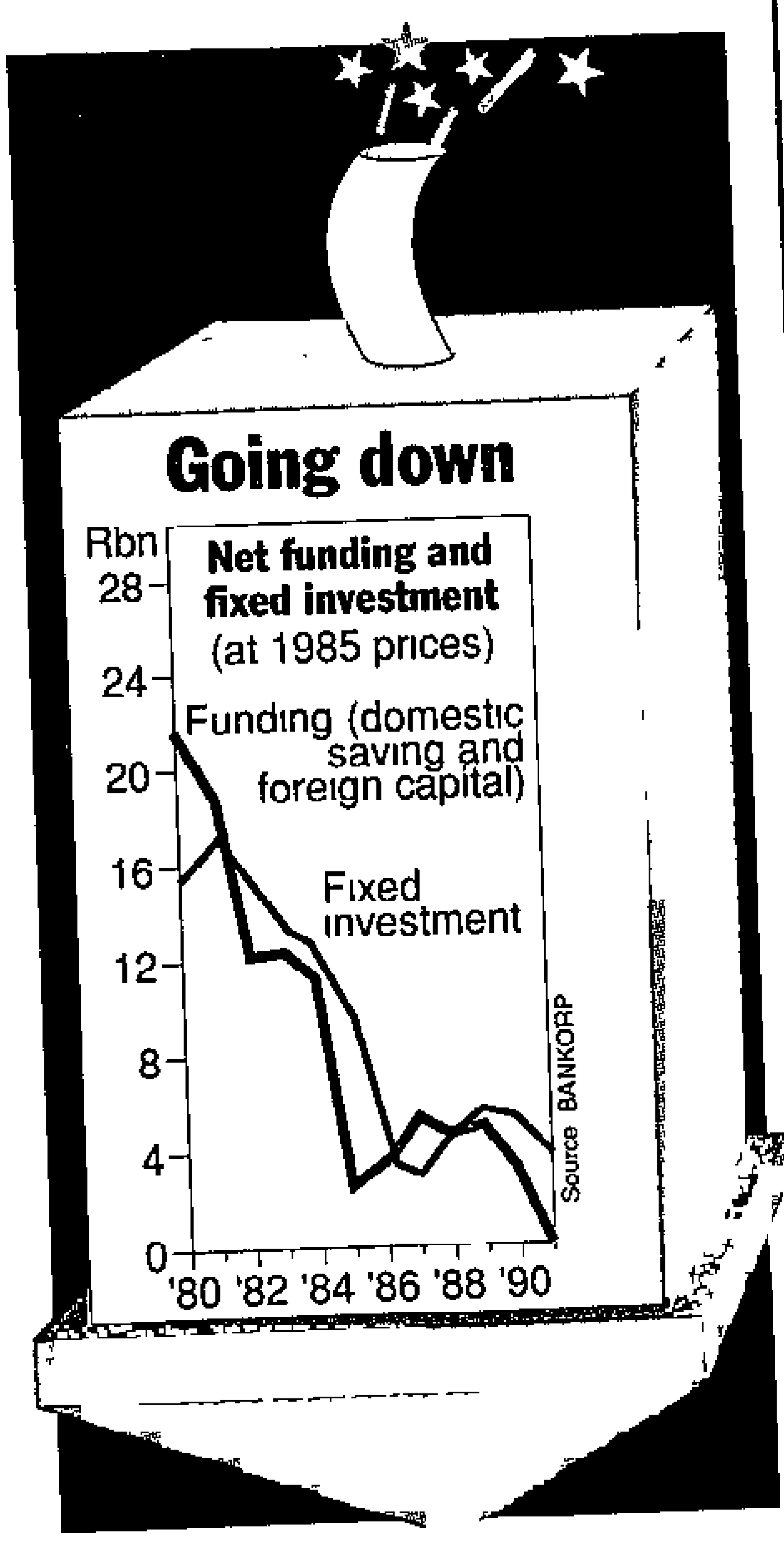
DO CRITICS OF TIGHT MONEY KNOW WHAT THEY ARE ABOUT?



The man whose direct task it is to protect the value of the rand is under sharp attack Reserve Bank Governor Chris Stals is holding interest rates at close to record levels in real terms, despite the pain of reducing business activity and rising unemployment Some say the pips are beginning to squeak Yet he can get neither money supply growth nor inflation down to acceptable levels

In these circumstances it will seem hardly surprising to ordinary people that critics are taunting him with failure and are beginning to question the extent of his achievement since he took office in August 1989

Certainly, recent statistics on inflation and money supply growth have proved disappointing — partly because of factors, exogenous and technical, which have distorted their underlying meaning But whether critics can seize on them as evidence that the present policy of tight monetary control has failed needs to be examined with more economic insight than they may have at their disposal



After six quarters of negative growth, two arguments are increasingly advanced in favour of relaxing monetary policy to stimulate the economy The first is that, in a time of social instability, growth and employment creation should take precedence over fighting inflation and that monetary policy should therefore be relaxed It assumes a trade-off between inflation and growth which has been belied by experience elsewhere

The second is that positive interest rates have failed to contain money supply or inflation so it is pointless to keep them at current levels and thus constrain economic growth

It would be a pity if these arguments were taken seriously Because what remains, when the exogenous and technical factors are stripped out of the figures, is a surprising, but nonetheless worrying, underlying strength in consumption and credit demand despite the low level of business activity

Stals attributes this, in part, to inflationary expectations And nothing in these circumstances would be more damaging than any suggestion that the authorities could be prevailed upon to deviate from their present policy of getting inflation down to single digits Suggestions that inflation could be managed or pegged at around its present levels will, if taken seriously, perpetuate inflation Nowhere in the world has that proven to be possible

That these expectations have not responded adequately more than two years after Stals stated his intention to maintain the value of the currency is testimony less to inadequate policy now and more to the entrenched legacy of 17 years of high inflation

Since May 1974, when the 12-month rise in the consumer price index was 9,7%, the official inflation rate has rarely been below 10% For most of the years that followed, economic policy was ill-considered and uncoordinated, skewed to focus on import substitution at great cost to the country's productive capacity Monetary policy was flaccid — with interest rates negative for prolonged periods And fiscal policy was profligate — as a ratio of GDP government spending rose from 12% in the Fifties to nearly 14% in the Seventies and 17% in the Eighties

In the past 10 years, the pressures created have been compounded by a falling gold price and capital flight, as well as by declining labour productivity as wage increases outstripped output growth Faced with a crisis in 1985, former Reserve Bank Governor Gerhard de Kock made the deliberate decision to allow inflation its head a growth-orientated balance of payments adjustment

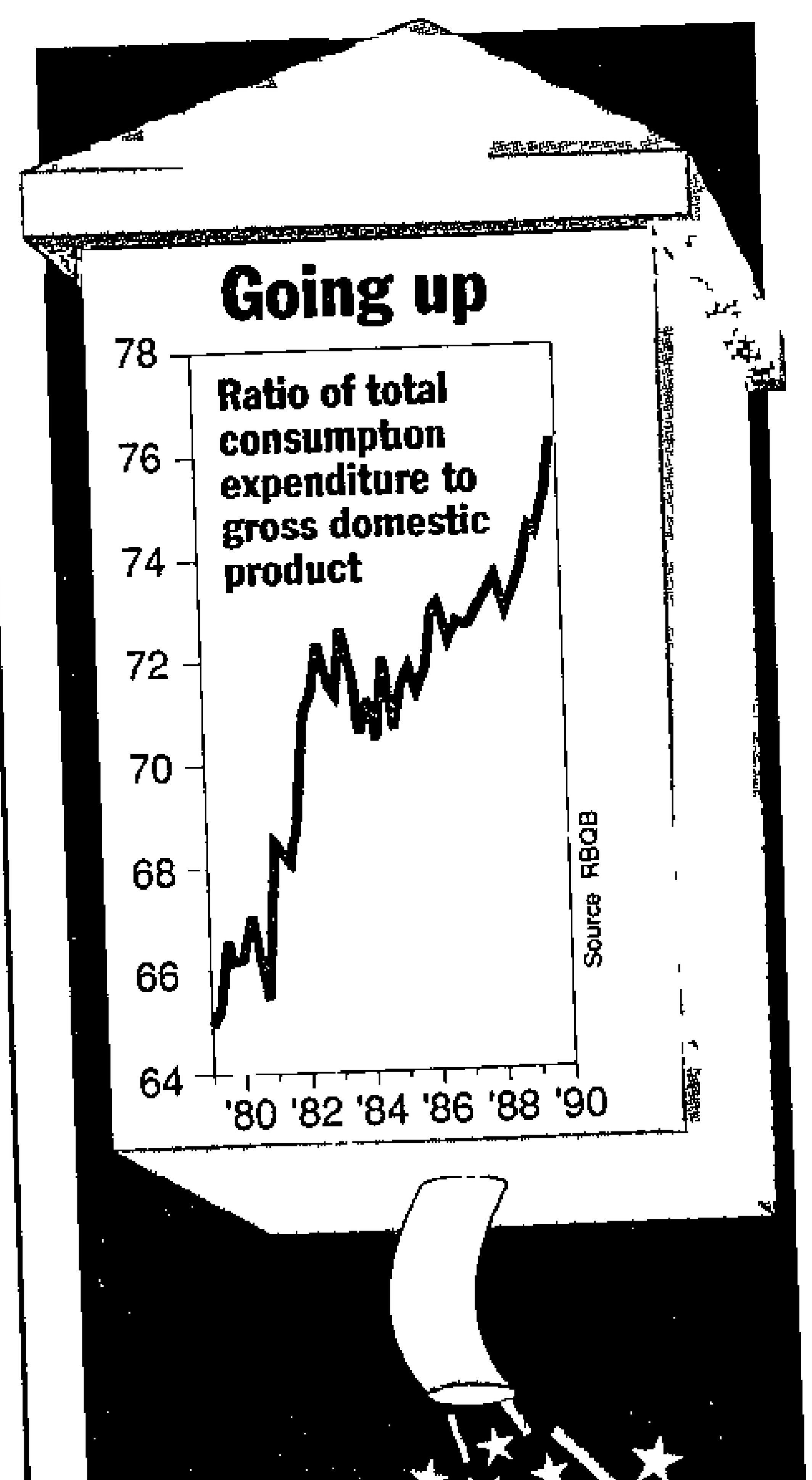
Following massive withdrawal of foreign investment, he was obliged to build and maintain a surplus on the current account He achieved this by allowing the rand to depreciate by 25% in three months This fed into the price spiral and, along with fast falling interest rates, pushed inflation to 21% by January 1986 His only alternative, he said, would have been a policy of "draconian" deflation — which would have entailed high interest rates to curtail import consumption and bolster the rand

"In retrospect," he said, in 1988, "a somewhat less 'inflationary' adjustment would have been both possible and desirable and monetary and fiscal policy should have been more restrictive, not only in 1988 but also in 1986 and 1987"

That was Stals's legacy

So, in the circumstances, he has made considerable progress He took money supply growth down from a high of nearly 28% in August 1989 to 10,2% in October 1990 And inflation, which had surged once again following the rand's fall at the start of 1988, had been brought to 13,3% by July

It is unfortunate that when money supply growth should have provided a crucial indication of the extent of the progress, it has been boosted by reintermediation, induced by the new Deposit-Taking Institutions



(DTI) Act Prudential capital and other requirements should not have taken a front seat to monetary policy before inflationary pressures had been reduced

Be that as it may What is clear is that the recent setback is not due to a failure in monetary policy It is due to a number of factors which are making the process more protracted These will have to be absorbed before more progress can be made, as will the impact of VAT which is expected to add to inflationary pressures initially

Seen in context, the delay is not surprising Nor is it unusual for inflation to respond slowly to changes in the cycle, says Simpson McKie economist Graham Boyd, who points out inflation tends to fall "during the late stage of economic downturns and has tended to remain stable or even fallen slightly during the early stage of economic recovery " If a curve plotting the average rate of inflation, in the 16 quarters from the start of the three previous recessions, is placed over an axis representing the years 1989-1992 it will demonstrate considerable downward potential in the inflation rate

Certainly progress has been made, though it has been masked But to change tack now would be to lose all the gains that have been made and add the certainty that within months there will be an even more substantial upsurge in the general level of prices

The overriding importance of economic growth is beyond dispute What is at issue is, what is the best way to achieve it? To establish this growth constraints, other than cyclical phenomena, need to be identified The most common complaint of Stals's critics is that the existing level of interest rates is driving companies out of business and consequently destroying jobs

While it is true that a fall in rates would save some companies at the margin, it is not true that this would make a significant difference By historic standards gearing is low — analysis by Ivor Jones, Roy shows that the gearing ratios of 40 industrial companies "selected to provide a representative sample of the sector" has risen only a few percentage points from just under 29% in early 1989 to about 31% towards the end of 1990, before falling slightly in 1991 This doesn t mean the cost of servicing debt is not hurting (as corporate profits fall) but it surely is far less damaging than in 1985-1986 when gearing was over 62%

The recession, though protracted, is relatively shallow Obviously in the present political environment an expansion would be preferable But, whatever the pressures, a premature move would simply set the scene for the early abortion of the next cycle, and further destabilise the economy Says Economic Advisory Council member Conrad Strauss "You cannot eliminate poverty by making more money available You cannot solve the SA dilemma by driving the economy into an inflationary environment "

The mission of monetary policy must be to create a measure of certainty in the financial markets — and this Stals has achieved with his consistency He has not the means to stimulate sustainable growth and rightly is not attempting to do so

At this point, the main stimulant to real growth will be the revival in the international economy Until renewed demand for SA's commodities and other products generates growth in export revenues, lower interest rates cannot put real zest into the domestic economy What is needed to sustain growth is the capacity to meet demand This depends firstly on political stability, which is out of Stals's hands And it depends secondly on consistent implementation of stated policy so investment decisions can be made And that is what he is providing

The weakness in the economy is not that consumers lack the confidence to consume or borrowers the incentive to borrow, there is considerable evidence to the contrary It is that investors lack the confidence to make real investments, and savers lack the incentive to save Since 1985, gross domestic fixed investment as a ratio of GDP has fallen from 23,3% to 19,6% and savings from 24,4% to 21,5% In the same period, private consumption as a ratio of GDP has risen from 53,7% to 56,9% (see graphs)

In the circumstances, what could be less logical than to advocate lower interest rates?

Bankorp's *Econovision* predicts that this year, for the first time, net private saving in SA will be absorbed by government's deficit "This indicates an acute underlying funding shortage which is currently being obscured by falling fixed investment and destocking However, the next upswing will produce inventory replenishment, together with rising fixed investment and imports "

It points out further that there "is a strong macroeconomic link between fixed investment and employment — despite the partial substitutability of labour and capital at the micro level "

What is needed now is to encourage real investment and the savings to fund it — as we can rely on only a limited availability of foreign funds This needs consistent application of policy and support from regulatory and tax dispensation

Fortunately, Finance Minister Barend du Plessis continues to state unambiguously that policies which have been announced and implemented will remain in place and that Stals continues to have the backing of the Cabinet in his battle — though the direction of the last Budget was not salutary in this respect, in the *FM*'s view

There is, however, another dimension to the problem It is not only government but its extra-parliamentary opposition, generally seen as the future government, which must support the anti-inflation credo

There are reasons why this is not politically expedient for them In the decades during which public spending grew to its present unmanageable dimensions, the beneficiaries were white and more specifically the supporters of the present government, who entrenched themselves in lucrative positions

Blacks were not only denied the benefits but were the victims, as money was poured into the creation of homelands, the uprooting of viable communities, the destruction of family life and a variety of diswelfare projects such as bulldozing squatter camps

They are, understandably, expecting reparations and redistribution This has happened to the extent that the remuneration of blacks has increased, in recent years, more than the income of whites and, for most workers, above the rate of inflation Such a redistribution would be welcome if it were not accompanied by a lowering of productivity which reduces supply and keeps inflation forces strong

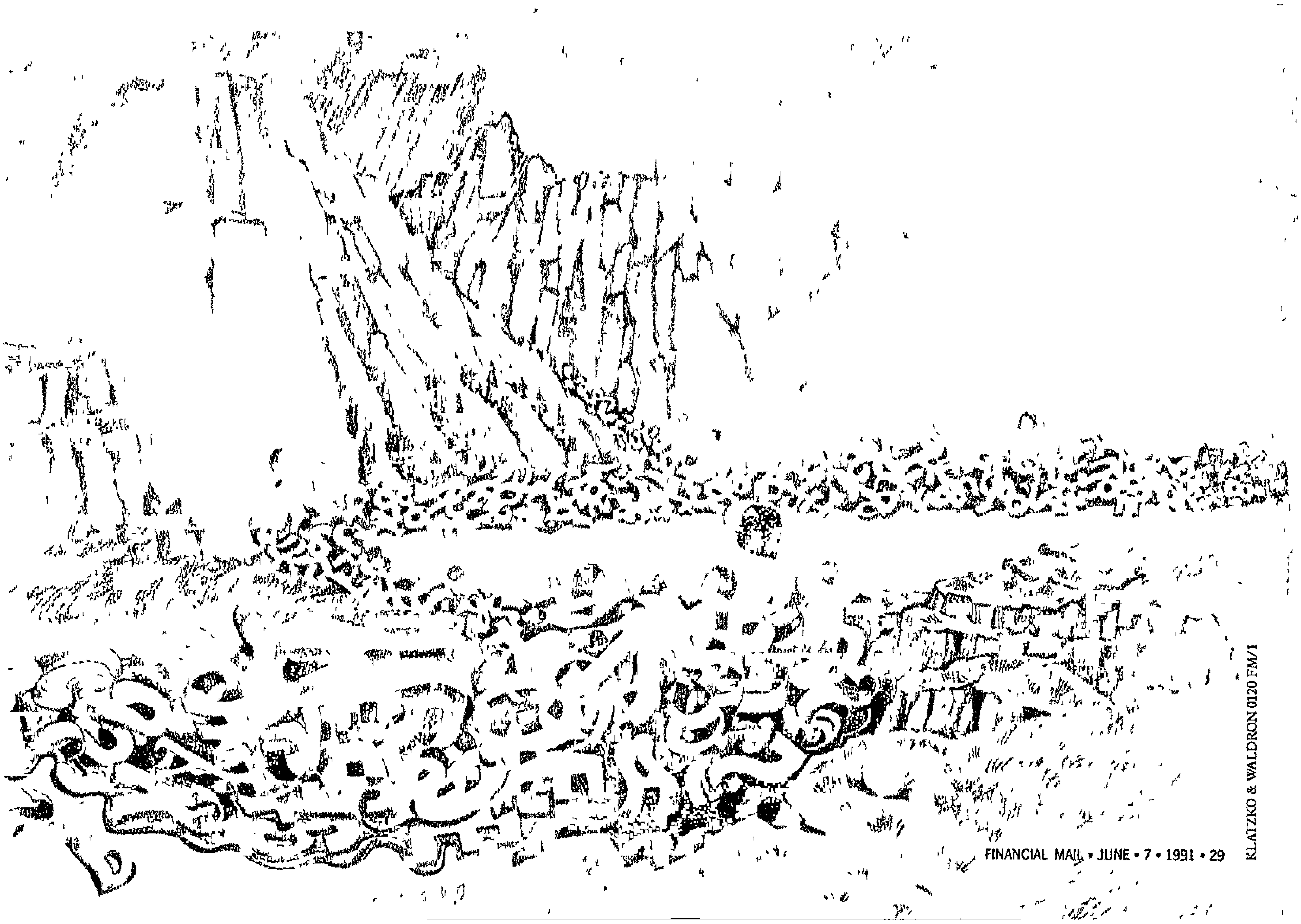
These forces can, of course, be entirely eliminated by cutting money supply growth to zero but then, as critics of strict monetary policy will be quick to point out, the cold-turkey method has drastic consequences At all events it is unlikely to be used in the present circumstances The authorities are trying, rather, to constrain inflation and squeeze it out of the system It is a long hard battle and, if it is lost, wage increases will prove to have been illusory as inflation roars up and overtakes them

It is to the advantage of all to match rising wages with increasing productivity And it is in everyone's interests to ensure that the future course of inflation will not wring all the growth potential out of the economy

What would help, too, is support for the independence of the central bank in any new constitution The latest edition of the Bank of Lisbon's *Economic Focus* says "Such independence, coming at a time of political transition, could have the useful side effect of creating an environment which is more propitious for foreign investment "

Stals is not the villain of the piece Criticism of him has been ill-informed or manifestly based on self-interest what businessman likes to admit to having made bad decisions when they can conveniently be blamed on the Governor's intransigence

But the need to persuade ordinary folk that sacrifices now to contain inflation will reap a tangible reward later requires as much political motivation as it does economic explanation Whether that is sufficiently understood in the Union Buildings, and whether in consequence Stals is receiving the degree of voluble support from that quarter that he could reasonably expect, is open to some question ■



Recession leaves many deep in debt

(153)

Star 7/6/91

By Mark Suzman

The current recession's staying power has left hundreds of thousands of South Africans unable to pay off their debts, and the trend is likely to continue, say leading credit agencies.

Information Trust Corporation managing director Tony Leng said civil judgments for debt rose from R1,24 billion in 1989 to R1,96 billion last year.

Trend

"The judgments are largely a reflection of the continuing difficulties people are having trying to pay off their bonds," he said

The latest available figures, from January this year, continued to show an increasing trend of bankruptcies, as summonses rose from 63 900 to 69 746, and total debt judgments rose from R106,2 million to R156,9 million.

And with continued high interest rates and inflation, individual consumers and home owners found themselves having to go deep into debt to make ends meet.

Daan Kruger, assistant director, communications, for the Consumer Council, said because salaries had stayed low or fixed, many people ended up being forced to retain their money for essentials, such as food, and default on other payments

Mr Leng said the same trend was holding true for businesses

"Judgments awarded against businesses jumped by 60 percent to R189 million last year," he noted.

Nevertheless, he also observed that in the year from January last year the number of business judgments had declined slightly from 7 043 to 7 039.

"But this is partly due to the fact that during a recession people are reluctant to go to court due to the costs involved, and should not really be taken as a sign that things are getting better," he said

Mr Leng also observed that while the current situation was bad, it was not at the same levels of the 1986-87 recession.

However, with most economists now predicting that the economy will not recover until next year at the earliest, analysts fear bankruptcies and debt judgments will continue to grow over the next six months, with serious consequences for the economy

Bankorp now predicts upswing in mid-1992

153

B/Day 10/6/91

WILLIAM GILFILLAN

THE economy is likely to bottom out only in the first half of 1992 if inflation keeps interest rates high, Bankorp says in the latest issue of Econovision

Econovision added that an upswing was unlikely until mid-1992 Previously the bank's economists had expected the economy to touch bottom in the second half of 1991 and to move ahead early in 1992

However, other economists interviewed last week were less pessimistic Old Mutual chief economist Dave Mohr predicted an upswing towards the end of the year, while First National Bank chief economist Cees Bruggemans cited slower stock declines as a positive indicator

The stubborn inflationary environment was one reason given for Bankorp's revised forecast The persistence of the high inflation rate suggested interest rates would not be reduced as rapidly as previously expected, which led to the conclusion that the Bank rate was unlikely to be cut more than once during the remainder of this year.

"Labour attrition occurring throughout the economy and the initial sharply unfavourable incidence of VAT on the financial position of most consumers" would contribute to the delay in the upswing, Econovision said

However the upswing would last for longer than initially predicted given the healthy position of SA's balance of payments

Bruggemanns said stock declines had been occurring at a much reduced rate in 1991 and would continue to do so, which was stimulatory for spending and output He predicted a 1% cut in interest rates early in the fourth quarter

Mohr agreed with the stock cycle argument

Econometrix chief economist Azar Jammine believed one of the reasons for SA's continuing high inflation was the high degree of economic concentration where "80% to 90% of the economy is controlled by six groups"

On long-term prospects, Bankorp said the outlook was positive The domestic upswing projected from mid-1992 would raise the country's import volumes

Inflation fight still receiving top priority

153

Star 12/6/91

By Sven Lünsche

The Reserve Bank is determined to keep a tight rein on monetary policy in its endeavour to reduce inflation

The Bank's deputy General Manager, Economics, Bernie de Jager, said at a conference yesterday that inflation distributed income away from the poor to the rich and that it was in the interest of a more equitable economic system that the inflation rate be lowered from its current high levels

"Monetary policy could do the job alone, but a co-ordinated effort is required to limit the effects of such policy," Mr de Jager said at an inflation debate organised by the Association of Corporate Treasurers

He called on management and unions to take account of the money targets set by the Reserve Bank when negotiating wage demands

Mr de Jager said that one of the most crucial aspects of the current anti-inflation campaign was to affect expectations that inflation would inevitably stay at double-digit levels

Co-ordinated

For this reason alone the Reserve Bank would have to remain persistent in its actions on inflation and assure the public that inflation would remain the predominant target of monetary policy

Furthermore, the fiscal and monetary authorities must co-ordinate their policies to achieve a lower inflation rate, something which has only recently been in evidence

Professor Brian Kantor, the Director of the UCT School of Economics, echoed Mr de Jager's sentiments

"If we drastically relax interest rates now we would be giving up hope of ever bringing the inflation rate below 10 percent.

"This is most probably also the last chance we have to change expectations that such a drop is possible," Professor Kantor said

He was optimistic that the economy had enough resilience to sustain high interest rates.

ARG 13/6/91

(153)

Constitutional curbs on economic mismanagement urged by Saccob

From DEREK TOMMEY

JOHANNESBURG — Any new constitution for South Africa should contain some means of limiting taxation, and it should also prevent government destroying assets through runaway inflation, according to the South African Chamber of Business

These proposals are contained in a document issued by Sacob last night discussing the economic aspects of a new constitution

Mr Raymond Parsons, director general of Sacob, said that no matter how many checks and balances were built into a constitution, they would not prevent a Government from ruining a country through economic mismanagement, particularly through excessive inflation and taxation

It was not only the fact of ownership as such, but the implications and benefits of ownership that needed to be safeguarded and respected within reasonable limits

"In shaping a future constitution the position of the Reserve Bank should be secured"

The main purpose of the Reserve Bank should be to protect the purchasing power of the country, the document says

"It should be clearly understood that inflation can be kept under control only if strict monetary policy is underpinned by an equally conservative fiscal authority

"It is important to accord the Reserve Bank a high degree of de facto autonomy in deciding monetary policy"

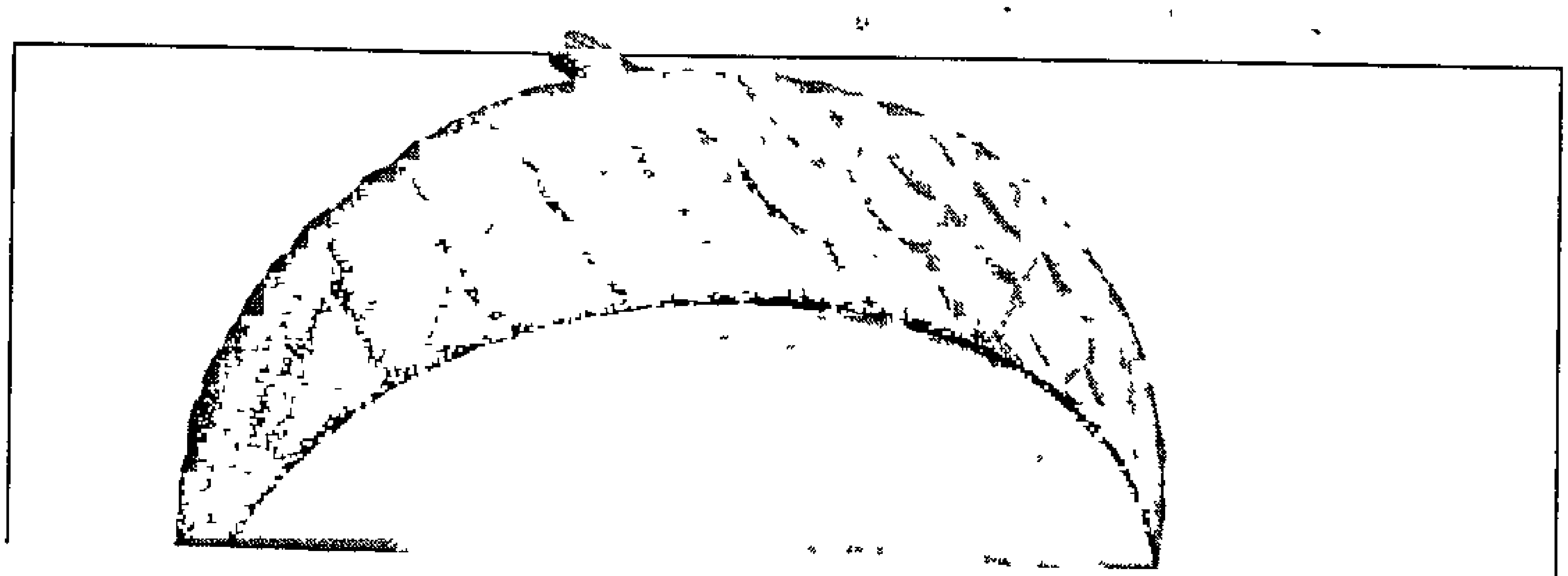
But the Reserve Bank could not be completely independent because there should not be any organisation not accountable to anybody in the new South Africa, said Mr Parsons

The document says that the relentless increase in the tax burden in many countries was largely the result of the weakening status of parliaments in relation to their executives

"As the central government assumes more functions that require ceaseless management rather than the mere laying down of basic rules or private behaviour, parliament as the law maker becomes relatively toothless"

However, at this point the primary issue was to gain consensus among the negotiating parties about the need to entrench some constraint as a precondition to proceed further along the road of political reform

"While a constitution can protect citizens against individual excesses, a sound economic policy is essential to underpin economic growth and wealth creation in the best interests of the whole population



Weak rand helps fight inflation

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By Mark Suzman Star 13/6/91

Although the rand has weakened substantially against the US dollar in recent months, economists reckon the shift is actually to South Africa's advantage.

According to Dr Azar Jammine, director of the Econometrix research unit, because most of South Africa's exports are valued in dollars, the exchange rate decline has boosted export earnings and helps South Africa maintain a healthy balance of payments surplus

At the same time, the fact that the rand has held steady, and even increased, against other major currencies over the same period means that in relative terms the price of imports has actually gone down

"The most recent inflation rate for imported goods is 7,3 percent, which is nearly half our own inflation rate and is beneficial to the economy," Dr Jammine said

As a result, he says, a strong dollar helps the South African economy by increasing foreign exchange while reducing inflation

Inflation 'set to level off'

BTday 14/6/91 153

SHARON WOOD

INFLATION will level off in the next two months or so, according to Brian Kantor, director of UCT's School of Economics

Speaking at a debate on inflation hosted this week by the Association of Corporate Treasurers, Kantor said that most of the costs incurred in fighting inflation had already been paid.

"It would be an absolute shame to give way by dropping interest rates, at this stage because the punishment the economy has taken would have been in vain," he said. "If we give up now, it would be giving up permanently."

Other speakers at the debate agreed high interest rates should be maintained

Unisa economist Phillip Mohr said "Monetary policy must stay strict and (Reserve Bank Governor Chris) Stals should keep interest rates as high as possible"

Reserve Bank economist Bernie de Jager said the Bank was no longer concerned with smoothing out the cyclical fluctuations in the business cycle as it did in the 1980s The primary objective now was to stabilise prices

He suggested a prerequisite to reducing inflation was a community consensus between the price setters in the economy in favour of price stability

Inflation may deter further advances in the gold price

c17 14.6.91

(153) By ARI JACOBSON

THE U-turn in gold sentiment has been phemononal — from sharply negative to far more positive, said Simpson Mckie's market strategist Peter Trengove-Jones.

However, Trengove-Jones warned that the anticipated inflation decline in all the major industrial countries may deter further advances in the dollar gold price.

"This is not the natural environment for gold to surge," he said

Trengove-Jones was commenting on the large jump in the gold index since the beginning of the month — up 167 points or 13,5% at 1 368 (1 235) at close yesterday. This is still down on the highs of 1 416 reached mid-week. But a gain of more than 30% in the index (at about 1 050) from the beginning of May

Trengove-Jones mentioned that the marginal mines had performed best over this period — which is clearly indicated with a massive seven of the marginal and exloratory shares in the top ten movers for the week to Wednesday

They include Sub Nigel, Osprey, Rand Exploration, Southgo, Lindum, Rand Lease and the problematic ERPM.

Tregove-jones pointed out that the upward trend in the gold index is illustrative of strong advances among the blue chips "Some of the marginals have obviously done better than this "

"But it's difficult to put a value on marginal and exploratory shares — fuelled by gold price sentiment rather than fundamentals."

A better gauge of the gold index's relative performance can be seen by the more gradual movement in the industrial index.

The index has climbed by 117 points or three percentage points to settle at 3 724 yesterday

Remgro with a solid 15% growth in earnings for the year end-March has supported the buoyant index — with its share price rising from R18,30 to R20 in a fortnight.

Safren is another good performer in the industrial fold with the share trading at its current price of R68,25 — some R3,25 or 5% up from R65 at the end of May.

Richemont, Remgro's overseas connection, has been more subdued remaining virtually unchanged in the same period at R26,50

Restrictive monetary policy imperative, says economist

153 CT 15/6/91

JOHANNESBURG. — The maintenence of a restricitve monetary policy over the coming months is imperative, says United chief economist Hans Falkena

Writing in the latest United Perspective, Falkena says such an approach is particularly needed to provide an effective redress against the inflationary pressures currently present in the SA economy

Falkena says, however, it is doubtful whether the monetary policy will provide the required and necessary redress against the underlying inflationary pressures in the SA economy

He agrees with the views of the Reserve Bank that both the production and consumer price indices are stil rising at unacceptably high rates and that the anti-inflationary programme, spearheaded by the monetary policy, must be accepted as a medium and longer-term policy that will produce results only after an inevitable time lag

Falkena says a lower wage rate rather than a lower rate of interest is badly needed to promote economic growth in the country

"To provide effective redress against inflation, the SA real prime rate will have to be maintained at least at 6%"

This precludes any premature lowering of the Bank rate, says Falkena — Sapa

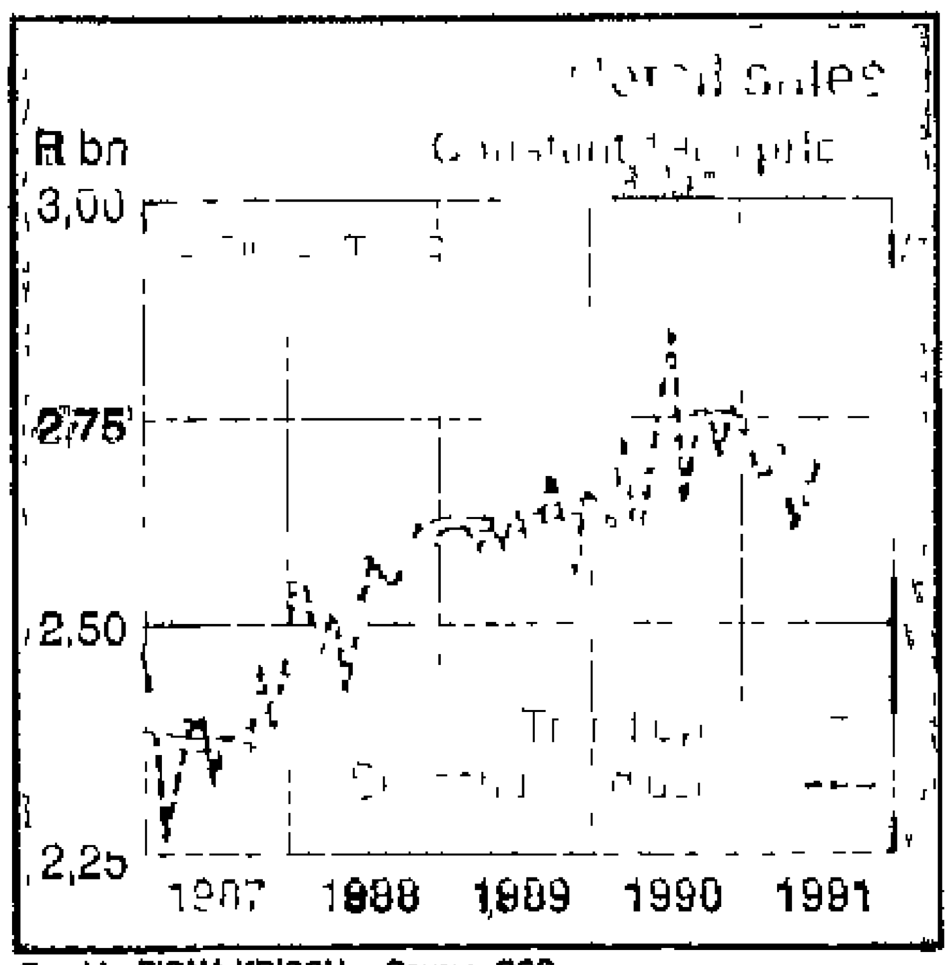
Recession hurting retailers

(153) B/Day 17/6/91

SHARON WOOD

THE recession is now striking areas like retailing, bank credit and manufacturing production, all of which were virtually unscathed last year.

Statistics show retail sales are in a downtrend and banks report credit demand has slowed in recent months.



Graphic FIONA KRISCH Source CSS

Buoyant private consumption expenditure last year was reflected in steady growth in retail sales and credit demand But the downturn in both areas in the first quarter of this year shows that high interest rates and recessionary conditions have at last curbed consumer spending

Although month-on-month retail sales in May 1991 grew in real terms, monthly retail sales figures are volatile and a distinct downward trend, established in the last quarter of 1990, is now well entrenched.

Debt-financed expenditure has been a particular feature of the current recession but this now appears to be slowing.

Figures released by the Reserve Bank show annual growth in bank credit extended to the private sector eased to 19,5%

☐ To Page 2

Recession

B/Day 17/6/91. (153)

☐ From Page 1

in March, after a turnaround in February when credit extension again topped 20% year-on-year

This may have been a technical increase due to the implementation of the new Deposit-Taking Institutions Act in February

First National Bank senior GM Jimmy McKenzie said growth in credit demand over the past two months had been modest

"Business has been quiet in recent months," said Allied consumer lending chief manager Ian Burton

United senior GM marketing Tienie van der Merwe said demand for hire purchase finance had fallen off in line with Reserve Bank measures to curb credit demand

But demand for personal loans and overdrafts had been quite strong given the current economic conditions — probably due to borrowing to pay off existing debt

In March this year judgments for debt grew by 20% year-on-year to R204m Total judgments for debt during 1990 were R2bn — 90% of which were against private individuals

"SA is rapidly becoming a country of 'buy now, pay never'," says Association of Credit Bureaus president Rowan Haarhof

Although slowing, the growth in bank credit extended to the private sector still remains way above the growth experienced during the 1985 recession — 19,5% year-on-year in March compared with the 1,7% recorded in February 1987

Manufacturing production volumes fell by 2,3% month-on-month in February 1991 and wholesale sales dropped by 1,4% in March

Manufacturing production has fallen 4,2% since the onset of the recession in quarter one 1989 Nearly 50% of the industry's production has fallen by as much as 20% over the recessionary period, and about 35% showed increases of up to 20%, says Nedbank chief economist Edward Osborn

Credit demand slows

CT 17/6/91

Own Correspondent

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THE WEEK AHEAD by William Richards

Little change in the inflation rate picture

153

B Day 17/6/91

BY THE end of the week SA's May inflation rate should have been published, but the rate is likely to show little change from the 14,6% recorded for the year to April

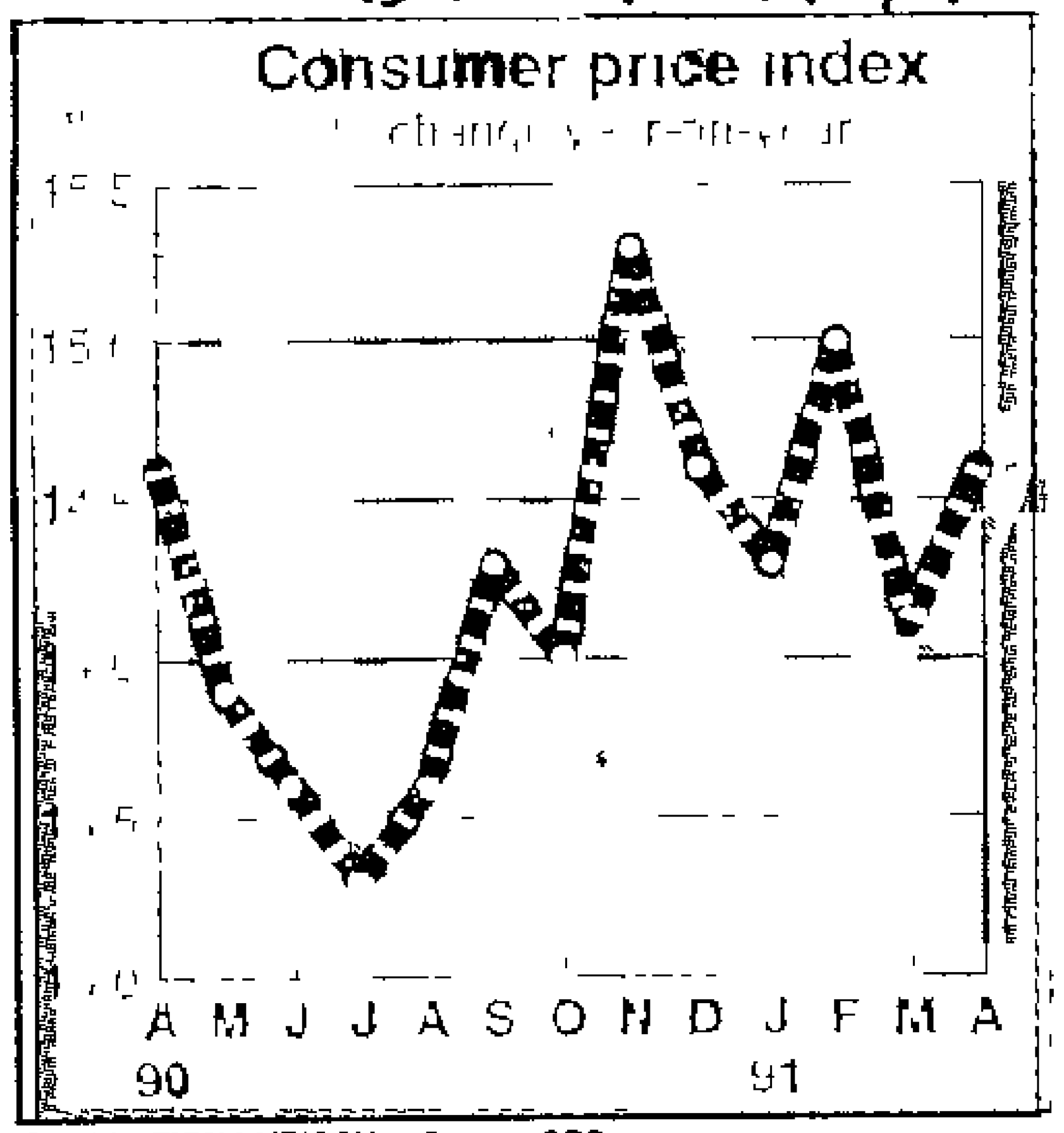
Recent outturns of the producer price index (PPI) have shown consistently strong domestic inflationary pressures, offset only by a slowdown in the rate of imported inflation Movements in the PPI traditionally lead those in the consumer price index (CPI — the accepted inflation rate), by about a calendar quarter This is because the PPI measures price movements in wholesale, or factory gate, prices which then feed through to the shelves via retailing

By this process, therefore, the auguries for inflation at the consumer level should be quite favourable the annual rate of PPI inflation has been falling for three consecutive months, from January's 15,5% to the 13,8% recorded in April The snag is that each of the three dips in the headline rate of PPI inflation has come about for broadly the same reason a fall in the rate of imported inflation thanks to the stability of the trade-weighted rand

The PPI outturns have also been fairly consistent on the domestic picture little-changed inflationary pressure at around the 15% level The changes of the slower imported inflation passing along the retail pipeline are small Structural inflation is built into that retail pipeline in the form of high wage pressures and rigid administered prices Add to that the seemingly endless buoyancy under food prices, and the short-term outlook for consumer price inflation remains blurred and unfavourable

The May SA trade figure are due out towards the end of the week The April trade surplus stood at R1,7bn against March's R1,2bn, thanks to a strong performance from exports — particularly unclassified exports

While a month-by-month prognostication on the size of the surplus is pretty speculative, a medium-term view has to take into account tentative upward revisions in world economic performance by some of the international organisations recently This bodes well for SA



Graphic FIONA KRISCH Source CSS

exports over the remainder of the year Imports, meanwhile, should remain constrained by what looks likely to be continued tight domestic monetary conditions for the rest of calendar 1991

The money supply figures for May may be released by the end of the week The annual rate of growth of the broad-money M3 measure stood at 15% in May, having risen sharply from April's 14,4% This aggregate is still distorted by the effects of reintermediation, and the year-on-year figure has less significance in monetary policy terms than the rolling increase based on the fourth quarter of 1990

From the 1990 base, M3 was growing by 22,9% in April — little changed from the 22% in March and way out of the Reserve Bank's 8%-12% guideline range Before the M3 aggregate can signal a change in monetary policy it will have to be back within a reasonable distance of that range

Internationally, the week has far fewer US economic statistics to digest than last week's figure-packed trading that boosted the dollar On Wednesday the April US trade balance is due out, and general expectations are that the deficit will stay down around the seven-year low of $4,05bn posted in March This is because exports are likely to remain stable while imports continue to fall The trade figures are a month behind the other US indicators and therefore have yet to reflect the recovery trends visible in later data

On Thursday comes the latest release in a US figure that has recently gained in importance as a economic recovery indicator The level of weekly jobless claims had a lot to do with the dollar's surge last week, as it dropped to within a whisker of the psychologically important 400 000 level for the last week in May A drop down through the 400 000 level for the first week in June would be another powerful stimulus to markets already contemplating buying dollars on the prospects of a US economic recovery

The Federal Reserve chairman goes before a congressional committee tomorrow, ostensibly to talk about the US's international competitiveness As one of the key features of a country's competitiveness is the exchange rate of its currency, he is expected to allude to the level of the dollar and perhaps give a clue to whether the US authorities might be concerned about its rapid recent appreciation

Black households inflation rate 18%

CT 19/6/91

By BARRY STREEK

153

THE real inflation rate for households in 40 black townships was 18% last year, according to the SA Township Annual.

It said in a statement yesterday that a five-person family required R870,56 in 1989 for "a modestly low level standard of living" but this increased to R1 033,26 last year and R1 217,31 this year.

"This figure shows a real inflation rate of approximately 18% over 1990, with expenditure on groceries increasing by 17%, fuel showing the largest increase, of 56%, over last year's figure."

This budget allowed for R75,72 per person a month to be spent on food, calculated on the average family size of 5,3 people.

It said its cost of living survey was not theoretically based but was empirical, based on what households actually bought in the 40 townships surveyed in order to sustain a moderately low level standard of living, the annual said.

Interest rates remain (153) Stals

RESERVE Bank Governor Chris Stals is "more comfortable with inflation" but will not bring down interest rates because there is still "good demand" for money.

SHARON WOOD

In an interview yesterday, Stals said: "The Reserve Bank has made quite a lot of progress in the fight against inflation, but we cannot abandon monetary policy just because statistics show inflation has not come down"

Underlying inflationary pressures were "moving in the right direction".

He said the Reserve Bank could not be satisfied with an inflation rate of between 14% and 15%.

Relatively high growth in credit demand and the large money market shortage indicated that demand for credit was still high.

21/6/91 B/Day

"If interest rates were reduced tomorrow, banks would borrow from the discount window," he said.

The Reserve Bank would not reduce interest rates until they were convinced this would not be followed by a rise in banks' demand for money

"With real interest rates of about 6% there is some room to bring down the nominal rate of interest"

Stals said that by asking for lower interest rates, people were asking the Reserve Bank to stimulate the economy in times of recession and reduce inflation when the economy was booming

□ To Page 2

Stals

B/Day 21/6/91.

But, he said, "whether we are in recessions or booms, we must apply the same disciplines of monetary policies all the time. It is not the function of the Reserve Bank to stimulate the economy; it is to do what it does best — protect the external value of the rand and provide a stable financial environment."

He said the Reserve Bank believed the best trigger for the SA economy at this stage would come from the balance of

(153) □ From Page 1

payments

An export or investment-led economic boom would bring with it the necessary foreign exchange There was "a good chance it would be an investment-led boom, through long-term loans and direct foreign investment".

The apparent lack of success in bringing inflation down from between 14% and 15% was due to time lags and extraordinary factors such as the oil crisis, he said

More companies go to the wall as recession bites

153

By MONDLI MAKHANYA

THE RECESSION and high interest rates are plunging South Africans deep into debt and crippling businesses

Recent figures released by Central Statistical Services reveal that civil judgments for debt for the first three months of 1991 were nearly seven percent higher than the corresponding period last year. The Association Of Credit Bureaus puts the total figure for March at R204-million This trend, says the association, may result in this year's debt judgment figures exceeding 1990's total of R2-billion WMail 21/6-27/6/91.

The period February to April also saw 412 company and close corporation liquidations, an increase of 15,5 percent on the preceding three-month period Insolvencies for the first three months of the year were up to 766 — also 15 percent up on last year

While the sad state of the economy is primarily to blame, it seems businesses have also been very liberal about the granting of credit. Retailers — hurt by declining sales — have taken to granting easy credit in order to reduce high stock levels

Says Information Technology Corporation managing director Tony Leng "This situation is both a result of the recession and the willingness of companies to extend credit to people before they prove their reliability"

Kreditinform managing director Ivor Jones — who predicts many further liquidations this year — blames both the recession and high interest rates for the increase in insolvencies

"When interest rates are high as they are now, credit purchasing comes to a dead stop. This has a knock-on effect on industry as a whole resulting in some companies going insolvent," he points out.

Cash-flow problems caused by many companies delaying purchases of capital equipment until October in order to benefit from input credits on capital goods under Value Added Tax may exacerbate the problem

While the building, textile and clothing sectors have so far been the main victims of insolvencies and liquidations, furniture retailers are also beginning to feel the pinch.

Although it augurs badly for the unemployment situation, this upsurge in debt defaulting and liquidations may not necessarily be a bad thing Sanlam economist Johann Louw believes liquidations are a sign that the country's strict mone-

Inflation rate 'way above' official figure

(153) ARGUS 22/6/91

BLAISE HOPKINSON

Business Staff

INFLATION is soaring way beyond the official figures and the rate could realistically be above 28 percent a year.

This is the contention of a Natal academic, Dr Karl Posel, who disputes Central Statistical Services' (CSS) figure which is hovering around 15 percent

"There is a very simple method of verifying CSS' purported inflation rate of some 15 percent This is merely to check whether your own monthly expenditure has increased year-on-year by this amount," says Dr Posel

He contends in four years he has not met a family whose year-on-year increase in monthly expenditure bears any resemblance to the CSS figure

Dr Posel believes the cardinal reason for determining an accurate inflation rate is to enable acceptable wage negotiations procedures to take place

Food up 30 percent
Car repairs and replacements up 50 percent
Clothes and footwear up 50 percent.

He adds "The CSS adopts the statistical procedure of sending out thousands upon thousands of questionnaires and then merely averaging out the answers obtained regarding the magnitude of each of the individual weighting factors"

He warns that this "merely averaging out" is a flawed process and is mathematically unacceptable

"Let us take a man and place one of his feet on the red-hot plate of a stove and the other in a bucket of ice cold water According to the statistician and his inopportune averaging procedure, our man should be feeling completely comfortable!"

Dr Posel says differing properties must be catered for individually and no averaging out procedures should be permitted if a realistic inflation figure is to be arrived at

The CSS uses various "weighting factors" to calculate year-on-year change experienced in the monthly expenditure incurred on that item whose weighting factor has been determined

The "weighting factor" is the proportion of total monthly expenditure devoted to that specific item

Head of the CSS, Dr Treurnicht du Toit, disputes Dr Posel's arguments and says economists in government, banking, manufacturing and commerce rely on the accuracy of CSS statistics

Dr Du Toit has also branded Dr Posel's critisism "superficial" and said the CSS and Dr Posel use identical mathematical calculations

Dr Posel has crossed swords with the CSS before and one of his main objections is that the body only changes certain weighting factors every five years due to the volume of work involved

He says in spite of bond rates climbing rapidly during 1989 the CSS did not revise its weighting even though it is a critical figure

His statistics show costs on specific items have risen well ahead of the official inflation rate

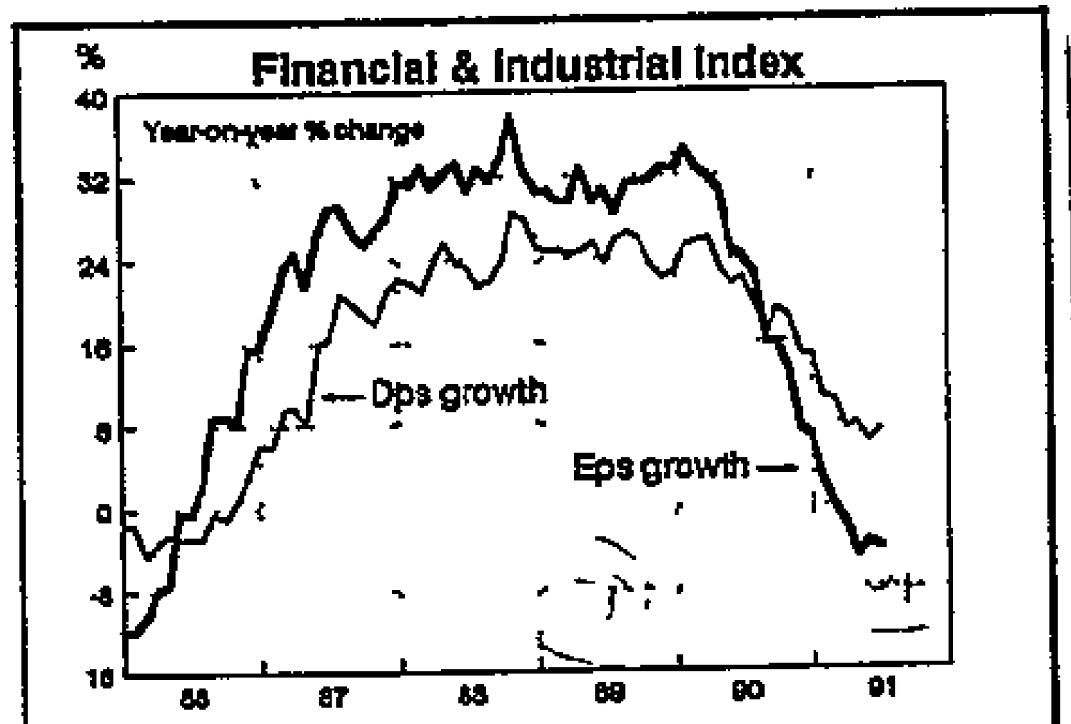
Food is up 30 percent, car repairs and replacements are up 50 percent as are clothes and footwear

Dr Posel bases his findings on a family model approach spread over 400 families

Recession hurts company profits

153 ~~180~~ ~~184~~

S Times (Bus Times) 23/6/91.



THE ONE BILLION RAND CLUB

Company	Turnover (Rbn)	Earnings change (%)
Sappi	2,7	-38
Pepkor	2,0	17
Score Clicks	1,9	-13
*Senchem	1,1	-25
Powtech	1,2	11
Edgars	2,5	22
Altron	2,6	84
Premier	5,1	17
Amrel	1,0	6
SAB	15,4	18
Amcoal	1,8	7
Tongaat	3,8	-19
*ICS	1,0	-1
*Nampak	1,9	12
*CG Smith	7,9	6
*CGS Food	5,6	10
*Tiger	3,9	13
Fedfood	1,3	12
SA Drug	1,0	-12
*Barlows	15,5	-14
Dorbyl	1,2	7
*Metkor	1,4	43
Boumat	1,1	-91
Saficon	1,5	-64
Argus	1,8	16

* six months

PROFIT GAINS OF 30% PLUS

Prelim's

Company	% gain
Spur	49
Wankie	79
Twins	98
Shield	34
Reggies	550
Morkels	64
Investec	37
Yabeng	38
Titaco	182
Presmed	45
Audiodek	42
Altron	34
Clyde	40
Saflife	41

Interims

Fidbank	35
Vansa	82
Adcock	30
BOE	41
ABS	45
Fenner	31
Metkor	43

PROFIT GAINS OF 15%-30%

Prelims

Jasco	16
Specialty	19
NBS	26
Pepkor	17
Bolpro	15
CNA Gallo	19
Edgars	22
ABI	25
HLH	23
Premier	17
SAB	18
Southern	20
Teljoy	18
Datakor	26
Remgro	15
Argus	16

Interims

FNB	20
Nedcor	18
Afrox	27
Elangeni	19
Santam	17
TSI	21
Metpol	22
Clinic	24

PROFITS DOWN MORE THAN 30%

Prelims

Sappi	38
SPL	30
Midas	-48
Score	-48
Bolpro	-70
Vaaltrucar	-45
Gresham	-55
PDC Holds	-78
Da Gama	-30
Penboard	-31
Macadam	-53
Advtech	-68
Quorum	-68
Molyslip	-48
Milstan	-54
Aroma	-38
Aida	-84
Eureka	-67
Cmatic	-74
Eurevest	-49
Boumat	-91
Saficon	-64

Interims

Romatex	-72
Barplats	-42
Oceana	-32
Leppin	-67
Plastall	-79

By DAVID CARTE

THE rate of company profit growth has plunged as recession has deepened

The graph, prepared by stockbroker Martin & Co, shows how average earnings growth of financial and industrial companies has plunged from 32% at the end of 1989 to 5% at the moment.

Thanks to conservative dividend cover, average dividend growth has remained positive at 8% (down from 25% last year)

A Business Times investigation into the profits of March reporting companies confirms that those that sell to mines and other businesses have been harder hit than those selling to consumers

In the consumer area, sales of some durables, such as cars and houses have stagnated or fallen. But furniture, white and brown goods were given a lift by easier HP rules. Clothing and food sales have been buoyant.

International recession was an important factor in falling profits. Mines and big exporters such as Middelburg Steel felt the effect of lower dollar prices for their products. A stable rand for much of the year added to their woes.

Banks, life assurance, food, drug and private hospital groups have fared best in the environment of high interest rates and hectic destocking.

Earnings reverses by huge companies such as Anglo American (-17%) and Barlows (14%) tend to exaggerate corporate travails — because they weigh so heavily in the indices

In the March period, more companies reported profit gains than declines. No fewer than 81 of 181 operating companies reporting to end March reported earnings increases, while 65 reported reverses

Is the trend improving or deteriorating?

Some comfort can be derived from companies reporting for the six months, as opposed to the year, to March. Of 59 interim reporters, only 18 reported earnings falls. Martin's graph seems to show a weak upturn.

Upturn

The recent decline in the rand and lower interest rate trends offshore could eventually help mines and other flagging rand hedges

Further hope for an improvement is contained in statements such as Finance Minister Barend du Plessis's, that an upturn could start at the end of the year

First National Bank's Cees Bruggemans was the first economist alive to the possibility of a turn, noting that the severe destocking which took place last year, may now have run its course.

In a masterly analysis of consumer behaviour in FNB's current Business Brief, he points out that overall employment has not fallen much and that wage settlements have remained high.

The easing of HP restrictions encouraged first-time credit use by blacks. Other factors in surprisingly resilient demand were the pursuit of new technology and interestingly, forced purchases due to burglary and car theft. The rising value of property and shares have helped make credit more affordable.

Dr Bruggemans believes it will take a firm hand by the Reserve Bank to restrain pent up boom conditions.

Pressure is mounting on the Reserve Bank for a token cut in interest rates but even if Dr Stals holds the line, profits seem likely to improve.

What do the mega-groups say of prospects? Anglo says nothing. Barlows is looking for an earnings decline similar to that of its first half Premier is "well positioned for satisfactory growth"

In spite of a decline in world paper prices of 19%, Sappi is looking for a modest increase in earnings in 1992 Altron is counting on Powertech and a greater off-shore contribution for a boost next year

As the graph on page 1 shows, falling profits and rising share prices have pushed up the average PE on the JSE from 9 in October 1990 to 13,1, which means the market is in the same territory PE-wise as it was before the great crash of 1987

While institutional buying continued to push blue chip share prices skywards, the only institutional stock among 13 which increased earnings more than 30% was Altron, which was recovering from horrors in Punch Line and Fintech.

Most companies that improved profits by 30% plus were recovering from setbacks last year but some, such as Spur, continued from strength to strength.

Stars of the banking sector have been NBS, Investec, Fidelity Bank and the Board of Executors, while First National and Nedbank have both beaten inflation.

While companies such as Romatex and Sappi reported disastrous profit falls, others have improved by 50% — Ronnie Price's stable of one-time high fliers had a year to forget. One of the worst performers in the period was Romatex, long an early indicator to economic activity because of its exposure to motors, building and furniture.

THE WEEK AHEAD by William Richards

Markets resigned to inflation of 14%

B Day 24/6/91

(153)

MAY's inflation rate was not released ahead of the weekend, as billed, and is due for publication early this morning.

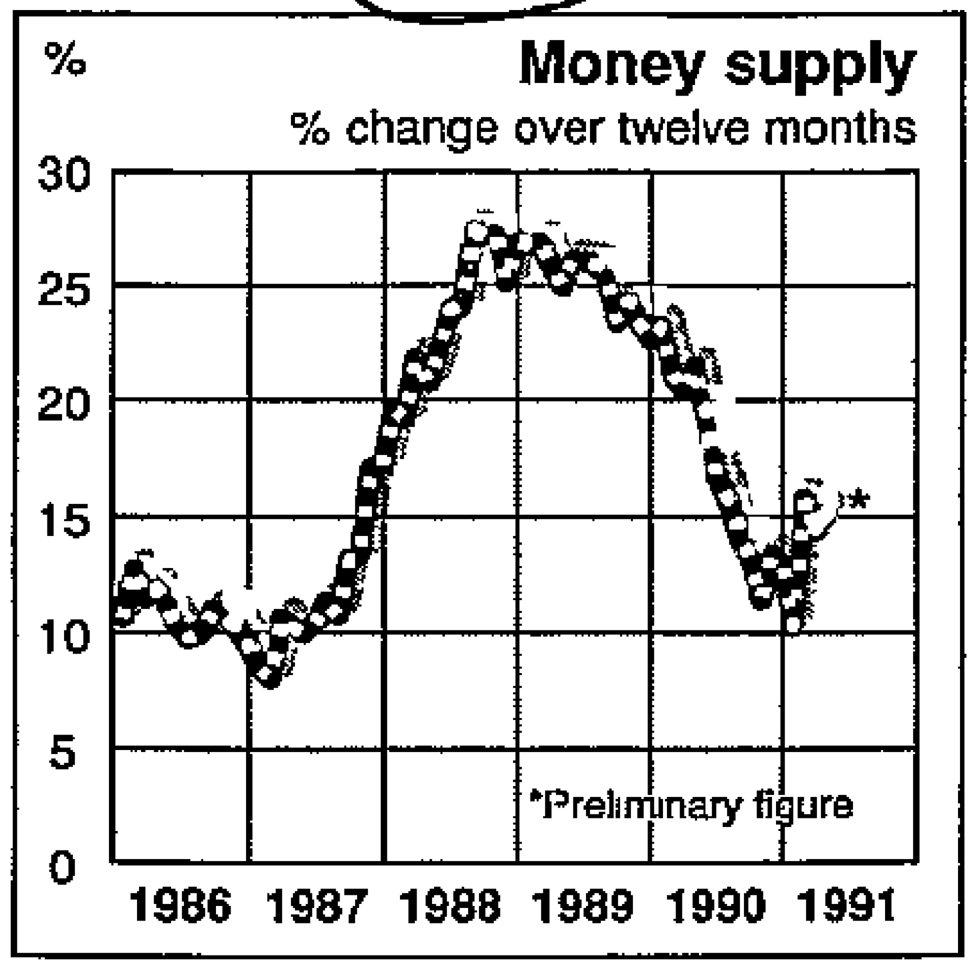
Both the markets and the authorities appear resigned to several more monthly out-turns around the 14%-14,5% level, and that seems to be the ball park expectation for this morning's figure

The Reserve Bank has been on an inflation offensive over the past two weeks, deploying heavyweight speakers at influential conferences to hammer home the authorities' views on the resilience of consumer price growth despite the persistently tight monetary stance This intensive Bank bombardment of the private sector over inflationary pressure seemed to be a tell-tale sign of steady domestic inflation generation for the next few months

The May money supply figures also failed to appear by the weekend the commercial banks certified their returns to the Reserve Bank only on Friday, and it usually takes a day or two for the authorities to process the data and produce the month's monetary aggregates. The headline, year-on-year outturn for May — against April's 15% — hardly matters What carries the weight is the rolling increase based on the fourth quarter of 1990, and in April this was running at over 20% against the Bank's 8%-12% guideline range

Monetary expansion has not recently loomed large in the bank's inflation demonology, even through the broad M3 aggregate is still way above the authorities' guideline range This is because of the continuing distortions caused to the aggregates by re-intermediation The authorities, though, would appear to be justified in any claim that they are not currently printing inflation, which shifts the blame for any continued credit expansion back to the wage earner

Internationally, this week is likely to be overshadowed by fallout from the weekend meeting of the Group of Seven major industrial countries' finance ministers The most recent surge in the dollar's post-Gulf war rally was marked by central bank intervention at around DM1,7720 to try and stem its rise It is not surprising, therefore,



Graphic FIONA KRISCH Source SA RESERVE BANK

that not everybody in the markets bought last week's assurances from, among others, the Germans that the G-7 did not intend to plot a dollar ambush this week

Only the opening of the European and, later this afternoon, the US markets will show whether there has been a quiet understanding established among the major central banks to reassert the old DM1,70-1,90 range for the dollar thought to have been laid down at the Louvre summit in 1987 It is difficult to conceive of any other strategy holding down a dollar increasingly supported by US fundamentals showing early traces of economic recovery

More of those fundamentals are due to arise this week in the shape of May's US durable goods orders and index of leading indicators, the latter due out on Friday These are both highly forward-looking statistics on the US economy

Durable goods orders rose 2,9% in April, the first rise since December Although the actual level of orders remains around 10% lower than a year ago, the first signs of an uptrend in this forward-looking variable are there

Over the last six recessions the index had an average lead time of four months on showing the economy's switch to recovery Having risen for the last three consecutive months, the index is already signalling a start to the recovery in mid-calendar year

THE MONEY MARKETS by Andrew Gill

Stals snuffs out hopes of imminent drop in prime

B1094 24/6/91 (153)

THE tiniest flicker of hope that prime would come down soon all but died after the Reserve Bank Governor's persistent mind-set on inflation was reconfirmed during the week

Governor Chris Stals told a Sacob dinner last Thursday that "the big prize" was still evading us "At this stage we have to persist with our cautious aproach in monetary policy" The Bank could not endorse calls to cut rates to stimulate the economy, he warned

On the other hand, government came out with what appeared to stimulatory spending figures

Finance department director-general Gerhard Croeser disclosed that spending in April was 35% up on April 1990 and spending in May 24% up on May 1990

The figures served to explain what many had suspected about the unusually liquid market government spending had been forcing the Reserve Bank to intervene consistently in open market transactions

Open market transactions were less prominent over the week as R300m was rolled over until June 28 and a maturing R500m issue disappeared without a murmur on ~~Friday~~ However, outgoing GST payments are expected to account for most of the amount There are other reasons for the recent high liquidity but government's cheque book has definitely played a large part

Stals's comments were largely ignored and only 12-month NCDs registered any uptick The market is apparently more interested in what May CPI and money supply figures are going to do

□ Divergent opinions still dominate the "when will rates be cut?" conversations as new theories are thought up about how Stals is going to have to cut Bank rate relatively soon

One theory "He has to cut it before VAT is implemented because once VAT is implemented inflation is going to go up and he cannot cut rates when inflation is going up"

Others say it is fair comment but believe there is little likelihood that he is going to drop rates until he is satisfied the economy is on the road to sustained and high growth

□ Scuds 9 & 10 are about to be revoked thanks to the impending discharge of Patriot 11 A Reserve Bank meeting during the week apparently saw the masterminds of the circulars backtracking from their crackdown on off-balance sheet banking. An official release is expected later this week in the form of Circular 11

The move to bring on balance sheet all exposure was made in April and, after deliberation, meetings and a couple of strong words, the plan was put on ice

Now, it seems, the plan has been cancelled If it does come up again it could be expected at the time when an official commercial paper market gets off the ground

For now the problem of how to regulate the estimated R10bn under scrutiny remains unsolved

Strict monetary policy is starting to work — expert

BDay 24/6/91 153

Business Day Reporter

GOVERNMENT's strict monetary policy appears to be starting to work, says Sanlam chief economist Johan Louw

In his latest economic survey, Louw says indications are that SA consumers have been living more within their means since the end of last year And the rate at which personal debt increases has declined sharply

However, he still feels special measures are needed to correct structural problems — specifically to establish a healthier relationship between spending and saving

This problem is worsened by the process of income redistribution, as it is placing upward pressure on consumption and, at the same time, adversely affecting personal saving

Louw considers it appropriate that government is maintaining positive real interest rates and continuing efforts to reduce inflation to a more acceptable level

The downturn in the SA economy has lasted almost 28 months and is not expected to bottom out before late this year or early next year This will make the current downswing about twice as long as the average since the Second World War

Preliminary figures for the first quarter this year indicate that the real gross domestic product has declined for the sixth quarter in succession This means SA has been in a recession since the last quarter of 1989 But the non-agricultural sectors of the economy have not experienced a true recession even now, says Louw real economic growth rates in these sectors have not been negative for two consecutive quarters

On the face of it, the current downturn is reasonably moderate This is related to the relatively small decline in real spending on goods and services But, because the recession has lasted so long, it is beginning to have serious consequences for many people and companies

Concerning inflation, it would appear that the rate will remain high in the months to come, and could even accelerate A year-on-year increase in the consumer price index of just under 15% is expected for the end of the year Approximately the same rate is foreseen for the full year

For 1992, the inflation rate is expected to come down slowly, to about 12% by the end of the year

No end in sight to worsening recession

Star 25/6/91.

By Derek Tommey (153)

The end of the recession — the longest since the war — is not yet in sight and is intensifying, says the Reserve Bank in its quarterly bulletin.

However, the bank has gone some way to tempering the wind to the shorn lamb by saying the recession is one of the mildest SA has experienced in the past 50 years

But apart from adding that the downturn in world economic growth is not expected to last very long, the Bank has no view on SA's prospects.

Overall, the picture painted of the SA economy is one of gloomy depression

The Bank reports that the economy has now been contracting for about 27 months

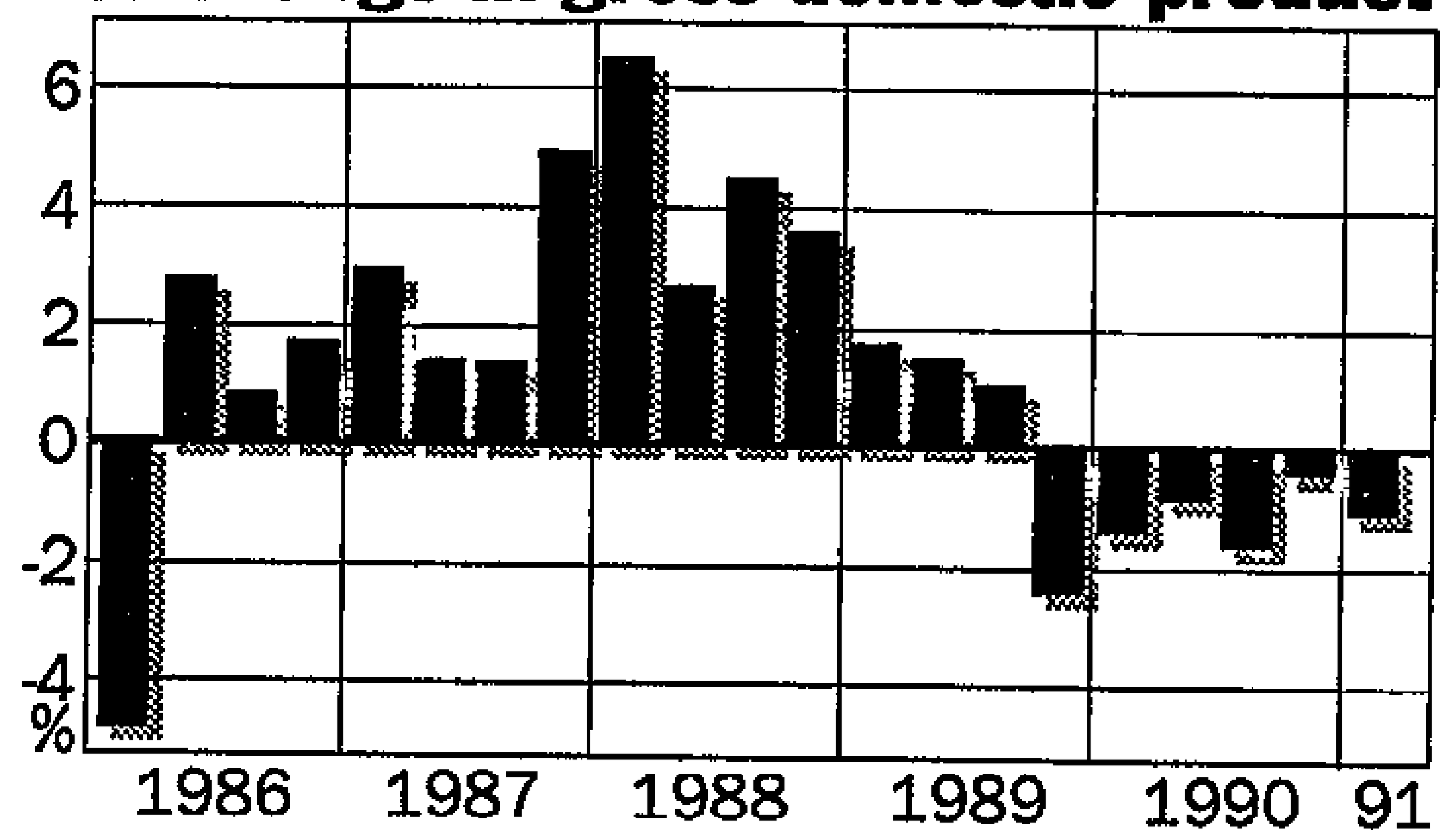
This is about 10 months longer than the average length of recession since World War 2

In fact, to find an economic contraction of this length one has to go back to the Great Depression of the early 1930s

However, in this 27-month period the economy has contracted by only 5,5 percent, compared with 20,5 percent in the corresponding period of the 1984-86 downswing, and with 19 percent from the peak to the trough of the 1981-83 downswing

It says the relative mildness of the current recession is the result, to a large extent, of much

% Change in gross domestic product



of it taking place at a time when the rest of the world was experiencing vigorous growth and SA exports were rising

Another reason is that South Africans have not stopped spending

This has been the result of relatively high wage increases and of a redistribution of income to free-spending lower-income groups

It is also the result, in the Bank's own words, of "the unwillingness of consumers to accept lower living standards"

Put more simply, South Africans are still demanding at least inflation-related pay increases

Another reason given for the high level of spending is the replacement demand for durable goods such as fridges, stoves and furniture

However, it says that recently there has been a slightly sharper and more dispersed downturn in the economy

It blames this on lower exports due to the downturn in the world economy, to a slowdown in the rise in personal spending as incomes contract, to the low level of savings, to the reluctance of individuals to borrow more, and to a cutback in black spending caused by violence in townships

But while personal spending is dropping, Government spending has been rising

It rose at an annual rate of 16 percent in the December quarter last year and by 19,5 percent in the first quarter of this year

Higher domestic demand and lower domestic production resulted in increased payments for imports

The current account of the balance of payments fell from a seasonally adjusted annualised rate of R9,7 billion in the fourth quarter of last year to R1,5 billion in the first quarter of this year.

However, the Reserve Bank says this was partly related to the crisis in the Middle East.

A fairer comparison would be the surplus of R5,6 billion in the two quarters to March with the R4,2 billion surplus in the third quarter of 1990

One item of good news reported by the Bank is that there has been a substantial capital inflow this year.

Despite repaying nearly all of its foreign liabilities related to reserves, the Bank's total gold and foreign cash holdings increased by R1,4billion in the first quarter to R8,7 billion

Most of this gain has been retained because the drop in April and May was only R99 million.

The improvement in the balance of payments led to a more stable rand exchange rate, though it depreciated against a strong dollar.

But this contributed to the financial rand discount narrowing from 25 percent to 14,1 percent

On the labour front, the outlook remains bleak

Nominal wages rose 16,7 percent last year, which exceeded the inflation rate, while non-agricultural worker productivity fell significantly, resulting in a sharp increase in real unit labour costs.

The continued high increases in labour costs helped prevent the inflation rate dropping.

This was still running at 14,6 percent in April as a result of higher prices for food and footwear, health and certain other services

Food costs stoking up rate of inflation

Star 25/6/91

153

Finance Staff

Sharp increases in food prices are continuing to thwart the efforts by the monetary authorities to reduce the inflation rate

Hopes are rapidly fading for a further decline in the inflation rate to below 13 percent — as was widely predicted by several economists at the beginning of the year — and it looks like inflation is stuck around 15 percent for the foreseeable future

Figures issued by the Central Statistical Service (CSS) yesterday show that the year-on-year inflation rate, as measured by the consumer price index (CPI), rose 0,6 of a percentage point to 15,2 percent in May from 14,6 percent in April.

The monthly rate of increase in the CPI for May was 1,5 percent

Largest contributors to the increase were food (0,4 percent), clothing and footwear (0,2 percent), household operations (0,1 percent) and transport (0,5 percent)

Johan Louw, economist at insurance giant Sanlam, finds South Africa's inflation rate unacceptably high, adding that the steep increases in food prices, which are sometimes fuelled by seasonal factors, are having an adverse effect on the inflation rate.

Food inflation has been running steadily ahead of the average inflation rate since November last year, and is showing no signs of abating.

Star 25/6/91

VAT: urgent action needed

153

Staff Reporter and Sapa

Urgent action is required to curb inflation to soften the VAT blow for the consumer later this year, consumer organisations said yesterday

They were commenting on the 0,6 percent increase in the inflation rate, as measured by the Consumer Price Index (CPI), released by the Central Statistical Service (CSS) in Pretoria yesterday

The inflation rate for May increased from 14,6 percent to 15,2 percent

Lyn Morris of the Housewives' League said the monthly increase in the inflation rate was worrying because it was increasing the base from which VAT would start in October

"And as long as inflation continues to rise, interest rates will not go down," she said

"There is no light at the end of the tunnel," Daan Kruger of the Consumer Council said.

He said the most disturbing factor was the continuing increase in the price of food.

The annual rate of increase in the food price index for May was 17,5 percent. This was 1,7 percent up over the April figure

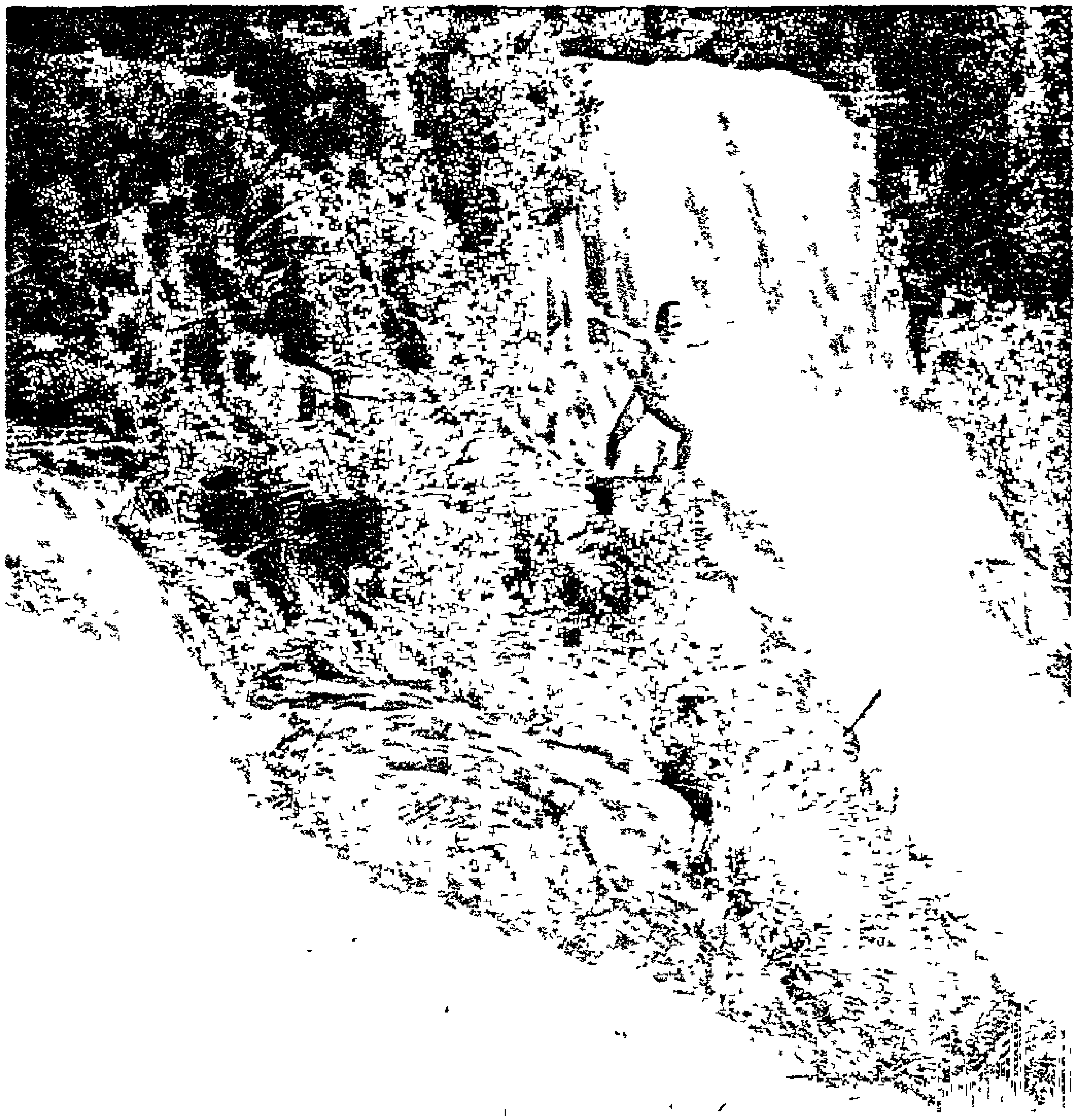
Mr Kruger said "If pre-VAT inflation continues at the present rate, it will really hit the consumer extremely hard"

He warned that there was an extra shock in store, since consumers had not yet felt the effect of increased municipal tariffs which would be implemented from July 1.

ARGUS 25/6/91 (153)

Inflation blow

Recession deepens: Hopes of early upturn fade



PROSPECTS of lower interest rates — which, it had been hoped, would give the economy a kick-start — have been torpedoed by a new increase in inflation

The deepening recession, the longest since the great depression of the 1930s, has intensified demands for a cut in the rates that are crippling borrowers — including everyone from big business to home-owners

Reserve Bank Governor Dr Chris Stals has said inflation must fall before lower interest rates can be considered

But sharp food price increases continue to thwart the monetary authorities' efforts to bring down inflation

And the introduction of value-added tax is expected to push inflation even higher from September

The year-on-year inflation rate, as measured by the consumer price index, rose from 14,6 percent in April to 15,2 percent last month

Hopes are evaporating that inflation will drop to below 13 percent — as was widely predicted by several economists at the beginning of the year

It looks like inflation will be stuck at around 15 percent for the foreseeable future

Anti-inflationary action

Consumer organisations said yesterday that urgent anti-inflationary action was needed to soften the blow which VAT would deliver to the consumer

Mrs Lyn Morris of the Housewives' League said the monthly increase in the inflation rate was worrying because it was increasing the base from which VAT would start.

"And as long as inflation continues to rise, interest rates will not go down."

Mr Daan Kruger of the Consumer Council said "There was no light at the end of the tunnel Last week Finance Minister Mr Barend du Plessis ...

Attack on rail passenger: Man in court

By DON HOLLIDAY and SHARON SOROUR
Staff Reporters

THE attack on a Parow East teenager on a train near Goodwood has been followed by the appearance of an Elsies River man in the Bellville magistrate's court

No charges were put to Mr Donovan Liebenberg, 19, of Connaught Road who appeared in connection with an allegation of attempted murder The hearing yesterday was postponed to July 5 for further investigation

Mr Liebenberg is in custody

Niel Brooks, 16, was allegedly flung from a moving train between Goodwood and De Tyger stations on Saturday after he was attacked by a group of men

Niel was discharged from Tygerberg Hospital yesterday after being treated for a broken left kneecap, two broken fingers on his right hand, bruises and a gash on his head.

Asked to react to this attack, a Spoornet spokeswoman says crime on Peninsula trains was not necessarily escalating, but commuters were reporting violence more often.

Mrs Yvette Olwage said Spoornet was combating crime on trains by introducing a toll-free number which the public could use to report train violence, and a trained security force which operated on the trains

It was important for the public to report violence so that Spoornet could identify problem areas and assign its security officers to those areas, she said

"The South African Rail ...

been torpedoed by a new increase in inflation

The deepening recession, the longest since the great depression of the 1930s, has intensified demands for a cut in the rates that are crippling borrowers — including everyone from big business to home-owners

Reserve Bank Governor Dr Chris Stals has said inflation must fall before lower interest rates can be considered

But sharp food price increases continue to thwart the monetary authorities' efforts to bring down inflation

And the introduction of value added tax is expected to push inflation even higher from September

The year-on-year inflation rate, as measured by the consumer price index, rose from 14,6 percent in April to 15,2 percent last month

Hopes are evaporating that inflation will drop to below 13 percent — as was widely predicted by several economists at the beginning of the year

It looks like inflation will be stuck at around 15 percent for the foreseeable future

Anti-inflationary action

Consumer organisations said yesterday that urgent anti inflationary action was needed to soften the blow which VAT would deliver to the consumer

Mrs Lyn Morris of the Housewives' League said the monthly increase in the inflation rate was worrying because it was increasing the base from which VAT would start

'And as long as inflation continues to rise, interest rates will not go down'

Mr Daan Kruger of the Consumer Council said 'There was no light at the end of the tunnel Last week Finance Minister Mr Barend du Plessis said things should be looking up by the end of the year or by early next year — but I can t see much of that"

He said the most disturbing factor was the continuing increase in food prices

If pre VAT inflation continues at the present rate it will hit the consumer very hard"

He warned that there was an extra shock in store beccause consumers had not yet felt the effect of the increased municipal tariffs due from July 1

Retailers and economists said wage demands and lack of competition among retailers were to blame for soaring food prices

A Pick n Pay spokesman said although the chain store s own Western Cape food price increases were less than the national average, the causes were similar

'Labour is a huge problem, wage demands being one of two major factors in the inflationary spiral

Disinvestment and widespread lack of investor confidence meant there was little competition, which made rapid price increases possible

The rate of increases varied

Poultry prices had increased less than five percent in the past year, and margarine prices had also been stable

"But further increases are likely with the 13 percent sugar price rise on July 1 and the introduction of VAT on September 30

Buying patterns

VAT will mean a 12 percent tax on previously non-taxable goods, while the tax on goods on which General Sales Tax was paid will drop from 13 to 12 percent'

But in spite of the increases there had been no observable change in consumer buying patterns

Boland Bank economist Mr Louis Fourie said the large overheads major retail chains were subject to was a major cause of inflationary food prices

Mr Johan Louw, chief economist of life assurance giant Sanlam, forecast South Africa s inflation rate would drop dramatically from 15 to 12 percent by the end of 1992

But he warned in Sanlam's latest economic survey "Inflation could accelerate in the next few months — any apparent reduction would be delayed by the introduction of VAT"

The average cost of living for five-person families in Western Cape townships is higher than in the rest of the country according to the South African Township Annual

Five Western Cape townships surveyed were Atlantis, Langa, Mitchell's Plain, Khayelitsha and Guguletu

The total cost of living a month for a five person family in Langa, R1 471,11, was the highest in the Western Cape townships — Business Staff, Labour Reporter and Sapa

passenger: Man in court

By DON HOLLIDAY and SHARON SOROUR
Staff Reporters

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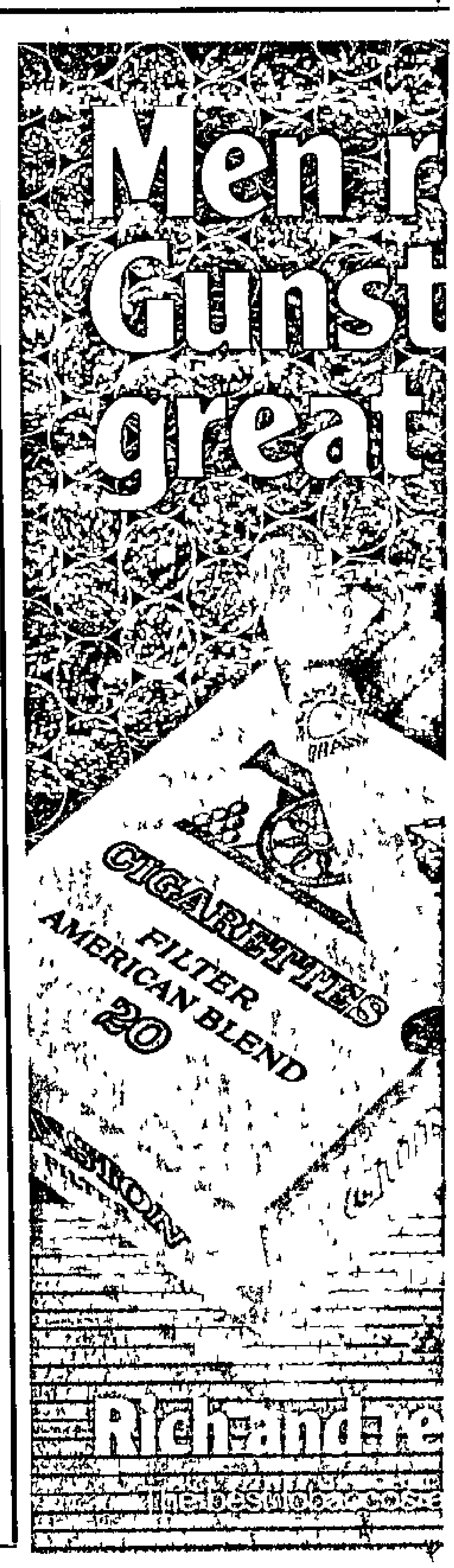
It was important for the public to report violence so that Spoornet could identify problem areas and assign its security officers to those areas, she said

"The South African Police are responsible for law and order in the country, not Spoornet We are not allowed to build a police task force but we have a security ce which are on the trains at all times

"They do not wear uniforms, so even if the public cannot identify them, that does not mean they are not there," she said

A total of 200 special constables had been assigned to protect commuters on Peninsula and Cape Flats railway stations and train



illed ;oweto n attack

us Correspondent

IESBURG — Gunmen lre on passengers in a commuter train in arly today, killing at ht people and injuring

et spokesman Mr Ian le said details of the were sketchy, but earts indicated that the started as the train Nancefield station

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led that the train was ; between Nancefield v Canada when the started at 5,45am The bound for Germiston e contingent of police reto were at the scene

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Argentine star made en apologised for not

page 28

Budgetting for inflation 163

CT 25/6/91

Business Editor

IT is impossible for any firm not to budget for inflation in an inflationary environment like SA, a spokesman for a major conglomerate — who asked not to be identified — said yesterday

"Ask Cosatu if they do not take it into account in wage agreements

"Any question of doing anything else is purely academic"

Denying that lack of real competition between major producers was responsible for soaring food prices he said "We have about 400 different food manufacturers under our wing and they compete against each other — rice and flour producers, for example, trying to take market share from mealie meal producers

"There is no central office staffed by people so brilliant that they can control the production of a wide range of different foodstuffs and run the factories Such a thing would be impossible

"And there is no central bargaining over such things as the price of packaging Each company is autonomous and arranges such things for itself

"Competition in the manufacturing industry is extremely tough Most sections of the food industry have spare capacity and this obviously leads to competition

"With overseas companies likely to come into our markets with the disappearance of sanctions, we see this competition increasing."

He suggested that a major part of the rise in food prices was due to a proliferation of expensive shopping centres, which pushed up the retail chains' overheads

Economist Azzar Jammine of Econometrix blames wage increases in excess of productivity for the failure of tight monetary policy to bring down inflation

"Monetary policy is failing because there is too much power vested in the hands of organised labour on the one hand and big business on the other hand," he says in his Ecobulletin

"Politically motivated organised labour keeps pressing for higher wages which are in excess of the increase in productivity in spite of growing retrenchments and unemployment.

"Big business is in a position to pass on such wage cost increases to the consumer because it is powerful enough in the market place to do so.

"It is incredible to note, for example, that the consumer price index (CPI) inflation rate for food, which for almost six years has exceeded the producer price index (PPI) inflation rate of food continues to do so by a substantial margin."

Jammine said that for the past two years the gap had appeared to be widening rather than narrowing

This, he said "need not necessarily imply an increase in retailers' profit margins.

"Other retail costs such as distribution, wages, leases and, very importantly, packaging, may have increased out of proportion to the underlying inflation rate"

Recession curbing luxury spending

(153)

Bday 25/6/91

SHARON WOOD

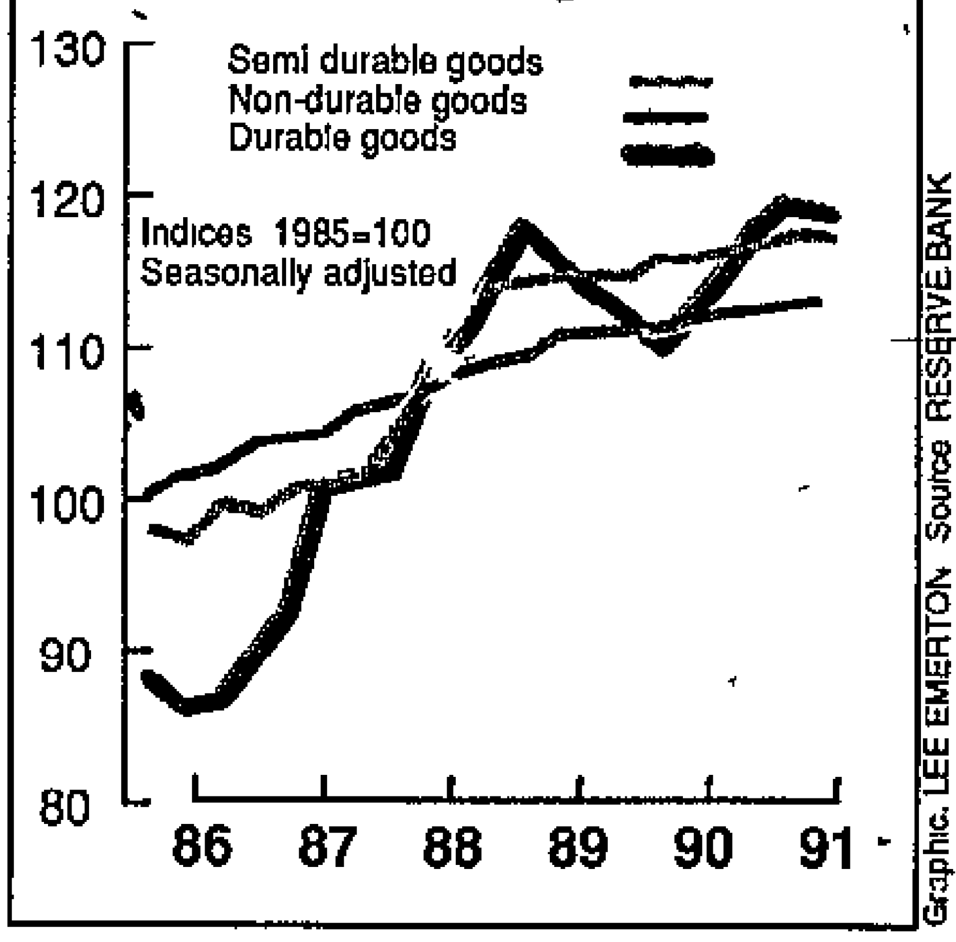
THE recession is finally curbing consumer spending on luxury goods, reflected by a slight decline in durable goods expenditure in the first quarter this year, Reserve Bank figures released yesterday show.

Declines in both durable and semi-durable goods expenditure filtered through to total private spending, which eased to 1,1% quarter-on-quarter growth (seasonally adjusted and annualised) from 1,9% in the last quarter of 1990.

The Bank's Quarterly Bulletin says: "Recently a slightly sharper and more dispersed downturn in economic activity became discernible .. The moderate deepening of the recession could also be attributed to slower growth in real private consumption expenditure ".

The Reserve Bank attributes the slowdown in durable goods expenditure to "a more conservative attitude towards expenditure on luxury goods" This could have been prompted by the cooling down of the economy, labour retrenchment and township violence

Components of real private consumption expenditure



Spending on furniture and transport equipment contracted in the first quarter while spending on audio equipment and other appliances continued to rise

In contrast to slowing private consump-

☐ To Page 2

25/6/91 (153)

☐ From Page 1

tion growth, gross domestic expenditure (GDE) surged by 18,1% in the first quarter The rise in GDE took total spending back to the 1990 third-quarter level of expenditure, after reversing the 18,5% fall in the last quarter of that year

Soaring general government expenditure, up 19,5% in quarter one, underpinned the acceleration in GDE The Bank says "the surge in general government expenditure occurred almost entirely in real outlays on intermediate goods and services.

"Real remuneration of employees showed little change from the level attained in the fourth quarter of 1990"

Total real gross domestic fixed investment fell further by 3,5% in the first quarter, but the decline was milder than the previous quarter's 5,5% decline

The Bank says the main factors behind the slower decline in investment included a smaller decline in private sector fixed investment, a notable increase in fixed investment by Transnet and a rise in public corporation investment

● See Page 3

Food prices boost inflation

244 CT 25/6/91 153

By AUDREY D'ANGELO
Business Editor

INFLATIONARY expectations which cause companies to build annual increases of about 15% into their prices — and continuing high consumer spending — are blamed by leading economists for a further rise in the consumer price index (CPI)

Figures released by the Central Statistical Service yesterday show that the CPI rose in May to 15,2% year-on-year following a rise to 14,6% in April The monthly increase, after seasonal adjustment, was a high 1,5%

The food only index rose by 17,5% year-on-year

Old Mutual chief economist David Mohr said this large increase in the CPI was "very worrying" so late in the economic downturn and following a 1,4% month on month increase in April

"It underlines the extent to which inflation has become part and parcel of the SA economy"

Glenn Moore of Personal Trust said these figures justified the reluctance of Reserve Bank Governor Chris Stals to cut interest rates

Moore thought it unlikely now that the bank rate would come down further this year, if Stals stuck to his task of bringing down inflation

This, said Moore, was vital if the new SA were to remain "something like a First World country", instead of turning into a Third World country with an unstable currency

But, he said, virtually all companies now built a 15% increase into their prices every year The lack of real competition in the SA economy meant that major suppliers could afford to do this — a drop of 3% or 4% in sales volumes did not really hurt them and in any case they could budget for it

As a result of this, SA was likely to continue to have high inflation far into the foreseeable future

But, said Moore, it was still worth while for the Reserve Bank to keep a tight control on the money supply

Without this, inflationary expectations could easily jump from 15% a year to 25% or 50%

Moore said continuing high consumer spending, particularly on hard assets, showed that the public expected inflation to rise

David Mohr said that although inflation was high in SA, it was stable It had been between 14,5% and 15% for some time It was crucial that it should not be allowed to rise above this

The real argument was whether, in the present circumstances, a cut of 1% or 2% in the banks' prime lending rate could be described as inflationary "What one has learned is that the Reserve Bank Governor cannot fight inflation on his own."

Sanlam chief economist Johan Louw forecasts in his Economic Survey that the year-on-year inflation rate will be 15% in December but will fall to 12% by the end of 1992

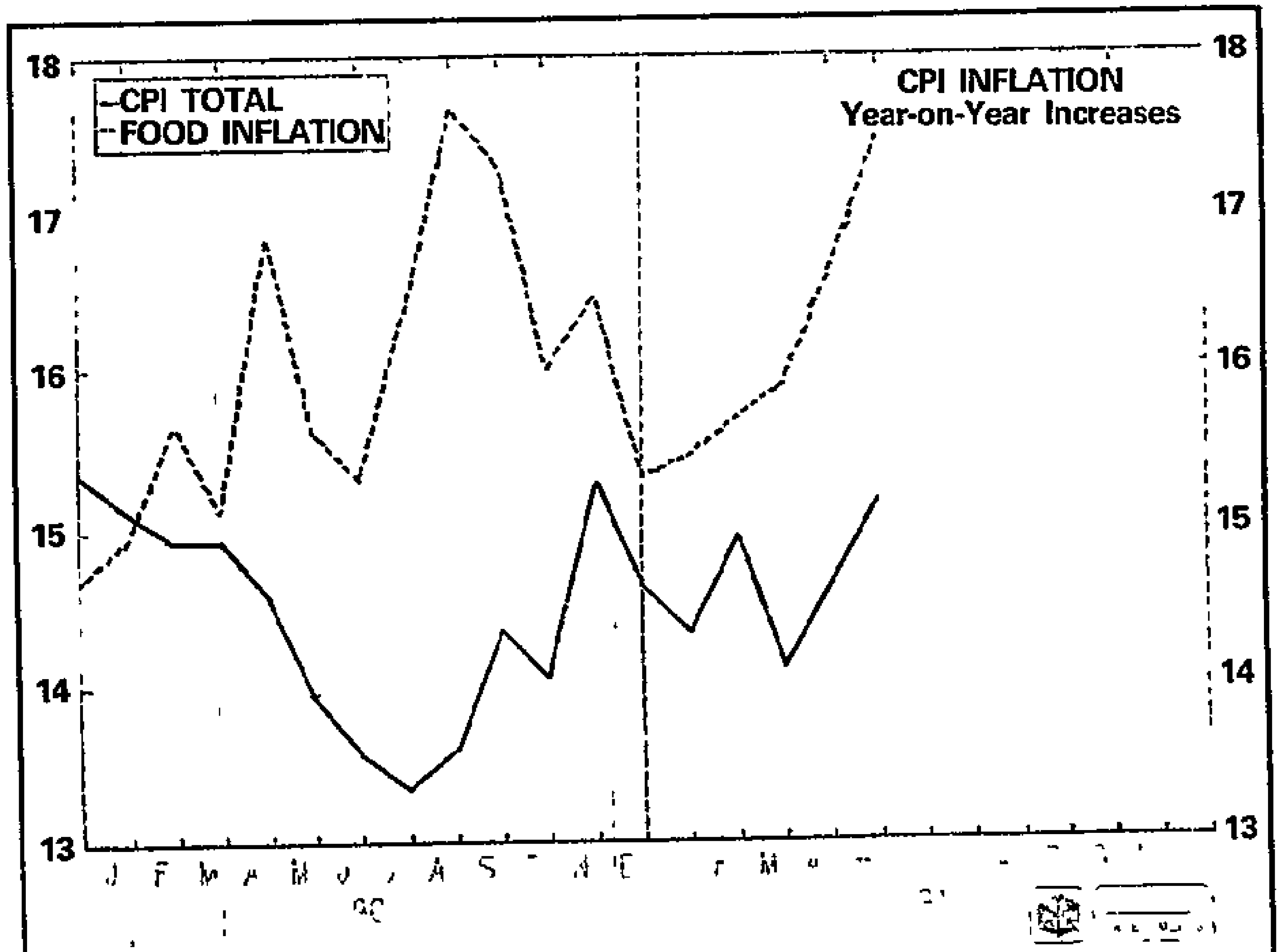
"The sluggish response of the inflation rate to the strict monetary policy of the past two years makes us considerably less optimistic than before about the inflation rate in the short to medium term," he says

"We think the inflation rate will remain high in the next few months and that it could even accelerate

"The gradual reduction which is expected in the third quarter of this year will also be interrupted by the introduction of value added tax (VAT)

"At this stage we expect the year on year increase in the consumer price index to be just under 15% by December 1991 — more or less the same as the rate we envisage for the year as a whole.

"For 1992 we expect a gradual drop to about 12% by the end of the year"



This graph shows how food prices have led inflation in the past year.

Healthy industries can prosper even during a recession

B/day 26/6/91. (153)

EDWARD OSBORN and KEVIN LINGS

THE ECONOMY reached the crest of the business cycle in the third quarter of 1989 Since then there has been a continuous slide into recession

Over the two-year period from the first quarter of 1989 to the corresponding quarter of 1991 (a time frame used to minimise seasonal distortions) GDP has declined in real terms by 1,19%, and the total index of manufacturing production by 4,24% But the decline in the manufacturing industry has not been uniform

Changes in output have varied widely among sub-sectors, from a decline of nearly 40% to a rise of 60% at the extremes The bulk of the changes, however, has been between -20% and +20% Nearly 50% of industry by weight, or relative importance, has experienced reductions in output of up to 20%, and about 35% have increased output by up to 20% This greater preponderance of falling industry has led to the overall reduction of 4,24% for all manufacturing industry

This analysis classifies the percentage changes into strong and moderate decline and strong and moderate growth Static industries are identified separately The static industries are taken to be those that have moved only in the small range of plus or minus 2% The moderate movements are taken to be from 2% to 10%, and the strong movements beyond that

To take a longer term view, industries are further grouped as either buoyant or depressed This has been determined by whether output in 1989 was above or below that in 1985 — with an index of 100 for 1985

Overall, it was found that some 65% of manufacturing industry might be described as buoyant, and some 32% as depressed (Information on current production was not available from Central Statistical Service for 3% of industry)

The "buoyant/depressed" distinction is an important one for it demonstrates clearly that virtually no depressed industry was able to improve its position moving into the recession At the same time there was a sizeable weight of buoyant industry that was able to maintain a growth momentum — 25% of industry with moderate growth and 8% with strong growth Similarly most of the industry that remained static, as defined, were in the buoyant class — they remained relatively immune to the downward tug of recession

The depressed third of all industry was brought down further by the recession Only some 20% of "buoyant" industry was pulled down to various degrees by the recession, but nevertheless remained above the 100 dividing line.

The broad conclusion to be drawn is that already depressed sectors are most unlikely to recover when the economy is moving into recession, while much of buoyant industry can withstand the ravages of recession

This conclusion in itself would be self-evident It is of greater interest to move from the general to the particular The accompanying table summarises the experience of the more important industries Industries with a weight of 0,50 or more have been singled out and classified according to their growth experience and status — whether buoyant or depressed

Much of the industry that experienced growth is directly associated with private consumption of non-durable goods and the specific categories of semi-durable footwear and women's and girls' clothing Private consumption expenditure on these categories has sustained its growth throughout the recession, albeit with a discernible slowing down.

The large and amorphous industry described in the official statistics as "other chemical products" (that is, other than industrial chemicals, medicinal and pharmaceutical, and toilet products) experienced continued growth during the recession, as also did tyres and tubes, plastic products and "other metal prodcuts" Tinware, which embraces tin foil, tin plating and household articles, showed strong growth of 18%

The furniture industry maintained its output level despite the economic downturn, and further evidence of this is given in the official estimates of consumption of durable goods, with national consumption of furniture, household appliances, etc, rising from R2,818m in 1989 to R2 984m in 1990 (at constant 1985 prices)

Pulp and paper, with its orientation to the export market, maintained its level of production and was not affected to any significant degree by the recession

The depressed state of the building and construction industry was instrumental in pulling down associated supply industries such as cement, structural clay products, cement products, cables and wire products, and structural metal

The motor industry's difficulties are well known and are reflected in the summary table There are, however, some surprises For example a number of consumer semi-durable and non-durable food items appear among the declining industries In these cases there could be specific reasons for their downturn

For example, the meat slaughter industry has encountered problems connected with the poor climatic conditions of the 1990/91 season and labour difficulties in the abattoirs The industry is also sensitive to changes in disposable income In the case of the blankets and textile finishing industry there have been the specific problems of exposure to international competition, particularly from Turkey

The analysis has brought out the fact once more that SA's manufacturing industry is tremendously diverse and that its susceptibility to general economic climatic conditions can vary markedly

However, it would have been surprising if the total manufacturing index had not fallen, there was just too much weight of industry that was influenced by such recessionary factors as reduced capital expenditures and pressures on disposable incomes In some cases the setback to industry was exacerbated by special problems of production, labour, exposure to international competition and other factors

Nevertheless, the extent to which manufacturing industry continued positively on an upward path is quite remarkable

☐ **The authors are both members of the Nedbank Economic Unit.**

The Growth Experience of Principal Manufacturing Industries in the Recession

Strong Growth		Moderate Growth		Static		Moderate Decline		Strong Decline		Strong Decline	
Buoyant		**Buoyant**		**Buoyant**		**Buoyant**		**Buoyant**		**Depressed**	
Milk products	0,51	Cooking fats	0,73	Bakery products	1,24	Confectionery	0,63	Can/d frt & veg	1,18	Can'd meat & fish	0,58
Breweries	1,06	Flour & grain mil	1,89	Knitting mills	0,56	Other food prod	0,86	Meat slaughter	1,07	Blankets/finish	2,12
Soft drinks	0,90	Animal feeds	0,63	Furniture	1,44	Distilleries	0,76	Resins	1,36	Cement products	1,00
Tobacco	0,54	Footwear	0,99	Pulp & paper	2,19	Basic non-ferrous	3,02	Clay products	1,31	Steel pipe & tube	0,57
Female clothing	1,50	Medicinal & phar	1,22	Packaging	1,33	Cables, wire	0,77	Other machinery	3,15	Structural metal	2,86
Stationery	0,61	Toilet products	1,52	Paints	0,69	Radio, TV	1,55	Electrical indust	1,90	Special ind mach	2,76
Tinware	0,95	Chemical, other	12,09	Rubber products	0,54	**Depressed**	-	Insulated wire	0,61	Caravans, trail	0,74
		Tyres & tubes	0,88	Sheet glass	0,61	Male clothing	1,33	Motor vehicles	2,15	Other transprt eq	0,96
		Plastic products	2,10			Sawmilling	0,93	Motor parts	1,68		
		Other metal prod	2,06			Printing	3,83				
						Cement	0,99				
						Iron & Steel	7,11				

Source — CSS

Capital market hit by bleak outlook

BDay 26/6/91

(153)

ANDREW GILL

CAPITAL market rates have taken an upward turn in recent days as perceptions grow that monetary policy is failing and nervous local investors keep a low profile.

Dealers say the higher inflation rate, continued high growth in money supply, the weakening gold price and an unstable commercial rand have prompted a bear run in the market and seen rates consolidate well above the 16% level.

Monday's bearish 15,2% inflation rate for May, combined with a drop in the gold price and Tuesday's poor money supply figures had compounded already gloomy sentiment, a dealer said

The benchmark Eskom 168 settled at 16,11% yesterday after an almost 10 point rise on Monday following the release of inflation figures Since Bank rate was dropped in March the rate has risen a sizeable 80 points

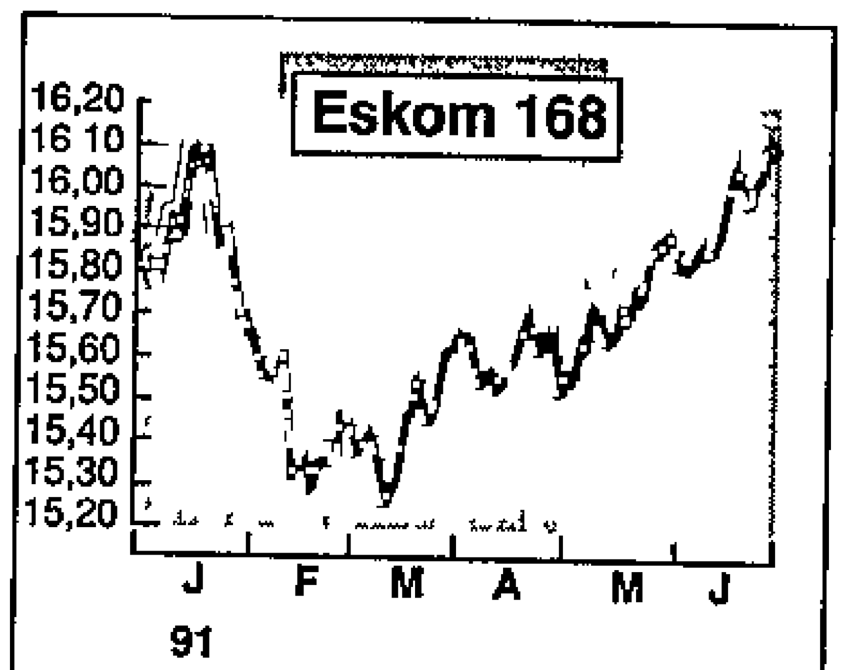
"The CPI figures confirmed the market's worst expectations," a dealer said

There does, however, come a point when all the bad news is discounted by the market, and current rates seemed to be close to those levels

According to the latest Reserve Bank Quarterly Bulletin, the declining trend in nominal yields in the run-up to March's Bank rate cut and the increase in the measured inflation rate saw the real yield on long-term government stock decline from its 2,7% high in June 1990 to 1,1% in April this year

Institutions have apparently taken to the sidelines while market jitters play themselves out They are said to have preferred the options route which, in times of uncertainty, provided a relatively risk-free means of entering the market

However, overseas buying has been noticeable over the past week as investors take heart over "their agenda" coming to the fore



Graphic: LEE EMERTON Source INET

BUSINESS

Inflation shocker: It could have been worse — experts

(163) ARGUS 29/6/91

CLAIRE GEBHARDT
Weekend Argus Correspondent

JOHANNESBURG — Don't worry about this week's shock inflation figure, it could have been much worse and this is no time to abandon the monetary policies designed to stop it

The shock hike in consumer price inflation to 15,2 percent in May from 14,6 percent in April and 14,1 percent in March set alarm bells ringing

The 1,5 percent month-on-month increase (19,6 percent on a compound annual basis) follows more than two years of high interest rates, massive unemployment and a deteriorating business scene

But as calls mounted for cuts in interest rates, economists said there was no question that monetary policy had failed and cognisance had to be taken of the long time lag between the imposition of tight policy and a drop in inflation

They cite the UK experience where, despite sharp rises in interest rates from mid-1988, inflation peaked around 11 percent in 1990, bringing forth cries that monetary policy was not working

Inflation in the UK has since retreated to 5,8 percent and looks set to fall below four percent, ironically arousing criticism that monetary policy has been a trifle too effective

Most economists feel that without stringent monetary policy South Africa's inflation rate would be several percentage points higher and that in the longer term, the monetary authorities will be doing very well to keep the inflation rate in the mid-teens

They cite several crucial factors

- The continuing high rate of wage increases over the past year without commensurate increases in productivity,
- the concentration of power in the business sector,
- the enormous demands on state finances to fund social uplittment, and
- the fact that the high level of unemployment required to reduce inflation further might be socially unacceptable

Volkskas economist Adam Jacobs says there can be no indulgence in aggressive reflation given the weak balance of payments position

"Cutting interest rates will see savings decline further, debt escalate and imports soar to the detriment of our foreign exchange reserves — neither will cuts solve the unemployment problem"

Professor Philip Mohr, head of Unisa's economics department, gives the iflation argument a unique twist

He says South Africa has had the most stable inflation rate in the world over the past 18 years, notwithstanding the fact that is has been historically high

He believes this augurs well for the future

"Most countries which reach the 10 percent to 20 percent inflation range go high and then come back again, others move into this range and then simply go into orbit"

He says current monetary policy helps prevent inflation getting out of hand and not too much should be read into month-on-month increases in the CPI

Cuts in interest rates will not turn inflation around, the only way to combat inflation is to discipline the effective claims on the national income, says Prof Mohr

"This involves concerted action by different sectors of the economy, business, government and labour"

The introduction of VAT in September will lead to an upward adjustment in the CPI in October but this won't be inflation per se, he says

"It depends on how the economy reacts to this, if we wish to be compensated for VAT then inflation will rise — inflation is a product made in South Africa, by South Africans and for South Africans"

Inflation has bank on run

153 SI Times (Bus Times) 30/6/91.

By CURT VON KEYSERLINGK

THE Reserve Bank is at a loss about what to do in its bitter battle against inflation.

Deputy Governor Jaap Meijer says "We were taken back by the news that the consumer price index increased 15,2% in May

"We would welcome any suggestions on what to do because we have looked at what other countries have done but cannot use their methods

"For example, Margaret Thatcher did it in Britain in the early Eighties by a two-pronged approach She slammed on the money brakes with much higher interest rates that put millions out of work

Rejected

"We cannot do this for political reasons Besides, we do not have the unemployment safety net they have in the UK

"The other thing she did was to break the power of the trade unions with her campaign 'who rules Britain?'

"We cannot do that because our trade unions have only recently been freed

"We also reject the socialistic remedy of a prices and incomes policy because it leads only to gross economic distortions "

He says the figure of 15% is a psychological benchmark on the upside of inflation But 10% is a benchmark on the downside and the Reserve Bank did not expect the upside benchmark to be breached

Many mainstream economists are equally shocked by the latest inflation figure Some are equally mystified because the traditional monetarist method of maintaining high interest rates has not been more effective

Some appear ready to abandon their predictions published in last week's Business Times of lower interest rates before the end of the year

But Rand Merchant Bank economist Rudolph Gouws says SA's real interest rate is lower than those in its more important trading partners

Mr Gouws says if real rates are calculated by the usual method of subtracting the inflation rate from the prime overdraft rate, then SA's real rate is lower than those of Germany, Italy and the UK — but higher than that of the US

But if what he regards as the more accurate method of expressing inflation as a ratio of prime rate is used, SA's real interest rate is lower than those in all these countries

Nonetheless, while all economists approached by Business Times do not favour a drop in interest rates, most believe that higher interest rates could have a negative effect on the economy

Standard Bank economist Nico Czypionka says "High interest rates alone are not enough to stop inflation We must break the entrenched cost-plus approach to inflation in South Africa

'The Reserve Bank believes that all businesses automatically cut their other costs when interest costs rise But this tends to happen mainly in industries such as gold mining where prices are fixed by outside forces

"Other industries tend to recover their increased costs by raising their prices

"It is sad that the Competition Board has turned out to be a joke It has done nothing to promote competition among some of our manufacturing cartels "

Mr Czypionka says offenders include food manufacturers and some hotels which have raised their published tariffs by more than 30% this year

Unions

Trust Bank economist Nick Barnardt, who is "shocked" at the latest figure, says there should be a campaign to force businessmen who raise their prices by more than inflation to justify themselves in the media

Food prices have been taking inflation up for some time. Pick 'n Pay reports that in the past year wholesale prices of some canned fruit have risen by 40%, breakfast cereal 20%, single-ply toilet paper 50% and some frozen fish and meat 20%.

But economists cannot understand why the consumer price index of food items has been rising more sharply than the producer price of food since the beginning of last year

Mr Barnardt says it may be partly due to the huge increase in shrinkage — mostly theft — which has forced retailers to recover these losses by price rises over and above those forced by higher wholesale prices

Since supermarket margins tend to be low there is little scope for absorbing additional shrinkage without increasing prices

Econometrix director Azar Jammine says retailers have also been hit by escalating rentals and wage increases that have sometimes exceeded 20% this year

"We cannot raise interest rates further because they hurt the wrong people, the small businessmen Trade union members would not be as badly affected, neither would big businesses that pay lower interest rates "

The obvious way to contain inflation, says Dr Jammine, is to reduce government spending which has surged this year But he acknowledges that this is not a politically acceptable measure

Some authorities have suggested that inflation could be curbed by agreements with trade unions to moderate their demands But head of Seifsa's economics division Mike McDonald says black unions would have nothing of it

He says "Wages in SA are low by international standards, but productivity is abysmal

"Companies should put more effort into training because if we achieved a 10% increase in productivity we could increase wages by 15% without it being inflationary "

Stals urged not to abandon inflation fight

Star 2/7/91. (153)

By Magnus Heystek
Finance Editor

The Reserve Bank should resist the temptation to reduce interest rates until inflation and growth in money supply fall.

An artificial drop in interest rates will lead to a renewed boom/bust recovery that could push inflation above 20 percent

This will reduce the potential for foreign capital inflows, both from the private sector and from the International Monetary Fund and the World Bank

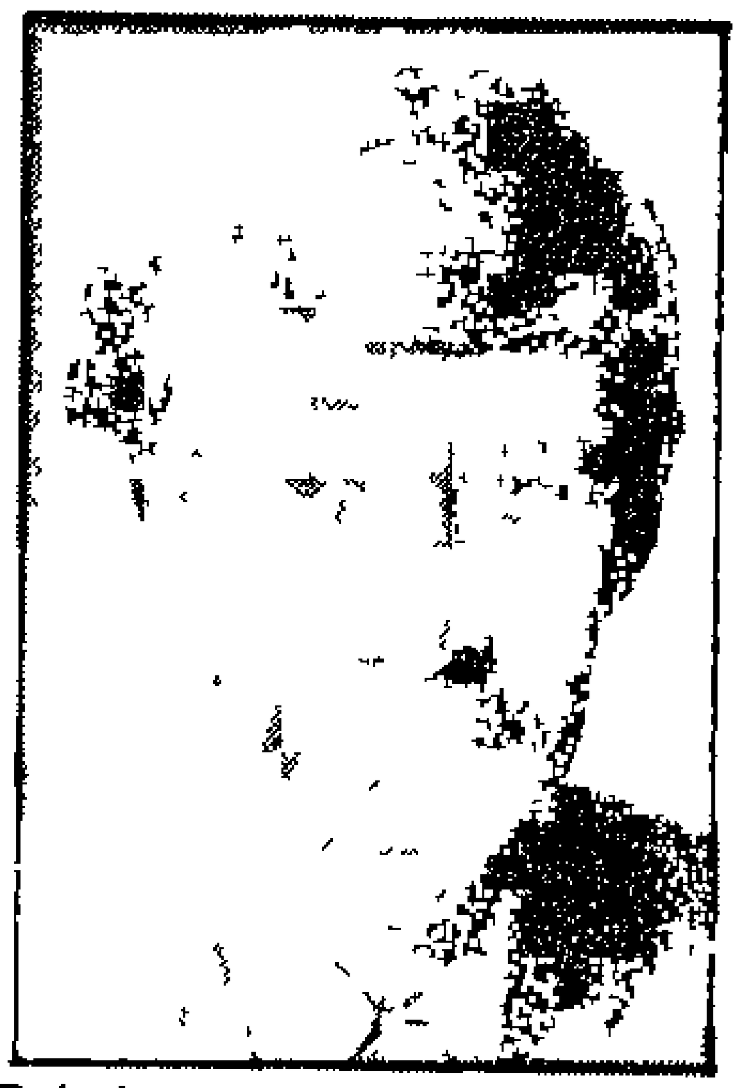
So says Rob Lee, an executive director at the Board of Executors (BOE), and a former chief economist at Old Mutual

Mr Lee's comments are sure to fuel the debate currently raging in business circles about the correctness of the Reserve Bank's tough stance on inflation and interest rates

Dr Chris Stals, Governor of the Reserve Bank, is standing firm against a chorus of calls from the private sector to reduce interest rates in an effort to improve economic conditions.

"It is vastly to the credit of the Reserve Bank to have resisted such pressures thus far

"To abandon the struggle now is ultimately self-defeating In



Rob Lee . to the credit of the Reserve Bank to have resisted such pressures

the end it will leave the majority of people worse off than they otherwise would have been, especially those on fixed incomes, low-income earners and the unemployed," says Mr Lee

He says the shock climb in the inflation rate in May to an annualised 15,2 percent will delay any early reduction in interest rates until late this year, and even early next year

The introduction of VAT is also likely to have a negative impact on inflation

Mr Lee expects VAT to add at least two percentage points to inflation Reserve Bank officials have said they will look at the price index, excluding VAT, to assess the underlying trend in inflation and base their decision on that

However, even if interest rates decline, it won't be by more than one percent, he says

He points out that money supply figures have been artificially boosted by bringing on items previously off balance sheet

Based on this assessment, he expects the inflation rate to fall markedly from the current 15 percent over the course of next year, particularly in the first half

Inflation's dogged refusal to respond to a long period of high interest ratess is blamed primarily on the large petrol price hike caused by the Gulf War and, closer to home, on continuing high wage demands, despite the protracted economic downswing.

"However, there are signs that wage settlements are moving closer to more realistic levels and this process needs to gather more momentum," he says

In addition, once interest rates start coming down it will help to reduce inflation because mortgage rates have a significant weighting in the consumer price index

On the local economic front, Mr Lee is fairly bullish about prospects for growth next year, based on several factors

- There are indications that the world economy will move into a higher growth phase next year

This should boost economic growth in South Africa through higher prices

Events are moving in favour of gold and 1992 may see a moderate increase in the dollar price of the metal

- The potential for export-led growth next year is being boosted considerably by the rapid pace at which sanctions are now being lifted.

Sanctions

Mr Lee expects all trade sanctions to be history by the end of the year

- It is also becoming easier for South Africa to roll over its foreign debt, a factor that could have constrained economic growth next year
- Fiscal policy should provide significant stimulus to the economy next year

In the March Budget the deficit was increased to 3,7 percent of gross domestic product, against 2,5 percent the previous year.

Since that time various other expenditure plans have been announced

High interest rates alone can't cut inflation

By Roy Cokayne Star 2/7/91

South Africa has structural inflation and cost-push inflation, which cannot be combated with high interest rates alone, says Rand Afrikaans University economist Roelof Botha

Speaking at an Anglo Dutch seminar in Pretoria he said there was a lagged positive correlation between increases in the prime rate and a rise in insolvencies.

One could argue that some of these businesses were incorrectly geared, that there was a degree of mismanagement and that insolvencies during a recession meant getting rid of inefficient economic units.

But according to some economists the high prime rate "shock treatment" had wiped out many small business firms in the formal sector.

"What actually happens in a situation like this is that insolvencies rise, and also because of high interest rates, there is low demand in many sectors.

"If a factory is only manufacturing at 60 or 70 percent of its capacity, its unit cost of production increases because the overhead costs remain the same. If you try to combat demand inflation with high interest rates you are aggravating cost-push inflation.

"There are economists who have said that if interest rates were lowered by three percentage points tomorrow, you would probably find inflation decreasing in the next few months. Dr Chris Stals (Reserve Bank governor), however, does not agree with this," he added.

Mr Botha said there was an argument that positive interest rates were necessary to encourage savings, but he reflected on how many people actually rushed to their banks and deposited a lot of money in their savings accounts because they could get a positive interest rate.

Many people did not have the money to deposit and even those who did would still not get a positive after-tax return on their investments

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"South Africa does not have the type of tax incentives for savings that one finds in a country like Japan where the first R30 000 or R40 000 of interest received on savings is not taxable. In South Africa it is negligible". South Africa could solve the problem of lack of funds for development if legislation was passed compelling every employee to deduct 2,5 percent of his salary and channel it into specific investment areas such as low cost housing, the informal sector, venture capital financing and small business development.

He said the success of the new industrial countries of the East had not been achieved just on the back of pure free market principles

In each of these countries specific legislation was passed to channel certain amounts of savings and deposit flows from institutions into prescibed investment areas that were suited to employment creation and the development of those economies.

"In South Africa, for some reason, older generation economists who still have a lot of influence in government cling dogmatically to the free-market principle Free-market principles only work efficiently in an environment that is conducive to free-market principles South Africa's environment does not resemble a highly sophisticated modern economy," he said

"In Germany the type of interest rate differential that we have in South Africa would induce a lot of private sector saving without the government having to resort to contractual savings. But you can't do that in South Africa Our economy is not that sophisticated yet. It's not an inherent fault of the economy. It's just not there yet because it's just that we have third world aspects in our economy whether we like it or not."

Star 2/7/91

Delicate trade-off facing authorities

Fiscal policy should concentrate on promoting productivity and efficiency rather than pursuing socio-political goals says Amalgamated Banks of SA (Absa) chairman Herc Hefer.

In his annual review released yesterday, Mr Hefer adds that the latter is not achievable if not supported by economic fundamentals

He warns that after years of isolation, South Africa's foreign exchange position is in a tenuous position and that at the current level foreign exchange reserves can finance only two months of imports

Domestic economic activity has to be promoted carefully to avoid a sudden rush of imports The prospects for employment will therefore remain gloomy, unless wage demands are moderated to well below the inflation rate, Mr Hefer says.

"South Africa's long-term growth is crucially dependent on competitive exports and thus relatively low unit labour costs."

Mr Hefer says credit demand in the private sector is expected to rise in keeping with the inflation rate during this year, but could well accelerate to about 17 percent in 1992 The cost of credit, however, is expected to change little in real terms in the near future.

Working on an average inflation rate of approximately 14,5 percent in 1991 and 12,0 per cent in 1992, the prime rate should average some 20 per cent and 18 percent for those years respectively Conservative cash flow management therefore remains crucial in business planning, Mr Hefer says.

Although both the international and South African business cycles are expected to have bottomed, Mr Hefer cautions that the coming few months may be difficult for business, particularly those concerns with a high gearing ratio and depending on gold exports

Considering the stage of South Africa's economic development, Mr Hefer points out that the demand for collective goods, mainly education, health and security, is bound to remain high.

"In this respect the authorities have to make a delicate decision on the trade-off between government expenditure and private investment".

To create sufficient employment for a rapidly growing population requires large fixed investments, which, Mr Hefer says, will materialise if the government reverses its current policy of dissaving.

"If the government sets a good example in proper housekeeping, one can expect inflation to fall to structurally lower levels and private households to save more."

Mr Hefer notes that central government savings, in turn, can be stimulated if government expenditure is curtailed to a level not exceeding, for example, 25 percent of the gross domestic product, compared with the current level of 28 per cent

If the government is unsuccessful in exercising fiscal discipline, the Reserve Bank's task of reducing the inflation rate to structurally lower levels, will be virtually impossible.

"In such an event, South Africa will be saddled with the familiar problems of any Third World country high inflation, low savings, insignificant investments, weak economic growth and severe unemployment," Mr Hefer says.— Sapa

Herc Hefer ... "Coming few months may be difficult for business."

COMPANIES

Recession hitting security industry

(153)

B|Day 4|7|91

MARC HASENFUSS

CONTRARY to popular belief, escalating unrest and crime has not benefited the security industry to the extent perceived, Chubb Holdings chairman Dirk Ackerman says in his annual review.

"Disposable incomes have been eroded and the industry has been subjected to the effects of recession like any other business," he said. Ackerman predicted a decline in sales for all Chubb's divisions during the first half, and that increased competition in all areas of Chubb's business activities would limit the opportunities for profit margin improvement.

However, excluding the effects of a partial pension fund contribution holiday, he expected Chubb's earnings level to be maintained in the year ahead.

As a result the group's efforts were being directed at improving efficiencies and managing assets, Ackerman said.

In the year to March 1991 Chubb benefited from a pension fund contribution holiday which bolstered earnings a share to 137,9c (98,6c). Directors said had this not happened earnings a share would have been 117,7c.

In his divisional review, Ackerman said the export drive by Chubb Lock and Safe into Africa and Eastern Europe had been successful. "In the past six months the level of inquiries and orders closed has increased significantly, which bodes well for the future."

The slow start to government and institutional investment in black residential housing would not significantly increase demand for Josiah Parkes & Sons' lock products in the current year.

The rationalisation of Rennies Electronic security and Chubb Alarms had been completed and would provide a firm foundation for future growth, he said.

Chubb Systems and the Fire Security division would continue to face a severe decline in demands from the construction industry and government.

Ackerman said that in order to minimise the effects of the drop in business, Fire Security's staff levels were reduced and two nonperforming branches were closed.

Bank in a bind over high inflation

W Mail 5/7-11/7/91 (153)

Inflation has stayed stubbornly high despite the Reserve Bank's harsh monetary medicine. Should the Bank now allow interest rates to drop?

REG RUMNEY reports

THE stubbornly high May inflation figure of 15,2 percent — as measured by the consumer price index (CPI) — is sending two mutually contradictory signals to the man in the street about monetary policy.

The Reserve Bank is charged with preserving the value of the currency, and interest rates are the Bank's main method of combating inflation. By keeping interest rates high the Bank controls the cost of credit, puts a lid on the creation of money in the economy and so keeps too much money from chasing too few goods.

But there are two conflicting strains of thought about the Reserve Bank's policy:

- Seeing that two years of a high interest rate regime seem to have had little effect on inflation, the Reserve Bank should move to bring interest rates down.
- Seeing that inflation is so persistently high, the country cannot afford any meaningful drop in interest rates.

The pain of high interest rates is being felt, particularly by small businesses which do not have big institutional controlling interests to bail them out. Liquidations and insolvencies are on the increase (*Weekly Mail* June 21).

Moreover, the high interest rate regime acting together with high inflation has other unintended effects.

A recent study of South Africa's international competitiveness, sponsored by the South African Chamber of Business, found that the cost of raising capital here was an impediment to attracting foreign investors to South Africa.

This cost would drop with interest rates.

To counteract the high cost of capital, the government has introduced — against a world trend of moving away from using the tax system to subsidise industry — bigger and better tax allowances for companies involved in "beneficiation" projects (ie processing raw materials). So the taxpayer will foot the bill for the subsidies.

Another argument for lowering interest rates is that there has to be a trade-off between inflation and growth.

Some inflation is acceptable, so the argument goes, if growth can be attained.

The counter-argument is that if the Reserve Bank had not kept interest rates high, inflation would have surged to even higher levels.

United chief economist Hans Falkena points out the argument about a tradeoff was current in the Sixties when interest rates were low enough not to warrant too much concern.

Falkena argues that, contrary to general belief, interest rates are not high enough in South Africa.

Though in nominal terms interest rates in South Africa are far higher than those of our main trading partners, take the inflation rate out and they are seen in another light.

A prime rate of 20 percent when inflation of 15 percent is taken out means a real rate of five percent.

South Africans for many years had negative interest rates — interest rates were much lower than inflation. So a real rate of five percent seems high.

Compare it with the real rates of other countries whose inflation rates are already in single digits and it seems modest.

Falkena says South Africa needs to maintain a real prime rate of at least six percent now, compared with 7,6 percent in Germany, which has an inflation rate of around three percent.

Sacob economist Keith Lockwood reckons that while individuals may be complaining, business as a group isn't in favour of interest rates dropping. "There is a recognition that we have to do something about inflation."

And he points out a drop of one percentage point or so isn't going to help those business that are in trouble.

The Reserve Bank itself has far from given up the fight or its adherence to a policy of real interest rates.

In a speech last week Reserve Bank governor Chris Stals put the Bank's case unequivocally, arguing that people should stop arguing that curing inflation is worse than the disease itself.

"Inflation," he said, "provides no solution for the many economic problems of South Africa. It is not capable of rectifying an unequal distribution of income.

Reserve Bank governor Chris Stals .. Inflation cannot rectify an unequal distribution of income

"Instead, it increases existing inequalities and weakens the economy's potential to create additional income"

Stals pointed out, among other economic evils flowing from inflation, that inflation discriminates against the poor, whose financial acumen does not equip them to protect themselves through "inflation hedges" such as property and company shares

Inflation also transfers income from people who own monetary assets to people who have incurred debt. (A good example was during the Seventies when home buyers benefited from cheap finance from building societies, while pensioners saving money in those societies saw their savings eroded by inflation)

Government also usually benefits from inflation, said Stals, because taxpayers are constantly pushed into higher tax brackets by inflation.

While increases in taxes are legislated in parliament, inflation introduces extra tax without the consent of the electorate

Inflation also hurts the homeless, Stals said

"Those who are currently complaining about high mortgage rates should compare the high debt servicing cost with the strong rise in house prices which is another result of inflation" Inflation prices aspiring home-buyers and other homeless people out of the market.

Inflation militates against economic growth except for a short period, and ensures future generations will have lower incomes because there is little incentive to save and savings which should be set aside are used up

Not a single country in the world has ever succeeded in creating a prosperous society by allowing inflation to continue unchecked for a protracted period, Stals said.

Falkena reckons that real interest rates are not high enough.

"We doubt that current rates will reduce inflation much."

In the United States and our other trading partners inflation is in single digits already, and real interest rates have not had much effect. This would seem to show that more medicine is needed.

"If you're serious about fighting inflation you have to reduce the budget deficit and increase rates even further."

Falkena says a lower wage rate, rather than a lower rate of interest, is badly needed to promote economic growth in South Africa.

Reserve Bank deputy governor HJ Meijer said recently inflationary expectations are the single most important factor in the rate of increase in the CPI.

At an Economics Society of South Africa seminar he stated econometric evidence showed inflation expectations had replaced labour productivity as the most important factor in explaining inflation in South Africa.

Expected inflation, he said, is an important element in wage determination. Nominal wage increases are a prime determinant of both production and consumer price increases, and these in turn feed back into inflation expectations

More union pragmatism as recession deepens

By DREW FORREST

FALLING pay settlement levels, shorter bargaining and fewer wage strikes signal greater union pragmatism in the face of recession and job insecurity

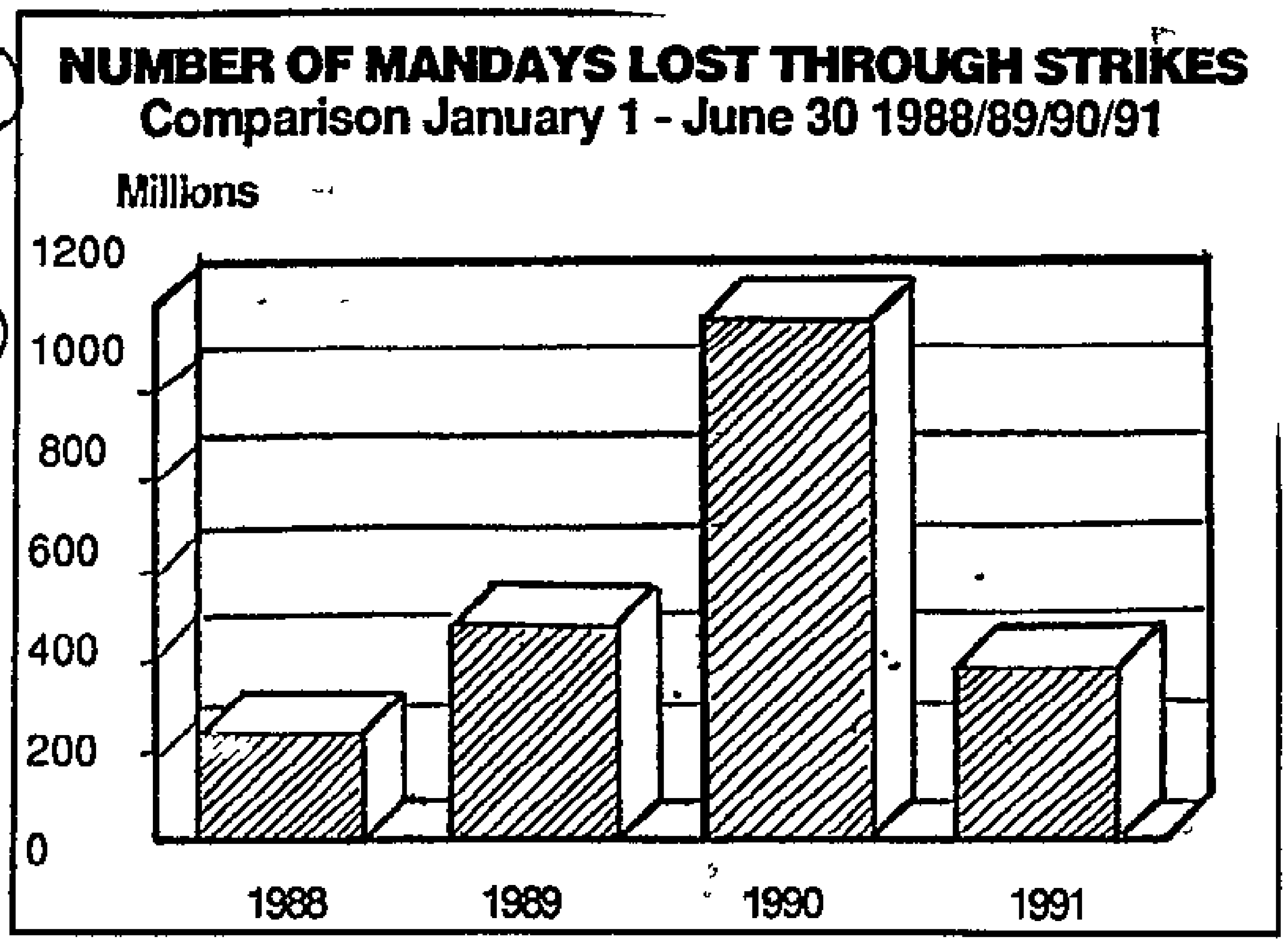
This is the message of Andrew Levy and Associates' latest *Bargainers' Bulletin*, which shows that the average level of settlement between February and June this year was 16,7 percent of payroll. The 1990 figure was 17,4 percent and the 1988 figure 17,9 percent.

The consultancy's latest strike report estimates that 375 000 mandays were lost through strikes in the first half of the year, compared with 1,2-million in 1990. The strike toll is also down on 1989. WMail 5/7-11/7/91

It also reveals that although pay is still the main strike trigger, at 48,8 percent of total, it is less significant than last year, when it accounted for 63 percent of strikes.

Other key pointers in the bulletin that unions are drawing in their horns are.

- Lower settlements in sectors worst hit by recession — between 10 to 14 percent in the banking and financial services sector, for example.
- Lower union pay claims The average this year has been 43,6 percent (50,9 percent last year and 86,3 percent in 1989).



- A sharp drop in the time required for settlement — 63 days this year (82 days in 1990)
- Less industrial action during pay talks — 43,6 percent this year (52,4 percent in 1990)

The strike report also reveals that job security is a mounting worker concern: 14 percent of strikes in the first half of this year were over dismissals, as against 1,7 percent last year.

The public sector, a Congress of South African Trade Unions organising target, remains highly strike-prone, accounting for 31 percent of mandays lost this year, as compared with only one percent in 1989. Cosatu's health affiliate, the National Health and Allied Workers' Union was involved in most strikes (15,4 percent of total).

VAT won't push up inflation, says govt

BDay 5/7/91.

GILLIAN HAYNE

GOVERNMENT yesterday tried to quash fears that VAT will raise inflation, saying it should have absolutely no effect on the rate

This followed economists' predictions that the implementation of VAT would add 2,5 percentage points to inflation

The controversy has prompted the Central Statistical Service (CSS) to introduce two sets of inflation figures — one with and the other without VAT

Government's tax chiefs called a news conference yesterday to address confusion surrounding VAT and the recent move to tighten taxes on fringe benefits.

Deputy Finance Minister Theo Alant said that VAT Watch — a committee aimed at creating consumer awareness about VAT and prices — would be launched on July 17 The committee hopes to encourage the public not to blame any excessive price increases on VAT.

Alant said both competition and government's efforts to lower inflation would ensure prices came down.

Finance Minister Barend du Plessis yesterday issued a statement saying the IMF had found VAT should cause "little or no change" in SA's inflation

Du Plessis said the impact of VAT on inflation had been one of the focal points of an IMF mission to SA.

The IMF found that the removal of GST-on-GST once VAT was introduced would bring down inflation but that the expanding consumption base of VAT might exert upward pressure on inflation. "The likely outcome' little to no change on the rate of inflation," Du Plesss said

Further recommendations by the IMF included the immediate inclusion of full credits for VAT on capital and intermediate goods and the zero-rating of a few essential food items, with maize meal and brown bread as "obvious candidates"

On the fringe benefits issue, Alant said government was not curtailing its support for education by taxing company bursaries.

"The tax system should never be the primary channel to finance and stimulate education and as such the withdrawing of the exemption should rather be seen as levelling the playing fields," he said

He said the rules had been tightened to avoid the exemption being exploited "to provide certain privileged employees with a tax-free income."

"If a bursary scheme is open to any member of the public and granted impartially on grounds of merit or need, and as long as it is not intended as a substitute for part of an employee's taxable income, the scheme will not be subject to tax."

Alant said that from March 1 1992 bursaries would attract tax if the recipient was obliged to work for the company for a certain period, or if he or she accepted a lower salary in lieu of the bursary


HANS FALKENA The wise rich getting richer and the poor poorer

State spending curb the key to taming inflation

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S1 Times 7/7/91 (Business Times)

By CURT VON KEYSERLINCK

THE Reserve Bank can continue indefinitely with punitively high interest rates, but if there is no drop in State spending, there will be no end to inflation.

This is the view of United Bank chief economist Hans Falkena

"High interest rates are making businesses scale down their use of credit," says Dr Falkena.

"This is understandable because a business has to make profits and is therefore obliged to reduce costs.

"But making profits is not the Government's prime objective. It is not as easily scared off borrowing by high interest rates If it were, the Reserve Bank's measures to reduce inflation would work."

He reasons that high interest rates without fiscal discipline by the Government may be counter-productive He says the Government's tendency to carry on borrowing while the private sector is reducing its debt has two effects it keeps up the pressure to increase the money supply — which sustains inflation — and it increases government spending as a percentage of gross domestic product.

In theory this is not necessarily inflationary, but in practice it usually is

Over the decades government spending rose from 15% of GDP to 27,5% last year.

This year the extent to which the Government must borrow to cover its expenditure — its deficit — is likely to rise from 2,7% to 3,4% of GDP. Since real growth in the economy will be less than either of these figures, the Government's share in the economy will necessarily increase and is likely to reach 29% this year.

Sustained

SA's deficit spending is above the 2% to 3% considered acceptable for developing countries by the International Monetary Fund

Another consequence of high deficit spending is the huge cost of debt servicing it brings.

"To contain inflation, the Government should finance its capital spending with loans and its current expenditure with tax revenue," says Dr Falkena

"But it is financing current expenditure with loans This increases money supply, which in turn sustains inflation

"It means in effect that this expenditure is being financed by 'inflation tax on the ignorant and the poor'

"Inflation hurts the poor more than the rich Somebody should try to explain this to the ANC and the trade unions They do not know what side their bread is buttered on because they advocate high deficit spending and other inflationary measures

"Rich people should be making money out of inflation because they can afford to buy property, equity and a variety of retirement annuity and investment schemes which yield returns well above inflation

"It is only the poor, who have no money to invest, or the ignorant rich who do not invest wisely, who get poorer

Inflation rate row rages on

Star 9/7/91

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By Des Parker

DURBAN — Is inflation hitting people's pockets at a rate of 15,2 percent a year — or is more like 20 or 30 percent?

This was the subject of a sometimes heated debate in Durban between Durban mathematician and engineer Karl Posel and Cape Town university academic and economist Brian Kantor

If the reaction of the audience at the NBS Economic Forum is anything to go by — and they largely comprised hard-headed business people who many would say can only gain from inflation — Dr Posel's adamantly-held view that the Government's Central Statistical Service (CSS) isn't doing its sums right may just be correct

Dr Posel, former professor of mathematics at the University of Durban-Westville, maintains the CSS-calculated consumer price index (CPI) gives an excessively broad "average" result of the effect of price increases on SA families's spending.

Inadequate

But of more concern, he maintains, is his belief that it is based on inadequate surveys and incorrect and inflexible weightings applied to the proportion of people's spending on different goods and services

Dr Posel, who has written widely in the financial and popular Press on his theory, described the CSS weightings as "fatuous"

"For example, CSS calculated the average family spent exactly 21,21 percent" of its monthly income on housing This figure remained unchanged for five years, despite fluctuations in bond rates, increases in rents and the fact that some people had paid their bonds off in the interim

CSS gave a 1,84 percent weighting to the cost of employing domestic workers, which for a family outlaying R4 000 on household costs a month meant an expense of R72. Education had a weighting of 1,21 percent — "or R48 a month, and don't you dare argue with the Department of Statistics."

Dr Posel said the most important reason for an accurate measure of inflation was that it gave employees and trade unionists the information they needed to negotiate wage increases that at least kept pace with the rising cost of living.

"And it is trite that there is a correlation between the effects of inflation and civil unrest," he said.

Built in

Professor Kantor said the CPI calculation was done according to an internationally-used formula and that differences in weightings applied to expenditure led to only trivial differences

"If Dr Posel's theory is correct, then South Africans have become poorer at a quite phenomenal rate, which I do not think is correct," Professor Kantor said as an incredulous hum rose in his audience.

South Africans had learned to live over several years with a relatively stable, if high, level of inflation of between 12 and 16 percent.

It was built into the fabric of the economy in contract price fixing and budgeting But more damaging than steady, high inflation were unexpected variations in the rate

Food price increases, which were keeping the CPI increases uncomfortably high, were neither the fault of producers and manufacturers nor retailers Poor company profit levels showed this.

ARG. 10/7/91

Sniffing the winds of SA's inflation

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The Argus Correspondent

JOHANNESBURG. — South Africans sniffed the winds of inflation when the R1 note vanished from circulation and was replaced by a coin that joined all the rest of the small change in pockets and purses

The whiff became stronger when even the R2 note started to make a gradual disappearance — also relegated to coin status

Now the death knell has sounded for the R5 note, though the funeral may still be two years away The size of the R5 coin has already been decided — slightly larger than the R2 coin — and only details of the design have yet to be settled The coin will make its debut in 1993

If South Africans blink in disbelief at the disappearance of a procession of banknotes of various denominations, the shock will be compounded by news that planning is well ahead for the introduction of a new set of notes in a series that takes R100 in its stride and runs as high as R200.

The telltale signs of what havoc has been caused by inflation shows in counts made by the Central Statistical Service.

It reveals that the real buying power of R1 shrunk from 100c in 1970 to as little as 10c by 1989 — and today it stands at only a fraction above 7c.

The chill reaches the marrow when the official consumer price index confirms the speed of the inflation spiral.

The same trolley-load of food that cost R100 only six years ago now carries a price tag of no less than R250.

"The new sets of coins and banknotes coming into circulation are signs of the times," said Mr Daans Naude, assistant general manager of the South African Reserve Bank, which sends out the production orders to the Mint and the SA Bank Notes Company

"As the purchasing power of rands and cents declines under the impact of inflation, so we try to make the cash in everyone's pocket fit the new realities"

"We also need to keep an eye on better and more economical ways of keeping cash in circulation That is why we are using the logic of more coinage rather than paper notes in many of the smaller denominations Savings in production costs will be enormous.

"For example, the 100 million or so R2 notes that were in circulation used to last no longer than two to six weeks each before they were worn out by constant handling The new R2 coin should last 15 or even 20 years."

The Reserve Bank claims there are also good reasons why all the old coins are being redesigned as well — and changed in their metal content

Because of steep increases in the prices of many minerals on world markets during the past few years, there came times when the metal in several coins became more valuable than the coins themselves the nickel going into the making of old 5c and 10c pieces and the bronze going into 1c and 2c pieces

If users did not consider selling small change to scrap-metal merchants, there was also the chance of making a fast buck out of melting down bronze coins to sell to the producers of fancy-priced copperware

"The new coins ensure that they stay more valuable in the pocket than in the scrapyard," said Mr Naude "Most are smaller and lighter — and far easier to handle

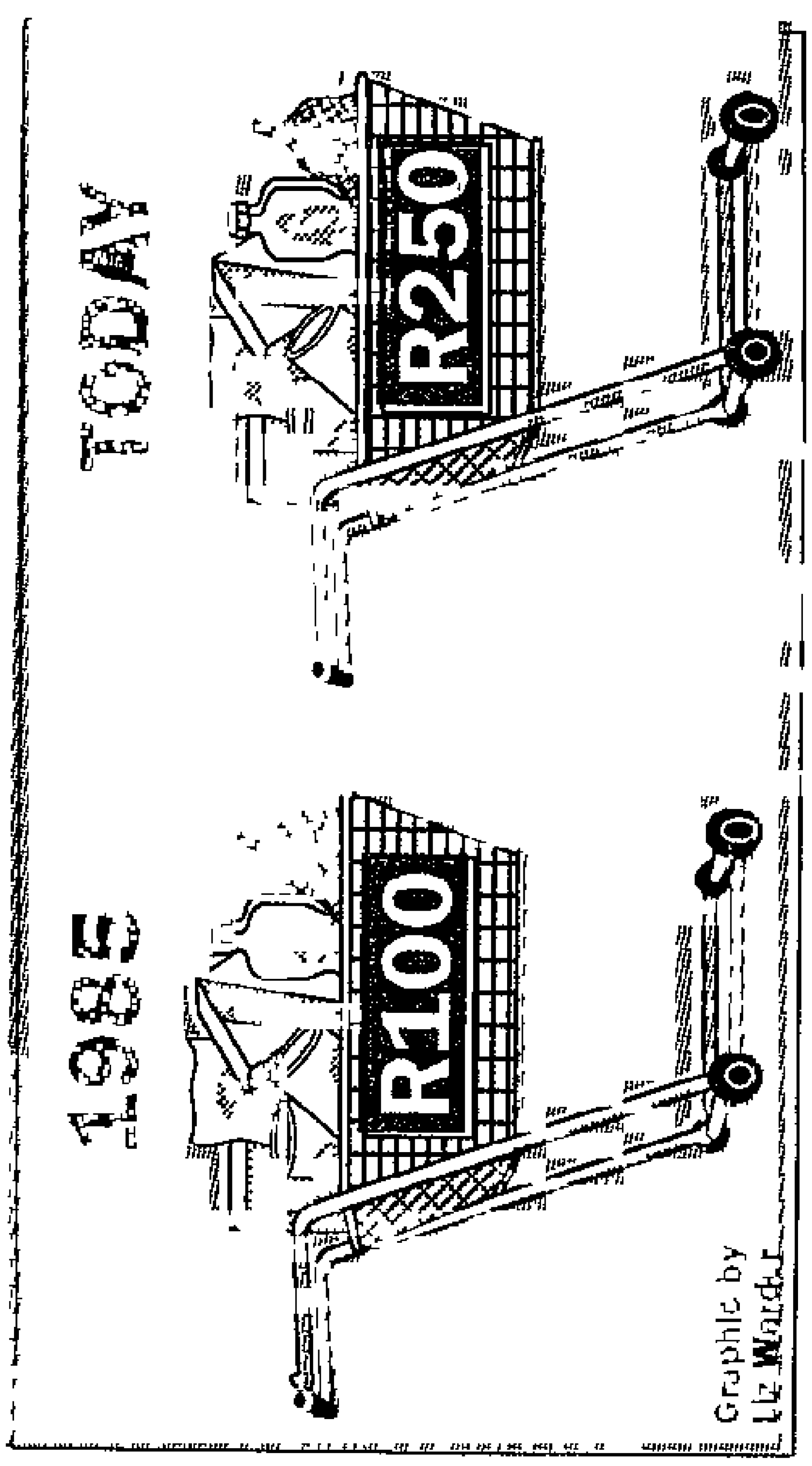
"The design and metal composition have also been aimed at making counterfeits a lot more difficult. And they are easier to identify"

Mr Naude said the Reserve Bank is well aware of sniping comments by critics who have suggested a tidal wave of problems when it comes to using the new coins in parking meters, cigarette machines, automatic laundries and so on

"Most of the criticisms are red herrings Consideration of the actual user has been paramount"

Counterfeits of the old series of coins have become less of a problem, as the swift decline in the value of even the originals has made the racket a sheer waste of time and effort

● Unfortunately, because of the risk of even crude replicas being used as currency, the law forbids newspapers from printing examples of what the new banknotes may look like From a confidential peek at proposed designs, I can say the R100 elephant looks superb. The R200 leopard — out of this world Out of my reach too



DOUBLING UP: No matter which way you slice it, you're paying 2½ times more than six years ago.

Recession 'has not yet bottomed out'

(153)

Bloomy 11/7/91

PAUL ASH

THE economy had not yet reached the lower turning point anticipated by Sacob, chief economist Ben van Rensburg said yesterday.

The business confidence index (BCI) for June remained static at 88,6 which showed that the economy had not reached a turning point.

The long-awaited upturn in SA's economy would probably not occur until the end of the year and businessmen were urged to keep fighting in anticipation of improved prospects in early 1992, deputy director-general Ron Haywood said.

Sacob was looking for growth in the business sector but Haywood believed the recession had yet to bottom out.

Van Rensburg said factors affecting the economy included the Reserve Bank's strict monetary policy which dampened economic activity to fight inflation

An upturn in the world economy could influence local economic prospects and the lifting of sanctions would allow the return of major trading partners who would support an economic upturn, he added.

Domestic political events also had a significant effect on business confidence

Sacob was hoping the anticipated upturn would be export-led, although it believed that while the lifting of many sanctions has probably reduced the lag between world economic activity and improved export performance, the SA economy was unlikely to benefit from rising foreign earnings before February 1992

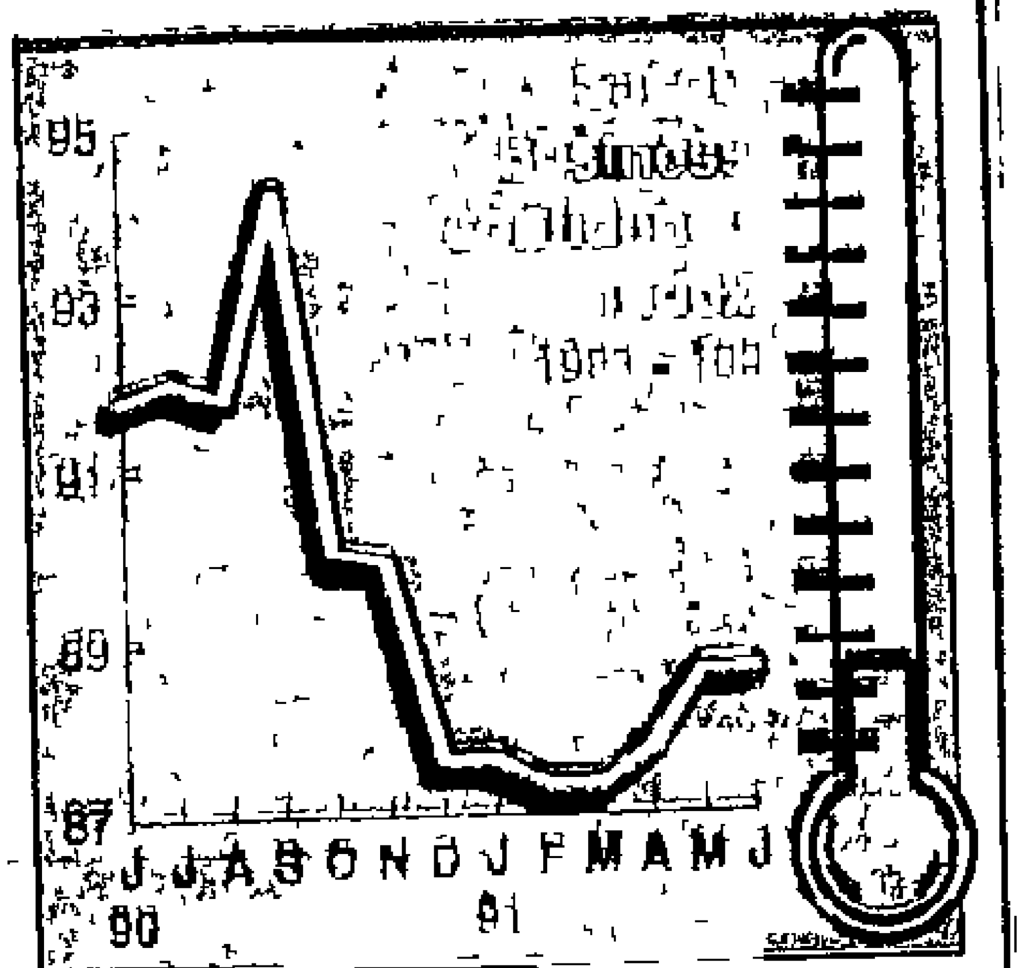
The organisation was encouraged by results of the manufacturing sector survey which showed most manufacturers were optimistic that business conditions would improve in the short to medium term.

Most manufacturers anticipated sales and production volumes would increase in the next 12 months but were still cutting back on stock levels in the light of continuing tight monetary policies and uncertainty over the timing of an economic upswing.

Employment levels of skilled and unskilled workers would also probably continue to be cut to maintain profitability

Sacob said a slight majority of manufacturers expected to increase investment in plant and equipment over the next year but investment in new capacity was expected to decline in the short term as a result of the impending introduction of VAT.

The survey showed the Maritzburg region was the most optimistic with 70% of manufacturers there expecting an increase in sales volumes. Haywood said manufacturers in Cape Town and Maritzburg were optimistic due probably to the export potential of both regions The Cape Town-based clothing industry and Maritzburg's wood furniture industry would be key players in this regard, he said.



Graphic FIONA KRISCH Source SACOB

VAT AND INFLATION FM 12/7/91

Seeing is believing

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Inflationary expectations could add to the start-up costs

Inflation has been feeding on fears about VAT — well ahead of its introduction on September 30 SA Chamber of Business chief economist Ben van Rensburg suggests that pre-emptive price rises are already taking place and have played a part in recent disappointing increases in the consumer price index

Certainly, there has been a puzzling discrepancy between producer prices on some items — like food — and consumer prices as a whole Despite the drop in fuel costs towards the end of last year, there has been no resumption of the falling trend in CPI, which seemed firmly in place until mid-1990

May's 12-month increase was even higher than April's 15,2% against 14,6%

Because inflationary expectations tend to be self-fulfilling, the potentially inflationary factors involved in replacing GST with a more broadly based system must be seen in perspective

It is generally estimated that the initial impact of VAT will be an additional two percentage points in the rate at which consumer prices rise over 12 months, starting in October This is despite a lower rate — 12% compared with GST's 13% The reason, says Sanlam chief economist Johan Louw, is that GST applies to only about 50% of the CPI while VAT will be imposed on 70%-75%

Sacob's Van Rensburg *some price rises are pre-emptive*

Price increases, moreover, may be accentuated by the decision to include the tax in the final price — add-in as opposed to add-on Businesses are at liberty to display the price before tax, what the tax is, and the final price — but are not obliged to Some people, notably Pick 'n Pay chief Raymond Ackerman, argue that the authorities have handed business the opportunity to slip in additional price increases Though a monitoring body has been set up to counter this tendency, the task is clearly Herculean

Whatever the outcome in October, the sharp rise that month should be a one-off event, though its effect will be reflected for another 12 months Businesses may use the occasion to add to margins but VAT is not a carte blanche for endless price hikes

Decisions on pricing have always been constrained by the response in the marketplace and this will continue — unless, as researcher Alan Tait points out, "the enactment of VAT were accompanied by the repeal of the law of supply and demand"

(This view is supported by economist Lawrence Haar, who argues further that consumers will not carry the entire burden of the tax "In a competitive market, suppliers will absorb part of the additional cost")

Inflation, by definition, occurs when prices climb continuously So only a further acceleration after October could be defined as inflation

Whether this happens will depend on perceptions Unfortunately, expectations could set in motion another round of an inflationary spiral Old Mutual chief economist Dave Mohr comments "The economy is informally indexed to the CPI so the higher base will feed into decisions on prices and wages"

But there will be a major antidote at work in the VAT system — all input purchases are tax-deductible Credits are claimed at each stage of the production process, so the tax is not compounded like GST, where capital and intermediate goods are caught in the net

An extension of this is that the new dispensation provides an incentive for business to make real fixed investment After the huge slump in capital expenditure during the Eighties, fresh investment is essential for sustained economic growth

When it takes place it will boost the economy in two stages an initial impact on sectors directly involved, such as construction, and a subsequent spin-off in increased efficiency, which means lower costs There would be no better cure for inflation than a redress in the balance between supply and demand which, in recent years, has tipped heavily in favour of the latter

In a sense, then, the start-up cost of VAT can be described as the present discounted value of inflation that would have occurred in future were VAT not introduced

Neither the immediate impact of taxing a wider range of goods nor the deferred effect of lower input costs along the production chain are easily measurable It is almost impossible, says Tait, to link VAT to "the change in prices, efficiency, investment or employment There are usually too many variables to relate one uniquely to another"

The best precedent, says Van Rensburg, is New Zealand — on whose model SA's system is based The impact of the goods and services tax, which replaced a wholesale tax in October 1986, was estimated at a once-off 5% The projection was higher than that for SA because the tax it replaced was not as wide-ranging as SA's — which, says Van Rensburg, is one of the broadest in the world

Introduction in New Zealand was preceded, Tait says, "by an extensive advertising campaign to reduce public fears about price increases and contain any attempt by traders to take advantage of uncertainty to widen margins It was estimated that about half the 10% VAT rate would be needed to replace the previous sales tax this left about a further 5% net to be reflected in higher prices.

"As it turned out, some traders did increase margins The actual turnout for the first quarter after the introduction was a price increase attributable to VAT of 6,5%. Government confidently expected inflation to return to the previous trend in successive

Pick 'n Pay's Ackerman *a loophole for mischief*

GET YOUR *FM* INDEX

The *FM* index is no longer distributed with copies of the magazine, but it will continue to be produced monthly Readers who would like to receive it free of charge should write to The Editor, *Financial Mail*, Box 9959, Johannesburg 2000, or telephone Lyn Hill on 497-2400/1 and it will be mailed directly to them The index is produced as a service to readers and the *FM* wants those who find it useful to have unrestricted access to it

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quarters, as it did, so that the introduction of VAT can be seen, not as inflationary, but as a once and for all blip "

Tait examined changes in CPI, credit and wages in 35 countries, for two years on either side of the introduction of VAT He found that in 22 countries there was little or no effect In seven countries there was a pronounced shift (a one-off change shifted to consumers) in the trend of the CPI, and, in five countries, an acceleration

"In only one case (Norway) was a shift unambiguously combined with an acceleration in the rate of change of CPI," he says

As a VAT start-up never takes place in isolation, it is not possible to make absolute conclusions about its role in price increases that occur simultaneously In some countries, says Tait, it coincided with massive upheavals after sharp oil price increases in the Seventies — Austria, Bolivia, Italy, Honduras, Israel and Peru In others it occurred when price control was in place — as in Belgium (1971) and the UK (1973)

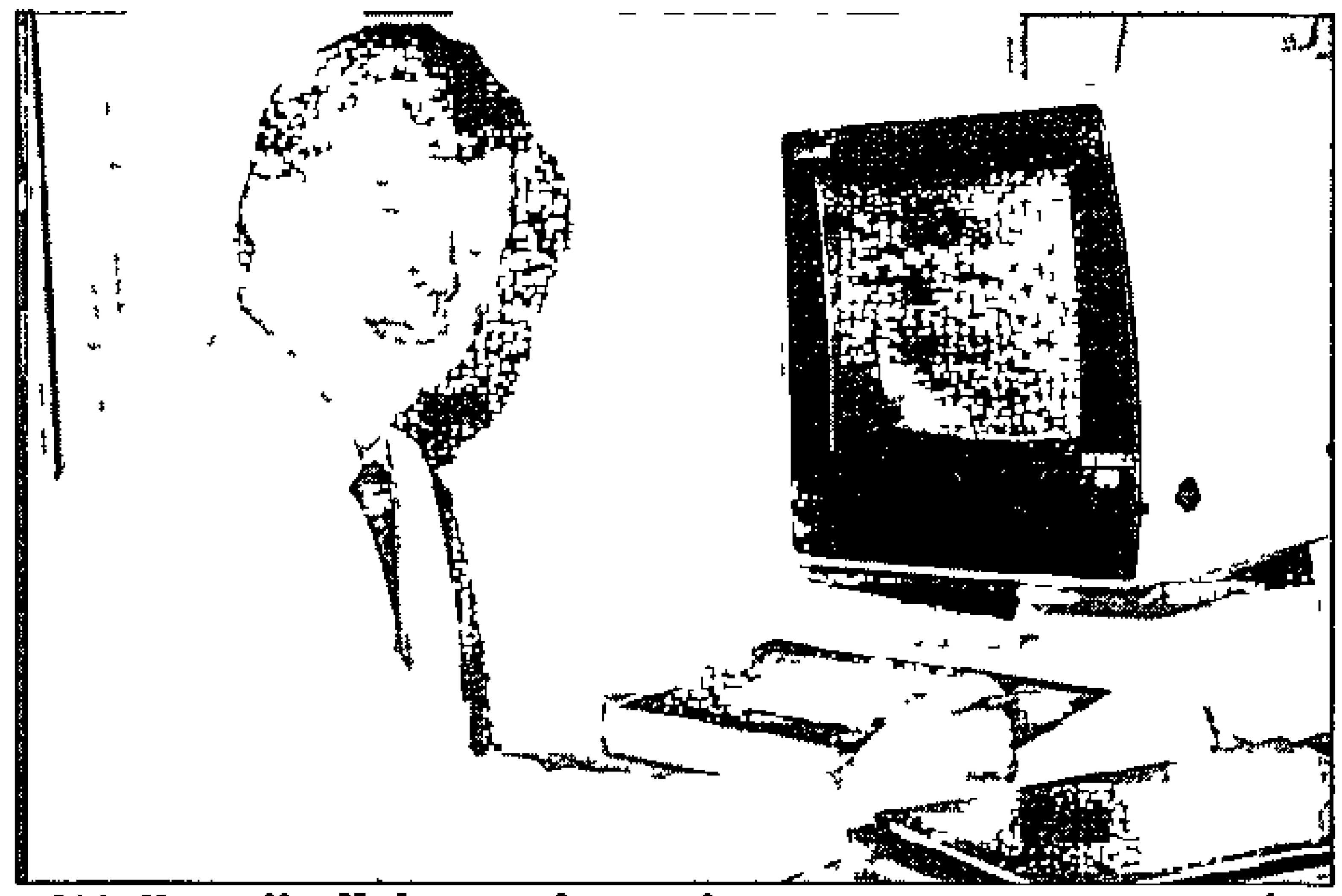
Nor is the introduction in one country directly comparable with another VAT may be designed to increase revenue or simply, as in most cases, to replace existing taxes In that case the effect depends on a complex mix of increases and reductions in a variety of different types of tax

Another factor is the anticipated outcome Government will attempt to keep price increases within a certain target with methods that range from moral suasion to price control Likewise, consumer resistance will stiffen when prices are felt to rise excessively

The problem in SA is the highly inflationary environment It is easy enough for expectations of higher inflation to take root and flourish, because the problem is deeply entrenched Economic policy was unpredictable for too long, the monetary stance volatile, and attempts to maintain a consistent and co-ordinated policy too recent Moreover, the switch to VAT has come at a bad time, when a number of events are adding to inflationary expectations (*Leaders* June 7)

It was no doubt precisely for this reason that Finance Minister Barend du Plessis last week put out a press release designed to dampen those expectations

The changeover," he says, "should cause little or no change in the CPI, according to the IMF " This bald statement will no doubt cause confusion, in the face of a general "about 2%" consensus on the initial impact which includes an estimate by Central Statistical Services

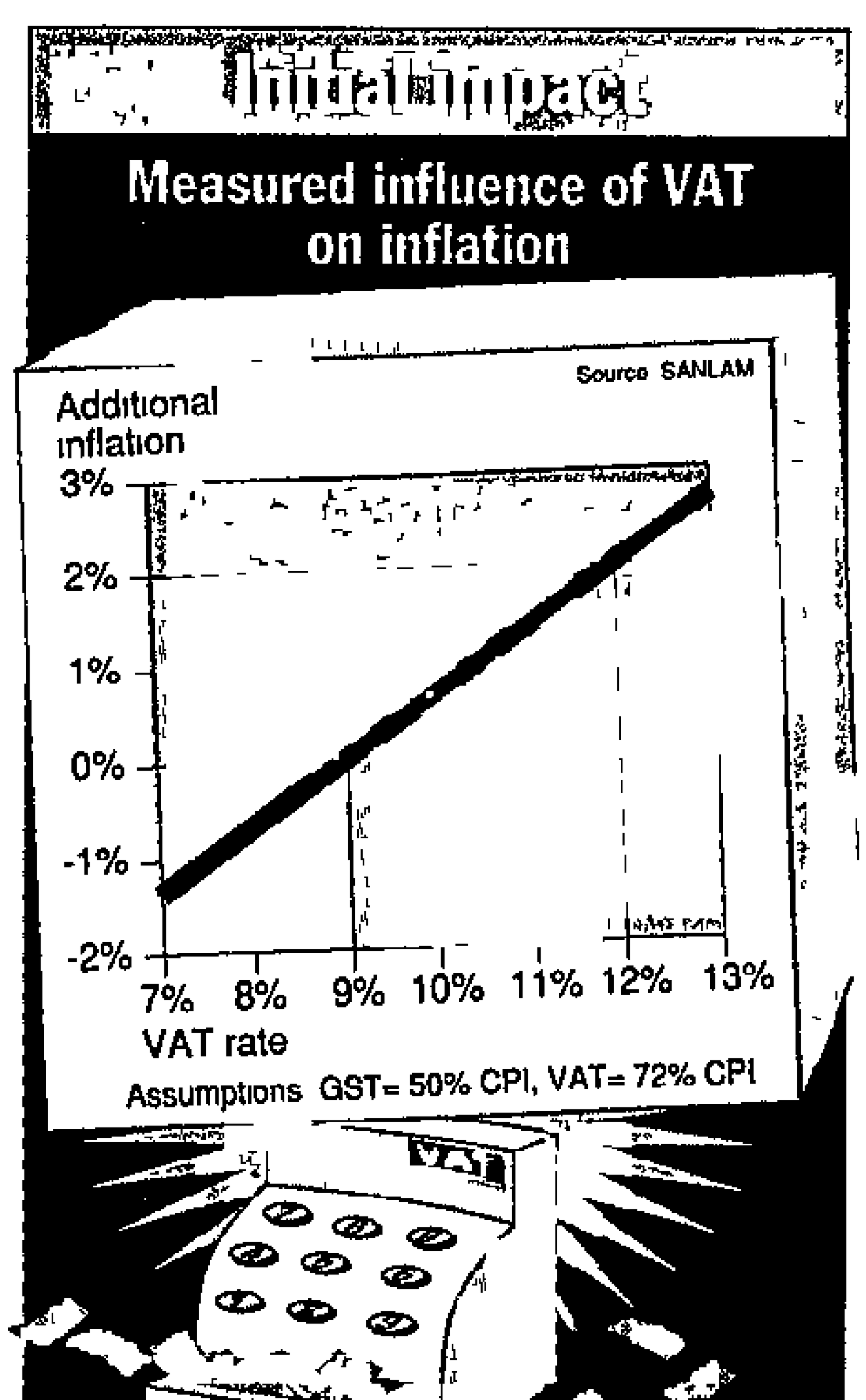


Old Mutual's Mohr *fears of a vicious wage-price circle*

Du Plessis could be right — but only if VAT is not passed on to the consumer If money supply is not increased to accommodate the increase in prices, says Tait, aggregate demand should fall ' because of other exogenous factors " Traders would then be forced "to absorb the VAT, passing back its burden in lower factor rewards "

Another description of this situation is that the reduction in the distortionary waste generated by the tax system behaves like a rise in aggregate output The demand for money should therefore rise and, as long as this is the only effect upon the demand for money, and the supply of money is unchanged, the overall price level should fall Clearly, this can't happen unless wages are downwardly flexible — which is not the case

A more likely outcome is that, once unions realise the redistributive effect of this regressive tax, they will push for further wage



increases By taxing at a flat rate, sales taxes take from the poor a greater proportion of their income than from the rich The only way to counter this would be to press for wage increases higher than inflation

Tait cites two preconditions for VAT to be inflationary an accommodating credit policy and a determination by labour to maintain existing standards In the case of SA's labour force there is more a determination to *improve* standards — with good reason, given the history of black workers This drive could make an important contribution to the dynamism of the economy

But if VAT is used to justify accelerating wage increases with no matching increase in productivity, it may well have a more enduring effect on the price level than simply a start-up cost

VAT, with luck, will stiffen employers' resistance to inappropriate wage demands It doesn't penalise capital investment Though this may disadvantage workers in wage bargaining, it will benefit them eventually, along with everyone dependent on the vitality of the economy

Unfortunately, the benefit will work its way through gradually so will not be easily identifiable, while the adverse consequences will be immediately obvious This strategic problem faces any government intent on renovating a tax system It will be solved by time as long as a firm monetary stance is maintained and there is no breakdown in the co-ordination of economic policy

One final point must be made on the inflationary potential of the new tax Says Ben Terra, professor of law at the University of Amsterdam "The rather high yield of a VAT can be reached in a fairly painless or at least an almost unnoticed way VAT is hidden in the price, based on a tradition of concealing (sales) taxes " This minimises popular resistance to tax increases

Government's propensity to consume an ever-increasing portion of GDP is well known The fiscus should not be allowed to exploit the new system to this end or the fight against inflation will surely be lost ■

 FM 12|7|91

THE NEW-LOOK ANC

Not quite born again

Now the ANC must clarify its economic policies

The ANC comes away galvanised from its milestone conference in Durban last week It seems to have gained a new sense of maturity, confidence and purpose This much was apparent from the upbeat closing address of its new president, Nelson Mandela

This speech, in both delivery (at dawn last Sunday) and substance, ranks among the most statesmanlike and forthright he has made since his release 17 months ago Mandela is firmly in the saddle

The organisation now has in place a tough, mostly astute and duly elected national executive committee (NEC), perhaps best symbolised by union leader Cyril Ramaphosa (see *People*) in the secretary-general's seat It welds together the movement's different strands, including, as it always has, a large number of communists — though some may be "non-practising "

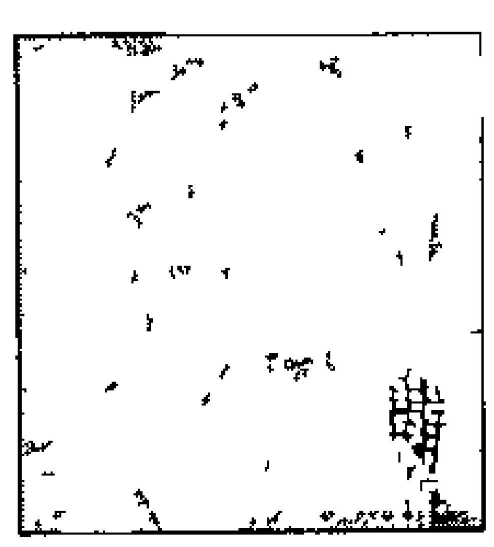
Perhaps the most important conference outcome is that the leadership is now in clear possession of that all-important "mandate" from its formerly restive rank and file, to press on with negotiations It is this feature that President F W de Klerk and his chief negotiator, Gerrit Viljoen, have emphasised and welcomed

Negotiation, the ANC leadership knows, is the key issue Never mind (for the moment) the details, or the revolutionary language clouding it and various secondary issues such as sanctions, prisoner releases, violence, mass action or the "demand" that an elected constituent assembly draw up the post-apartheid constitution

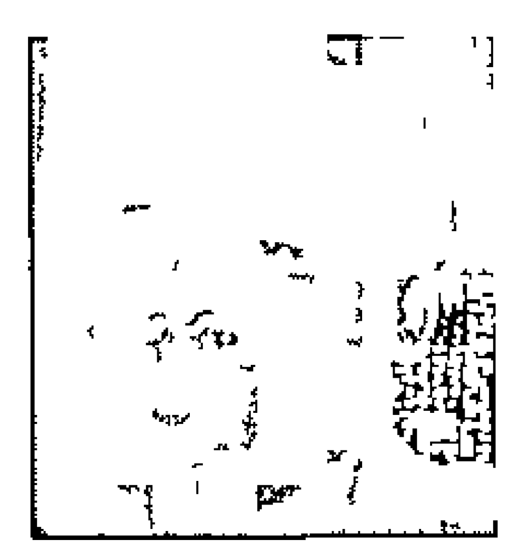
Thus, the 26-point resolution on negotiation, for example, states that it is another "terrain of struggle" aimed at achieving the strategic objective of transferring "power to the people" and that it should be linked to continuing mass action and international pressure "because gains made in the mass struggle will be reflected at the negotiating table " However, the subtext says that the possibility of transition by peaceful means exists that the NEC is "invested with discretionary powers to continue talks about talks" within the policies of the ANC, and that this should happen quickly

In his closing remarks, Mandela conceded some of the criticisms levelled against the leadership over its handling of negotiations with government so far "The leadership must listen to the membership, because we are here to serve the membership and our people But you must also listen to us You have given us a mandate to lead this organisation and we are going to do just that," he said, implying that the leadership could not be expected to submit to a referendum at every turn

"It is in that spirit that we will listen to your criticisms and your suggestions and if you do that there is no doubt that the road to Union Buildings and Tuynhuys will become all the shorter," he said



Mandela



Ramaphosa

The conference revealed the amount of work still to be done to consolidate the ANC's policies To that end, Mandela spoke of the resolve to "build the organisation into a strong and well-oiled task force " The NEC is mandated to take an "inclusive approach" in its programme of action to strengthen the organisation

"Door-to-door campaigns to bring the policies of the ANC alive to the people, strengthening the tripartite alliance (with Cosatu and the SA Communist Party) and sensitivity to the fears expressed by minority groups," are among the matters to be addressed, said Mandela

Also reflected were organisational shifts and the ANC's "transformation from a banned illegal formation to a mass-based and democratic organisation " But transforming itself into a political party is evidently not deemed to be important or strategically wise at this stage

Instead, it will pursue the establishment of "a front of patriotic forces as soon as possible" to forge maximum unity during the negotiation process of those committed to a nonracial, nonsexist democracy "All participants in this Patriotic Front shall retain their independence and sovereignty," says the resolution That remains to be seen

Even though the report of outgoing secretary-general Alfred Nzo identified the ANC's link with the SACP as one of the perceived problem areas in the organisation's recruitment drive, a parting of the ways is not on the cards On the contrary, the popularity of communists at the conference was all too clear with visiting Cuban and Soviet observers receiving overwhelming applause from the floor — even though Moscow has twice called off a proposed tour of the USSR by Mandela

Indeed, in assessing the organisation, which is big on consultation and report-backs, the views and attitudes of its militant youth and unreconstructed Marxists must be borne in mind As a Nigerian observer pointed out to the *FM*, the ANC's extraterritorial friends had no idea of this factor in relation to the sanctions question, for instance They had hoped the congress would "move along with the international tide" in favour of ending sanctions, instead of equivocating

Clearly, however, the message hit home, but too late (see *Current Affairs*) Thus, Mandela came out in support of the line Thabo Mbeki tried to argue when he was shot down at last December's ANC consultative conference "Unless there is a great deal of flexibility and imagination," the new president explained, "we will be left holding an empty shell ' But he missed an opportunity to gather some kudos over what looks like a fait accompli by stating that the sports embargo, as a pertinent example, could be lifted in view of the formal ending of apartheid laws

Mandela denied the allegation that the leadership was paying more attention to negotiation and neglecting mass action At no time in its history has the ANC engaged in so many forms of mass action as in the past two years, he reminded delegates "So much so that our labour organisations have had to warn us that we must not just resort to mass action every time we get angry, that the question must be carefully examined because of the downturn in the economy and the high level of unemployment '

Surveying the record since its unbanning, Mandela was remarkably frank on the issue of minorities "I think it is proper here to be absolutely brutal about our weaknesses in this regard," he said, no doubt aware of the perception that the deracialised National Party could attract many coloureds, Indians and liberal whites — if not anti-communist blacks as well

"There has been no effective communication between the ANC and the minority groups of this country Many of us have made the mistake of thinking that the mere

continue →

OLD MUTUAL'S GLOW

Only a few years ago, the idea of a mutual society surviving the onslaught of the life companies seemed remote Silencing the critics, two substantial mutuals *have* survived

Our corporate report this week spotlights Old Mutual — examining the how and why of its success The organisation has proved its staying power with dignity and confidence, pursued innovation and increased market share in the face of the new competitors It has been acclaimed as a phenomenon in the assurance industry

FM 12|7|91 (153)

HOW COMPANIES ARE COPING

When AECI saw the recession coming, it quickly moved into the export market to take up surplus capacity The shift isn't adding much to profits, but it keeps its plants going and workers employed

Gilbey Distillers & Vintners, on the other hand, moved closer to its customers and kept advertising cuts to a minimum That's enabled the company to take market share away from competitors

Coping with a recession is a true test of executive savvy And in this recession, now in its 28th month and the longest since World War 2, the examination seems endless Most of the easy steps have been long implemented hiring and pay freezes, putting a hold on expansion plans, trimming back company cars, business trips and other perks — but an upturn is still 6-12 months away

The most dramatic way to handle a recession is to retrench workers, and lay-offs certainly have been dramatic An estimated 300 000 people have lost their jobs in the last two years, and lay-offs may be accelerating

"Employers tend to retrench towards the end of a recessionary cycle and that's what's happening now," says Seifsa economist Michael McDonald Member companies cut 25 000 jobs last year, he says, and another 35 000 jobs are expected to be lost this year

When lay-offs and other measures don't work, companies stop paying their bills, and finally go out of business Judgments against companies for debt jumped 73% to R65,3m in the first quarter, compared with last year

But while sequestrations are up 15% to 766 in the first quarter, there is some question over whether the recession is performing its classic job of weeding out the weakest companies Econometrix director Tony Twine feels that this process may be distorted by the country's degree of economic concentration "In the big conglomerates one has a feeling that the stronger companies are acting as bankers to other companies within the group, providing survival credit for that company which the commercial banking sector might eschew "

But Barlow Rand group financial director Evert Groeneweg disagrees

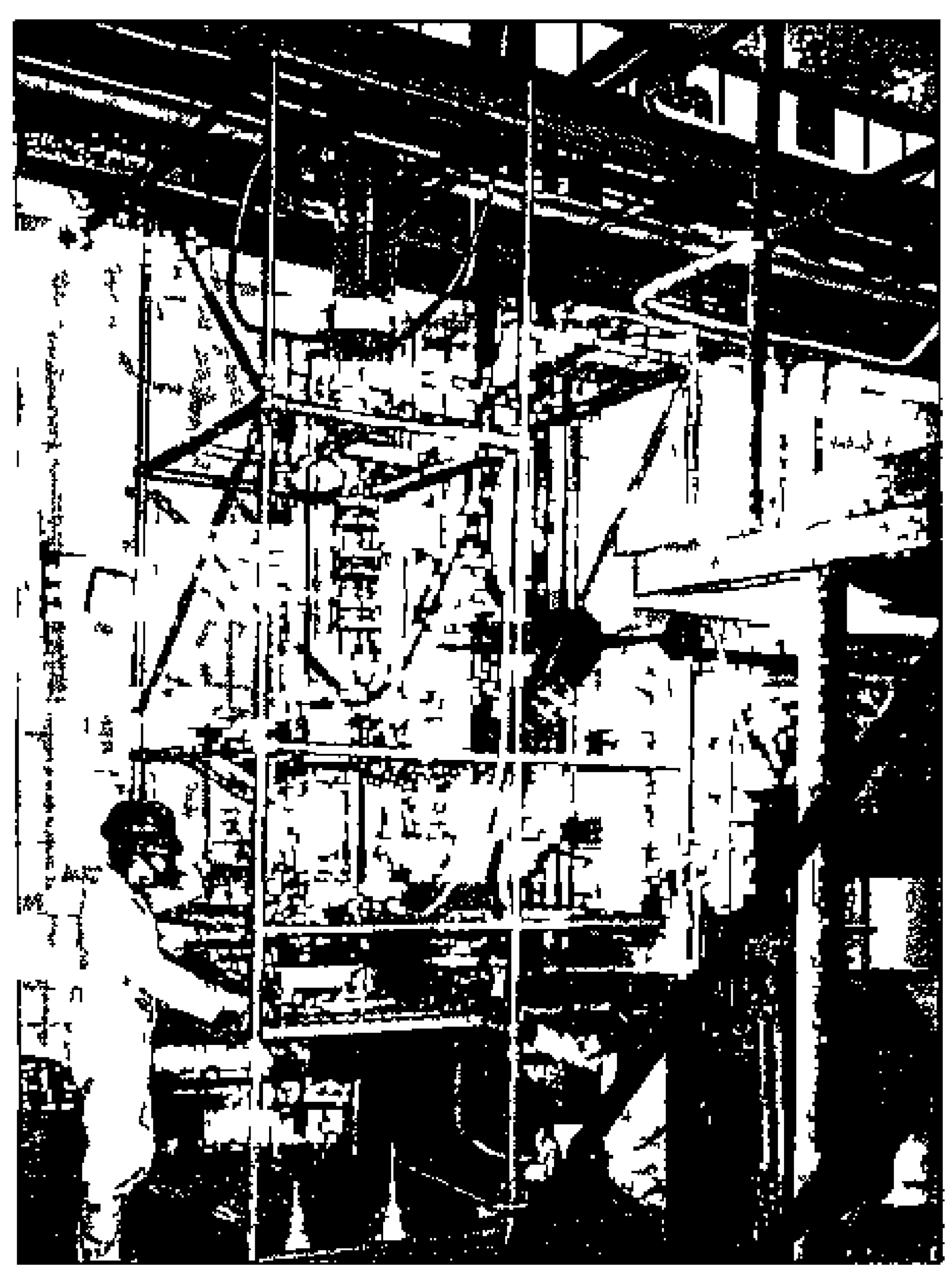
"The downturn is a cleansing process Companies can't take losses and pour money into subsidiaries just to protect them — they must be efficient under any circumstances "

Groeneweg says his group has done a range of things to cope "If your market is shrinking, obviously you have to rationalise Alternatively, if you see your opponents weakening, you go out and get more market share Working capital management becomes crucial in a downturn, you have to carefully manage and conserve cash This is what our companies have been doing

"I think we have to make this recession a difficult one to break our inflation psychosis Sure it's difficult for a lot of people and there's permanent damage, but that happens during every recession The effective companies, however, will come out of it "

This recession has been mild in comparison to the 1984-86 downturn, but permanent damage has been done Employment is the obvious casualty (certainly all those lost jobs will not reappear quickly) But Seifsa's McDonald says the loss of skills hurts the most "We lost a lot of good, skilled people in the last recession — they move out of the industry, or overseas We can't afford to let that happen again "

A hard lesson learnt from the last recession was "cut inventories early " Says Twine "Business learnt that you didn't have to run with high inventories and in many cases this has made the difference between survival and going to the wall "



Surviving the slump *companies must find the right formula*

But it can be a double-edged sword, he adds 'Manufacturers have used the inventory trick to stave off disaster, but felt the effects of it because everyone else is also cutting inventories "

This is particularly true for truck manufacturers because they operate in an industry prone to sharp cycles MD of Cape-based Atlantis Diesel Engines (ADE) Fritz Körte says fluctuations in manufacturers' inventory levels have had a direct impact on ADE's production levels and capacity utilisation

Getting close to customers is always a key to a company's success, but especially so in bad times Says Gilbey's operations director Tim Hacker "We adopted this as our single major thrust, and it's starting to pay off We are growing in market share in most categories " He adds that the wine and spirits company likes to run a lean ship "We don't have a lot of people or believe in cumbersome structures This helps a lot when you enter a downturn "

Consequently Gilbey's has not had to scale down any operations significantly and has had no retrenchments Other companies in the same market, however, such as Stellenbosch Farmers' Winery, have been particularly hard hit by the recession they've been forced to lay off staff and close plants

Cost-cutting is one way to ride out a recession, but finding new markets may help a company more in the long run AECI, for one, has moved swiftly into export markets to take up surplus capacity "World prices are weak so we are not adequately compensated," says AECI MD Mike Sander, "but at least exports keep the wheels turning "

His other tried and true method for dealing with slumps "You have to distinguish between a downturn, which will recover, and a change, which will not In industries such as building, textiles and automative products where demand will return we have run as lean and tight a ship as we can until things pick up But we have to question whether the gold-mining industry will bounce back and for us that has meant downsizing parts of our business

SA Chamber of Business economist Keith Lockwood believes that the casualties of this recession are probably victims of cashflow problems

"Generally, these were companies that failed to take heed of warnings of a slowdown and did not take steps to reduce their gearing and interest burdens in time to weather the storm While the economy remained fairly buoyant, they were able to continue operating, but as soon as sales started to fall, their cashflows came under pressure, particularly in the face of continued high interest rates " This caused a domino effect, with some companies having to write off debts, putting their own cashflows under pressure in turn

'The companies that have survived are mainly those operating in the consumer-goods market, and those that were already established in the export market," Lockwood says "Most companies operating in the capital goods market tend to be larger, and to have greater resources "

Though this recession is clearly not as severe as the last, Seifsa's McDonald says that is not always the perception among industrialists "Many businesses see this recession as worse, largely because of the continuing violence and political uncertainty "

So until the politicians sort something out, there's not much business can do but hang in

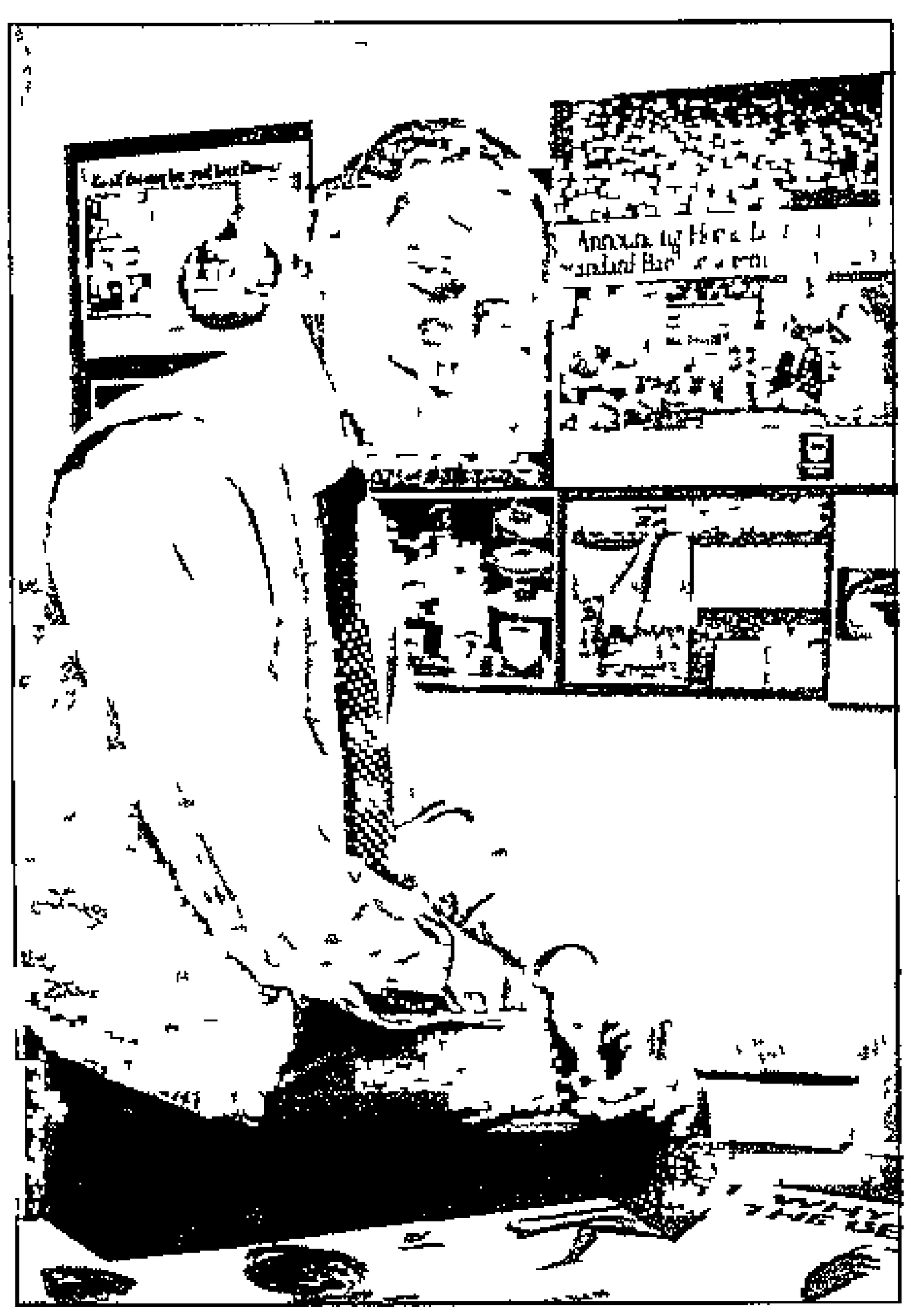
ADVERTISING FM 12\7\91

VAT BONANZA

Advertisers could be in for a R260m bonanza in the 12 months following the introduction of VAT on September 30 The money becomes available because they will qualify for input credits levied on their ad budgets

They now pay 13% GST, which would have amounted to R260m on the estimated R2bn in advertising expenditure next year, but VAT (at 12%) will be claimable from Revenue

The big question is what advertisers will do with the money Encouragingly, indications are that they will reinvest it in advertising rather than cutting their adspend by 13% and pocketing the difference "The general feeling among members of the Association of Marketers is that the money will be ploughed back into advertising," says Parker Pens MD Geoff Garbett, who heads the tax portfolio for the association "While GST had a very adverse effect on adspend, VAT will do the opposite The advertiser will no longer be taxed twice "



De Klerk *don't hold your breath*

GST (at the one percentage point higher rate) effectively took 13% out of national adspend, since advertisers did not increase their budgets proportionately when it was introduced Now they will get credited with the tax because advertising is one of the costs of doing business

Assuming a gross income for agencies of 18% of that R260m, agencies will benefit directly to the tune of about R47m They will also benefit from the fact that some of their own inputs (such as office stationery, motor vehicles and furniture) will qualify for tax credits

But this effect will not be dramatic, notes VAT specialist Geraldine Connell, of Deloitte Pim Goldby She says "Most of their costs are made up of skills, and labour is not subject to VAT "

Input credits will also be relatively small for the media Their major cost elements are paper and ink (which are GST-exempt) and labour "Again the difference won't be that great," says Connell "But further down the line, when buying new printing machines, they will get VAT credits That should be substantial "

Ad agency executives are not doing cartwheels just yet Peter de Klerk, executive vice-president of the Association of Advertising Agencies, cautions that an excessively gloomy economic situation could still result in a more hesitant approach by advertisers

"It depends on the tenor of the market," he says "Advertisers may just budget for another 5%-6% in expenditure rather than 13% " Moreover, he adds, in cash-flow terms it will take some time for the inputs to mount up Agencies are paid after 30 days Revenue after another 21 There appears, too, to be a considerable level of chaos in Revenue's office

"Clients will hold back " says De Klerk "They might increase budgets but they won't commit that expenditure I guess the money won't start accumulating until towards the end of the first quarter of 1992 We won't see the full value of VAT until 1993 '

Discussions, meanwhile, are going on over the appropriate accounting procedures — specifically, whether agencies should be treated as agents or principals in the treatment of tax It's a question which impinges on a fundamental issue within the ad industry the basis of agency remuneration

"This is really quite a sensitive issue," says Connell "It matters because of who the input tax should be accreditable to If you are an agent you are a conduit Only a principal pays VAT and claims back his credits The introduction of VAT precipitated a rethink about how agencies do business '

One reason agencies want to be treated as principals is that it improves their cash flow A well-managed agency is paid by the media at 30 days but pays its suppliers after 45 days Big agencies can earn R1m-R2m a year in interest on money passing through their hands in this way

However, De Klerk says this is not the main issue "What we are most concerned about is this if we alter the current gross billing procedure what impact does it have on the systems in place, and is it worth it?

"In any case our indepth investigations with outside consultants have identified numerous tangible benefits to both clients and media should the status quo remain "

Clients have strong views on the subject Says Garbett "Our view is that the advertisers should be free to choose whether to pay the media direct and then employ an agent on a fee basis or to allow the agency to act as a broker as it does now

We believe there should be an option We want to go back to net rate cards, showing advertising rates *exclusive* of the agency's commission Then we all know where we are Agents have been trying to make too much of their income from a banking role

"Instead of getting on with advertising they become bankers and financiers When agencies go bust the media are left holding the baby The agencies want to have their cake and eat it They don't want to be responsible but they want to be principals

"We do not believe they should be principals — and we don't think they will suffer from being true agents because they will then have to charge the correct going rate for their services "

WHY ADVERTISING WORKS

When times are tough and financial directors are looking for ways to cut spending, almost invariably the ad budgets get the chop first Admen have long argued that this is shortsighted but their whining seems tainted with self-interest and their arguments tend to fall on deaf ears

Yet there is evidence that they are right A recent study in the US by the Strategic Planning Institute in Cambridge, Massachusetts, found a direct correlation between advertising and profits Companies that spend much more than their competitors on advertising receive an average return on investment of 32% For companies spending much less the return was only 17%

The reason for this, researchers say, is that advertising plays a crucial role in determining market share and there is a dramatic relationship between market share and profitability Those in the *much more* advertising group achieved more than double the market share than the *much less* group — an average of 43% compared with 20%

MacLaren Lintas president Anthony G Miller says in an article in a local *Reader's Digest* leaflet "Of the top 30 brands in the US today, 27 are more than 50 years old Over their half-century of success, these brands have done many things right But what they have done most right is that, through good times and bad, they have kept advertising "

Tony Koenderman

FM 12/7/91 (153)

INTEREST RATES (153)

COUNT THE COST

FM 12/7/91

Prevailing interest rates are not too high — if anything they are too low, says UBS chief economist Hans Falkena In United's latest *Economic Perspective*, Falkena suggests that SA needs to maintain a real prime rate of at least 6% (compared with 7,6% in Germany)

Based on May inflation of 15,3%, this means a rate of over 21%, which is more than one percentage point higher than the existing prime rate of 20%

He argues "To combat double digit inflation the Bank rate should be set 1%-2% above the long bond rate and at such a level that the Reserve Bank makes a small profit on its forward book This translates into a Bank rate of some 18% (prime of 21%) The current prime rate of 20% is, therefore, clearly not excessively high

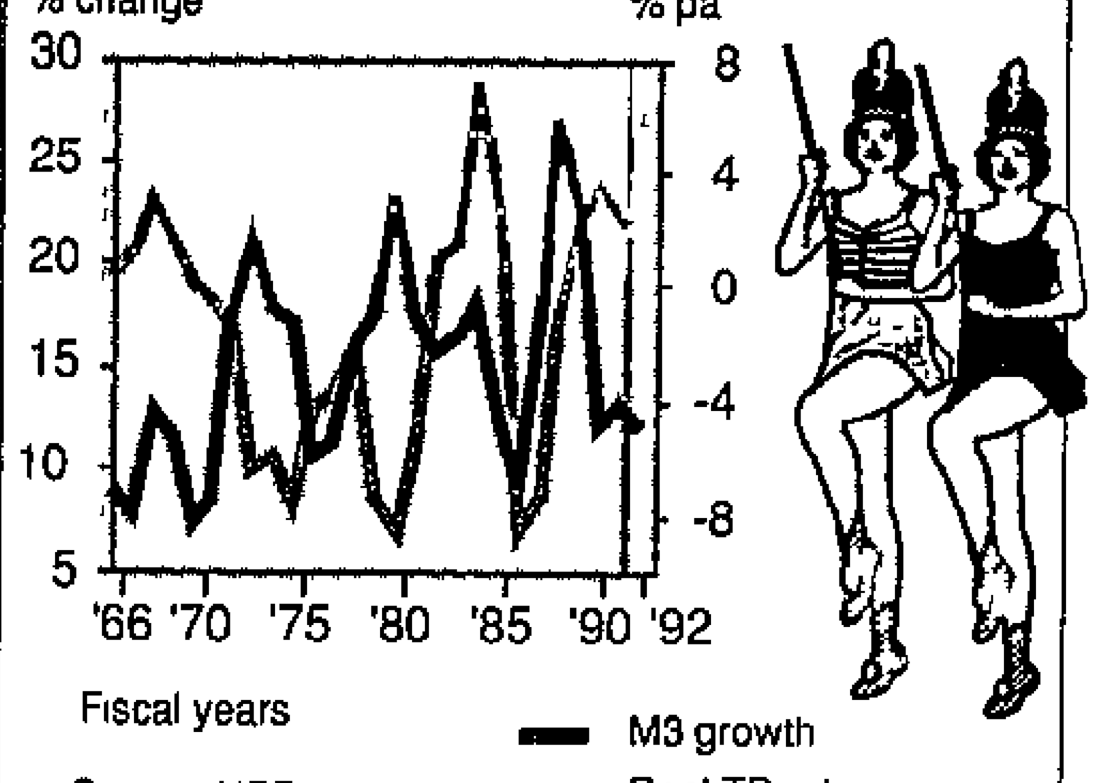
"If SA should reduce its rate of interest in real terms below those of its major trading partners by a too wide margin, the resulting losses on the forward book (already amounting to some R10bn) will fuel money supply growth and thus ultimately inflation "

Inflationary risks remain high in the present environment — "especially if one takes into account the possibility of a deficit before borrowing in excess of the budgeted 3,4% " Moreover "A further drop in the real effective exchange rate of the rand could well supply the monetary authorities with a subsidiary motivation to tighten (rather than loosen) monetary policy "

He points to a consistent relationship between the level of interest rates and money supply growth (see graph) — despite a distortion in the early stage of the debt standstill — which shows that demand for money is generally dependent on the cost of credit ■

In step

M3 money supply growth & real interest rates



Source UBS

Company pensioners getting a better deal

Star 13/7/91

153

MAGNUS HEYSTEK
Finance Editor

THE pension fund industry has at long-last realised that South Africa has a high inflation rate.

Major employers are now increasingly adjusting pensions to the inflation rate.

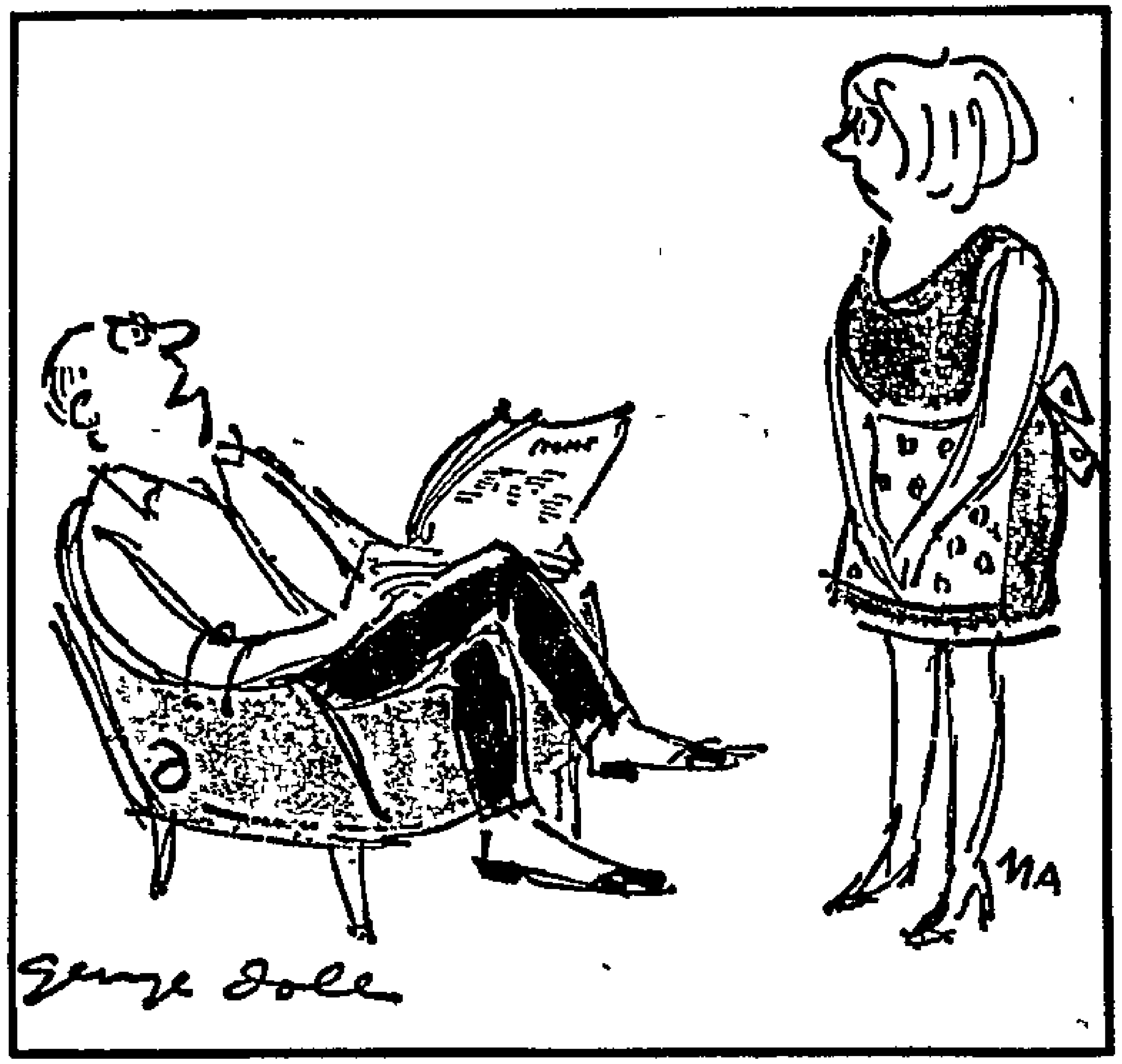
This is the finding of the 1991 Survey of Major Employers' Benefit programmes done by consulting actuaries Alexander Forbes Shepley and Fitchett.

"Companies are increasingly turning their attention to the plight of early leavers and persons who have been on pension for some time. This is a marked departure from the attitude even five years ago and represents the beginning of voluntary preservation by private pension funds," the report says.

Findings

The important findings of the survey, which included 52 major employers, are:

- All the funds in the survey indicated that they reviewed pensions annually
- Forty-four funds indicated that they had a defined pension increase philosophy
- 39 granted increments on the basis of the increase in the Consumer Price Index over the previous year; and
- The remaining five funds based their decisions on the fund's return.



PENSIONERS: "I know we should be affluent but our pension hasn't kept up with inflation".

Pension funds were designed long before the advent of persistent double digit inflation which rapidly erodes pensioners' living standards unless inflation-related increases are granted.

Employees are able to fight the effects of inflation by negotiating regular salary increases. Now it seems, says Alexander Forbes, pension fund trustees are starting to come to terms with the necessity of affording their pensioners similar protection.

In another major development, the survey reveals that the pension funds are now accepting that a major number of their employees will be leaving the company before retirement age and are making provision to preserve some of the benfits after a minimum period of service with their company.

Previously, early departing employees received a "raw deal", says the report.

At an annual inflation rate of 15 percent a fixed pension is halved after only five years and is worth only 6 percent of its original value after 20 years.

"In the early years of high inflation various spurious arguments were put forward to show that pensioners' cost of living was subject to less inflationary pressure than the rest of the community," says the report.

"In fact, with the rising cost of medical care as well as food at some 20 percent per annum, the reverse is true and the more enlightened pension fund trustees are seeking ways to push up pension increases to allow for the full effects of inflation."

Thirty-five funds indicated that it was their intention to increase pensions by at least 75 percent of the increase in the inflation rate, while nine intended to increase pensions at the inflation rate.

"The funds which base their decisions on investment return have been able to provide generous increases on the back of high real rates of investment return prevalent in the 1980s but their pensioners might come under pressure if investment earnings during the 1990s fail to match past performance," the survey warns.

Regarding benefits at early withdrawal from a pension fund the survey says: "In the past pension fund design has been controlled by employers with little concern for the interest of employees who leave before retirment. Major employers are now moving strongly towards giving early leavers a better deal.

The reason for this development is two-fold: member pressure and the growing realisation that a "golden handcuff" system of remuneration may ultimately be counter-productive to successful motivation.

No less than 19 of the funds in the survey had improved their withdrawal benefits since the last previous survey a year ago.

Improvement

Whereas a decade ago it was common for members to leave with their own contributions without interest or with a nominal provision for interest, the average rate of interest now provided by the 52 funds surveyed was 8 percent per annum compound.

While much higher rates have been available to individuals using independent saving schemes, current falling interest rate patterns could soon make a risk-free, tax-free return of 10 percent per annum reasonably competitive.

An even greater cause for concern in the past has been the fact that contributions made by the employer on behalf of the employee reverted back to the fund when the employee left before retirement. Now, there is a definite trend towards paying a withdrawal benefit greater than a return of contributions plus interest, finds the survey.

Wage deals linked to productivity can curb inflation

BDay 15/7/91

153

GRAHAM BELL

RECENT reports concerning a possible pay settlement between the Chamber of Mines and the National Union of Mineworkers mark a shift to reality in the wage bargaining process and raise important questions about inflation

An agreement in negotiations resuming today could provide for a 5% increase and a possible 15% bonus based on profit and performance. Details of the agreement would be complex, with different approaches applying to non-profitable and profitable mines. Nevertheless, this would be a major breakthrough after a number of years during which wage increases have exceeded the CPI-inflation rate, creating the untenable situation in which the mines' wage bill rose to a disproportionate share of total revenue

Between 1986 and 1990 working costs on the gold mines, of which labour comprises about 50%, rose from 50% to 80% of total revenue while the shareholders' slice declined from 15% to 5% It was inevitable that the burden of this unsustainable rise in labour's share should lead to a substantial decline in employment

The chart shows the sharp decline in gold mining employment since 1987 That was the year in which a major power struggle between the industry and the union ended in a damaging strike A number of shafts were closed and workers retrenched.

Even so, since 1987 statistics show that per worker wage increases in the gold mining industry averaged 18 2% a year This was some 3,7% above the prevailing CPI-inflation rate

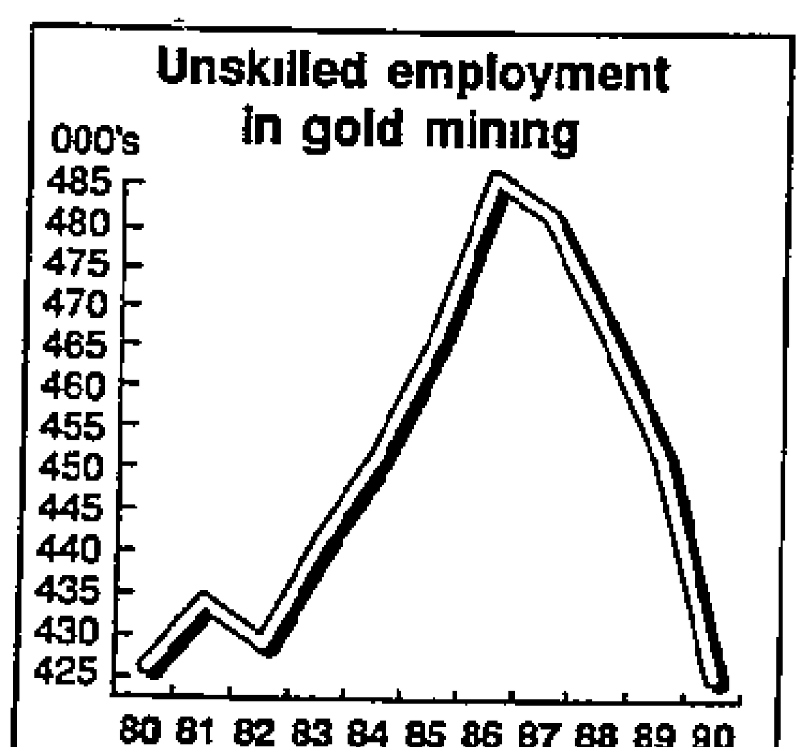
In addition to shedding labour, the gold mining industry has embarked on a major cost-cutting programme Suppliers have been forced into accepting lower price increases and head office rationalisation is widespread. In terms of costs per ton milled, the industry has slashed its inflation rate dramatically — to just 8% by the end of the first quarter of 1991

Although not widely publicised, sabotage has been an increasingly worrying factor in recent years. While politically motivated sabotage may continue, a labour force that is rewarded on a profit-linked basis will have less motivation to disrupt production This will benefit shareholders as well as labour

The proposed wage deal on the gold mines is linked to productivity which has become an increasingly intractable problem in the SA economy

There is hope that the deal will serve as an example to other sectors of the economy, all of which have been plagued by the accelerating wage cost/poor productivity syndrome The chart shows that total productivity per worker has risen just 7% over the past decade The total wage bill rose 385% in the same period

At the heart of the issue lies the cancer of inflationary expectations In recent years, the SA Reserve Bank has taken a firm stance on inflation The Bank is explicitly required to defend the value of the currency (both internally and externally) Although Governor Chris Stals has pursued this objective for two years, the policy has met with little success Despite a recession which commenced before he took office, the CPI-inflation rate has persisted around the 15% level.



Graphic: FIONA KRISCH Source CHAMBER OF MINES

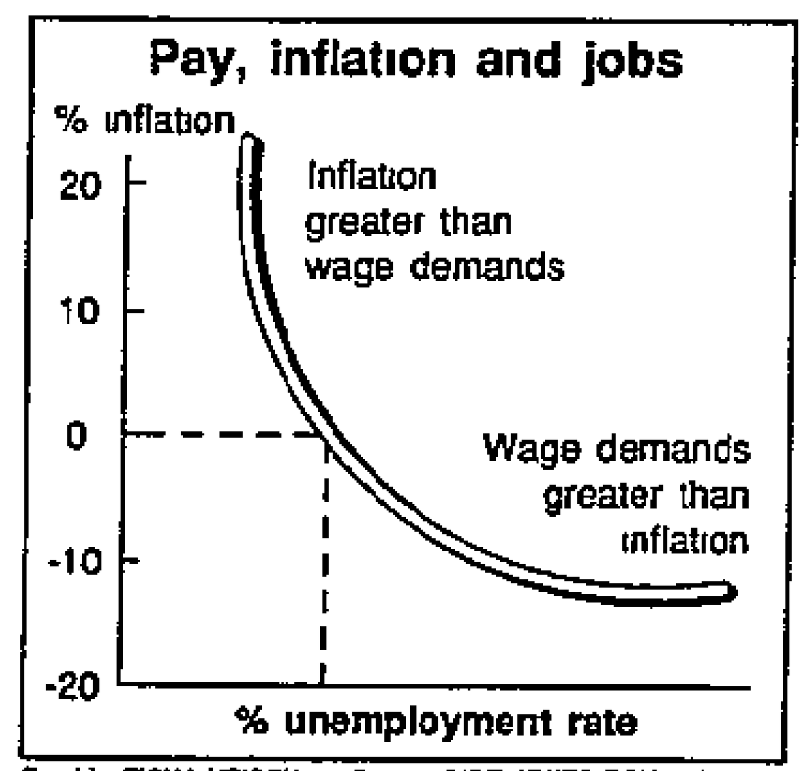
The Reserve Bank has recognised that the inflation bogey cannot be beaten unless inflationary expectations are altered Over the past 20 years inflation has risen steadily and successive failures to control it have merely entrenched the bias of expectations Ever higher inflation has been built or indexed into wage demands It is true that, in previous economic cycles, a recession has been associated with falling inflation, but each time the authorities have lacked the will to break the inflationary psychosis completely They have always backed off too early, leaving inflation to accelerate to new heights

In the most recent recession a new dimension has emerged The onset of the political thaw has raised demands for income redistribution and union wage pressures have become more strident than ever It is ironic that the new-found resolve of the authorities to combat inflation should arrive on the scene at the same time

The chart illustrates the problem confronting the Reserve Bank in combating expectations The experience of the mining industry is particularly relevant. In the lower part of the curve, wage demands are driven by unrealistic expectations of the industry's ability to pay Workers effectively price themselves out of jobs

In the upper part of the curve, wage settlements are adapted to the new reality, namely that it is accepted that the Reserve Bank is serious and will, ultimately, be successful in its quest to lower inflation The NUM appears to be moving from the lower half to the upper half in its recent negotiations with employers

The gold mining sector is, in some ways, a special case SA's gold mines are ageing and the industry is a pricetaker The price has performed poorly over the past decade The industry's profitability collapsed After many years of damaging confrontation and the loss of thousands of jobs, the combatants finally realised that it was in their interests to work together



Graphic: FIONA KRISCH Source IVOR JONES ROY & CO

As Maynard Keynes pointed out wages are "sticky downwards" This is not so, for instance, in the much maligned stockbroking industry, where pay growth is often negative in line with declining profits' Is it unthinkable that workers in other sectors should vote themselves a flexible wage package that adjusts in line with profits?

It is not certain that the gold mining example can be generalised to the rest of the economy Although there are retrenchments in other sectors and although pitifully few jobs have been created in the formal sector over the past decade, most unions do not yet appear ready to seek productivity arrangements At best, a scaling down of wage demands is now in evidence

Therefore it is not clear whether the Reserve Bank will win its battle against inflationary expectations One worrying sign is that the fiscal discipline that was evident in the Finance Department throughout 1990 is no longer there Government consumption expenditure has surged since the fourth quarter of last year Thus it appears that the Bank has lost an important ally in its quest

So far, there are few signs that Stals is under any pressure to relent Indeed, he may well resist them should any such pressures emerge. But without Treasury support, his battle will become increasingly difficult Already the bond market, where yields have risen back to about 16% has signalled its belief that the battle is being lost This is one of the most sensitive barometers of inflationary expectations

In the long run, it is certainly in the interests of trade unions and employers to seek productivity accords like the one that may be concluded in the gold sector Productivity growth is the key to wealth and, by implication, to income distribution

The politics of the past few decades has encouraged confrontation in the workplace If this country is to succeed future co-operation in the workplace is essential In addition, this government (and any future government) has to learn the fundamental fact that it cannot spend its way to prosperity The next year will be crucial in determining whether SA is to turn the inflationary tide

□ **Bell is an economist with Ivor Jones, Roy & Company Inc.**

Start-up loans for business on wane

(153)

BDay 15/7/91

WILLIAM GILFILLAN

SMALL business units are noticing a fall in approvals for start-up loans because of the recession.

But existing small businesses were coping reasonably well with the economic squeeze, their bankers said.

Small Business Development Corporation (SBDC) senior GM Toni Kedzierski said start-up loan approvals were "slightly down" this year with 198 loans (R18,6m) approved for the three months to June this year.

Standard Bank small business development division senior manager Roy Polkinghorne said the bank had noticed "a marked upturn in small businesses coming under increased pressures due to the prevailing economic climate".

Turnovers of small businesses were down this year and profit margins had been tighter.

The SBDC had granted 61 support loans (R10m) for small firms in distress in the three months from April to June this year. The level was about the same as last year

Kedzierski said the SBDC provided lower interest rates to businesses that could not cope with the prevailing market level. When interest rates rose, the SBDC extended the repayment period thereby ensuring the monthly repayments from the cash-flow do not increase

Kedzierski said one of the problems faced by people wanting to set up a small business was more the accessibility of money rather than the cost of money

Polkinghorne also said fewer start up loans had been granted this year While high interest rates provided part of the reason for this, he said "ill prepared business plans are the more significant reason"

In Europe, small businesses are dominating economic activity. The most recent European Commission statistics show more than 99% of EC companies had less than 100 employees and more than 91% less than 10 employees

Evidence mounts tough line on inflation working soon

ARGT 16/7/91 (153)

SVEN LUNSCHE

JOHANNESBURG. — The inflation rate at the end of May of 15,2 percent seems scant reward for two years of tight monetary policy and six succesive quarters of economic decline

But evidence is mounting that the Reserve Bank's tough approach will show benefits just in time for it to justify another interest rate cut before the introduction of VAT in October

The June Consumer Price Index (CPI) and money supply figures are due to be released next week and many economists expect a slowdown in the rate of increase of these two key indicators.

The recent small month-on-month rises in the Producer Price Index (PPI), for one thing, should be reflected in a similarly lower consumer price inflation rate

PPI inflation fell from 15 percent at the beginning of the year to 13 percent in May, with a lowly 0,4 percent rise from April to May this year.

Encouragingly, a 1 percent fall in imported PPI in May was accompanied by a modest 0,7 percent rise in the price of locally produced goods after increases in excess of 1 percent in previous months

The year-on-year inflation rate for imported goods in May was at a lowly 8 percent in the wake of the steady trade-weighted rand exchange rate

The Reserve Bank's commitment to protecting the value of the rand has not only reduced imported price inflation, but also allowed the Bank to build up the level of its foreign exchange reserves through lower imports

The strengthened reserves have in turn allowed the Bank to pay off all its outstanding foreign liabilities and set the basis for a stable economic growth phase next year, when the economy is generally expected to emerge from the recession

Some benefits for the inflation rate should also accrue from the volatile, but steady, decline in money supply and credit extension.

The growth rate of the broad money supply measure, M3, is still above the Bank's targeted guidelines, but well below the peak of 27,5 percent three years ago.

The stubbornness of high price rises in the face of the tough monetary approach is also evidence of the structural nature of inflation in South Africa.

Reserve Bank Governor Dr Chris Stals and his colleagues have frequently pointed out that their policies will succeed only if they are believed to be working.

This inflation psychosis is particularly evident among trade unions in setting their wage demands and in the pricing policies of businesses.

But even in this area there are signs that the Bank's policies are beginning to have an impact.

While wage demands in the first half of this year were still running at 16,7 percent, labour consultants Andrew Levy and Associates reported last week this was slightly lower than pay settlements achieved last year

But more importantly, economists are detecting a greater pragmatism in the negotiations between unions and employers, as highlighted by the recent pay agreement between the NUM and management at the ERGO gold mine.

A similar agreement is expected in the current pay talks between the NUM and the Chamber of Mines, which sets the tone for wage negotiations in many other mining and industrial sectors.

The wide divergence of producer price and consumer price inflation has also put the spotlight on the pricing policies of businesses

The recent announcement of a government investigation into the matter will force many business to be more cautious about simply passing on costs, particularly when VAT is introduced in October.

The investigation itself could put the clamp on many of the inflationary price-setting practices companies have been getting away with in South Africa's highly monopolistic business environment.

Economic signals point to interest rate cut soon

Star 16/7/91

(153)

By Sven Lunsche

The end-May inflation rate of 15,2 percent seems scant reward for two years of tight monetary policy and six succesive quarters of economic decline

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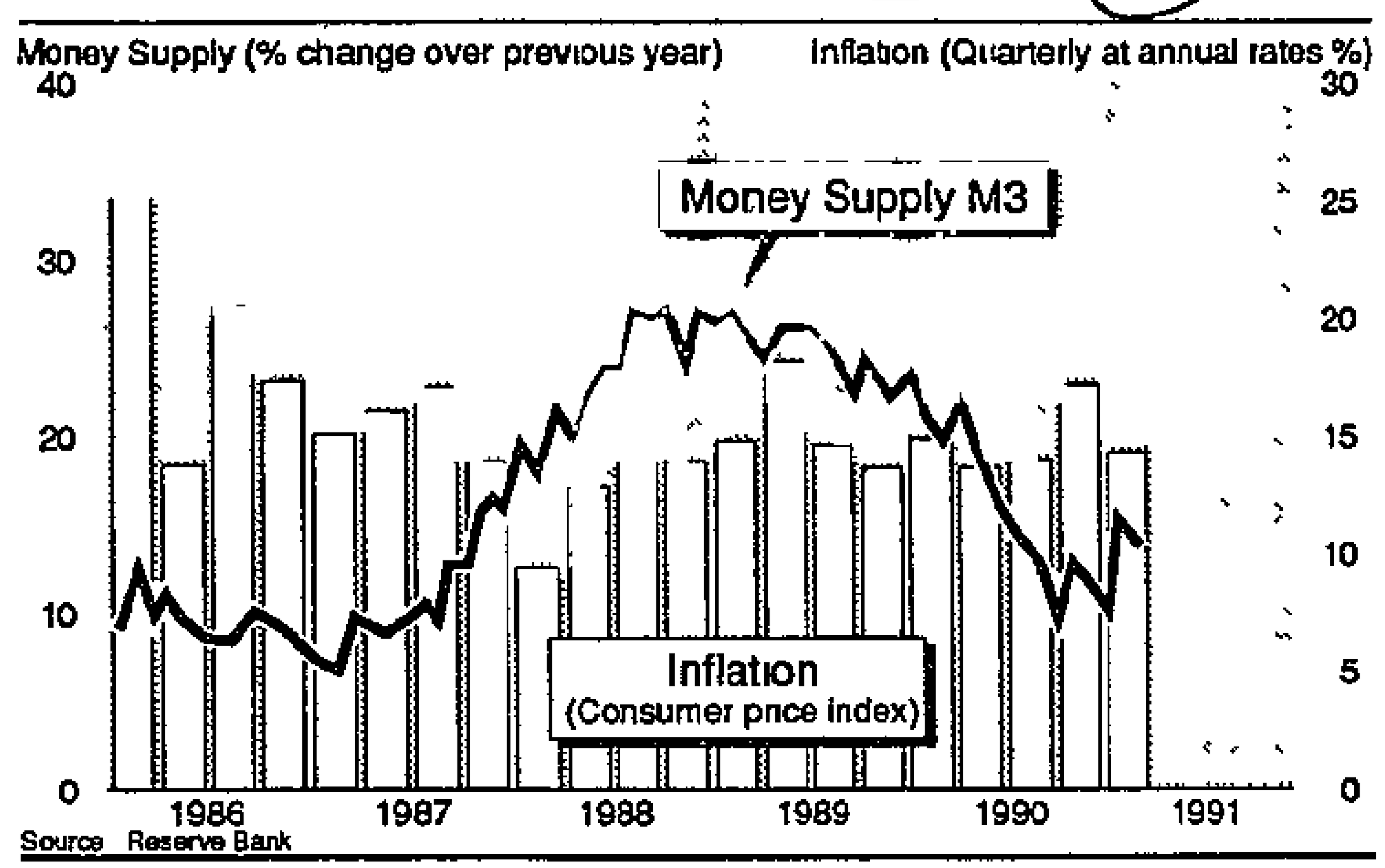

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Liabilities

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The investigation itself could put the clamp on many of the inflationary price-setting practices companies have been getting away with in SA's highly monopolistic business environment

Gap between inflation, higher salaries closes

153

Sowetan 17/7/91

THE gap between 1991 wage settlements and the inflation rate has closed considerably in a bargaining environment marked by growing union pragmatism, according to industrial relations consultants Andrew Levy and Associates.

Negotiated increases this year would average 16,5 percent against an official 15 percent inflation, the consultancy said in its June 1991 *Bargainers' Bulletin.*

In 1988, wage awards were pegged at 17,9 percent and inflation at 13,2 percent.

The Johannesburg-based consultancy warned that falling settlement levels were not a global phenomenon and some sectors would have difficulty, pleading inability to pay.

"An increased measure of pragmatism is being displayed in the negotiating process by both parties, with the economic climate and the financial problems of different sectors and individual concerns being taken into account," the bulletin stated.

The sectors recording the lowest increases were those hardest hit by the recession. Settlements in banking and finance ranged between 10 to 14 percent.

The clothing sector, at 18,1 percent, recorded the highest increases, but these were often won from a low base by Cosatu's SA Clothing and Textile Workers Union.

At 17,9 percent, Sactwu also recorded the highest average level of settlement of Cosatu's 14 affiliates. Next was the SA Commercial, Catering and Allied Workers Union, at 17,7 percent. - *Sapa.*

THE WEEK AHEAD by William Richards

Key question on inflation rate

B/Day 22/7/91.

(153)

COULD June be the month in which SA inflation at consumer price level finally begins to reflect the steady slowing in producer price inflation?

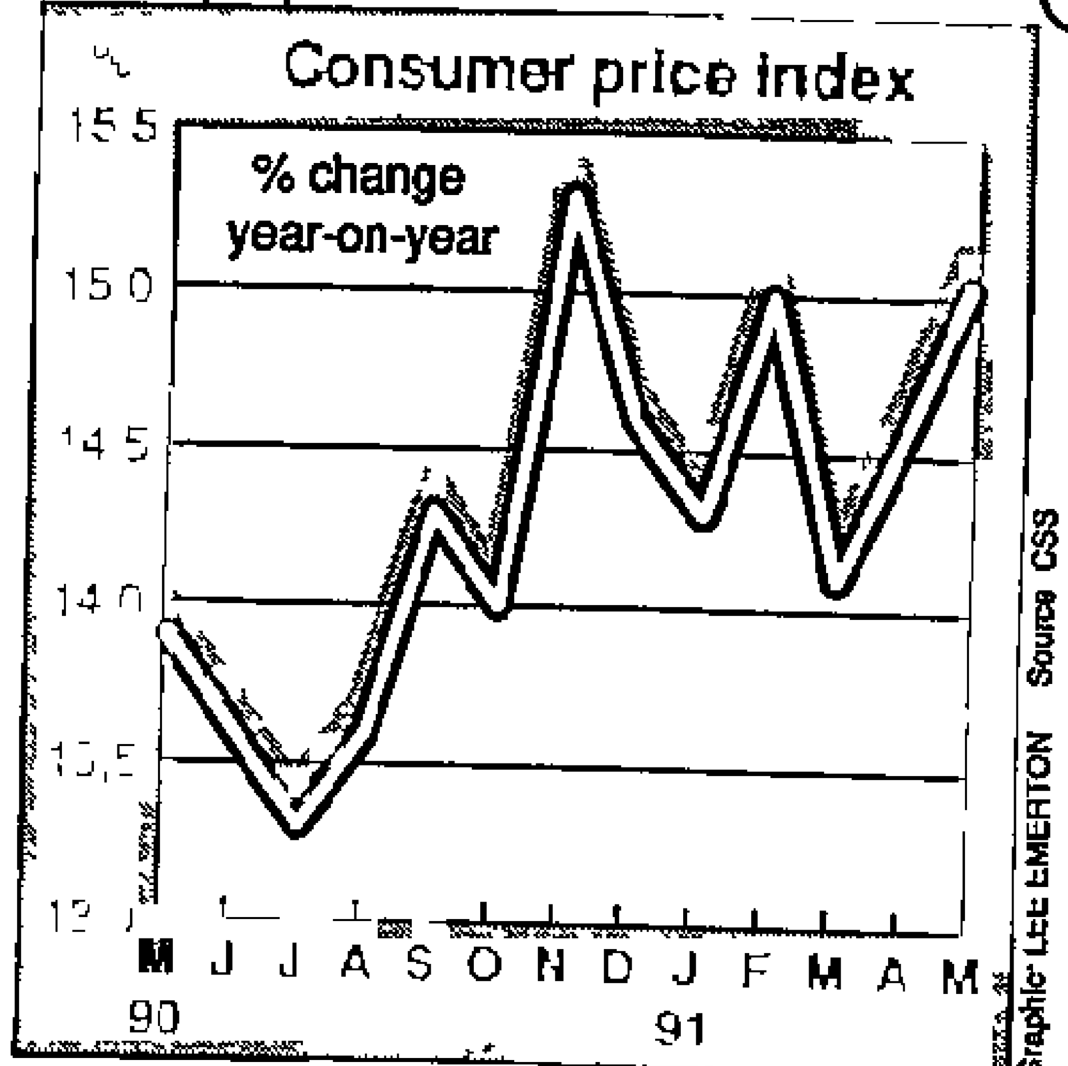
This is the week's key question in the financial markets, and players should know the answer sometime tomorrow when the June CPI figures are due for release

May's annual increase in the CPI, at 15,2%, was the highest inflation rate of the year to date and was a demoralising setback to an economy in a two-year-long credit squeeze Although some parts of industry and the civil service, on seeing the 15,2% figure, advocated raising the white flag in the face of the relentless inflationary advance, the monetary authorities continue to hold firm

Successive falls in the headline rate of PPI inflation have held out just enough hope for a sympathetic easing in CPI growth further down the line Besides maintaining the credit squeeze in January to the 13% posted for the year to May The main reason this encouraging PPI trend has not already fed through into the CPI is the tell-tale qualification "headline" attached to the PPI

While headline PPI inflation has indeed been falling consistently for five months, underlying PPI growth pressures have diverged sharply The disinflation has, to date, been entirely imported through the relative firmness of the trade-weighted rand Domestic PPI inflation has been steady at around 15% — until now

The May figures showed the beginnings of an incipient moderation in domestic price pressures, and the slower price increases for imports should eventually feed through to part of the CPI basket, even if the relevant weightings are small and the effect blunted In addition, the daunting May CPI was boosted by one-off rises in vehicle prices All in all, there is reason to expect the May CPI outturn to have been close to the 1991 peak and for the June figure to begin a deceleration.



This afternoon should see the release of the June money-supply aggregates, which have been so distorted of late by the reintermediation associated with the Deposit-Taking Institutions Act This distortion continues to blur the overall trend, but it is unlikely that the rolling increase in M3 based on the fourth quarter of 1990 will be close enough to the authorities' 8%-12% to justify any fresh bullishness on rates.

Internationally, the focus this week will again be on the consistency of the signals of US economic recovery. On Wednesday the level of durable goods orders for June is published, and will need to repeat the strong rises of 3,8% in May and 3,6% in April to back up last week's assertion by the US central bank that economic recovery is under way

Germany is due to release the rate of German inflation in the year to July before the end of the week In the year to June, the German cost of living rose by 3,5% — the highest rate since April 1983 and, in its own way, a shock to German financial markets

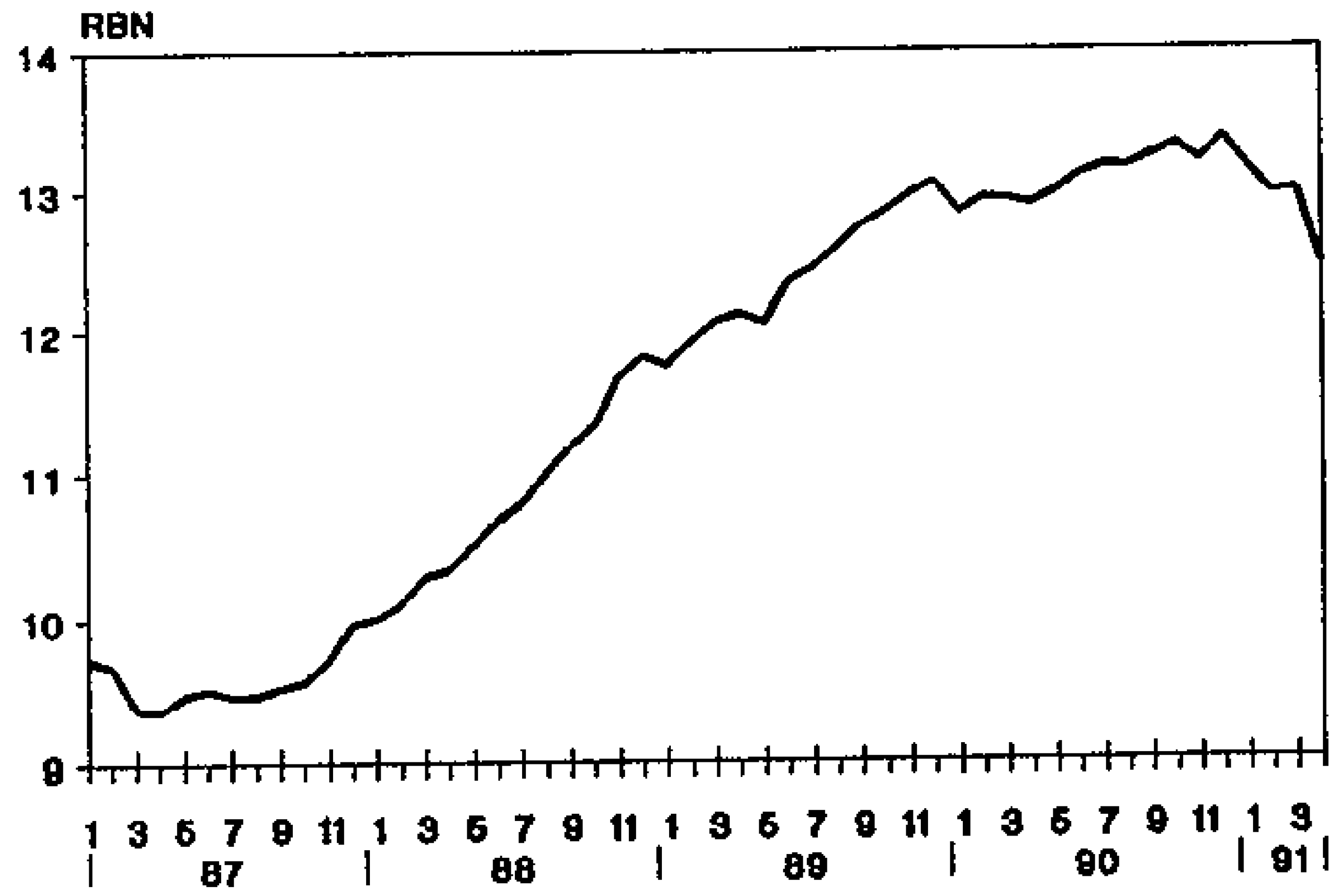
German inflation is on an uptrend for the remainder of calendar 1991 boosted by inflation-beating wage settlements, the weaker Deutschmark, heavy spending on reunification and tax increases The government has committed itself to restricting the inflation rate to 4% by the end of the year, but most independent estimates put a likely year-end figure at least half a percentage point higher

The British parliament goes into recess on Thursday for its summer break with the odds shortening on a November general election Prime Minister John Major's performance in hosting last week's world economic summit has received much critical acclaim, and the reflected glory on the Conservative government may tilt the balance in favour of an autumn election Any better government showing in post-summit opinion polls are likely to brighten Major's prospects and thereby boost sterling

Economists see scope for revival

By Sven Lünsche Star 23/7/91

HIRE PURCHASE AND LEASING CREDIT
(CONSTANT 1985 PRICES)



There is scope for a cut in interest rates, although the inflation rate is set to remain at the 15 percent level until the end of the year, Old Mutual's economists say.

They write in the group's latest Economic Monitor that prospects are improving and that there is potential for a relatively firm revival next year

"However," says chief economist Dave Mohr, "the underlying demand for credit has fallen sharply over the past few months, which should allow for some flexibility in terms of lower interest rates."

This is reflected in the fact that the rate of increase in hire-purchase and leasing finance has slowed significantly since early this year, and that growth in these two forms of credit utilisation has fallen in real terms (see graph)

Demand

"Interest rates should thus fall moderately during the second half of this year and in 1992 as slower demand for credit persists."

Mr Mohr says that conditions in the money market also favour lower interest rates

The shortage in the money market has narrowed sharply in the wake of the significant rise in the Reserve Bank's net gold and foreign exchange reserves, indicating substantial downward pressure on short-term interest rates, Mr Mohr says

Although the underlying forces favour lower interest rates, there is no indication that the inflation rate will fall appreciably from its current high level of around 15 percent

"To the contrary," says economist Rian le Roux, "the introduction of Value Added Tax in October may result in a significant increase in the Consumer Price Index (CPI)

"This means the inflation rate could still be around the 15 percent level by the end of the year"

Mr le Roux says particularly worrying has been the sustained sharp increase in food prices, which in May were on average 17,5 percent higher than a year ago

"Given the still firm underlying inflationary pressures in the economy, an excessive relaxation of monetary policy would be imprudent and positive real interest rates should be maintained in the long run."

He is more optimistic, though, about the overall performance of the economy, "which is showing potential for a relatively firm revival, despite the current recession"

"If stability and a sense of realism can be maintained with regard to the domestic reform process, the prospects appear decidedly brighter"

Mr le Roux says the significant improvement in foreign investor confidence in the domestic economy is reflected in recent trends on the capital account of the balance of payments, the higher value of the financial rand and renewed foreign interest in South African equities

The gradual lifting of sanctions would also create a more favourable climate for exporters, and improved business confidence should result in a greater willingness to expand production capacity through fixed investment

Various leading indicators reveal a number of positive signs

He notes that gold and foreign exchange reserves have improved significantly

Motor sales in the first five months of the year were higher than in the same period last year and share prices continue to reach new highs

Commenting on the outlook for gold, Mr Mohr says the worst could be over for the metal in the short term, but that a major renewed bull market is unlikely

The perceived inflationary international environment could help prevent a major slide in the gold price in the near term, and the metal could even make further mild gains as global growth improves.

Environment

However, the international economic environmemt is still characterised by low world inflation, less risky alternative investments and a large overhang of gold stocks above ground.

"It is estimated that these stocks presently equal around 60 years of primary mine production," Mr Mohr says.

"Given the severe underperformance of gold over the past decade, there is a real risk that disenchanted holders may use any sign of price strength as a selling opportunity," he cautions

Stubborn inflation rate

. . . but stable food prices surprise

153

CT 25/7/91

By AUDREY D'ANGELO
Business Editor

FOOD prices are still higher, compared with a year ago, than the other components of the consumer price index (CPI), according to figures released yesterday by the Central Statistical Services.

But the rise in the food only index has slowed slightly to 16,5% year on year in June compared with 17,5% in May It did not rise at all month on month

The year on year inflation rate for June was unchanged from the May figure of 15,2% But the month on month rise dropped to 0,7% — well below the 1,5% rise in May

The year on year rise for the upper income group was 15% The middle income index was 15,7% and the lower income index 15,2%

Economists said they were pleasantly surprised by the low month on month increase They had expected it to be higher

"The average monthly increase in the CPI has been around 1,2%," pointed out Johan Els of Old Mutual "If that had been the figure in June the year on year rise would have been higher, as we expected it to be"

Els said one of the factors accounting for this was that the food only index had not risen between May and June "Perhaps that is due to all the publicity given to rising food prices last month," he joked

Els said there were "still worrying figures ahead of us The CPI may come down from now until September but the introduction of value added tax (VAT) could lift it to 16% or higher

"We think the average figure for the year will be about 15%."

However, Els said, the underlying downward trend in credit demand and the money supply, and the weakening economy, should see the decline in the CPI continue next year

Mike Daly of Southern Life said it was encouraging that food prices had not risen month on month — but worrying that the year on year figure showed there was no breaking of the high rate of food price inflation

He said the introduction of VAT would mean a rise in the CPI "By the end of the year it could be 15,5% or 16% The average rate of inflation for the year could be about 14,8%"

Keith Lockwood of the SA Chamber of Business (Sacob) said the month on month figure seasonally adjusted and annualised was 14% "Hopefully this is an indication that the rapid rate of increase is starting to taper off"

"But at the moment the trend, on a three month moving average, is pointing up"

However, Lockwood said, the slower growth in the M3 money supply and the sharp fall in the producer price index (PPI) — mainly because of the lower cost of imported components — was an indication that the CPI should move downwards

He did not expect the rand to weaken against currencies other than the dollar "The fall against the dollar is because of the dollar's strength, not rand weakness But since 60% of our imports are paid for in dollars it is bound to have some impact on the PPI

"I think the result of that will be to stabilise the PPI — I don't expect it to rise"

Lockwood said the effect of high fuel prices at the beginning of the year was still working its way through the system

But, he pointed out, "it is of concern that food prices are so high This affects the low income groups particularly

"And medical services have increased significantly"

These factors would put more pressure on the wage negotiation process.

"But once food price inflation starts falling it will put a downward pressure on the CPI."

SOWETAN Building the Nation
Focus on PROPERTY

There's hope as inflation bites homes

153

Sowetan 25/7/91

LATEST inflation figures released by the Central Statistical Services have "good news and the bad news" for the property market in South Africa.

By JOSHUA RABOROKO

The figures also appear to confirm that the Government is losing the battle against inflation

The good news for investors, says Camdom's group managing director Mr Scott McRae, is that the value of existing homes will continue to increase in line with their inflated replacement costs, or more specifically, in line with the cost of new construction

The bad news is that bond rates may not be allowed to fall as soon or as rapidly as might originally have been hoped

"In short, if you are in property you are protected against inflation by the escalating value of your home.

"The inflation rate has crept up to the 15 percent level again, paralleling almost exactly the expected rise in house prices this year," he notes

Demand

Another interesting trend at the moment is that the gap between the prices of existing and newly built homes appears to be closing, hinting at the beginning of a strong resurgence of the market.

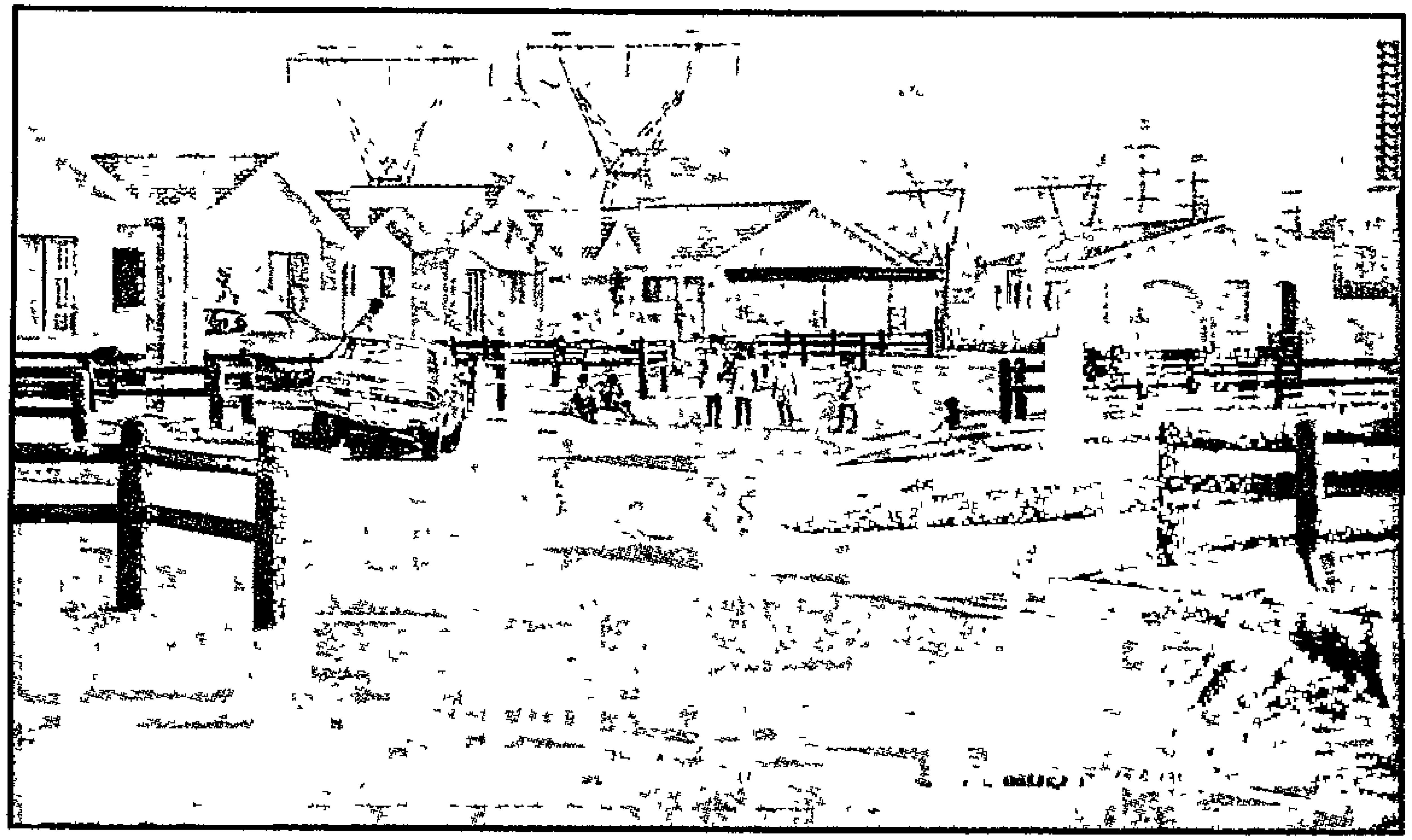
Traditionally, there is up to a 30 percent gap between existing and new home prices, says McRae.

"The latest figures supplied by one of the major institutions shows building costs increasing by 15 percent a year at present.

"Predictions are that prices for existing homes will increase by 17 percent on average following a similar increase in the year to March 1991

"The overall upward price pattern is therefore well entrenched but these figures also mean a gap of only two percent or so between the price of existing and new homes, indicating clearly that there is a growing demand for re-sale homes.

At the same time, in spite of a temporary dip in plans approved for new residential buildings, the general trend is upward, also confirming the continued buoyancy of the residential market.



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Increased

During the first quarter of 1991 the average price of a medium-sized house increased by 13 percent, larger house by nine percent and a smaller home by 16 percent.

There would appear to be some slowing down of the boom enjoyed at the upper end of the market while the lower end is showing considerable vigour, reflecting, perhaps, some of the effects of the scrapping of the Group Areas Act

On a national basis, small homes now average just less than R100 000 in price, medium-sized homes R111 000 and larger homes R155 000

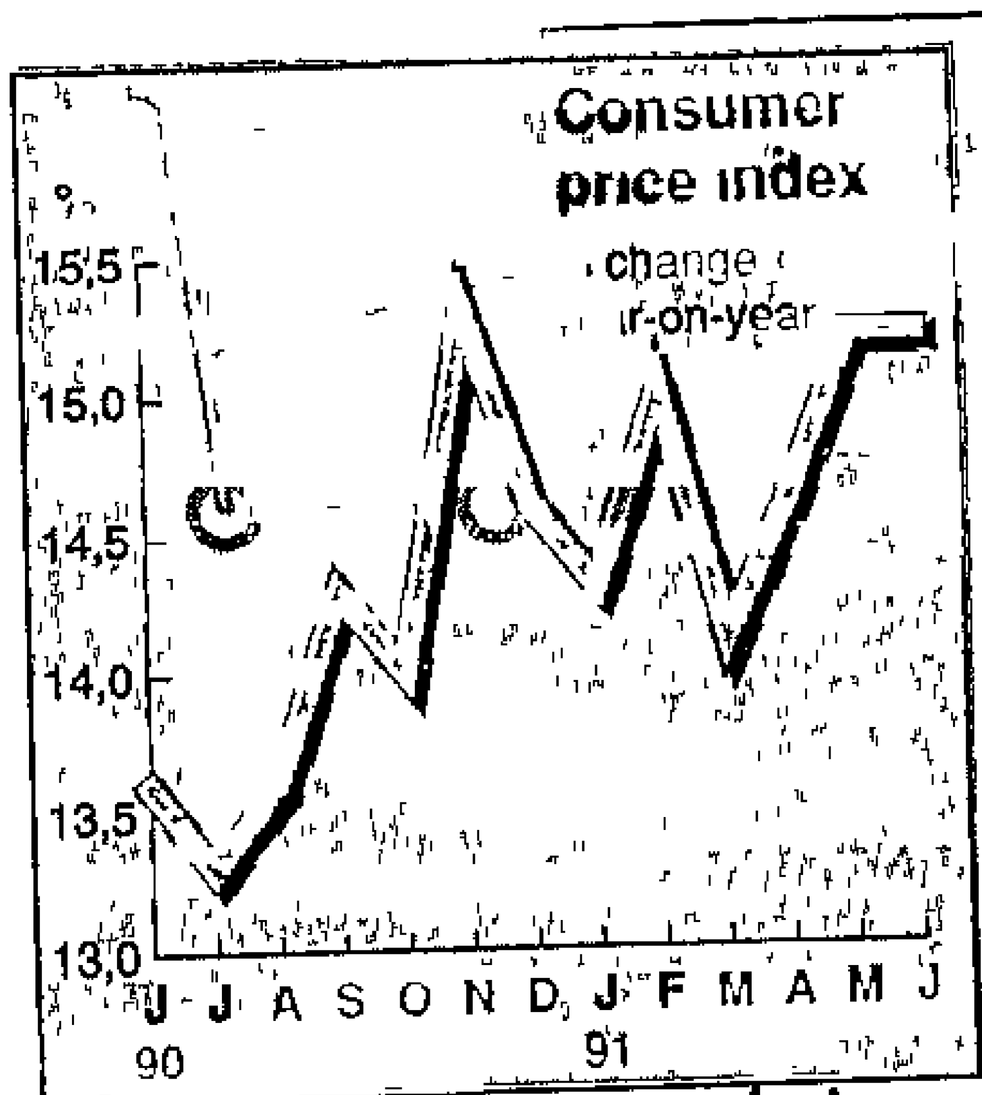
Factor

The critical factor is relative affordability, says McRae

Nominal mortgage payments on a 20-year R89 000 bond amounted to R1 564 in the first quarter of 1991

He says overseas investors have re-appeared on the South African property scene and although few are buying at the moment, many are in the country on reconnaissance missions into the viability of local property.

He predicts that the next upturn of the economy is expected early next year and the property market's recovery can be expected some months before.



Graphic FIONA KRISCH Source CSS

Blowey 25/7/91

Inflation unlikely to drop this year

(153)

SHARON WOOD

CONSUMER inflation remained unchanged at 15,2% in June, dashing hopes that it would fall in line with the steady downtrend in producer inflation since the beginning of the year

Economists held a pessimistic outlook for inflation this year, forecasting a 15% average in the last quarter, with inflation topping 16% in October when VAT arrives.

Stable food prices and low monthly rises in transport and housing costs slowed the monthly rise in the consumer price index (CPI) to 0,7% from 1,7% month-on-month in May, Central Statistical Service figures released yesterday showed.

Economists said the stable food prices during June were surprising as these had been a major pressure on inflation during the past few months A zero percent monthly change in food prices came from reductions in the prices of fruit and nuts (down 4,3%), fish and seafood (2,9%), and vegetables (1,0%) during June.

The year-on-year rise in food prices eased to 16,8% from 17,5% in May. Excluding food prices from the CPI would have put the June inflation rate at 14,6%.

Housing, which accounts for 20% of an average household's monthly costs, has significantly reduced the inflation rate for more than a year. Housing costs rose 4,5% year-on-year in June If they were excluded from the CPI, inflation would be running at 17,5%

"The inflation rate is very high, notwith-

☐ To Page 2

Inflation

Blowey 25/7/91

(153) ☐ From Page 1

standing the dampening effect of housing prices," said Nedbank chief economist Edward Osborn Nedbank's core inflation rate, which excluded fresh fruit, meat and housing prices, was running at about 17%, he said This was a more realistic indication of the inflation rate

"This core inflation rate excludes fresh fruit and meat prices as they are subject to seasonal fluctuations Mortgage interest costs can "artificially" reduce the housing inflation rate if they remain stable for more than a year

"Although inflation remained high, Osborn believed the Reserve Bank would have to bring interest rates down

"There is a fair chance that the Reserve Bank might bring interest rates down before VAT is implemented," he added

Bankorp economist Jacques du Toit said inflation was expected to average 15% in the last quarter of the year The "chances of another bank rate decrease this year are virtually nil"

Although no significant inroads have been made in the battle against inflation the calls for lower interest rates have increased Many believe high interest rates are doing more damage to the economy than is warranted

● Comment: Page 8

Boom times beckon for SA economy

W/mail 26/7 - 1/8/91

153

Financially hard-pressed South Africans can take heart. the worst of the recession seems to be over

REG RUMNEY reports

THE South African economy should turn the corner next year and then accelerate down the straight

Consensus among many economists is that after more than two years of mild recession, South Africans should see the start of an upswing in 1992, and a true boom in the year after.

Moreover, having weathered various shocks in the past two years the economy should be in a better position to take off

It may be difficult to believe that the worst is over, but First National Bank chief economist Cees Bruggemans points out the hurt is always felt most at the bottom of the recession

For this year as a whole, economists are pessimistic They believe the main measure of what the country produces, gross domestic product (GDP), will show once more a decline in real terms, that is adjusted for inflation, or a marginal increase. Last year real GDP declined by one percent.

It must be remembered that the population is growing at a rate of around 2,5 percent a year So any rise below that 2,5 percent means the "per capita GDP" or production per head of the population goes backwards.

But many economists now foresee growth in GDP upwards of 3 percent in the next two years.

Bruggemans predicts growth gathering speed from this year's zero to 2,5 percent next year, to 3,5 percent in 1993 and possibly 4 to 4,5 percent in 1994

There are a number of signs that the economy is about to bounce back from the ropes

According to Old Mutual economist Rian le Roux, in the latest *Economic Monitor*, positive signs are that gold and foreign exchange reserves are much improved, motor car sales in the first five months of the year were higher than in the same period last year, and until the revelations of the "Inkathagate" scandal, share prices continued to reach new highs

Aside from such signals there are compelling underlying reasons why the economy should revive — at least for a short while

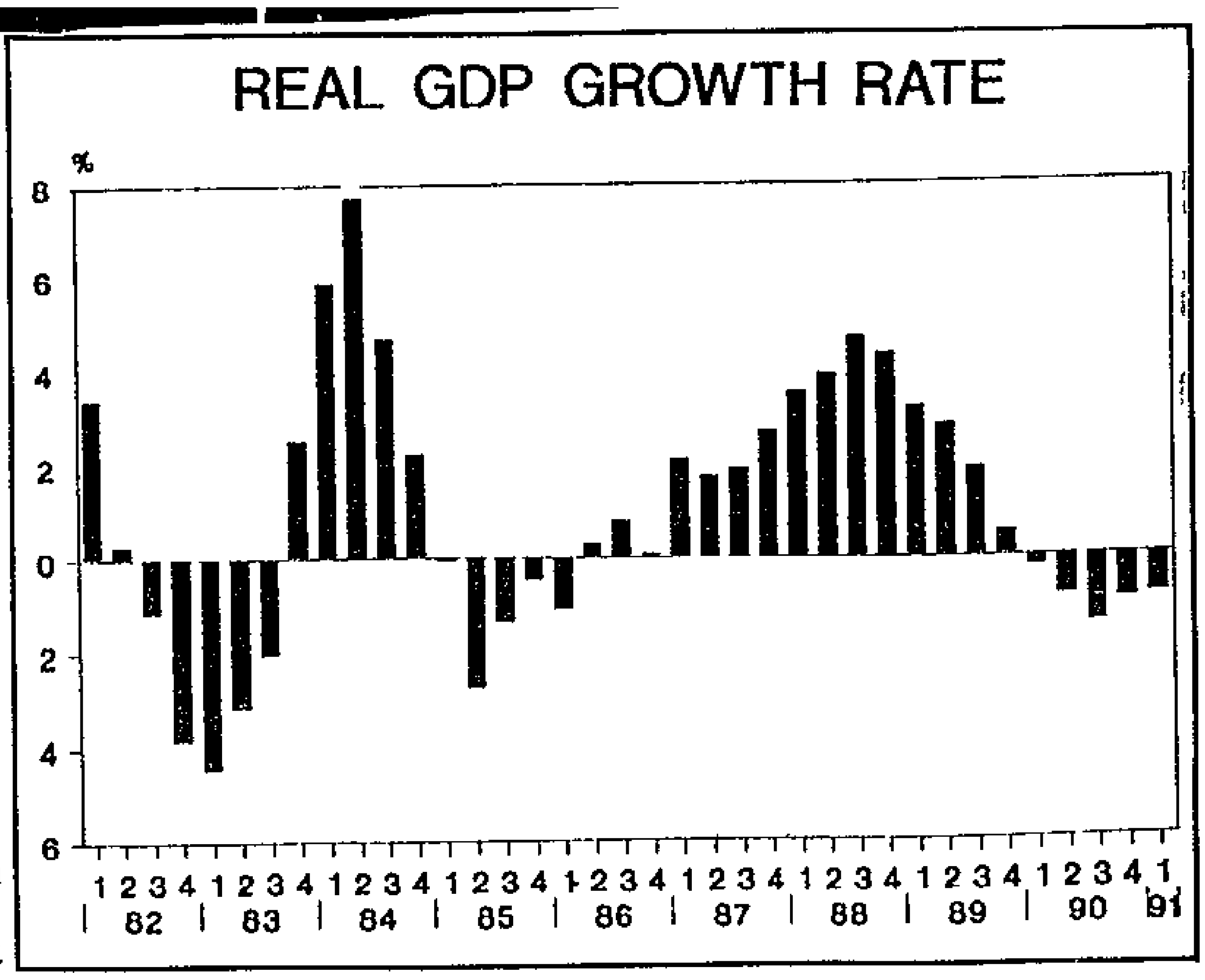
One is that inventories — that is stocks of goods — have been run down to historically low levels This means a much smaller portion of final demand for goods will be met from existing stocks So production and employment will benefit quickly from increased demand for goods

Private consumption has been going great guns, but it seems the recession is finally putting a damper on spending

For the whole of the period from the beginning of 1989 to the first quarter of this year private consumption expenditure (PCE) and public sector consumption expenditure has been positive

However, Mohr points out in per capita terms that PCE has now declined by 2 percent.

Retail sales are negative, year-on-year Retail sales were, by April, 4,5 percent lower (adjusted for inflation) than at the end of the third quarter of 1990 Spending on services will probably continue to grow, however



Ready for an upturn. South Africa's real gross domestic product figures have been languishing in the negatives for a number of years

Buoyed by government spending — in part to meet demands for greater social spending — final demand should expand this year, though at a lower rate than it has, Le Roux believes

Inflation is still high at around 15 percent, and there are no signs that the Reserve Bank wants to stimulate the economy by dropping interest rates sharply — but given the role of government spending in pumping money into the economy that won't be necessary

Nonetheless, Sanlam's economics department believes that later this year there will be a move towards a slightly less restrictive monetary policy, with a small drop in interest rates

In theory, consumption eventually leads to fixed investment, but a consumption-led boom could peter out By introducing measures such as generous tax incentives for beneficiation projects the government seems to want to accelerate fixed investment. Bruggemans considers the fixed investment cycle is due to turn anyway, and will kick in

For the upturn not to be a flash in the pan, an increase in exports is also vital

Export volumes, according to Frankel Max Pollack chief economist Mike Brown, were six percent up in the first six months of this year, but need to be 20 percent up next year

Here the lifting of the Comprehensive Anti-Apartheid Act in the US and the pending lifting of European Community sanctions must play a role

It is true, recent events have in part deflated some of the rise in business confidence the lifting of sanctions caused

More important for our own upturn is that our major trading partners, the Western economies, recover or stay well

A normal agricultural year would also be helpful, at least in stemming outflows of foreign exchange, but this is in the lap of the gods

What could go wrong? South Africa's balance of payments is still under pressure because of the need to repay foreign debt Without an inflow of investment (or an end to the outflow) we could run out of foreign exchange for imports that typically surge past exports as the boom runs.

For capital to come in, the International Monetary Fund stamp of approval is all important.

Brown reckons the IMF will advance money to tide us over temporary balance of payments problems, but it will lend only to an efficient economy which is running into problems through growth So we have to run a much hotter economy, with a reasonable degree of growth coming through in the next 18 months

Sanlam remarks "... South Africa can no longer afford the exceptionally disappointing rate of expansion that has characterised the past decade "A greatly increased growth rate is vital in the light of the disturbingly high unemployment figure and the fact that a vibrant economy is necessary as a cornerstone for political and social reform "

Despite oil and food setbacks, inflation can still be beaten

B/Day 26/7/91 **BRIAN KANTOR** (153)

IF ONE examines the forces that have acted upon inflation in SA over the past 20 years, there are good reasons for predicting that inflation could fall significantly over the next couple of years, provided the current monetary and exchange rate policies remain in place.

Since the early '70s, the CPI has risen remarkably steadily — by an average annual rate of 12,7% between January 1971 and May 1991 with a standard deviation of only 3,2. The feature of SA inflation is not so much how high it has been by international standards, but rather how stable. The upshot is that price and wage setters make their plans accordingly.

Nevertheless, price expectations are by no means self-fulfilling. If markets prove that they are unable profitably to bear higher prices, prices will come to rise at a slower rate. Such realism does not often come painlessly for workers or shareholders, which is why it is so important that expected and actual inflation be closely aligned. There is a widespread disbelief in the possibility of a significant decline in our rate of inflation. The sceptics may be wrong.

The monetary authorities have recently had two bits of bad luck in their fight against inflation. Firstly, the Gulf crisis pushed up the oil price and, secondly, SA has entered one of those not infrequent periods when food prices accelerate for reasons that have little to do with the general state of demand and supply. Further, the expected impact of VAT is already in the prices being charged for goods and services.

Economists will argue about growth in the money supply being a cause or an effect of inflation. They agree that a rise in prices generally cannot be sustained without increases in the supply of money. Money demand and money supply have run together since 1971 but for one important recent period between 1985 and 1989 (figure 1).

In 1985 inflation accelerated sharply while money supply growth declined, and in 1987-1988 when money supply growth accelerated, inflation declined. The higher rates of inflation that resumed in 1989-1990 can be linked to excessive money creation over the previous two years. Clearly there was something important other than money supply and spending pressures, acting on prices between 1985 and 1988. And that was the collapse of the value of the rand and the high rand import and export prices that followed automatically.

This development may be regarded as equivalent to a sharp reduction in the supply of goods available at previous prices. Prices rose thereafter despite the fact that the rate of growth of money supply, and therefore spending, was slowing down sharply.

Unusually, it was much more a reduction in effective supply rather than an increase in demand that was responsible for higher prices. The weaker foreign exchange value of the rand — because of an extraordinary capital flight from SA — was the cause and not the effect of higher inflation.

As the foreign exchange value of the rand stabilised between 1986 and 1987, these supply side effects on inflation were reversed and the rate of inflation receded from the very high levels prevailing at the end of 1985.

Unfortunately, these more favourable supply side effects on inflation were then once more overtaken by a rapid recovery of demand and money supply growth in 1986-1987. By the end of 1988 money supply growth had reached a rate of nearly 25% a year.

Under the renewed pressure of spending which led in turn to smaller trade surpluses, and given continued outflows of capital, the rand then weakened further. Import prices then rose faster, and inflation generally returned to something like its longer term average.

These opposing influences on inflation between 1985 and 1989 are identifiable (figure 2). Over this period the demand side influences of money supply growth and the supply side effect of higher import prices moved in opposite directions. Before then, money supply growth consistently led changes in the inflation rate.

Further, by 1990 monetary policy and the exchange rate — and so import price inflation — had begun to work much more strongly in concert to reduce inflationary pressures.

The mixture of less import price inflation and slower money supply growth was at work when the oil price shocks of late 1990 intervened. Also delaying the emergence of a clear and sustained decline in the rate of inflation were higher food prices (figure 3). But, as the graph shows, it is not unusual for food prices to rise faster or slower than prices in general.

Given the effect of the weather and rainfall on the supply of food, and given also the absence of much direct competition from food imports, these divergences are explicable. It is simply bad luck for the Reserve Bank that when all their other ducks were in a row, the big bad wolf of higher food prices came along to spoil their shot.

Much less easily explained is the now well-known fact that retail food prices have been rising at a much faster rate than those of manufactured food since 1986. Any presumed lack of competition in food production therefore cannot be blamed particularly for rising food prices. There is surely, moreover, no lack of price competition in food retailing as is demonstrated by the declining fortunes of OK and Checkers. The dominant food retailer Pick 'n Pay also did not enjoy a particularly good financial year in 1990-1991.

This all suggests that retail margins and food prices generally are under some common cost push pressures other than that of higher manufactured food prices. The other major input into retailing, other than manufacturers, is of course labour.

The established food retailers have, in fact, been under continuous and strong pressure countrywide from a powerful trade union in this sector to pay higher wages. Perhaps it is this factor that helps explain the divergence of food prices at the different levels.

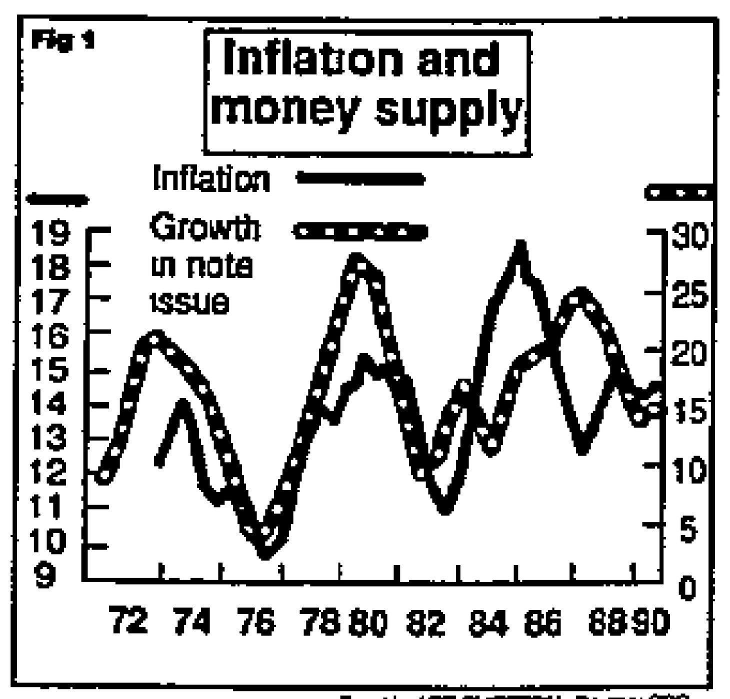
If so, such trends cannot persist. Either the food retailers will succeed in holding down their labour costs or they will lose more of their share to their informal sector competition. Perhaps too much weight is already being given in the food price indices to purchases from the supermarkets rather than their more stable cost competition in the less formal sector.

No doubt it will take the investigators from the Board of Trade and Industry some time to discover whether the trend in food prices in the townships is different from the one in supermarkets.

In the meantime the price caravan will have moved on. Hopefully the camels will continue to be driven by genuinely strict monetary policy and a relatively strong rand. Dr Chris Stals must know that he will never have a better, or indeed another, chance to prove that inflation does give way to the fundamentals of a slow rate of money supply growth.

☐ **Kantor is deputy dean at UCT's School of Economics**

Fig 1



Graphic: LEE EMERTON Source: CSS

Fig 2

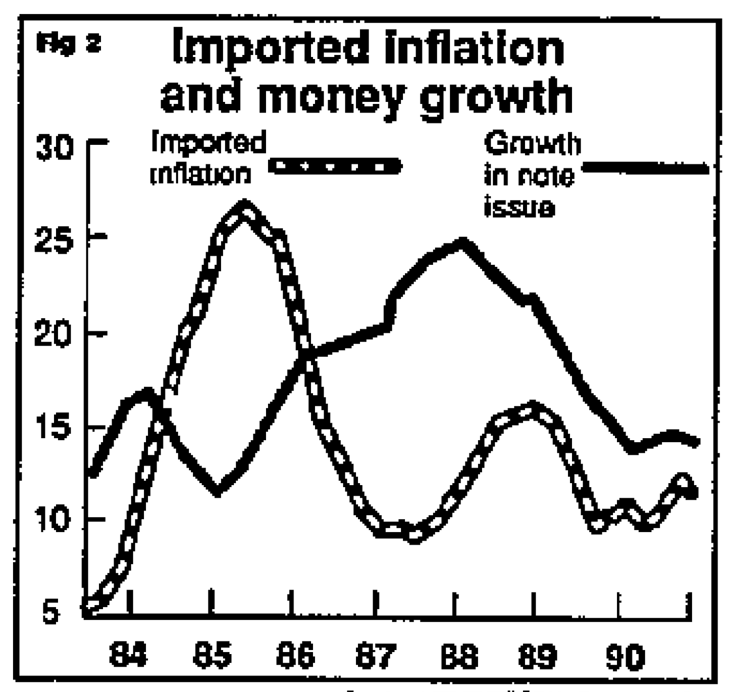


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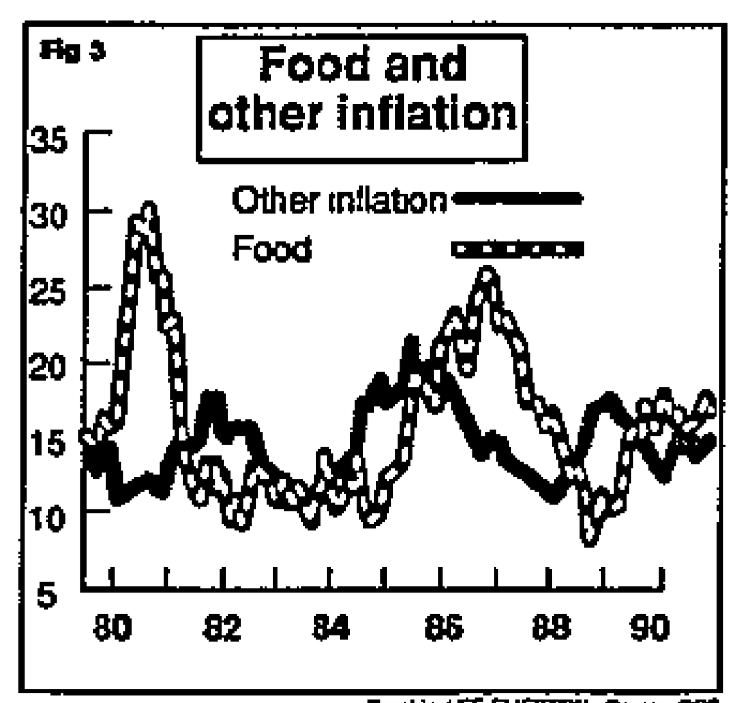
Fig 3



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Recession could be over by year's end

(153)

Finance Staff Star 30/7/91

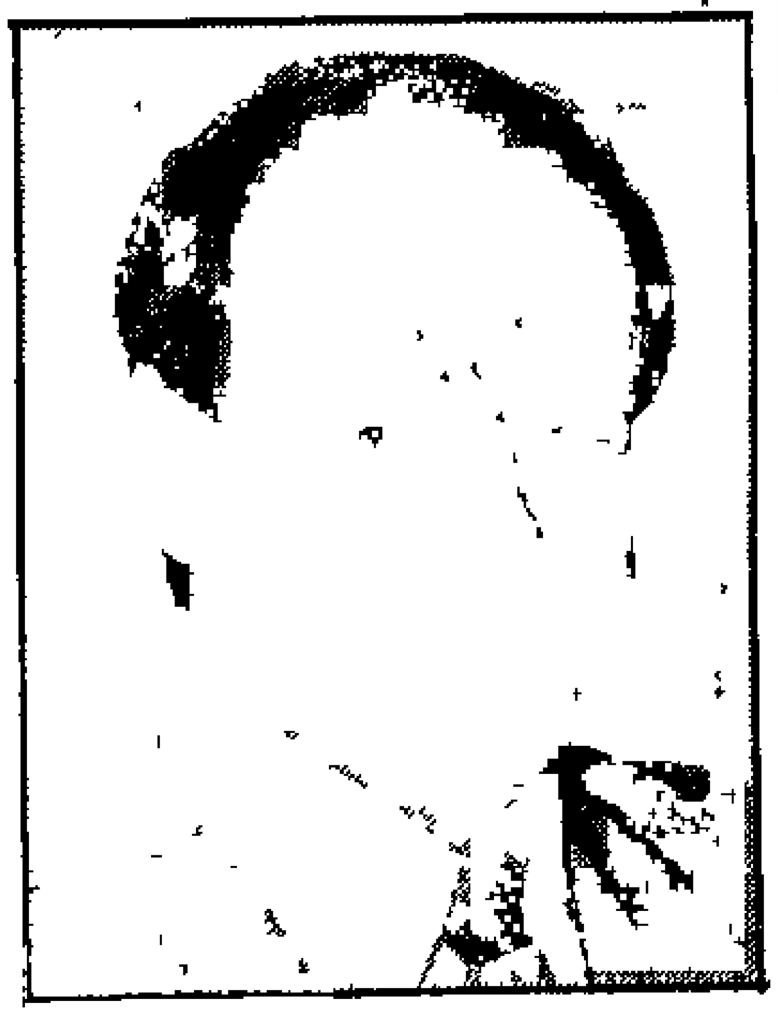
The present recession may be over by the end of the year, but the "monetary and fiscal medicine applied to achieve the recovery will not leave the consumer with much spending power for quite a while."

Matt Brenzel, Syfrets investment analyst says in the group's latest Money Matters that high real interest rates and a neutral stand by the tax authorities have resulted in even more unemployment and businesses battling for survival.

However, they have also paved the way for an end to the current recession late this year or early next year.

"With US President George Bush announcing the end of sanctions, a new-look ANC with mainly moderates at the helm, and the government and free enterprise set to participate in an imaginative spending programme, the economy may finally recover from its long period of contraction in the 80s," he says.

"If the negotiation process can be set in motion soon and secret government involvement in political parties fully exposed, a substantial increase in the GDP could be expected in 1992."



Matt Brenzel Substantial increase in GDP can be expected next year.

The harsh measures have also brought some other real benefits

- The country's balance of payments is much improved while the gold and foreign exchange reserves were up by almost R3 billion in 1990
- Bank credit is declining and the rand is stabilising against a basket of currencies
- A more positive view of South Africa from abroad should facilitate exports and foreign loans.

Rise in defaults 'signals time to lower interest'

153

SEAN VAN ZYL

THE 82% climb to a R40,24m high in default and consent judgments against businesses in May signalled the urgent need for interest rates to be lowered, Credit Guarantee Insurance Corporation senior economist Luke Doig said yesterday. B/Day 31/7/91

The low growth in the number of judgments disguised huge increases in the value of judgements Civil debt figures for May showed the total number of default and consent judgments marginally up at 44 682 from 43 595 in April, Central Statistical Service figures showed

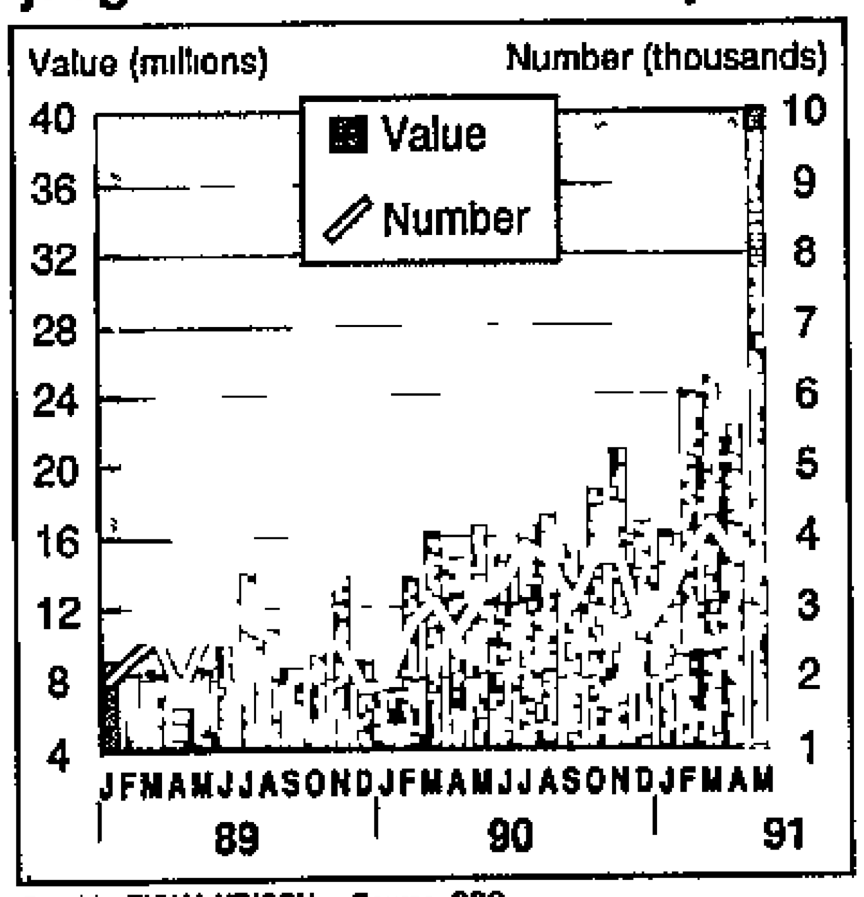
Doig said the jump in the value of business-related judgments in May to R40,24m from April's R22,09m reflected the economy's dire position.

Total liquidation figures for 1989 (1 573) and 1990 (1 590) reflected a similar static trend, misleading when compared to the values involved, he said

Doig said it was time to cut the prime interest rate to 18% to provide the business community with some relief.

Combating inflation by maintaining high interest rates was not effective "The authorities should rather look to better controls on state spending to make any significant inroad against domestic inflation," he said.

Civil cases: default and consent judgments - business enterprises



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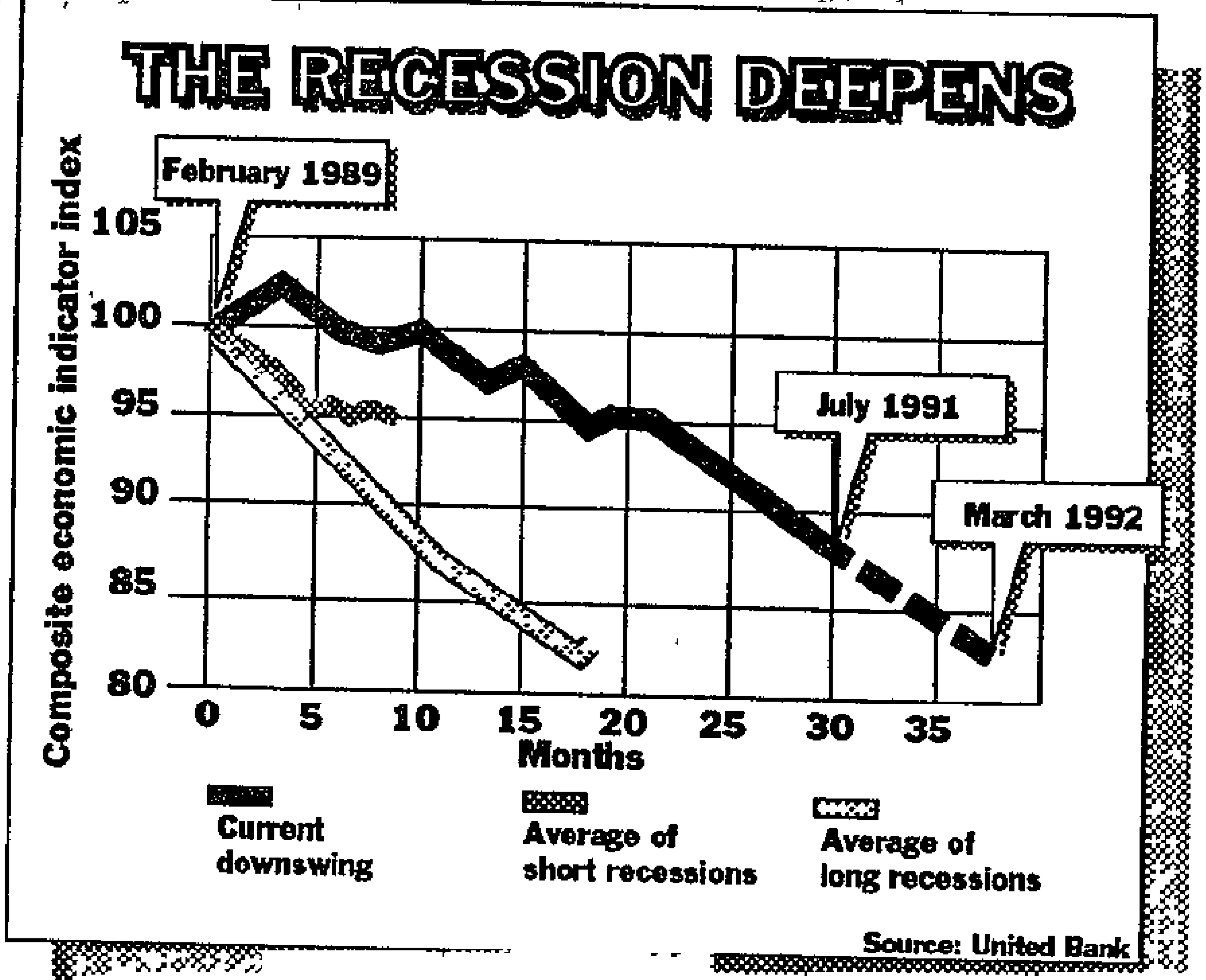


It could get worse before the upturn

S Times (Buss Times) 4/8/91. 15

By CURT VON KEYSERLINCK

THE recession is still relatively mild, but it could become severe before the upturn begins

This is the conclusion of United Bank economists who are studying downswings in the economic cycle

United Bank says the composite economic indicator index is still about five points higher than the average low point reached in long recessions in South Africa (see graph)

But it could dip almost as low by March next year when United expects the economy to bottom

United chief economist Hans Falkena says the downswing has been less steep than most, but it will last about 37 months

Standard Bank economist Nico Czypionka says "Statistically speaking, the recession has been milder But it is hurting because although some sectors are bleeding less copiously than in the 1985-86 recession they have been bleeding for longer

"Some sectors, such as unionised black labour and semi-formal businesses that benefited from deregulation have not felt it so far

"Big companies have been relatively immune as they saw it coming and cleaned up their financial ratios

"But it has hit small businesses and individuals who have been unable to get jobs It is now hitting the white tribe and there are CAs walking the streets after losing their jobs through head-office rationalisations "

His contention is borne out by the fact that space devoted to staff advertising in newspapers for the first four months of the year was 56% lower than for the corresponding time in the peak year of 1983 and 36% down on the last recession in 1985-86

First National Bank group economist Cees Bruggemans believes the upturn may already be under way because figures traditonally regarded as leading indicators are favourable

But the reliability of some leading indicators in present circumstances is questioned

Sanlam economist Pieter Calitz says high share indices, for example, do not necessarily presage increased economic activity The increase in building plans passed may not necessarily lead to more construction

Important

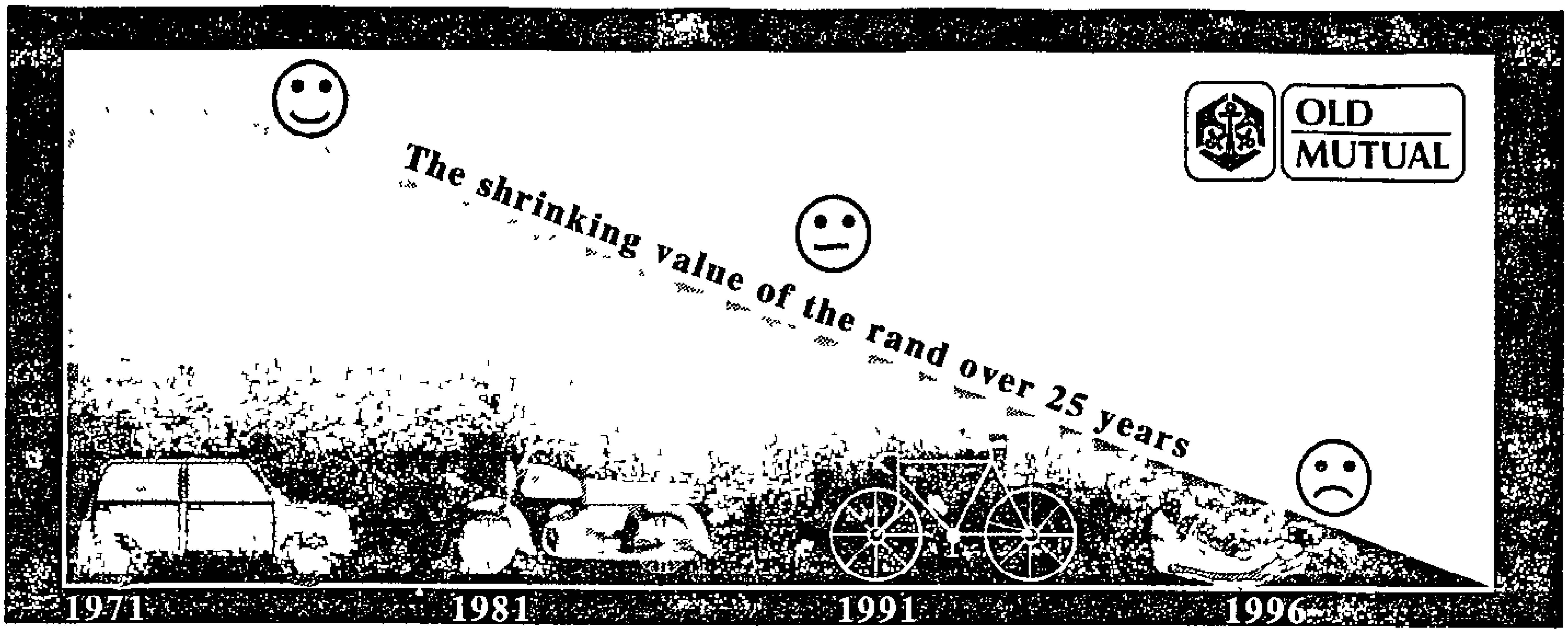
Dr Falkena says low inventories may not have to be built up to previous levels because businesses have learned, with better control, to operate on smaller stocks

Dr Bruggemans says government spending is one of the most important factors in the upturn

But if Finance Director-General Gerhard Croeser is to be believed, the big increase in government spending in the past quarter will not be repeated this year

Retail sales, which continued to grow throughout the recession, have dipped This may be a sign that the latest round of moderate wage rises is beginning to have its effects.

WHAT R1 000 COULD DO FOR YOU



☐ **GRIM REALITY:** The diagram shows the shrinking value of R1 000 since 1971.

(153) 10/8/91

OM inflation survey a shocker

SOME horrendous realities have emerged from an Old Mutual survey on inflation.

No more than 20 years ago it was possible to buy a small car with R1 000. About 10 years ago you could get a motorbike. Today, R1 000 will buy a fairly presentable bicycle.

Just five years from now, if inflation continues on its rampant course, R1 000 might just buy a pair of running shoes.

Business Staff

According to Old Mutual, it is estimated only six percent of South Africans will retire financialily secure at the end of their working lives.

Marketing actuary, Mr John Bryant, said the question was not what R1 000 would buy in the year 2000 but how can one get that R1 000 of today to keep its value into the next millenium.

"The answer lies in constantly reviewing and upgrading investments. The ideal saving vehicle must be tax efficient and at least keep pace with inflation," Mr Bryant said.

He added R1 000 invested in the Old Mutual Units Trusts Investors' Fund in 1971 would today, with dividends reinvested, be worth more than R52 630.

Assuming an average growth rate of 15 percent over the next five years, by 1996 the amount would grow to R105 850

Economy not breaking out of 'deep recession'

Star 12/8/91.

153

By Tom Hood

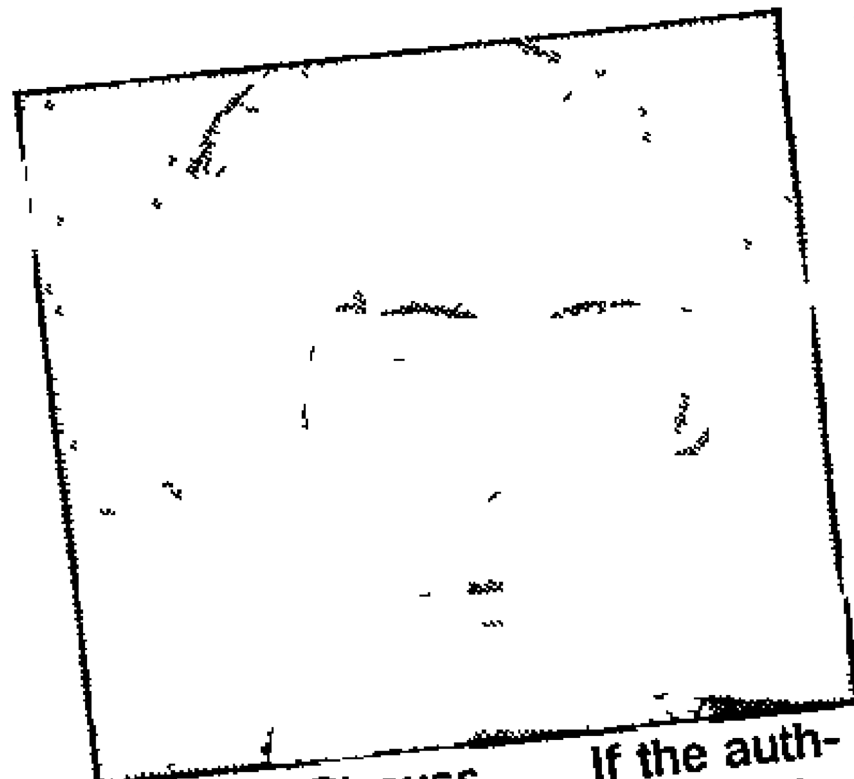
Dr Conrad Strauss, who was last week named to take the helm of the giant Standard Bank group, says he sees no signs of economic recovery from the "deep recession" coming in the second half of this year

Dr Strauss, who will take over as chairman from the retiring Henri de Villiers in January next year, has a realistic view of the economy after 13 years as managing director of Standard Bank Investment Group (Stanbic)

"Things are tough" he said at the presentation of Stanbic's interim results, adding that "interest rates are not likely to drop below the inflation rate, despite the tight economic conditions"

"You don't see evidence of the tight monetary policy on the inflation rate until about six quarters after money supply growth has dropped below the rate of inflation

"We have had four quarters below the inflation rate and there should be another two to go before there is a significant benefit coming through in the inflation rate"



Conrad Strauss If the authorities were to go for quick-fixes we would enter an era of potentially uncontrollable inflation

International markets were not very buoyant, so unless there was a recovery in international business "it will be very difficult for us to pick ourselves up by our own bootstraps"

Desite the tough impact of the recession he supports the Reserve Bank's objectives in following a tight monetary policy and maintaining a reasonably strong rand

In a recent address, Dr Strauss said "To shift towards expansionary fiscal and monetary policies now would eliminate virtually all chance of creating a sound and resilient economy by the time SA makes the final transition to a fully fledged democracy

"If the authorities were to go for quick-fixes to 'buy' political stability with cheap money and increased government spending we would enter an era of potentially uncontrollable inflation"

He added. "It is time we started emphasising the real economy of the country and paid less attention to politicians

"It is not fiscal policy that will bring the country right but an improvement in workers' productivity, better management and a stable social environment."

Though a modest banker at the time, he spoke contrary to trendy economics 20 years ago when he warned businessmen that some white markets were near saturation point and marketing men should set their sights on the fast-growing non-white markete.

While the country basked in the wealth of its gold mines 24 years ago, Dr Strauss, then the bank's economic advisor, raised eyebrows by saying the gold-mining industry had reached a stage where technological limitations and a price ceiling might force production to cease in about 30 years

With Dr Strauss as MD, the Standard Bank group became the largest banking and financial service organisation in the country, with an outstanding record on both market share and profitability

It was overtaken in top spot only by the recent merger of Allied, Volskas and United into Amalgamated Banks of South Africa

Dr Strauss, now 55, began his career with Standard as a management trainee He has extensive exposure to and experience in the many facets of the organisation's operations both locally and internationally

He was born in Upington on January 17, 1936, and after a farm upbringing he matriculated at Paarl Boys High He majored in economics and political science at Rhodes and followed a three-month agricultural diploma in the Cape with an MS degree at Cornell University, New York

After a spell at Standard Bank as a management trainee, he was appointed economic adviser, later becoming general manager responsible for corporate planning He undertook two senior regional postings before his appointment as managing director in 1978

VAT already fuelling inflation

(153) Star 13/8/91

By Sven Lunsche (200)

Value added Tax (VAT) may already be contributing to higher prices, says the Econometrix research institute in its comments on the latest hike in the Producer Price Index (PPI)

Central Statistical Service reported yesterday that the PPI jumped from a year-on-year rate of 13 percent in May to 14,1 percent in June On a monthly basis the index increased by a hefty 1,3 percent

Most worrying was the fact that the producer price rises of food products have been soaring over the past year The CSS figures show that agricultural food products have been rising by 42,1 percent year-on-year, while fishing products have risen by 15,7 percent

Commenting on the increases Econometrix says in its latest Ecobulletin "One wonders to what extent the recent rise in inflation can be attributed to pre-emptive price increases by business and aggressive wage demands by workers directed at protecting themselves against the possible erosion of their profits and living standards respectively when VAT is introduced

Disservice

"If this is so, then VAT is already doing the country's fight against inflation a great disservice and the government's policy-makers may be shooting themselves in the foot as regards inflation," Econometrix says

The increase in the PPI would have been even greater in June had it not been for the weakening of the rand against the US dollar, which brought down the annual rate of increase in imported commodities from 8,5 percent in May to 7,8 percent in June

On a monthly basis the PPI for imported goods actually showed a 0,6 percent fall from May to June after declining by 0,8 percent in the previous month

In contrast producer price inflation for locally produced goods continues in an upward trend, which, according to Econometrix, has prevailed over the past 16 months

This rate was up to 15,5 percent in June from 14,1 percent in May and compares with a rate of 12,5 percent a year ago

Prices of locally produced goods also showed a hefty 1,4 percent monthly increase, which is equivalent to 16,8 percent on a compound annual basis

High level of price rises likely to continue this year

Star 13/8/91

(153)

By Sven Lunsche

The inflation rate could fall to an average level of 12,7 percent next year as the monetary authorities prevail with their restrictive monetary policy

But United Bank economist Dr Hans Falkena says such a reduction will only be achieved on the back of a continued high level of price rises in the second half of this year

In the bank's latest Economic Monitor he forecasts that inflation this year will average 14,6 percent, as the introduction of VAT is likely to prevent any further downward movements in 1991

VAT will also lead to a continued high level of food price increases next year — the expected average for 1992 is 15,6 percent, a marginal decline on the anticipated food price inflation of 16,2 percent this year

Dr Falkena adds, however, that overall inflation should move moderately downwards in 1992 as a result of a lower rate of wage increases — possibly in the region of 13 percent — reduced growth in the money supply and more stable energy prices

While he expects the Reserve Bank to prevail with a restrictive monetary policy the commercial rand is expected to weaken next year, as the inflation differential of 10 percent between SA and its main trading partners is unlikely to disappear

He foresees the following macro-economic trends.

- After a decline in the third quarter this year, private consumption expenditure should proceed strongly as the lower income groups continue to spend
- The demand for social-economic expenditure will continue to demand strong government consumption expenditure
- Fixed investment spending should experience positive growth both from the private and the public sector
- Inventory levels should be rebuilt as business envisages improved growth for 1992 and 1993
- The balance of payments should receive a boost from a growth in real exports, owing partially to the lifting of sanctions, and only a moderate growth in imports as a consequence of the low investment in plant and equipment.

Dr Falkena warns, however, that the improved prospects could be frustrated "if domestic political instability continues and the envisaged inflow of foreign investment proves to be a damp squib"

Inflation in South Africa (average for period)

	1989	1990	1991*	1992*	2nd half 1991*	1st half 1992*
Producer prices	15,2	12,3	12,0	8,8	9,5	8,4
• Imported prices	16,3	10,1	7,0	5,7	3,0	4,5
• Other price	14,8	12,8	13,0	9,5	11,5	9,3
Consumer prices	14,7	14,3	14,6	12,7	14,4	12,9
• Core inflation	16,0	13,8	14,2	12,2	14,2	12,5
• Food prices	11,0	16,1	16,2	15,6	16,0	15,9
• Energy prices	17,6	13,4	13,3	8,0	11,2	7,0

* Forecast

Another inflation setback for Bank

BDay 13/8/91 (153)

SHARON WOOD

THE Reserve Bank's fight against inflation suffered yet another blow yesterday when soaring food prices in June broke a five-month downtrend in producer price inflation.

Producer price inflation rebounded to 14,1% from May's 13%, Central Statistical Service figures released yesterday showed.

Surging food prices were the main reason behind a 1,3% month-on-month hike in the PPI in June

Agricultural food prices rose by 8% month on month and manufactured food prices by 2,2% Agricultural food price inflation rose to 42,1% in June

The effect of food price rises on overall producer price inflation in June are shown when they are taken out of the PPI — producer price inflation would have risen by 11,4% year on year in June

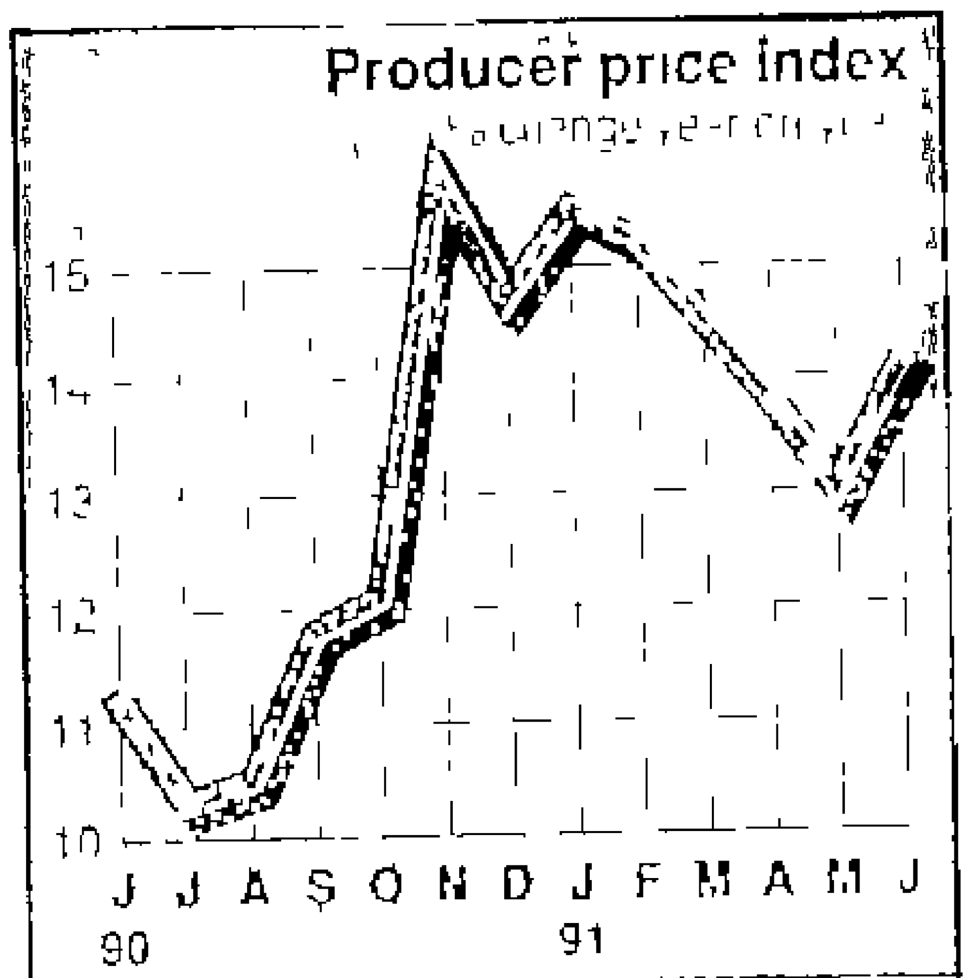
Reserve Bank deputy governor Jaap Meijer said: "Food prices have been the bad part of the story We are obviously disappointed with the figure and cannot read reasons in it for any immediate or early relaxation in our policy

"Reserve Bank estimates for inflation are somewhat less attractive now than they were before the release of the consumer and producer inflation figures for June"

The implementation of VAT on September 30 would probably have an effect on inflation, but there should still be a slight improvement in both inflation rates before the end of the year, Meijer added

The Reserve Bank's economic division had been looking at where the food price rises were coming from, but "had found it hard to put their finger on one single factor", Meijer said

□ To Page 2



Graphic FIONA KRISCH Source CSS

Inflation

BDay 13/8/91 (153)

□ From Page 1

He said the rise in food prices could be a longer-term structural development It could be a result of the rising purchasing power of the less privileged which boosted demand for food above supply, thus pushing up food prices

"High food price rises are bad because they probably play a disproportionately large role in forming inflationary expectations," he said

Food price rises have recently come under scrutiny because they have been the main culprit behind the high rate of inflation this year

Widespread concern led to the launch of an investigation into food prices by the Board of Trade and Industry last month Results of the probe, which is headed up by former Reserve Bank deputy governor Japie Jacobs, have still to be announced

Earlier, steady falls in producer price inflation this year buoyed hopes that consumer price inflation would soon follow

Lower consumer inflation hinges on slower producer price rises working through to retail prices — a process which usually takes about three months

But lower producer price inflation this year has stemmed from small rises in imported price inflation

Domestic producer price inflation has, however, remained high this year Local price rises have consistently exceeded 14% year on year and in some months approached 16% Domestic producer price inflation rose by 15,5% year on year in June

● Comment Page 10

Business judgments soaring

By Derek Tommey (153) (NBD)

After 30 months of recession and slow and often no payments, business is getting its house in order Although firms are desperately seeking new business they are no longer prepared to do this at any price

Ivor Jones, managing director of Kreditinform, says he has been investigating the creditworthiness of a record number of firms for his clients

In July his company checked on the ability of customers to pay a record R250 million of credit

This represented a 15 percent increase in the number of reports handled over the same 1990 month and a 25 percent increase in rand value

Suppliers recognise the need to monitor debtors while the economy is still in a recession in order to set up remedial slow payment and bad debt policies

Star 14/8/91

Upswing

"At the same time, they want to capitalise on the anticipated upswing, and are taking the opportunity to review credit limits and set new, realistic levels based on their customers' ability to pay"

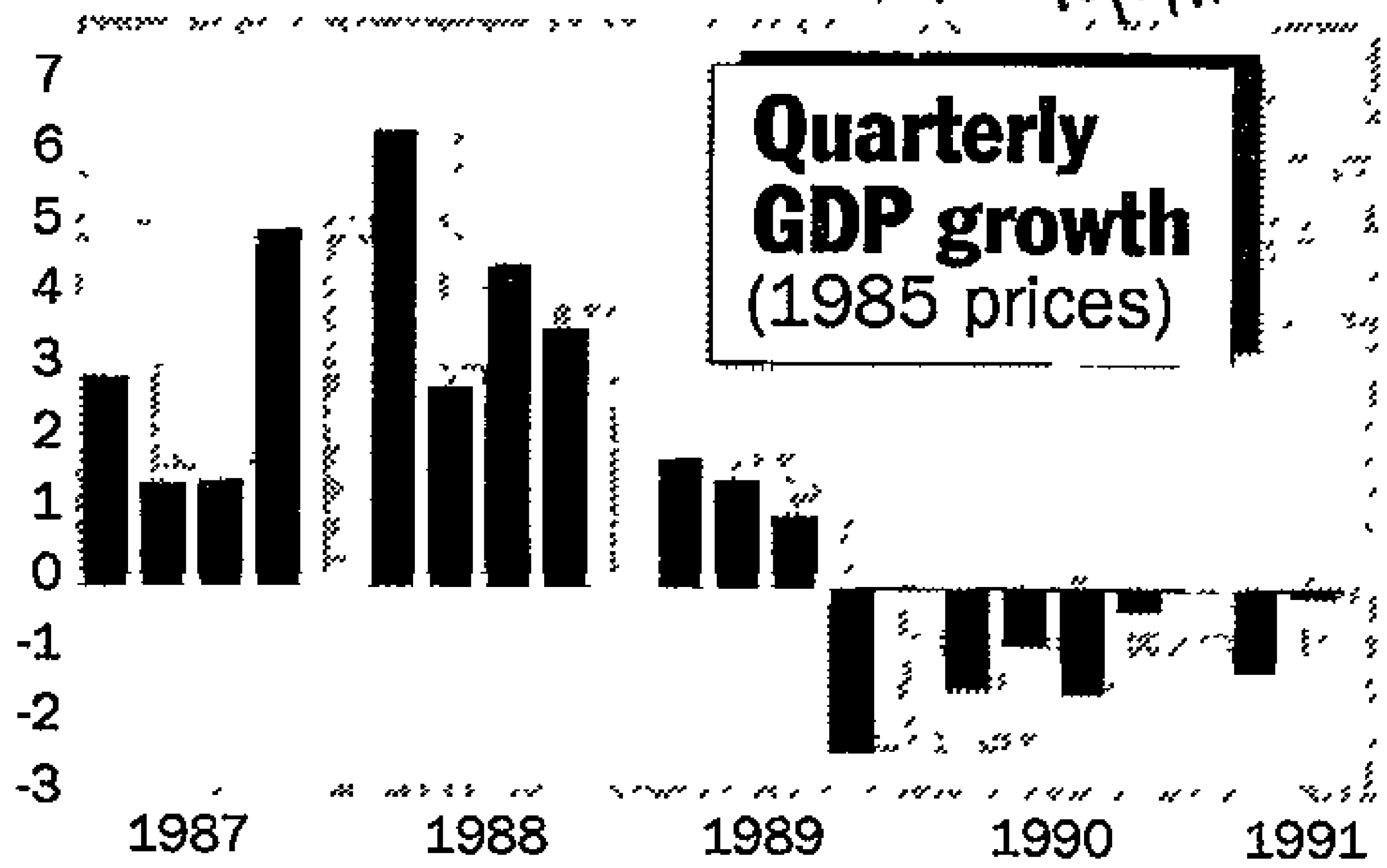
Mr Jones says many firms are still not paying their debts Business judgments were up by 67 percent in the first four months of this year to a cumulative total of R87 million by value compared with R52 million for the same 1990 period

He says "Business judgments are continuing to run at between R20 million to R25 million by value each month — at the highest levels in the past four years — and show little signs of easing."

Mr Jones warns that these figures are a reason for caution "In spite of growing optimism about an upswing in the economy, these indicators suggest there is a lack of liquidity in the economy and that the recovery will still take time"

Recession is still in place

Star 16/8/91. (153)



By Sven Lunsche

The economy declined by only 0 1 percent in the second quarter this year surprising most economists who had expected a larger fall in the wake of the slump in consumer spending

However, Mike Brown, economist at Frankel Max Pollak Vinderine, warns that the figure should not be interpreted as a sign that the recession had bottomed out completely and he expects a further decline in the third quarter

Figures released by the Central Statistical Service (CSS) yesterday show that Gross Domestic Product (GDP) at constant 1985 prices slipped to R131,6 billion in the second quarter from R131,63 billion in the first quarter

Compared with the second quarter of last year, however, GDP was down by 0,8 percent, which Mr Brown says is a more accurate reflection of the state of the economy as both private consumer spending and fixed investment have been fairly flat over the past few months

Exports up

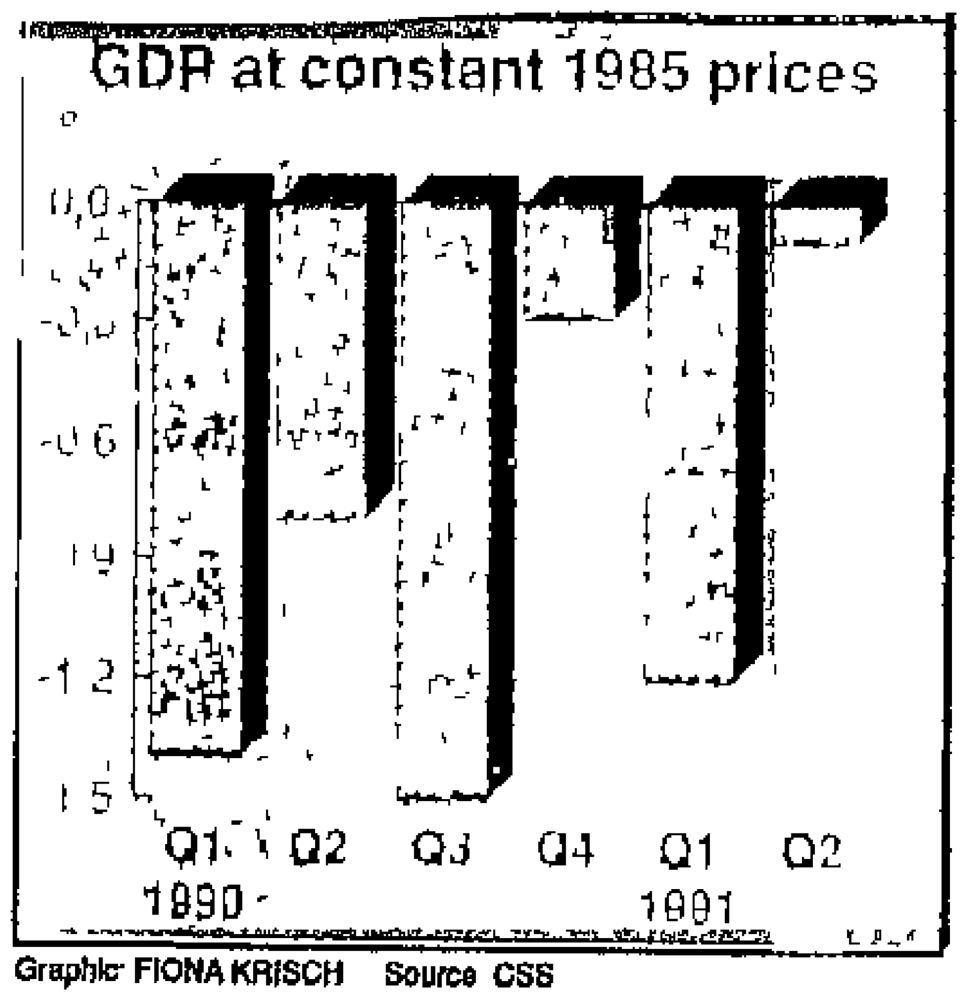
A larger fall in GDP in the second quarter was prevented by three factors, a large rise in government spending, a substantial slowdown in the reduction of inventory levels by private business and the rise in exports

While Mr Brown expects a further decrease of about 0,3 percent in the third quarter, positive GDP growth should resume thereafter "There has been a lot of pent-up investment spending which should be released once VAT has been introduced," he says

A breakdown of the CSS figures show that the only sector to record real growth was agriculture, up 7,3 percent

In the non-agricultural sector real production of manufacturing and construction declined by 2,4 percent and 8,6 percent respectively The mining industry recorded an increase of 0,3 percent compared with the previous quarter's fall of 3,4 percent

This is the seventh successive quarterly GDP decline, which makes it the longest post-War recession



Graphic FIONA KRISCH Source CSS

Manufacturers still deep in recession

(153) SHARON WOOD

SA's manufacturing sector is still in the throes of a deep recession, although strong agricultural production limited the contraction in gross domestic production (GDP) to a fall of 0,1% in the second quarter this year.

Preliminary figures released by Central Statistical Service yesterday showed it was the smallest decline in the seven-quarter recession and up on the 1,2% quarter-on-quarter (annualised) decline in the first quarter.

Total GDP fell to an annualised R131,6bn in this year's second quarter from the first quarter's R131,6bn.

A 2,4% slump in manufacturing production pushed the total non-agricultural sector into an official recession in the second quarter for the first time in this downswing. B/Day 16/8/91

A recession is technically defined as two consecutive quarterly declines in production. Activity in this sector fell by 0,4% in the second quarter after a 1,7% drop in quarter one

Conditions in the agricultural sector brightened as the sector moved further away from last year's severe drought.

Agricultural production rose by 7,3% in the second quarter after a 5,2% increase in agricultural production in the first.

Improved agricultural conditions in the first half of the year contradicted recent price movements which suggested supply had been limited. Agricultural food prices surged by 42,1% year-on-year in June

Mining production crept up by 0,3% in

☐ To Page 2

Recession

B/Day 16/8/91.

(153) ☐ From Page 1

the second quarter, following a 3,4% fall in the first quarter

SA gold output rose by 1,2% year-on-year to 1,64-million ounces in July from 1,62-million ounces last year Total output to July rose by 0,18% to 11,19-million ounces from 11,17-million ounces

Simpson McKie economist Graham Boyd said the figures provided "tentative confirmation of other early indications that the the GDP is bottoming out. Barring further setbacks, such as the recent slide in the platinum price, the economy can deliver mildly positive growth later this year"

But he added "With population growth at about 2,3% a year, any growth in the economy less than this really reflects the continuation of recessionary conditions"

The improvement in agricultural production was a result of a mild improvement in rainfall patterns and because it came off a low base

United economist Hans Falkena said the economy would continue "slowly tapering off because monetary policy is not very stringent and fiscal policy is expansive"

He projected the economy would turn only in the second quarter of next year

This is more pessimistic than First National Bank economist Cees Bruggeman's forecast that the economy turned at mid-year

Economists generally expect economic activity to pick up towards the year-end

6 BUSINESS DAY, Monday, August 19 1991

THE WEEK AHEAD by William Richards

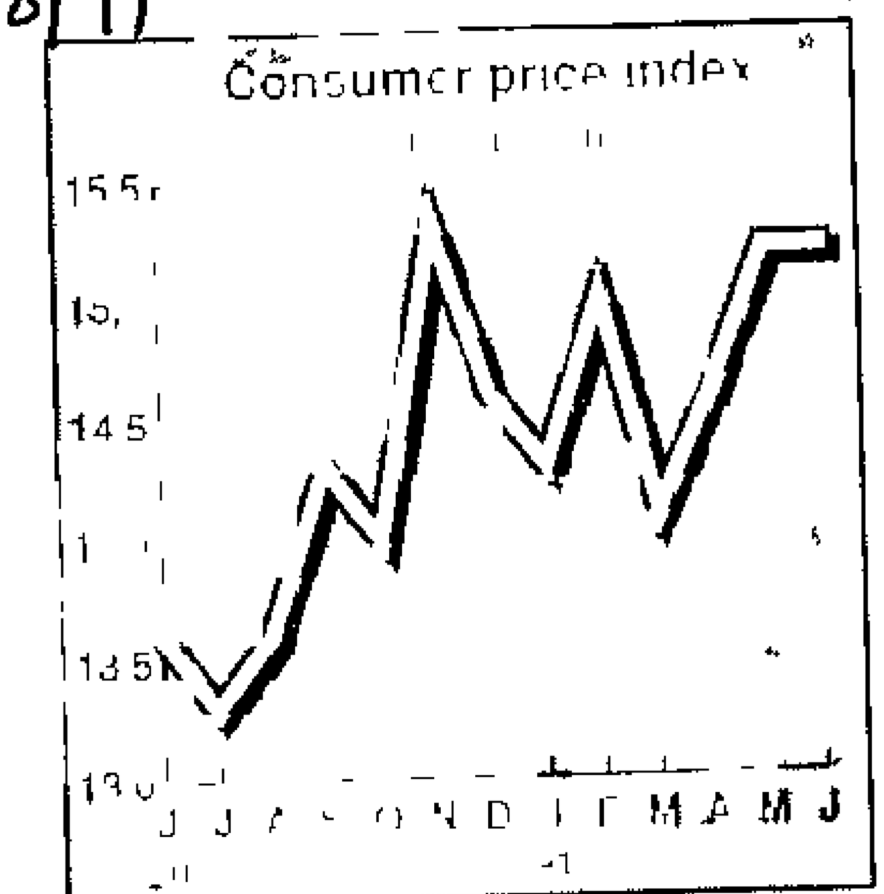
Inflation campaign falters

B/Day 19/8/91 (153)

THE July consumer price index (CPI) figures should show this week that not much progress was made last month in the campaign to slow SA inflation When the level of the July CPI is released, probably tomorrow, an appreciable difference from June's year-on-year increase of 15,2% is unlikely.

Evidence that SA consumer price inflation is, for the time being, becalmed at levels straddling 15% has overwhelmed the financial markets recently Producer price inflation, while showing an overall slowdown between January and May, owed its decline to lower levels of imported inflation by courtesy of the strong real trade-weighted rand The PPI data showed steady levels of domestically generated inflation — until last week's shock June PPI figures, which showed a sharp rise in home-grown producer price inflation

An attitude approaching desperation on the part of the authorities has been perceptible recently in some of the official responses to the stubbornly high inflation rate As if conceding that the present policy mix on its own cannot turn the tide of price rises, government is turning to the Competition Board and the Board of Trade and Industry (BTI) to add muscle to the anti-inflationary effort



Graphic FIONA KRISCH Source CSS

The Competition Board has been prodded into action, having brought no prosecutions to court under the tough Maintenance and Promotion of Competition Act for five years The board is conscious that it needs to bring a case, mainly to generate publicity and thereby deterring restrictive practices

The BTI, meanwhile, has been stung into probing the entire food-price chain by the recent run of startling price rises

SA's other grim series of statistics — those detailing the monetary aggregates — are also due out this week, probably on Thursday The year-on-year rate of growth in the broad M3 aggregate targeted by the Reserve Bank has edged down recently to the 14,7% rate posted in the year to June The July year-on-year figure may show a further drop, but the rate growth relative to the Bank's 1991 guideline range for the aggregate is likely to remain far too high

The Bank's 8%-12% guideline range for M3 for calendar 1991 refers not to the year-on-year rate that stood at 14,7% in June, but to the rate of growth based on the fourth quarter of 1990 The June level of M3 growth by this measure was 18,4% — well above the 12% ceiling specified by the authorities

SA's July trade figures failed to emerge last week, and so should be released early this week, showing an improvement on the June surplus of R1,1bn

Inflation likely to benefit from latest moves

Citizen 22/5/91

ANDREW GILL and SHARON WOOD

YESTERDAY's move to cut VAT to 10% and increase the petrol price by 13c was the lesser evil for inflation when compared with the original intention of introducing the tax at 12%, economists said

Inflationary pressures would be softened by the two percentage point cut in the VAT rate, Bankorp economist Nick Barnardt said, but would be negated, to a large extent, by the petrol increase.

The petrol hike would probably result in a modest temporary rise in the inflation rate, but should be regarded as a positive move in the fight against inflation, he said

He warned that the knock-on effects of the petrol price hike could not be ignored The effects of last November's petrol price hike were felt early this year and were higher than expected

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The new 10% VAT rate would have a positive impact on economic conditions If VAT had been introduced at 12% it would have hit consumer spending, which was supporting the economy earlier this year.

Also, it would lessen the potential for "dangerous" wage hikes next year by curbing inflationary expectations.

Standard Bank chief economist Nico Czypionka said it was difficult to predict the overall effect on inflation of the reduction in VAT and the petrol price hike.

But the reduction to 10% in VAT could have a positive effect on inflation, which had been expected to rise by two percentage points had VAT been implemented at 12%

In particular, it would reduce inflationary expectations "It will make the task of the Reserve Bank easier and the chances of an earlier reduction in interest rates are enhanced," he said

The 13c hike in the petrol price and the higher excise taxes on alcohol and petrol effectively shifted the burden to the middle and upper income groups

But the lower income groups would still be affected by VAT on foodstuffs.

Sacob chief economist Ben van Rensburg said the fuel price hike would have an unavoidable influence on the rate of inflation but the effect should be reduced by the lowering of VAT to 10%

Lower VAT rate of some benefit

153 2280

Star 23/8/91

By Sven Lünsche

The Government's decision to lower the rate at which VAT will be introduced from 12 to 10 percent has been described as correct, given the political opposition building up against it

Its impact on key economic variables is more difficult to assess

Economists canvassed yesterday seemed to agree that VAT at the lower rate would have a significant impact on the inflation rate, interest rates and government borrowings

While the cut had been somewhat offset by the rise in the petrol price, on balance the new rate would be a lesser evil for inflation

Consumer

Dr Azar Jammine, director of the Econometrix research institute, said the inflation rate could rise by a one-off one percentage point if VAT was introduced at 10 percent, against a three percentage points rise if VAT had been at 12 percent

Under the current GST system 45 percent of consumer goods are taxed at 13 percent

With VAT, the rate at which these goods are taxed will fall to 10 percent, but this will be offset by the introduction of another 35 percent of consumer goods into the VAT net

The 13c-per-litre rise in the petrol price will undoubtedly have a ripple effect on other consumer prices, as will excise duties on cars, tobacco products, liquor and TV sets

However, the impact of the higher fuel price and the levy will be to raise the Consumer Price Index (CPI) by no more than 0,5 percent, thus still leaving a net effect of about one percent lower inflation in October.

More importantly, though, is the impact of the lower VAT rate on inflationary expectations

"In so doing, demands from organised labour for wage increases to compensate for the impact of VAT on income will be tempered, as will any excuse business might have to raise prices inordinately," Dr Jammine said.

"As a result, the final inflationary impact of VAT at 10 percent should be reduced somewhat, compared with what it might otherwise have been"

Not all economists agree, though

Tom Hood reports from Cape Town that Dr Ockie Stuart, director of the Stellenbosch Bureau for Economic Research, says the higher fuel price will largely offset the lower VAT rate

The increased petrol price will soon add 0,5 percent to the CPI, but in the longer term the impact on inflation will be much more than that, he says

"VAT at 10 percent will still add about one percent to inflation and we are back at a forecast rise in the CPI of two percent in October," Dr Stuart says

Yield

Turning to government revenue, Finance Minister Barend du Plessis calculated on Wednesday that a VAT rate of 13,3 percent would yield the same revenue as GST

The reduction in the VAT rate will thus result in an estimated loss of revenue in the current fiscal year of R1,35 billion, with only an additional R890 million flowing to the Government from the fuel levy (R630 million) and excise duties (R260 million).

The difference of R460 million will thus have to be raised through borrowings, which is likely to expand the deficit before borrowing from 3,4 percent to 3,8 percent in the current fiscal year.

The need to raise additional funds, coupled with the impact of the petrol-price hike, could well impair prospects of a reduction in interest rates this year, Dr Jammine says

Recession hits even harder

AG 24/8/91

153

DAVID CUMMING
Weekend Argus Correspondent

THE squeeze on consumers is getting tighter.

Nedfin Bank reported this week that the growth in hire purchase and leasing credit granted by banks plunged by 87,6 percent in the June quarter compared with the March quarter.

The bank says that for the year to June the HP and leasing markets grew by only 11,8percent compared with 19,4 percent for the year to March

Commenting on the figures, Nedfin chief executive Christopher Beatty says while a decline was not unexpected, the magnitude of the drop came as a surprise.

"The slowdown can, in the main, be attributed to the cutback in companies' capital expenditure which should continue until VAT is introduced

Aspects such as tax legislation, changes with regard to car allowances, low levels of confidence in the business sector and the general recessionary climate also played a role

"A combination of the introduction of VAT, lower interest rates, improving economic conditions and higher levels of business confidence could lead to significant credit demand in the second quarter of 1992"

Econometrix's Michiel Bester felt the figures also reflected the recessionary squeeze on consumers and more caution by banks and others concerning the granting of credit.

He said demand for consumer durables excluding cars had remained remarkably strong during last year and in the last quarter grew in real terms by 17,6percent

However, this was partially due to a rise in real incomes, particularly among lower paid workers

"Since then there has been increasing unemployment, wage awards have been lower and inflation has persisted at high levels. This has led to a great deal of pessimism among consumers, many of whom have found they are overextended.

"Hire purchase credit demand simply could not be maintained at the levels ruling last year in the current economic climate"

Economists send warning: 'Don't do it, Barend'

Selling off oil reserves will push inflation up

(153) ARG 24/8/91

CLAIRE GEBHARDT
Weekend Argus Correspondent

IF Barend du Plessis succumbs to the temptation to sell off more of South Africa's family jewels — its oil reserves — he will undermine the fight against inflation

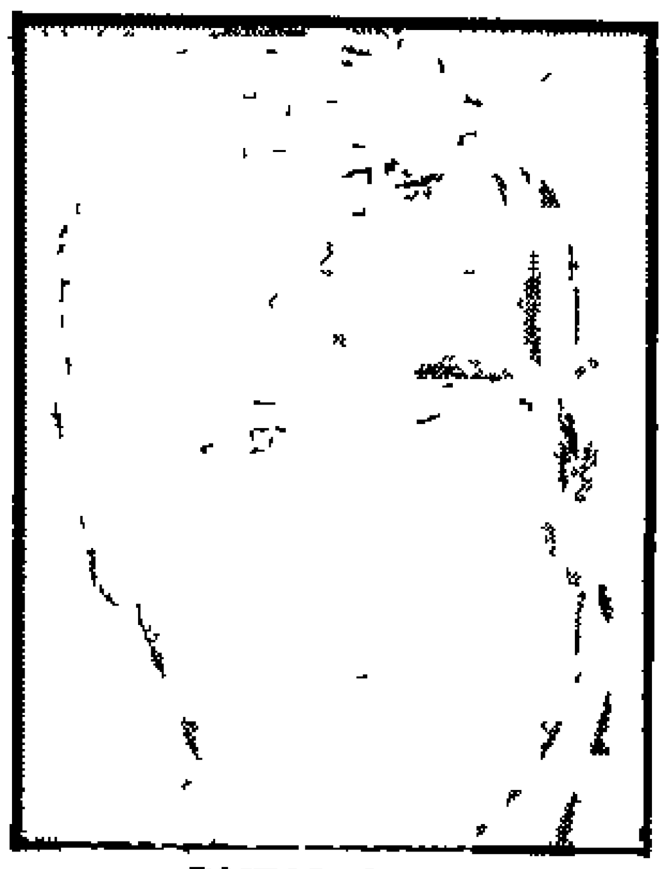
And that means interest rates will not drop for at least another six months — and, in fact, could stay high until after next year's Budget

Governor of the Reserve Bank, Dr Chris Stals, is said to be regretting his decision to lower bank rate by one percentage point in March this year, ahead of a Budget which has turned out to be substantially expansionary following the last-minute addition of funds for socio-economic upliftment

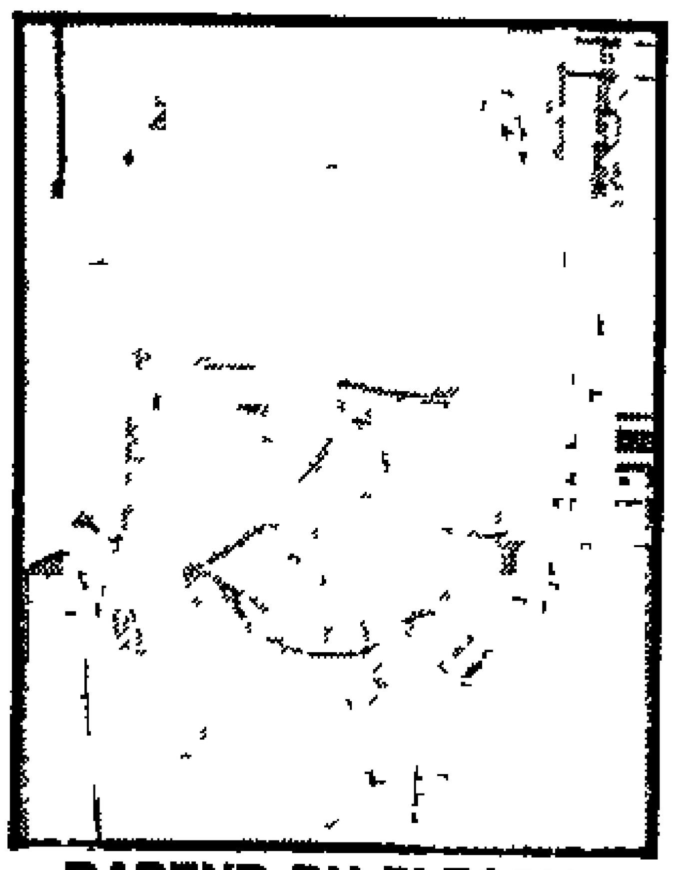
He was "conned," said one commentator, into believing that total expenditure would be held at R83billion but at the last minute, after the International Monetary Fund team visit, an extra R2billion was pumped in

This week's announcement by the Minister of Finance that more oil might be sold to make up some of the R1,5billion lost in reducing VAT to 10percent will likely strengthen Dr Stals's resolve not to cut bank rate prematurely, warn economists

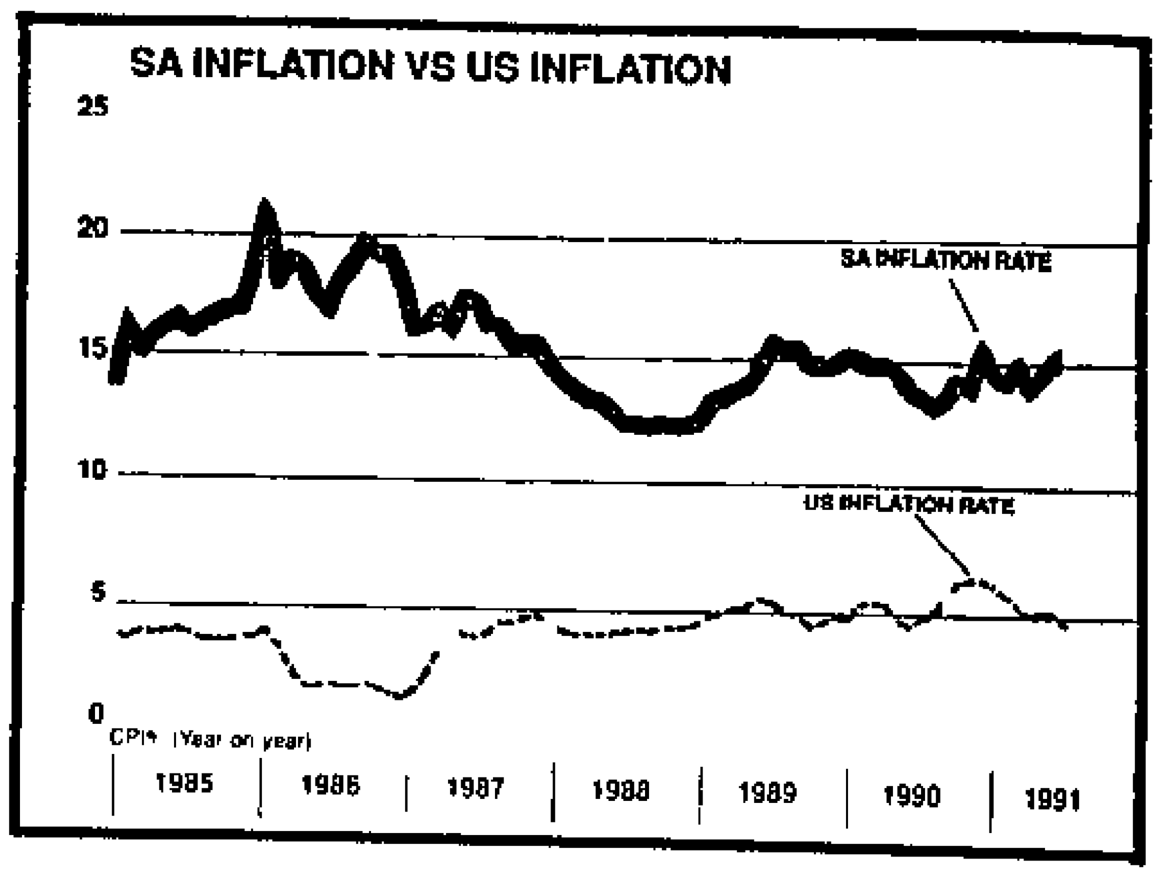
Mr du Plessis this week said higher fuel prices and excise duties would raise only R890million, and, keeping a wary eye on interest rates, more of the family silver might have to be sold



CHRIS STALS



BAREND DU PLESSIS



He noted that government hesitated to borrow this money on the capital markets because interest rates would be pushed up at a delicate stage of the business cycle "and in fact might kill the upswing"

But the Minister is splitting hairs, say economists, who warn that the resultant increased liquidity in the money market from such a sale will have a negative impact on money supply - which filters through into inflation

This will ensure that the Reserve Bank is forced to keeps its stringently tight monetary policy in place for much longer while stepping up its money market operations simply to keep interest rates at their present levels

From a purely monetary policy point of view, interest rates should at present be one percentage point higher, it is said

Already the IMF has criticised "the politically-inspired" decision, made in April this year, to raise R1billion from the sale of strategic stockpiles to finance social upliftment, labelling it a departure from sound long term economic strategy

Effectively, government is selling a non-permanent capital asset to finance consumption expenditure instead of using the funds for capital expenditure such as roads, pipelines or Mossgas

Reflecting concern in some quarters, Mr du Plessis said the R1billion already raised would shortly become available for the improvement of poor living conditions

But this, together with the additional expenditure arising from the Independent Development Trust's capital subsidy scheme, would give "a moderately expansionistic character to the Budget"

It would also further strengthen the rising tendency in expenditure by the general government during preceding quarters

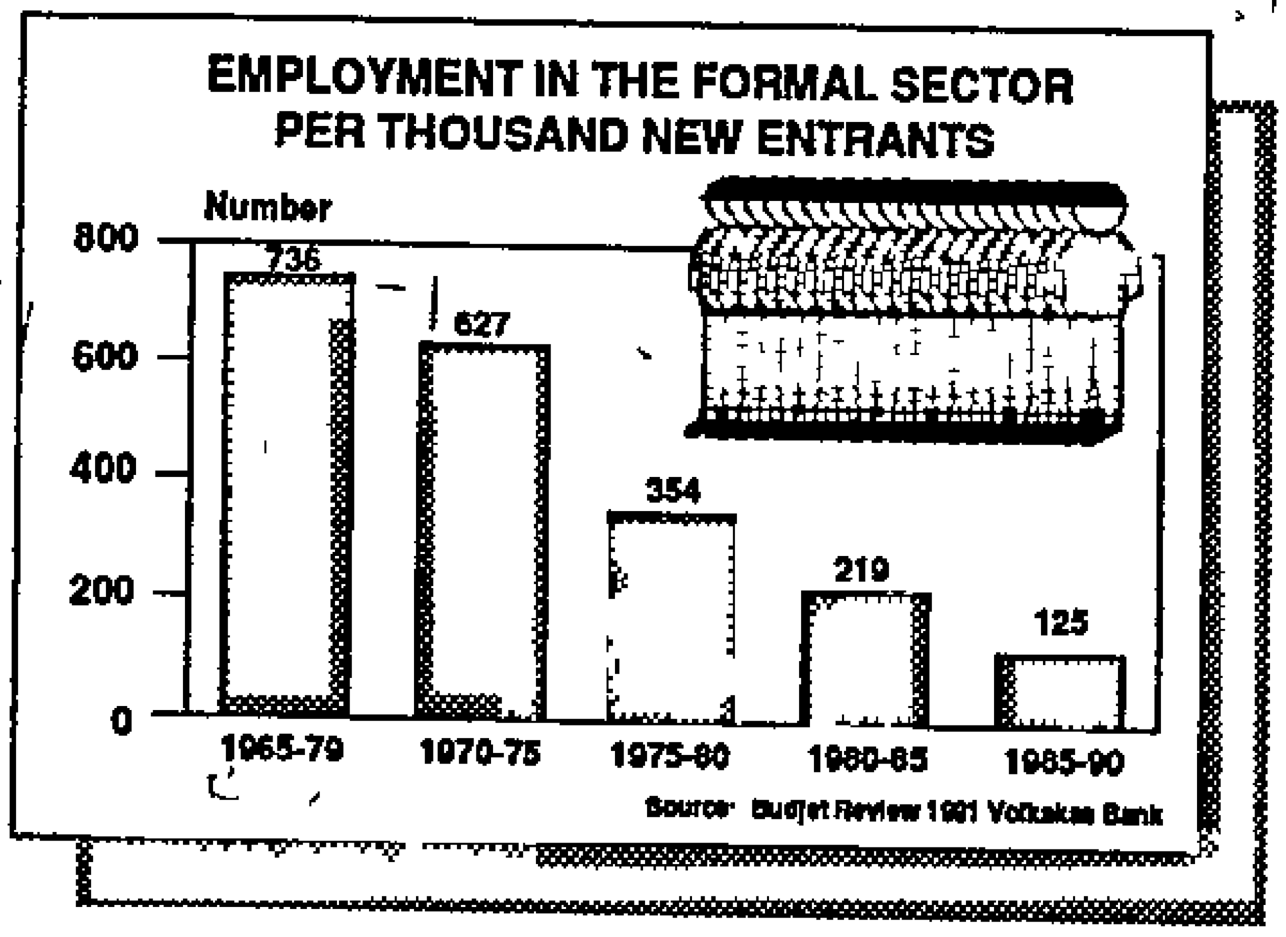
On the other hand, the developments would assist in lifting the economy out of its current condition of structural stagnation

Too early to ease curbs

StTimes (Bus|T) 153

25|8|91

Business Times Reporter



IT IS still too early to stimulate the domestic economy in spite of the strain in the business sector

Moves to stimulate domestic demand too early would be tantamount to "irresponsible management" of the economy, says Volkskas Bank's Economic Spotlight.

It suggests the authorities should wait for an upswing in the world economy, which is unlikely to be felt before mid-1992.

Volkskas says the poor business climate, the heavy underuse of production capacity and the fact that inflation is largely driven by cost-push factors suggest that an attempt could be made to stimulate growth by fiscal measures and a relaxation of monetary policy

Justifying its case for delaying action, the bank says SA's net foreign-currency reserves are still too low and an economic upswing brought about by increased domestic expenditure could not be maintained for long

Higher domestic expenditure eventually leads to increased imports, draining reserves and leading to poorer exchange rates

It would also increase inflation annd reduce foreign confidence in SA's ability to meet international liabilities on time

Impulses

"Foreign institutions are watching the performance and management of the country most intently"

An upswing in world economies, however, would lead to higher exports and strengthened reserves

"This would transmit growth impulses to domestic demand In the interim, South Africans could fruitfully give preference to buying SA goods and services which compare favourably with imported goods and services in terms of price and quality

"In the long term this approach will deliver the best economic results, and only then will SA be able to rely on an inflow of capital and investment from abroad"

Stagflation, which has reduced personal prosperity and hit the formal sector's ability to absorb entrants to the labour market, was partly due to external factors like sanctions and low world prices for export commodities But South Africans have not always acted correctly

"They will have to learn to live within their means to protect and expand their fixed and financial asset positions and to accept remuneration packages that bear a relation to the contribution to production"

Volkskas says it appears the lower turning point of economic cycle will be reached later this year Domestic demand and the growth rate could still decline this year, but slightly better business conditions can be expected next year

THE WEEK AHEAD by William Richards

Time for others to worry about inflation

B Day 26/8/91

153

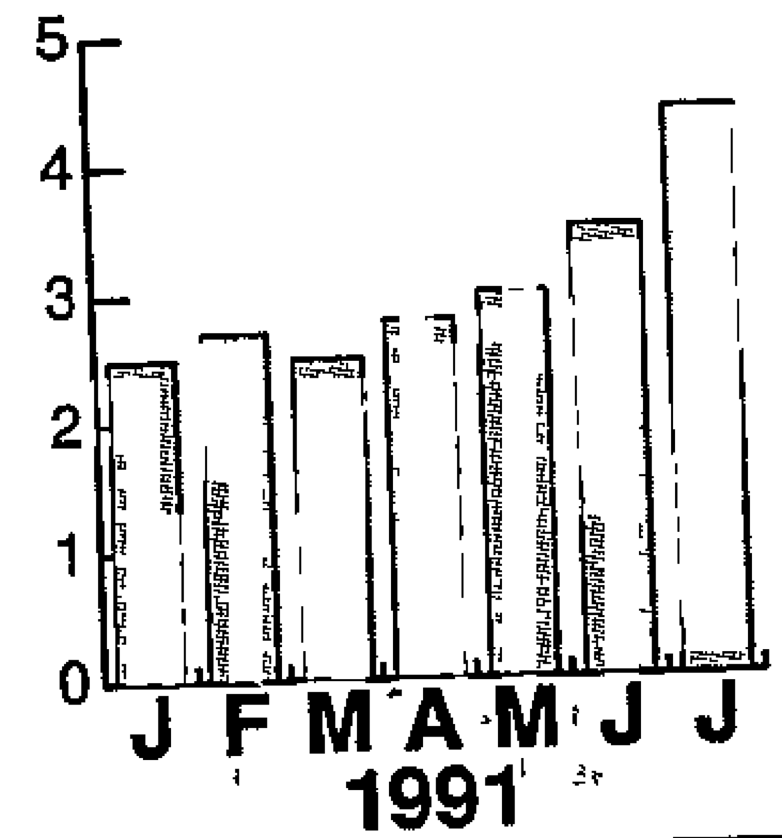
NOTHING on this week's economic calendar has the capability of last week's bizarre events in Moscow to alter market perceptions radically and then, within hours, restore them as though nothing had happened in the first place For emotionally drained market players, it's back to the comforting mundaneness of wondering about international inflation and the US economic recovery over the next few days

One of the week's earliest releases is likely to be SA's July inflation rate, delayed from last week to a release date unusually late in the month On the local financial scene, too, there were such radical policy changes last week that interest in what the rate of inflation was several weeks ago has been overtaken by events already For the record, though, the inflation rate in July is likely to be little-changed from June's 15,2%

Then it is the turn of several other major countries to worry about their own inflationary inclinations The Swiss inflation rate for July is due to be released today or tomorrow, and will be anxiously watched by a government unaccustomed to having inflation as a problem But, at 6,6% in the year to June, a problem it is — at least, by Swiss standards. The Berne authorities feel that 6,6% is the peak but they said that when the rate was 5,9% two months ago The latest German inflation rate is due out

German cost of living

% annual % change



Graphic LEE EMERTON Source FNB

tomorrow or on Wednesday and is also at problem levels The July rate was 4,4% — the highest in a decade, and one of the main reasons German interest rates were raised earlier this month. The rate in August is unlikely to be much different

The rate of inflation in Japan is another causing domestic concern It stood at 3,6% in the year to June and is set to rise when the July figure is released on Friday An outturn of up to 4% is probable and seems sure to be a cause of anxiety in another country with a low-inflation tradition A country with a recent history of stubborn inflation is Australia, but the Aussies can currently laugh at the Swiss, the Germans and the Japanese the latest inflation rate Down Under is an astonishing 3,4%

Now that the Soviet president's recovery from his nasty bout of "ill health" seems assured, the markets' attention will turn to the other topical superpower recovery — that of the US from recession. Fresh data on the US economic recovery emerge on Wednesday in the form of the first revision to the latest figure for US economic growth The preliminary figure gave a second quarter growth rate of 0,4% confirming that the US recession lasted for only two calender quarters. The dollar's fortunes depend on this figure changing little on Wednesday

Today is a public holiday in the UK, giving London markets a quiet start to the week Frankfurt, by contrast, holds a media event of some economic significance tomorrow when the new president of the Bundesbank, Germany's central bank, is officially inaugurated Helmut Schlesinger has been in office for almost a month already and lost no time in stamping his authority on the Bundesbank by pushing for the rise in German interest rates in mid-month

Tomorrow's inauguration brings Schlesinger, his predecessor Karl Otto Poehl and Chancellor Helmut Kohl onto the same platform Now that the situation in Moscow has re-crystallised, these three figures can be assured of close attention when they speak on the German economy, on European economic and political union and on pan-European economic development

Inflation dampens hopes of trade boom

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By Michael Chester Star 29/8/91

The export bonanza promised by the collapse of sanctions is being threatened by the sky-high price tags on many products aimed at overseas markets

New studies by the South African Chamber of Business (Sacob) reveal that the prices of South African goods may be as much as 25 percent higher than those of rivals in key markets

A report has cooled optimism that an automatic bonanza in foreign trade would follow removal of sanctions

Sacob lays the blame on high inflation, high interest rates, high capital costs, high taxation — and low productivity.

The scale of price disadvantages has been worked out by a team headed by the chairman of the Sacob industrial policy committee, Paul Hatty, and Sacob economist Keith Lockwood.

They show that the average selling price of manufactured products are running 15 percent higher than the global average of industrial nations even as they leave the production lines.

Because of relative geographic isolation, selling prices are loaded with another 10 percent burden by high transport costs before they arrive at many key overseas markets.

"Businessmen and politicians have been inclined to take the view that South Africa would be able to shake off all its economic ailments by an automatic surge in export income once sanctions were withdrawn," said Mr Hatty.

"They may have grossly underestimated the fierceness of the competition that has developed on overseas markets"

● Tough battle for trade — Page 23

goods will be affected.
A prediction that the rand will weaken against the dollar would indicate

with excessive debt will not be significant
● **Private consumption expenditure (PCE).**

are aware that the different sectors of the JSE are affected by varying CPI rates

a company, the analyst has a solid foundation to start predicting future performance

VAT cut could help to curb inflation

153 Star 27/8/91

Finance Staff

The tax adjustments announced last week by the Minister of Finance could result in the consumer price index rising less in the short term than would otherwise have been the case, says Sanlam's chief economist, Johan Louw.

"As far as the switch from GST to VAT is concerned, the envisaged recomposition of the consumer price index makes it very difficult to determine the net effect of this change At this stage, we think it should bring about only a small once-off increase in the inflation rate."

Mr Louw adds. "The higher petrol price and excise duties, on the other hand, are expected to cause this rate to rise further by an estimated 0,7 percent percentage point in September (The forward and backward linkage effect could push the inflation rate still higher in time)

"All in all, we foresee that the inflation rate (after the tax adjustments) will be just over 14 percent by the end of the year For 1991 as a whole, we estimate a figure of between 14,5 percent and 15 percent This could decline to an average rate of about 13 percent in 1992," Mr Louw says.

Meanwhile it is reported that the knock-on effect of the VAT rate reduction will cost business millions

Particularly affected are retailers, and Woolworth's financial director Mr Ray Schur said yesterday it was unfair of the government to spring the change with such little time left.

"While we are absolutely delighted from the consumer point of view we have less than six weeks to do what we have just spent the last six to nine months doing," he said

"We have already spent a great deal of money on the transition and it will cost a great deal more to adjust to the 10 percent rate," Mr Schur said

Pick 'n Pay chairman Raymond Ackerman said he was "jubilant" because the new rate was in line with what he had originally called for

He said the re-adjustment would cost the company up to R500 000.

"We are going to have to renegotiate with every single supplier around the country Our buyers are going to have to work around the clock and it is going to be a hell of a job," Mr Ackerman said

Checkers managing director Mr Sergio Martinengo said the the switch would probably cost the company R250 000

High rates of interest to remain, warns Stals

Star 28/8/91

By Derek Tommey

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The Governor of the Reserve Bank, Dr Chris Stals, is determined to maintain tight money policies — which means a continuation of high interest rates — until there is an easing up of inflation in the country.

Dr Stals has recently been under heavy pressure from business and even, it is suggested, the Government, to ease interest rates

But in a hard-hitting speech at the annual meeting of the Reserve Bank in Pretoria yesterday, Dr Stals justified his restrictive monetary policy and warned any changes could lead to long-term economic deterioration

He said price stability would create a stable financial environment which would provide a solid foundation for sustained growth

There would be serious costs if inflation were not reduced

Inflation

Continued high inflation, he added, resulted in

- An inequitable distribution of wealth, making the poor poorer and the rich richer.
- An inefficient allocation of resources; they were no longer allocated according to costs of production or the real needs of the people.
- Price, spending and wage expectations that had far-reaching adverse effects for the country's long-term growth

Dr Stals also expressed concern at Government spending

In a part of his speech which he did not read out at the meeting, Dr Stals said heavy spending by the Government at a time when revenue was seasonally low had resulted in the Government going into debt in the first four months of the year by R5,6 billion

This was 55 percent of the total budgeted deficit for the 12 months ending in March next year.

● Stals resists pressure — Page 24

Stals resists pressure to bring down rates

Star 28/8/91 (153)

By Derek Tommey

In spite of what appears considerable pressure from business and possibly the Government, Dr Chris Stals, Governor of the Reserve Bank, has no intention of easing money supply and lowering interest rates to stimulate the economy at the present time.

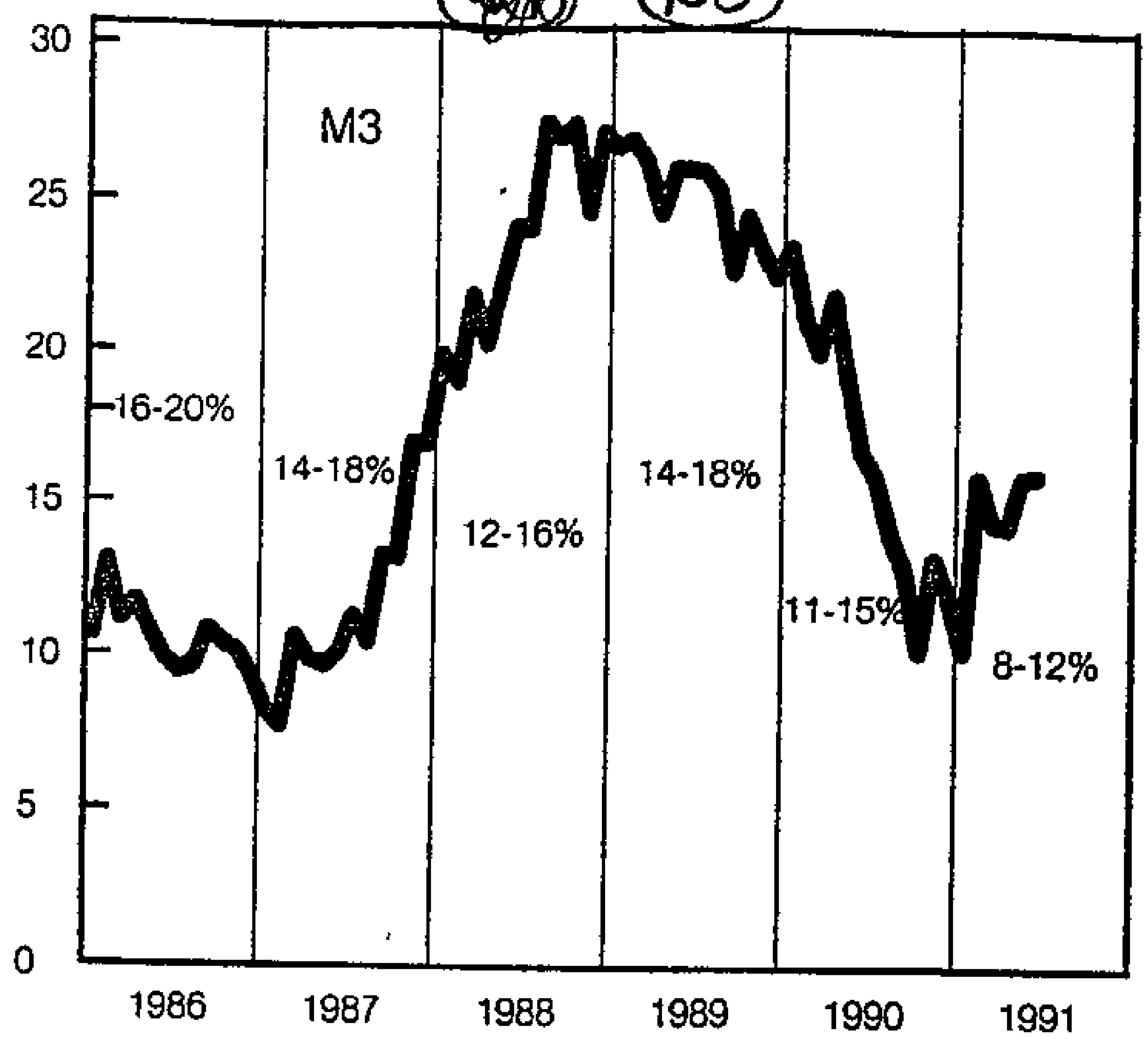
He made it clear in a pugnacious speech at the annual meeting of the Reserve Bank in Pretoria yesterday that fighting inflation was his first priority

Defending his monetary policy, he said that South Africa had no alternative but to persist in its fight against inflation.

This was the only way to restore sustainable high economic growth and achieve lasting higher standards of living for all people.

A move to easier money in the present circumstances would have the same result as injecting an athlete with anabolic steriods.

"He may deliver a good performance in the coming event, but the stimulant will eventually destroy his system."



Money supply . . . guidelines for growth in M3 (percentage change over 12 months).

Inflation had remained stubbornly high and financial discipline must be maintained, he said

There was ample evidence that South Africa was still suffering from the double-digit inflation it had experienced for almost two decades

It was not surprising that it had become so difficult to break out of this vicious circle

Without sufficient restraint, there was a high risk of losing the hard-won progress made towards achieving an acceptable level.

But curbing inflation was not the only reason for maintaining a restrictive monetary policy

It was necessary to maintain a cautious attitude towards the balance of payments, he said Although this had improved, a number of factors had to be taken into account

The recent strength in the balance of payments was based mainly on an inflow of short-term capital that could easily be reversed

The present level of gold and foreign exchange reserves, though at their highest for six years, were still insufficient to cover two months' imports.

The low level of inventories and the pressing need for new fixed investment may force imports to rise sharply, and South Africa still did not have access to IMF facilities amd World Bank loans

Dr Stals said the Reserve Bank must also be careful not to relax exchange controls too soon

It would be to South Africa's advantage to relax the existing controls on non-residents But doing so at this stage would be premature

However, Dr Stals saw some reasons for hoping the economy would start to recover.

Domestic demand was already being stimulated by rising public sector expenditure. The reduction in the rate of VAT would provide further stimulus, which should contribute towards a revival in private sector demand and also in fixed investment.

These signs of a possible economic recovery were to be welcomed, he said.

South Africa desperately needed economic growth. But it must be sustainable and benefit all people — and this could not be achieved by the artificial creation of more money.

It's not yet time to abandon the battle against inflation

B/Day 28/8/91. **CHRIS STALS** (153)

AFTER two-and-a-half-years of recession the economy is now reasonably well placed for a new upswing. Although recent trends indicate a deepening of the recession in the first half of 1991, some developments nevertheless signal a bottoming out or even a new upturn in economic activities in the near future:

☐ The leading indicator of the business cycle calculated by the Reserve Bank moved upwards for successive months from January to April 1991;

☐ The sharp increases in public sector current expenditure since the third quarter of 1990 provide some stimulus to overall demand;

☐ The switch from GST to VAT on September 30, on the basis announced by the Minister of Finance last week, presents a stimulatory fiscal package which should encourage both consumer and new capital investment expenditure;

☐ The further improvement in the overall balance of payments position and the recent rise in the foreign reserves provide some cushion for future increases in imports; and

☐ The lifting of sanctions by many countries holds the promise of further increases in exports, and possibly for some new capital inflows.

There are, unfortunately, also certain weaknesses that may constrain the upswing. Firstly, the continuing high inflation rate does not justify any early relaxation in monetary policy. Secondly, until recently real wage and salary increases still outpaced productivity increases and continued to exert upward pressure on the total unit costs of production. Third, there remain many uncertainties surrounding the political situation. SA's relations with the IMF and World Bank, for example, have not yet been normalised.

In these circumstances, the chances of an early new economic upswing are improving but the recovery may, at least in this initial stage, turn out to be relatively mild.

The inflation rate has remained stubbornly high, and at this stage financial disciplines applied thus far must be maintained. Without sufficient restraint there is a risk of losing the hard-won progress already made. The country cannot afford to rest content with a battle half won.

The pursuance of greater price stability is not, as some critics say, in conflict with the overriding objective to promote maximum economic development. On the contrary, the purpose of a disciplined monetary policy is to create a stable financial environment which will provide a solid foundation necessary for sustained growth and prosperity.

It is often argued that the social and political costs of achieving a low rate of inflation may be too high a price to pay for SA in its present situation. There are obviously costs involved in any fight against inflation, especially in the short term, but there will also be serious costs involved if inflation is not reduced.

The many disadvantages of a continuous high rate of inflation cannot be over emphasised:

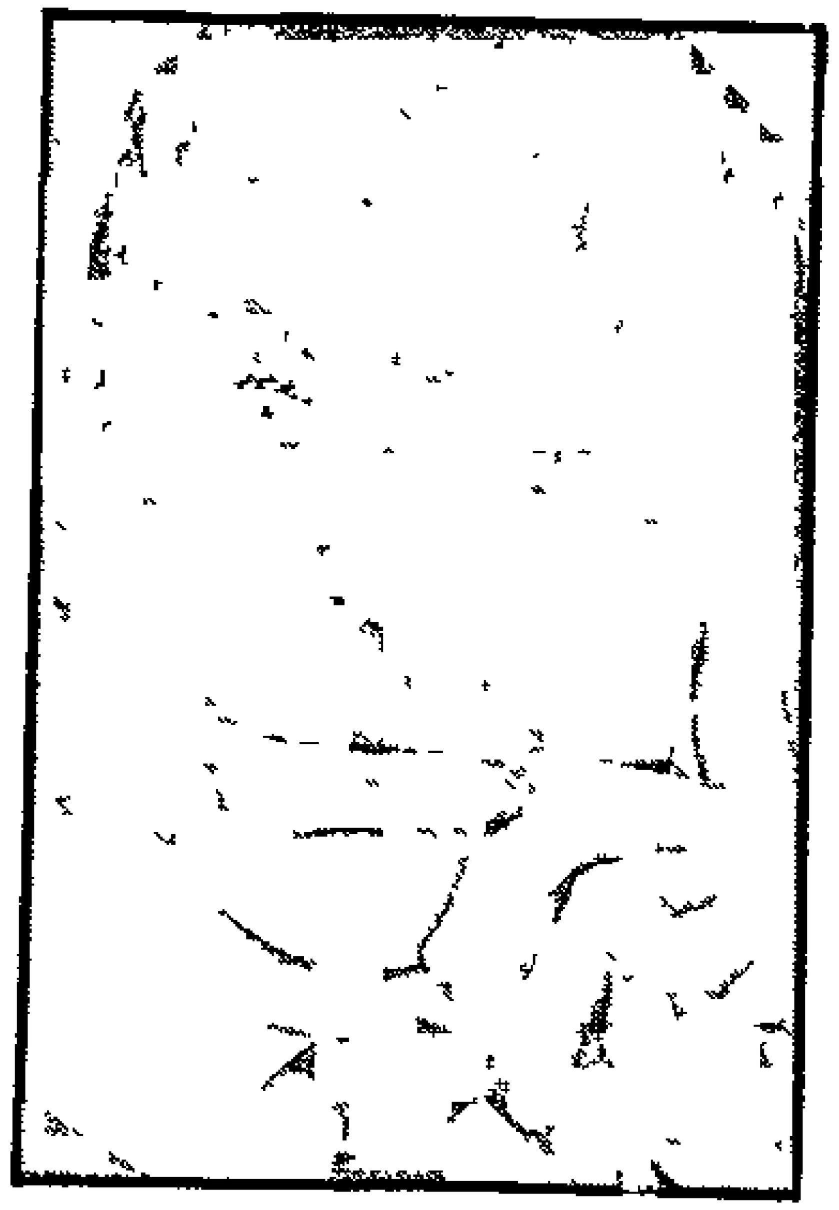
☐ An arbitrary and inequitable redistribution of income and wealth. It favours those who can protect themselves against rising costs. It makes the poor poorer, and the rich richer;

☐ An inefficient allocation of resources; and

☐ The creation of tenacious expectations built into price-settings, spending decisions and wage determinations with far-reaching adverse effects for long-term economic growth potential.

There is ample evidence that SA is already suffering from all the deleterious effects of inflation which has now been running at double digit levels for almost two decades. Monetary policy must remain restrictive, and a restrictive monetary policy inevitably entails relatively high interest rates.

The Reserve Bank is often accused of maliciously keeping interest rates at an unreasonably high level. Positive real rates of interest must be maintained, not only because of the need for a disciplined and ceaseless attack against inflation, but also because of the need to restructure the overall economy of SA.



☐ STALS

Realistic interest rates will encourage savings, provide an incentive for the more productive use of capital, act as a catalyst in the restructuring of production structures to alleviate growing unemployment, while recognising the relative scarcity of available funds needed for the financing of development. It is an oversimplification to insinuate that because high interest rates did not reduce inflation over the past few years, interest rates should now be reduced by injecting even more money into the system.

Some old truths can be repeated again with justification. The fight against inflation cannot be won by monetary policy alone. Support is needed from a disciplined fiscal policy, realistic wage and salary adjustments, and efficient and well-functioning markets.

In conclusion, there is reason for some satisfaction with the further improvement in the underlying financial situation over the past year. It is disappointing and frustrating, however, that the domestic rate of inflation remained relatively high. On the other hand, the underlying inflationary pressures at last abated. This was reflected in the lower rates of increase in the money supply and bank credit extension. The encouraging increase in the gold and foreign exchange reserves, the relative stability of the exchange rate of the rand contributed towards improving the financial conditions needed for a renewed economic upswing.

Real economic activities remained depressed. A new upswing may prove to be only mild, unless some additional extraneous stimulation is provided. It will, however, not be prudent to introduce such a stimulus through a premature relaxation of monetary policy.

This does not mean that economic recovery will have to be delayed until there is scope again for a relaxation in monetary policy. The SA economy is not now suffering from excess demand. Some stimulus, preferably from external sources and provided it is of the right kind, will not be out of place at this stage.

There is much evidence of a growing interest in SA by foreign traders, bankers and long-term investors. The balance of payments presents the most preferred route to a new expansionary phase. It is in our interests to entice foreign participation in the economy through the application of sound monetary and fiscal policies.

Domestic demand is already being stimulated by rising public sector expenditure. The announcement that VAT will be introduced at a rate of only 10% provides further fiscal stimulus that should contribute towards a revival in private sector consumer demand, and also in fixed investment.

At this stage, it is important not to overstimulate the economy, taking account of the vulnerability of the balance of payments and the remaining cost-push inflationary pressures. Measures can be taken to stimulate real demand, but they should not cause the money supply to increase again at an excessive rate.

The signs of a possible economic recovery in the near future are to be welcomed. SA desperately needs economic growth, but it must be growth that will be sustainable and that will benefit all the people of the country. It must therefore still remain the first objective of the Reserve Bank to strive for greater financial stability.

☐ **This is an edited extract from Governor Stals's address to the Reserve Bank AGM yesterday.**

Inflation roars on and could even get worse

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Star 29/8/91

By David Canning

DURBAN — The rise in year-on-year inflation to nearly 16 percent in July is regarded by some economists as further proof that inflation will continue to defy official efforts to lower it to single digits

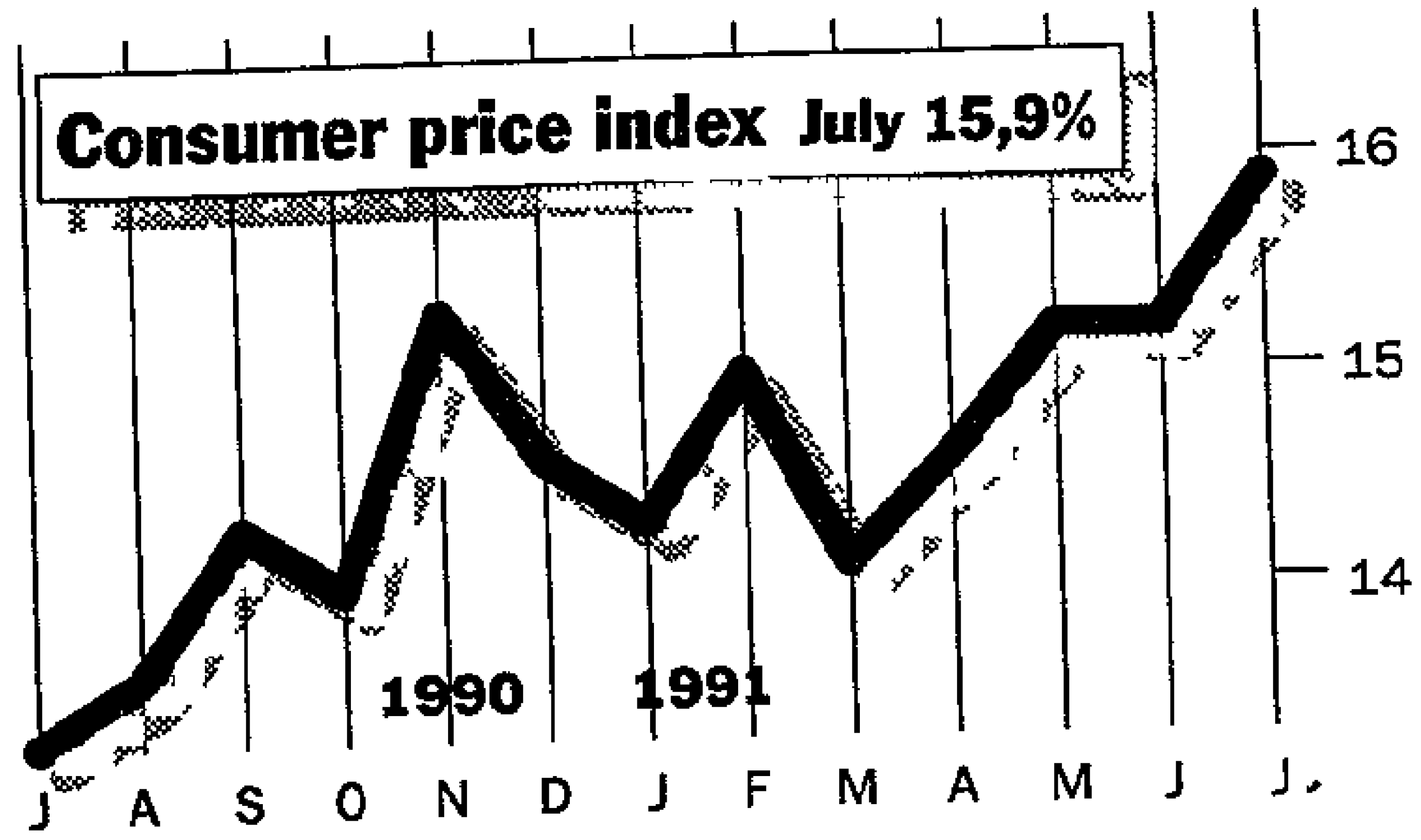
In fact, they believe the rate has bottomed and that the Consumer Price Index (CPI) will record a higher average in 1992 because of continuing structural problems in the economy.

It was disclosed yesterday that the inflation rate was continuing to rise disturbingly, with the year-on-year rate for July reaching 15,9 percent, against June's 15,2 percent

The Central Statistical Service said that on a monthly basis the all-items Consumer Price Index rose by 1,2 percent in July after a 0,7 percent rise in June

The "food only" index rose to 17,2 (16,8) percent.

Tony Twine of Econometrix attributes high inflation not only to the rate of money supply growth, which exceeds official targets, but to structural impediments in the economy.



These are here to stay for the foreseeable future, even if the Reserve Bank succeeds in bringing the money supply growth rate under its upper target levels, he says.

He says money supply growth is higher than desired, even accounting for the distortion created by institutional intermediation caused by changes in banking legislation.

Very high government spending — first-quarter spending was up 28 percent — and high wage increases are among the factors keeping inflation up.

Mr Twine believes that VAT, to be introduced on September 30, could add another 2,5 to three percent to the inflation rate.

Reserve Bank Governor Dr Chris Stals, in a TV interview this week, cited two major reasons for the continuing resilience of inflation to various anti-inflationary measures

These were continuing inflationary expectations themselves — following virtually 20 years of double-digit inflation — and inflation-linked salary and wage increases, which pay no regard to productivity and push up the unit costs of products

He rejected any idea of formal indexation, saying this would only entrench the problem

He said that a loose kind of indexation already occurred in many areas of wage and price increases

Dr Stals said that unfortunately adverse news about VAT tended to be taken up front, as in its impact on consumers

Its advantages, such as the deflationary impact of the exemption on capital goods, would take time to work through the system

The July year-on-year CPI for the lower-income group rose to 15,9 (15,2) percent

For the middle-income group it was 16,5 (15,7) percent

For the higher-income group it was 15,8 (15) percent

SA losing fight against inflation

Star 29/8/91.

By Magnus Heystek
Finance Editor

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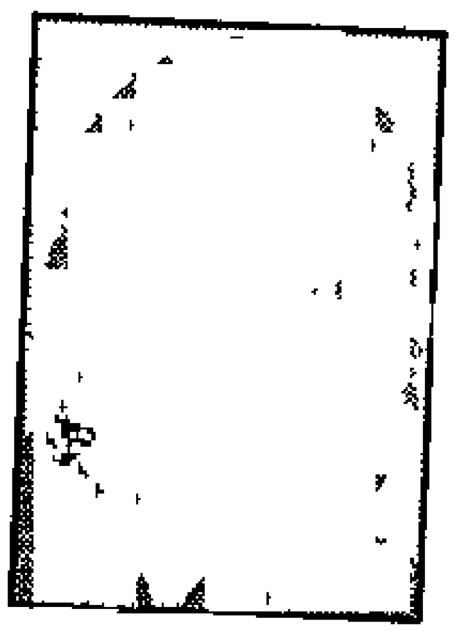
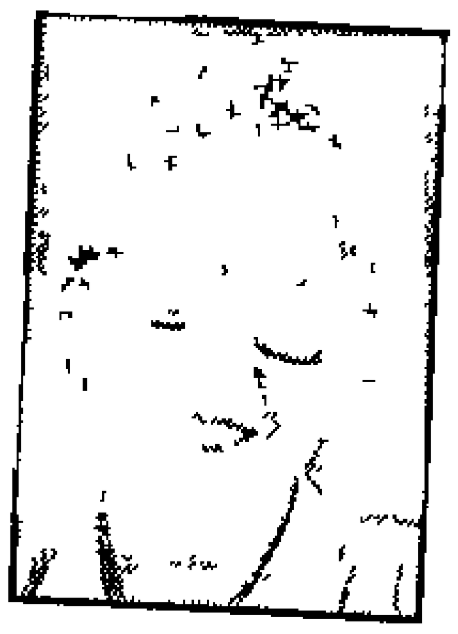
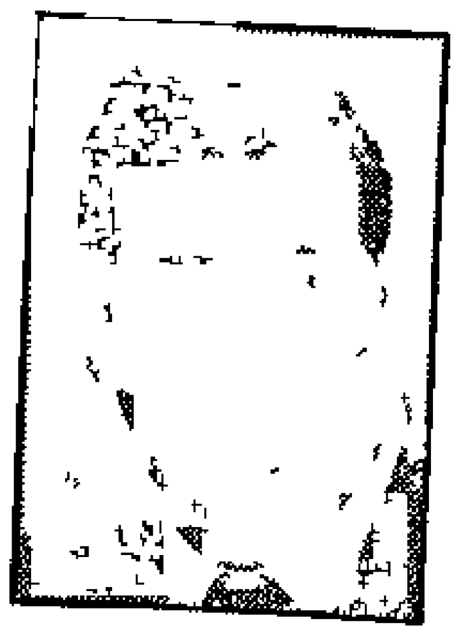

Tony Twine


Lyn Morris


Chris Stals

The country is losing the fight against inflation

This is the consensus among economists after news yesterday that the consumer price index (CPI) rose to a four-year high of 15,9 percent last month

The release of the much-delayed CPI figures by the Central Statistical Services yesterday dashed all hopes that SA's inflation rate was on its way down.

Economists now expect the introduction of VAT in October plus the impact of the increased fuel price will add between 2 and 3 percent to the present rate

A reduction in interest rates this year now seems unlikely and there could even be higher rates

"After 29 months of recession, South Africa has not managed to reduce the inflation rate by strict monetary policies," said Mike Brown, economist at stockbroking firm Frankel, Max Pollak Vinderine

He said other methods would have to be found to bring inflation down

The high level of Government spending — which is already 28 percent up on last year's figures — is cited as one of the major reasons for the upwards trend in the inflation rate

Tony Twine of Econometrix attributes high inflation to the rate of money supply growth and structural impediments in the economy

VAT would increase the inflation rate

Paula Fray reports that Housewives League president Lyn Morris is not surprised that inflation has continued to climb

The "food only" index rose to 17,2 percent in July.

"The point is, why is food still going up?" Mrs Morris asked She still believed "someone in the middle is profiteering"

Inflation had been in double figures since 1974.

Black Housewives League president Sally Motlana warned "Black people are going to starve It's bad now and it's going to get worse.

"Without a job, there is no way parents can feed their children, let alone feed themselves"

Reserve Bank Governor Dr Chris Stals, in a TV interview this week, cited two major reasons for the continuing resilience of inflation

These were continuing inflationary expectations themselves — following virtually 20 years of double-digit inflation — and inflation-linked salary and wage increases, which paid no regard to productivity

This pushed up the unit costs of products.

Govt revenue hit by declining taxes

(153)

B Day 29/8/91

GRETA STEYN

THE deep recession has taken its toll on government revenue with personal income tax and company taxes lagging far behind budgeted estimates

The sluggish revenue has caused concern in official circles, with Reserve Bank Governor Chris Stals describing the revenue trend as "alarming"

An analysis by Bankorp economist Emile van Zyl shows the increase in revenue from company taxes, non-gold mines and individuals was only 2,5% for the period April to June This falls far short of the budgeted increase of 19,3%

"Revenue from these categories would have to increase by 22,8% for the rest of the fiscal year to catch up with the Budget estimates That is a tall order during a recession," Van Zyl said, predicting a shortfall of about R3,5bn on income tax He added that the Budget estimate for personal income tax (27,2%) seemed especially optimistic

A breakdown of revenue patterns is not yet available for July, but overall revenue rose by less than 2% for the period April to July The budgeted increase is 11,1%

The recession is knocking government revenue because of lower growth in company profits, unemployment and lower wage increases United economist Pierre Morgenrood said a decline in economic activity immediately implied a slowdown in revenue if tax rates remained unchanged

Company profits rose by an annualised 10% in the first half of this year compared with 13,5% in 1989, according to the Reserve Bank Economic Report GDP fell by 1% in the first half of 1991 from 1990.

Economists said government's main hope of averting a higher deficit was if the yield from VAT exceeded expectations. Some feared that the loss in revenue due to the lower rate might not be offset fully by the higher fuel levy, as the petrol tax could also be affected by a sluggish economy

The deficit could also be contained to close to the budgeted 3,4% if a tight rein is

□ To Page 2

Revenue

B Day 29/8/91

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□ From Page 1

kept on spending Spending rose by about 14% in the first four months, against a budgeted 13,7%

Morgenrood notes that social spending is ahead of Budget Planning, provincial affairs and housing has spent more than 40% of the budgeted allocation, while own affairs, education and training and development aid are also ahead of Budget. Protection services are below Budget

Stals pointed out in his speech this week that the deficit in the first four months of the fiscal year was "no less" than R5,6bn, or 55% of the total budgeted deficit for the year as a whole — compared with 35,7% at the same time last year.

Stals said "Of greater concern from a monetary policy point of view, is the fact that the deficit during the first four months of the current fiscal year, when revenue was running at a seasonally low level, was financed to a large extent by an increase in the net claims of the banking sector on the government This will hopefully be corrected again during the remainder of the year"

'No hope of low inflation rate'

B/Day 29/8/91 (153)

MONETARY policy was like spitting in the wind and Reserve Bank governor Chris Stals had no hope of reducing inflation until next year, Nedbank senior economist Edward Osborn said yesterday

"Next year lower wage rates, determined by companies' inability to accede to anything like inflation matching demands, the effects of VAT and lower imported inflation will reduce cost inflationary pressures," he said

Standard Bank chief economist Nico Czypionka said monetary policy would remain very tight because the Reserve Bank remained perturbed about government spending.

Sanlam economist Johan Louw said there was no question now of a reduction in the bank rate, and the economic recession would probably deepen

He was less pessimistic about VAT's impact on inflation, which he predicted would not exceed 1% in October The petrol price hike and excise duties would probably push consumer inflation up by about 0,7%.

Osborn said the difference between producer and consumer inflation was disturbing and needed investigation

Retailers surveyed yesterday argued that a lower CPI was achievable if retail efficiencies improved and manufacturers were able to lower their prices

Reacting to food's high contribution to the 1,2% month-on-month increase in CPI, the retailers said that seasonal factors could also see the CPI decline

Pick 'n Pay chairman Raymond Ackerman said the group's figures for food increases were 12,4%, representing the inflation of all food in its stores

SHARON WOOD and MARCIA KLEIN

One of the major reasons for the increase was that the situation of only four major manufacturers brought with it "a certain amount of oligopoly and price fixing", said Ackerman

The rapid increase in exports was also creating shortages in SA and raising the prices of some items substantially

He added that the control boards were sometimes in the position where they could import lines at lower prices, but sold them at a higher price

Filter

Ackerman said the retail sector was often blamed for the price increases, but with margins of under 3% and strong competition between the major retailers, they were not solely responsible.

Spar Group marketing director Brian Beavon said that traditionally, May and June were periods of a wider range of price increases as new crops were coming in These increases took some time to filter through, and were currently affecting food's contribution to the increase in CPI

Another factor was that the CPI included some non-grocery items Prices of these products were determined according to supply and demand, and recent supply shortages could have altered the price

Checkers director Lionel Blackman said suppliers had justified price increases on the basis of increased costs He said that this should hopefully come down with the VAT input credits that manufacturers would be able to claim

As the recession bites

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Sowetan 30/8/91

Sowetan Correspondent

SOUTH Africans are losing their jobs, homes and in some cases even hope as the recession bites

If pleas for help to feeding schemes and even suicide help-lines have soared as the recession tightens its hold

Relief organisations report a flow of people from rural areas into the cities in search of jobs

Association of Consumer Credit Bureaux president Rowan Haarhoff said bad debt judgments for the period March to May 1991 leapt by 34,7 percent to a huge R395 million

"These figures are distorted to an extent, however, by mortgage bonds where judgment is taken for the full bond amount and not just the arrears "

A food programme in Hillbrow alone served 110 000 meals from April 1 to the end of July, according to organiser Brother Giovanni

"What we have found is a great number of semiskilled and skilled people flooding in to Johannesburg from the rural areas," he said "The sadness is that these people come here hoping there will be work They can't find any and end up on the streets "

The numbers of "invisible people" who slept on the streets of Johannesburg had increased "very much" over the past few months

Hillbrow Twilight Centre manager Sabera Bobat said there had been a notable increase in the number of street children who had joined the centre recently

Operaton Hunger

According to Operation Hunger executive director Ina Perlman, 1991 has been the organisation's most testing year yet

In her latest report, Perlman said the countrywide economic catastrophe had sent rural unemployment soaring and had reduced, in the majority of areas, the regular migrant cash flow to an irregular trickle.

Operation Hunger deputy director of relief and development Mpho Mashinini said black and white families were looking to the organisation for help

"Even though political changes are under way, the economic situation worsens and there is a demand for us to assist many more people," he said

"In the PWV area unemployment is increasing every day Operation Hunger has had to increase its feeding by 2 000 families," Mashinini added

Retrenchment of farm workers and the closure of mines in the Free State and north-western Cape meant families who had coped previously could now barely survive

Urgent intervention in Ingwavume in Natal for 6 000 children with visible malnutrition since 1986 was needed after pleas for help

While the economic situation meant an increased demand for ~~and the~~ groups were also faced with a cut in their donations as a result of the recession.

Johannesburg Child Welfare Society head Dr Adele Thomas said some of their donors had written to say they would not be able to make their usual donations due to financial restraints

Suicides Anonymous, run by Sam Bloomberg, has found more and more people calling in

"There are a multitude of causes - but the humiliation of not being a breadwinner is high among them," he said

"People are told to provide for their old age when they can't even provide for today," he said

Employment agencies have been inundated with people looking for work

Drake International branch manager Yvonne Allen said the unemployment situation was "very bad"

ECONOMIC POLICY

The heads of Hydra

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FM 30/8/91

The VAT bungle has given inflation a new lease of life

The battle against inflation must be won in the minds of people Though the inflationary process was set in motion by excessive monetary demand which started in the Sixties and accelerated when the rand depreciated sharply against other currencies after 1983, its momentum now depends largely on the tide of expectations This appears to be running remorselessly onwards despite an improvement in some important fundamentals

For this reason, the way in which VAT has been introduced has proved disastrous It has given impetus to expectations which are self-fulfilling, at precisely the time when demand for credit is showing signs of subsiding (see p31) and when the rand is relatively stable against a basket of major currencies

While the tax is sound in principle and is not inherently inflationary, the government failed to develop a strategy for its successful implementation, despite the long period of preparation Though VAT was expressly delayed to allow time for the necessary structures to be put in place, the transition has been badly mismanaged To its credit, government has kept the essential structure of VAT intact in the face of continuing opposition — but implementation has deteriorated into ad hoc-ism

This has happened because of its inability to respond to or, even better, anticipate public sentiment This is a legacy of a time when the National Party did not have to account for its failures, when it came to power at each election on a platform of blatant racism regardless of its record in any other sphere The need to nurture public opinion on economic issues has come more recently

Now, white voters, who have seen their living standards shrink, have become more aware of the part which economic policy plays in their lives And blacks, who have not yet acquired any meaningful vote, are suspicious of fundamental changes introduced under existing structures — and hostile to a broadly based regressive tax

What was needed for the occasion was ingenuity, forward planning and skilful political management

As government has repeatedly been told, the first step should have been tangible pre-emptive poverty assistance, outside the tax system Early consultation with organised labour, consumer bodies and other organisations would also have been a comparatively simple device for defusing and containing some of the opposition building up against the new system of indirect tax It would have been time-consuming and frustrating — because many opponents of VAT have political agendas and would prefer making political capital to finding solutions But a consultative process and an earlier confrontation

continue

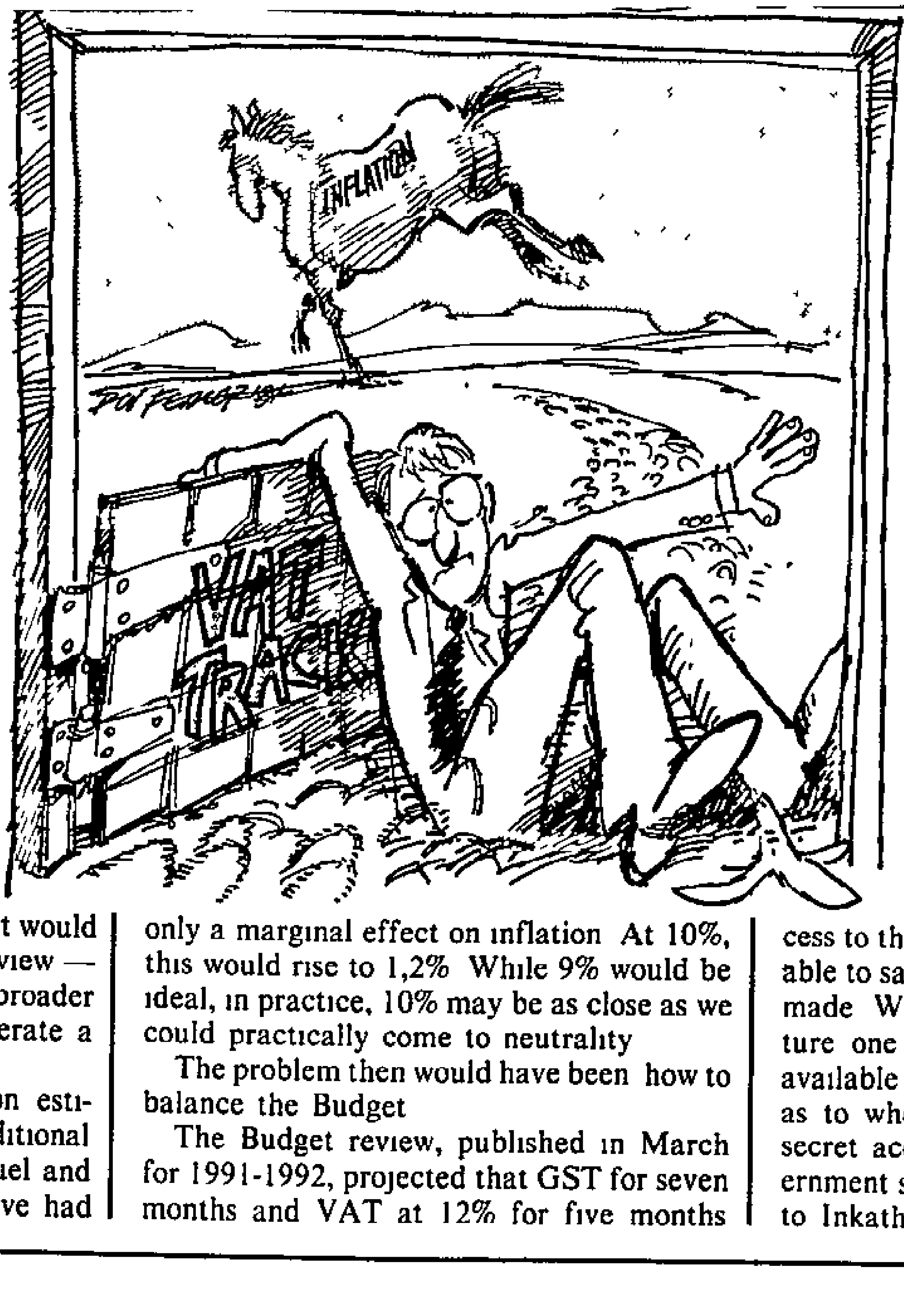
would have been preferable to the organised chaos that is now threatening to overwhelm the issue It would not have dispelled all opposition but would have left time to come to terms with it

In the same vein, attempts to educate the population about the benefits could have started earlier

But these palliative measures were not taken until opposition was reaching a crescendo And they were then introduced with an air of crisis management which erodes confidence and creates uncertainty Leadership was poor

And stage management would have been the easy part The difficult part is deciding the rate at which VAT should be set

There is always an immediate cost to its introduction and it must be borne where it will do the least damage Given the importance of inflationary expectations, it would have made sense to choose a level that would have been neutral from this point of view — a rate which, when applied to the broader base than did GST, would not generate a higher rate of inflation



Standard Bank economics division estimates that at 9%, without any additional measures, such as the 8c-13c/l on fuel and new excise taxes, the rate would have had only a marginal effect on inflation At 10%, this would rise to 1,2% While 9% would be ideal, in practice, 10% may be as close as we could practically come to neutrality

The problem then would have been how to balance the Budget

The Budget review, published in March for 1991-1992, projected that GST for seven months and VAT at 12% for five months would produce a loss of R910m against GST at 13% for the full year A revision of budgeted projections, to take into account the changing circumstances and reduced revenues that materialised from GST over the intervening period, as well as VAT at 10%, showed that an additional loss of R1,4bn will be incurred by the change

These figures, of course, can only be a rough estimate Among other sources of confusion is the uncertainty about the extent of funds which have flowed out the GST loopholes now to be closed by VAT (see box)

But, given the size of the budgeted shortfall in revenue, expenditure would have to be cut accordingly This appears a major problem at a time when huge socio-economic demands are being made on the fiscus And only people with full access to the accounts of government would be able to say precisely where the cuts could be made Without insights into State expenditure one can only work with information available to the public, to make suggestions as to where economies could be made — secret accounts, for instance Though government says it has discontinued its funding to Inkatha, there are doubtless a range of

Continue →

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(153)

other expenses that will no longer be necessary in the new SA

So there is scope for the Budget to be managed — or more cynically, massaged if necessary — over one year.

But, if one assumes the worst and it is not possible to fully compensate with an expenditure cut for the loss of revenue, let's examine the consequences — a once-off deficit which exceeds 3% In subsequent Budgets, adjustments could be made to avoid a deficit And, as the economy should be in a recovery phase by 1992-1993, yielding higher tax takes, this should be relatively easy Also in that period, the benefits of VAT would begin to make themselves felt, allowing more scope for manoeuvre

There is, of course, an inflationary cost to a higher deficit But it has one great advantage over introducing VAT at 12% — a rate which was expected to add a once-off 2,5% to the rate of inflation, or the recycled version of VAT at 10% plus the extras, expected to add 1,5%-2% It is relatively invisible There is rarely an orchestrated campaign against excessive budgetary deficits Consumer organisations say nothing, agricultural organisations are mute, trade unions are silent — usually only the lone voice of the shadow Minister of Finance is heard on the subject, along with press editorials that are generally ignored by the public

From a purely pragmatic point of view, then, this would have allowed time for the imbalance to be restored In the absence of the organised hysteria we are now seeing, there would have been no major build-up of inflationary expectations

In SA, the potential for inflation has received maximum publicity, which almost guarantees the potential will be realised

Research has shown that uncertainty about the consequences of a new system plays a damaging role VAT researcher Alan Tait reports "Traders, particularly small businessmen, are uncertain what effect the VAT will have on their liquidity and on the costs of compliance, the public hear bits and pieces of information and newspapers sometimes enhance the air of crisis by 'scare' stories In these circumstances, traders might well attempt to widen margins as a contingency against uncertainty and the public may be persuaded to accept higher prices because speculation has suggested they should expect them "

SA is particularly susceptible to these hazards and pre-emptive price rises have been taking place for many months This was demonstrated when CPI and PPI growth

Continued

rates persisted at relatively high levels though the effects of the fuel price increases of last year had already started to leave the system In these circumstances, nothing could be worse than vacillation

Much of the damage is already done and will not be undone by the last-minute retreat

The pity is that VAT has considerable deflationary potential because input credits can be obtained on capital and intermediate goods — removing the tax-on-tax element which multiplied the effect of GST on final prices This benefit has not been fully exploited to market the new tax

Consultation has become a way of life and the process plays an important psychological and practical role in accomplishing objectives

Says Sacob's Raymond Parsons "Perhaps the best way to avoid future miscalculations in fiscal policy would be to whip the veil of secrecy from the process of constructing the annual Budget A step towards the US practice of holding congressional hearings, ahead of the Budget, would allow for far wider input from outside the ranks of government. And it would subject present and future governments to the disciplines of disclosure "

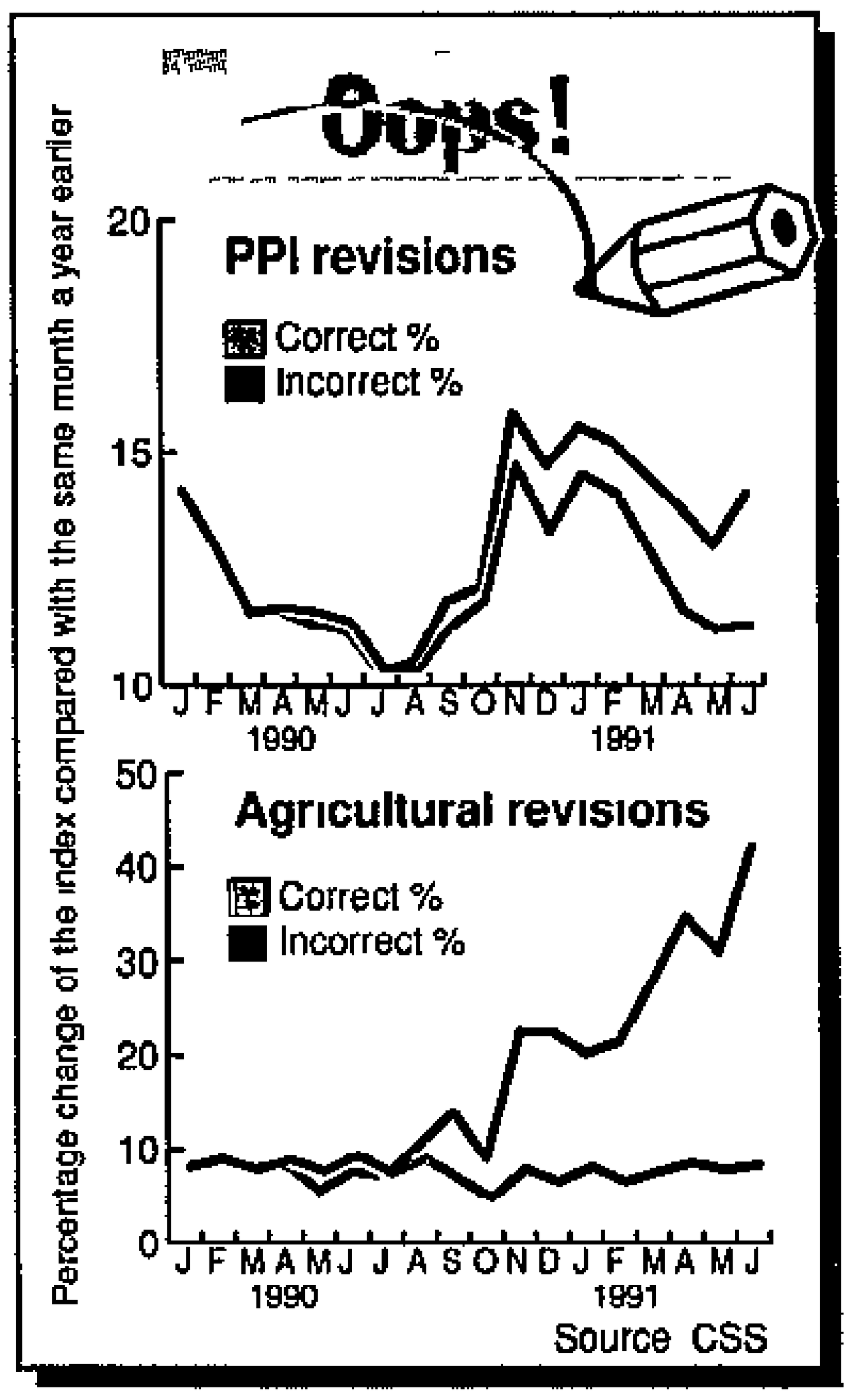
Certainly we can't move towards a new SA dragging with us the baggage of the earlier discredited version Consultation and disclosure are essential to a stable transition ■

FM 30|8|91

THE GOOD NEWS (153)

For some time inflation has been driven by perceptions rather than fundamentals (see page 31). Central Statistical Service (CSS) has unwittingly contributed to this because of an error in calculations of producer price increases

In a release this week, CSS admits that, since February 1990, "bona fide processing errors" occurred Initially they had a negligible effect, but the cumulative effect mounted and, by August 1990, the discrepancy seriously began to distort the producer price index (PPI) (see graphs) When the June figure was released, the strange behaviour of PPI, particularly agricultural products, prompted an investigation



A revised figure for 12 months to June shows an increase of 11,2%, not the 14,1% previously reported, while the rise in agricultural prices was only 7,7%, not 42,1%

CSS says the error occurred "in the calculation of indices for milk, mealies, wheat, barley, oats, grain sorghum, green beans, cotton and leaf tobacco With the exception of the cotton and leaf tobacco indices, all are part of the agricultural food price index "

CSS head Treurnicht du Toit says "a few smaller adjustments had to be made to the manufacturing sub-index, but the cumulative influence is so insignificant that it has been decided only to adjust the index for June — from 226,7 to 226,9 "

"No similar mistakes have been found" in the consumer price index

☐ In June, the annual increase for locally produced commodities was 12% and of imported commodities was 7,9%

Inflation here to stay, says BER

CT 30/8/91 /53

ARI JACOBSON

IN a pessimistic August Economic Update the Bureau of Economic Research's (BER) Ockie Stuart says the rate of inflation will not be lowered significantly in the near term, from the 15% level

He says "to a large extent the stickiness can be blamed on increases in wages and salaries which are not accompanied by increases in productivity The steady depreciation of the rand against the dollar in particular is also keeping inflation high"

Stuart adds the uncertainty that comes with political and constitutional reform carries a cost which should show in the inflation figure

"Unfortunately it appears as if these factors will remain for many years to come — suggesting it will be extremely difficult to lower the rate of inflation"

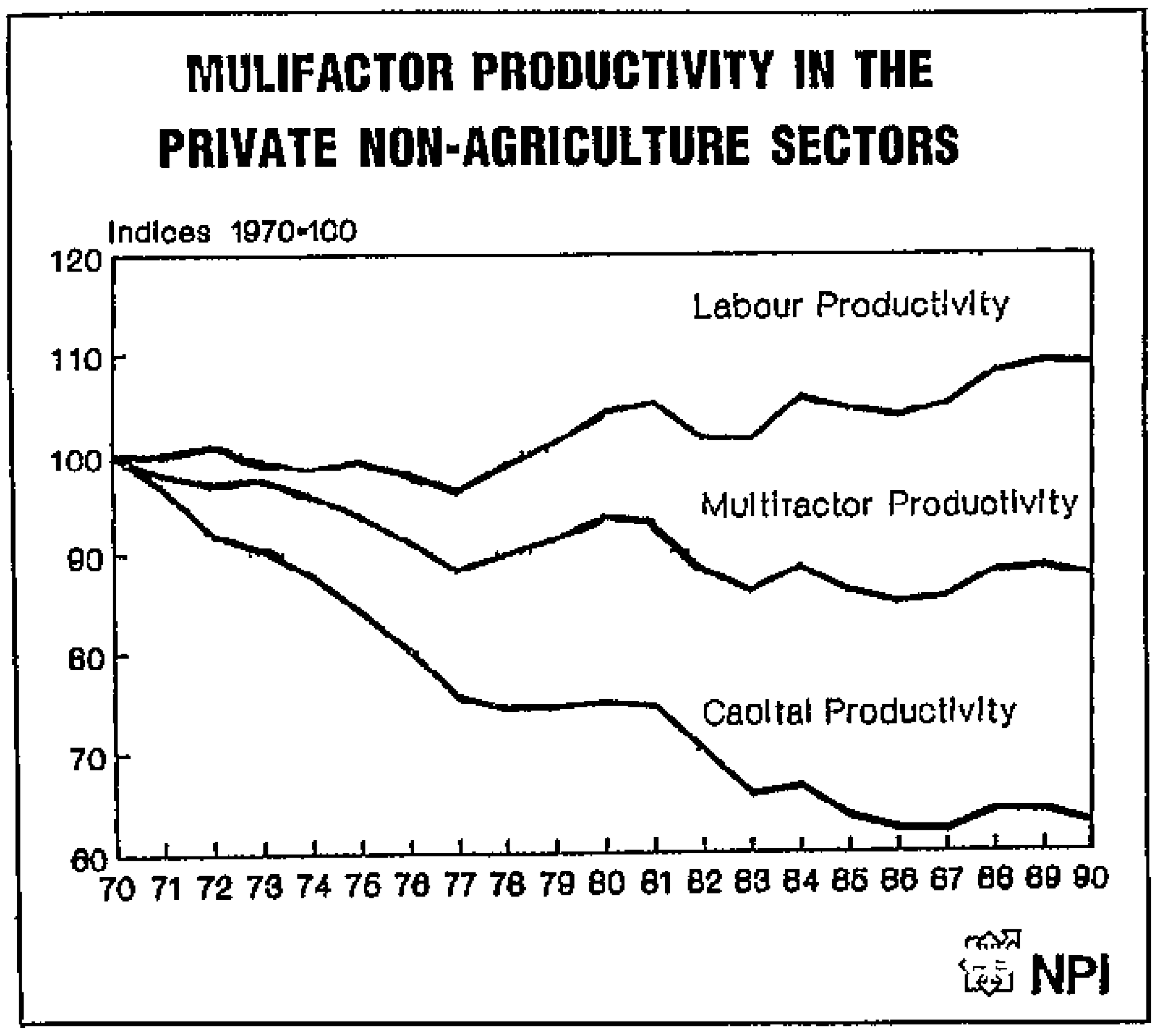
Further Stuart says Value Added Tax (VAT) will be an additional cost to enter the scene "And the way the issue was handled will no doubt have caused confusion and uncertainty — increasing costs attached"

Technically he says Vat would mean a one percentage point increase to the inflation rate But the BER has calculated this could add a further five percentage points to the food component of the consumer price index (CPI)

And with the focus on the poor "it seems as if the introduction of Vat could lead to social unrest"

"If the above arguments are converted into figures SA could have an inflation rate as high as 16% to 17% — with the petrol price hike"

But with the tempo in economic activity rising during 1992 — the fuller utilisation of productive capacity should lead to lower unit costs exerting downward pressure on inflation



Rates remain high to fight unemployment

W/Mail 30/8-5/9/91 (153)

Positive real interest rates are normally seen as a method of fighting inflation but the Reserve Bank argues that they are needed to fight unemployment as well, reports **REG RUMNEY**

SOUTH AFRICA needs positive real interest rates — ie higher than inflation — to fight growing unemployment

This, as well as fighting inflation was advanced by Reserve Bank governor Chris Stals this week as a reason for keeping rates at present levels.

Stals put his finger on what has become one of South Africa's intractable problems in his address to the Bank's AGM

Realistic interest rates, said Stals, are needed for a proper allocation of resources They will, among other things lead to capital being used more productively and to production being restructured to alleviate growing unemployment.

The Reserve Bank's annual report, released this week, points to South Africa's increasing displacement of workers by capital over the last two decades, especially in the private sector

Indeed, the National Productivity Institute has released statistics which underline the poor productivity performance of capital

The NPI's productivity statistics show that capital productivity last year declined by 1,8 percent, and labour productivity more or less treaded water with a 0,1 percent decline Multifactor productivity — the broad measure — showed a 0 9 percent decline

Increasing use of capital in the private sector is pinpointed by the Reserve Bank Its annual report says the "capital labour" ratio, which shows the substitution of capital for labour, has levelled out in the public sector

Various causes are mentioned for the phenomenon of buying machines instead of employing people In particular "relative factor prices" were distorted

Low and often negative (lower than inflation) interest rates meant the cost of capital in the early and mid-Eighties and during the Seventies was relatively low

The average exchange rate of the rand, especially in the early 1980s, was unrealistically high Tariff policies protected local industries against foreign competition. There were a number of tax allowances designed to encourage capital investment in manufacturing

"At the same time labour became more expensive, real wages showed a sharply rising trend because wage settlements generally failed to adequately recognise the relative abundance of less-skilled labour

Unionisation, political actions in the trade union movement, protest actions, strikes and unrest added to the non-wage cost of labour

The annual report also comments that it is not surprising that there was a considerable substitution of labour by capital

Noting high rates of increase in average nominal salaries and wages in the non-agricultural economy, the report says the South African labour market has become increasingly distorted

"In contrast to most industrial countries, which have been able to contain wage increases within reasonable limits by decentralising the determination of salary and wage increases, the wage negotiating process in South Africa has become more and more centralised, leading to unrealistically high wage settlements

"Labour unions have mainly been concerned with broader social and political issues, which are not always work-related and often aimed at maximising short-term benefits for the unions' members, but disregarded the long-term effects of such actions on labour and unemployment.

"Attempts to close wage differentials based on race and sex also did not take underlying supply and demand conditions into consideration "

Boom in black credit demand

W/Mail 30/8-5/9/91 (413)

By MONDLI MAKHANYA

CREDIT use by blacks is on the increase and is set to rise even further as retailers continue to tap this market. Rising black wages and higher disposable incomes are the main driving forces of this surge in demand

According to Information Trust Corporation credit bureau, the black segment of its consumer data base grew from about one million to four million between 1982 and 1991 ITC MD Tony Leng estimates black demand for credit is growing at around 30 percent a year

A big chunk of this has been in home loans but the main beneficiaries of the growth of credit use have been clothing and furniture retailers

Leng maintains blacks are "severely underborrowed and that the next three years will see a big increase in lending to blacks as retailers prepare to capture this market.

At the start of the black credit boom in the early Eighties, retailers often sacrificed credit worthiness for market share and as a result there were many payment defaults and repossessions

The credit risk stigma which blacks have now acquired as a result of credit having been available to clearly undeserving people has also landed the white business establishment in a quandary On the one hand white business is anxious about touching what are perceived as credit risks" But on the other hand no businessman can ignore a market that will be the decisive factor in the struggles for competitive superiority

Leng contends the notion of blacks being credit risks is a myth that needs to be dispelled

"Blacks' willingness to repay is much greater than that of other groups It is rather the white middle class that is immersed in debt."

However, Kreditinform MD Ivor Jones says although blacks generally make good debtors political developments and recessions often cause problems"

Inflation may soar after R1-bn boost

153

ARG 31/8/91

CLAIRE GEBHARDT
Weekend Argus Correspondent

THE government is caught between a rock and a hard place.

Its allocation of R1 billion from strategic oil sales to create 59 000 jobs in 15 months is not being well received by a Reserve Bank desperately fighting to keep inflation under control

This week's shock rise in July's year-on-year CPI inflation rate to 15,8 percent is its highest level in more than four years

And, no matter how well intentioned, the announced mass building of houses, schools, clinics and police stations will add to inflationary pressures.

However, in the severe recessionary conditions which exist in certain areas of fixed investment it could aid an economic recovery if — and a big if — bureaucracy is cut to the bone

Many commentators were this week concerned about "a steady deterioration in fiscal discipline" which has seen the budgeted increase in government spending soar to 15,1 percent compared to the original figure of 13,7 percent. Some believe it could turn out to be closer to 16 percent.

Social spending should fit into the broader scheme of fighting inflation instead of merely giving a Keynesian boost to the economy, says a Reserve Bank spokesman

"Too much is ad hoc charity and too little is going to enhance productive capacity."

However, the latest exercise in crisis management must be seen as a desperate attempt by the government to deal with the millions of unemployed who threaten to engulf the country in social unrest and rising levels of crime

True, the proposed "kick-start" entails once-off expenditure of a meagre amount and the unemployed will be jobless again after 15 months

However, if tens of thousands of the hungry can be taken off the streets for even a short while, the government appears to be gambling that the economic upswing will have started by the time the axe is due to fall again

At the same time, much-needed infrastructural services will have been provided and World Bank and IMF help could be forthcoming

The government's almost insurmountable problem is apparent from a quick look at unemployment statistics.

After 29 months of recession the official jobless figure is five million "and growing"

Add to this the urgency of providing jobs for the country's "lost generation" — virtually unemployable except for the most menial tasks

And, don't forget that returning political exiles will add a couple of thousand to the pool

Take heed, too, of shock statistics from the Department of Manpower which show a vast pool of retrained workers who are unable to find jobs

Of the 80 176 unemployed trained for entry into the formal sector in 1990, only 17 768 found employment

In the informal sector, a mere 18 446 of the 59 940 trained were able to land jobs, while those with building-related skills fared worst, with only 2 098 out of 28 188 being placed.

The government has emphasised that projects be labour intensive and that departments use as many of the unemployed as possible by co-ordinating with manpower-training programmes

However, the fly in the ointment is the fact that private-sector organisations, whose involvement is sought on a tender contract basis, may prefer to use their own workforce unless compelled to do otherwise

Economists said this week money spent on capital or long-term projects was well spent as long as it wasn't wasted on the establishment of a bureaucracy to spend the money.

The R1-billion injection, given the multiplier effect, could boost inflation by around 0,5 percent. However, labour-intensive capital projects were essential when the economy was in the doldrums and unemployment was high

Money-control cannot break the back of SA inflation

153 ARGr 31/8/91

DUMA GQUBULE
Weekend Argus Correspondent

SOUTH Africa's bold money-control experiment designed to break the back of inflation is doomed to failure

That's the view of a growing number of economists who believe that while monetary policy can help keep inflation from getting out of control, it is powerless when it comes to addressing the structural causes of South Africa's high inflation rate

Demand inflation has been curbed by two years of high interest rates. However, cost-push inflation and long-term structural problems — the limited size of the domestic market, lack of competition in many industries and low productivity — are preventing a significant decline

And, economists also are beginning to wonder if the high cost of the exercise is justified in a society in transition.

RAU economist Roelof Botha says that while many commentators frequently talk about the cost of inflation, no mention is ever made of the huge cost of fighting inflation

Considering that inflation has been declared public enemy No 1, identifying its costs has proved difficult

Everyone agrees high and unstable rates of inflation are extremely negative but, as UCT economist Jos Gerson says "It is not all that clear whether the economic cost of a moderately high, but stable, inflation rate like ours is that severe"

Says Simpson McKie economist Graham Boyd 'It's also difficult to prove that a low inflation rate will neccessarily result in a higher rate of economic growth, although some empirical studies do suggest a link."

None of the quantifiable costs of a moderately high, but fully anticipated inflation rate appears to be large, especially when measured against the cost of fighting the dragon

A United States study found that in the late 1980s it cost up to $225 billion in lost output to bring about a 1 percent reduction in the inflation rate

Unisa economist Professor Phillip Mohr says SA inflation is a symptom of the underlying social, political and economic conflict in the country

"What is needed is some form of co-operation or agreement among the major players in the economy — the unions, employers and government.

"A real sense of national crisis is needed to mobilise everyone towards the goal of lowering inflation"

Mr Botha says SA's inflation is more structural than cyclical and partly a reflection of the country's level of economic development

"As the economy grows and export markets open, significant economies of scale will lower production costs

"The end of sanctions will increase competition, and a natural rise in productivity after the end of apartheid also will contribute toward a lower rate of inflation"

At the moment, he believes interest rates are punitive and doing nothing to reduce inflation Instead, many small businesses in the formal sector have been wiped out.

"There is scope for an immediate 3 percent reduction in interest rates. It might result in a small element of demand inflation, but this will be offset by larger production runs and lower unit costs.

"In South Africa, many companies faced with declining demand cut back on production, thus increasing the cost per unit In countries where manufacturing processes are flexible, companies can rapidly switch to other products and export markets."

~~INDUSTRIAL~~ REI

INFLATION — 1991

SEPT. — DEC.

Inflation threat as State borrows

153 S Times 1/9/91 (Business)

By DIRK TIEMANN

THE GOVERNMENT is financing its deficit by short- as opposed to long-term borrowing through the banks and this could put upward pressure on inflation, say economists

Reserve Bank Governor Chris Stals says he is worried because "the deficit during the first four months of the current fiscal year, when revenue was at a seasonally low level, was financed to a large extent by an increase in net claims of the banking sector on the Government".

Borrowing from the banks increases the money supply because they can immediately rediscount any paper they buy from the Government at the Reserve Bank.

This allows them to increase their lending

Short-term stock is attractive to banks because it is more tradeable and contributes to maintaining liquid asset requirements.

Lot

From 1987 until recently the Government financed its deficit by issuing long-term stock to the non-banking private sector,

This is non-inflationary because it does not immediately increase the money supply — the stockholder cannot discount his paper for cash with the Reserve Bank

But the Government is not having much success in selling its long-term RSA stock because inflation makes the yields look unattractive

Discount House capital market manager Chris Greyling says "A lot has to happen before the risk-return ratio in the long end of the market becomes attractive. Fund managers are staying in the money market and earning higher returns without the capital risk

"The Government will have to keep pumping short-term stock into the market at more attractive yields"

The Government is under increased pressure to borrow because tax receipts are down due to the recession and expenditure is slightly up

Some economists expect this to lift the deficit before borrowing to between 3,9% and 5% of gross domestic product for the year as opposed to the Budget estimate of 3,4%

Cash

The Government has raised R5,6-billion and it will need another R2-billion before its funding requirements from the capital market for the fiscal year are satisfied

If necessary it could draw down the R5-billion balance it has with the Reserve Bank, another inflationary method of finance

It raised R1-billion through new issues of short-term stock and R2,4-billion through long-term RSA 150

The RSA stock yields about 16,92, which is only 1,02% above the inflation rate The poor outlook for inflation means yields are under upward pressure and the price of the stock is falling

This is shown by the fact that when bank rate was cut, long-term yields actually rose by 1,7% — an abnormal occurrence.

The first quarter fiscal 1991-92 deficit before borrowing is R6,3-billion — 43% higher than last year

The Reserve Bank Economic Report says the Public Investment Commissioners funded R3,3-billion, the non-bank private sector R169-million and the banking sector R4-billion, mainly through short-term paper

Money raised from Treasury bills amounted to about R1,2-billion in the first quarter of the fiscal year compared with R400-million last year At the same time cash balances at the Reserve Bank rose by R500-million

High inflation here to stay

Star 2/9/91

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There were forecasts a year ago that by now inflation should be down to around 10 percent. The latest official count shows that it is still climbing — and is now at almost 16 percent, the highest in four years. The Econometrix think-tank has been hunting for the culprits, reports MICHAEL CHESTER.

WITH GUSHES of euphoria about the pace of political reform and the chance of a brand new economic scenario, South Africa a year ago rejoiced at forecasts that the rate of inflation looked likely to sink to 10 or 11 percent

New counts by the mandarins at the Central Statistical Service show that the consumer price index is still climbing, and is now at an annual rate of almost 16 percent

Nervousness about the risk of worse to come has been increased by warnings that the inflation spiral will be given a new upwards twist when VAT shoulders GST out of the way on September 30, even though public criticism has persuaded Finance Minister Barend du Plessis to cut the proposed tax rate from 12 to a more modest 10 percent.

Will South Africa never manage to bring down an inflation rate that is scorching everyone's budget, and threatens the entire economic outlook?

Econometrix has sunk its teeth into the problem to find the culprits

Dr Azar Jammine, director of the unit, begins with what he regards as fundamental obstructions in the battle to curb inflation

- Politically motivated trade union pressure for higher wages not matched by better productivity performance
- The ease with which extra costs can be loaded on consumer prices by a highly concentrated financial and industrial business sector

"In general terms," he says, "it is difficult to see the inflation rate declining at any stage to single figures — no matter how tight monetary policy remains — so long as these structural impediments persist"

Nor, he concedes, do there appear to be simple solutions

"In the present socio-economic climate," he says, "it is unlikely that trade unions will adjust their aggressive behaviour, no matter how much unemployment it might generate.

"The high level of industrial and financial concentration can be blamed on decades of foreign exchange controls, combined with high inflation and a tax structure which heavily penalises income earned — but exempts capital gains from tax."

Dr Jammine fears that it becomes a vicious circle when savings are driven into a financial paper chase on the share market — rather than into new productive resources, where inflation and trade union claims may consume any profits

In turn, barred from overseas investments by exchange controls, the big financial institutions feel they have no option but to buy up shares in all sorts of companies and industries — thereby leading to a concentration of economic power in even fewer hands

The only logical way to reduce over-concentration, says Dr Jammine, would seem to be by the removal of forex controls, changes in the tax structure — and lower inflation

"But there's the rub," he adds "The concentration of industrial and financial power in South Africa is both a cause and a result of inflation In such an environment, it is difficult to conceive a major decline in inflation — or for that matter in the level of concentration"

So isn't the time ripe for Reserve Bank governor Dr Chris Stals to yield to pressures to cut interest rates?

No, argues Dr Jammine "We don't think for a moment that the Reserve Bank has erred in holding to a tight monetary policy Otherwise, inflation would have been running rampant at well over 20 percent by now

"Nevertheless, we do feel that insuffient attention is being paid by the authorities and the business community to the impact which the high level of industrial and financial concentration is having on inflation and on our economy in general

"The proof of the pudding," he claims, "will be seen in the next few months when much of the corporate sector begins to enjoy the advantage of tax credits on VAT — worth about R7 billion in tax breaks on expenditure on capital equipment and intermediate goods used on the production line

"Will the benefits be passed on to consumers?" Dr Jammine looks cynical Econometrix predicts that VAT and new petrol price increases will propel inflation by perhaps as much as 2,5 or even 3 percent higher

He turns his attention to another favourite target excessive Government spending

"This is another and perhaps even more dominant influence which has been at work preventing a decline in inflation over the past six months

"By awarding huge pay increases to the civil service, the Government greatly contributed to the fact that the growth in the wage bill continued to exceed the inflation rate.

"Whether pressure for higher wages or prices come from action by trade unions, powerful corporations or high growth in State spending, the increase in money supply which such forces generate preclude any significant decline in inflation in the next two years"

And what about the immediate outlook?

"Our main concern in the medium term is what will happen to inflation when VAT is introduced," said Dr Jammine "Prices of most foodstuffs and services will be pushed up and the consumer price index is bound to hiccup

"Theoretically, the sudden jump in inflation should be counter-balanced by the lower price tags on manufactured goods as business reaps the benefit of tax breaks

"However, due to the high concentration of power in both the labour market and big business, the benefits will be absorbed either in the form of high profits or to finance the replacement of old capital stock

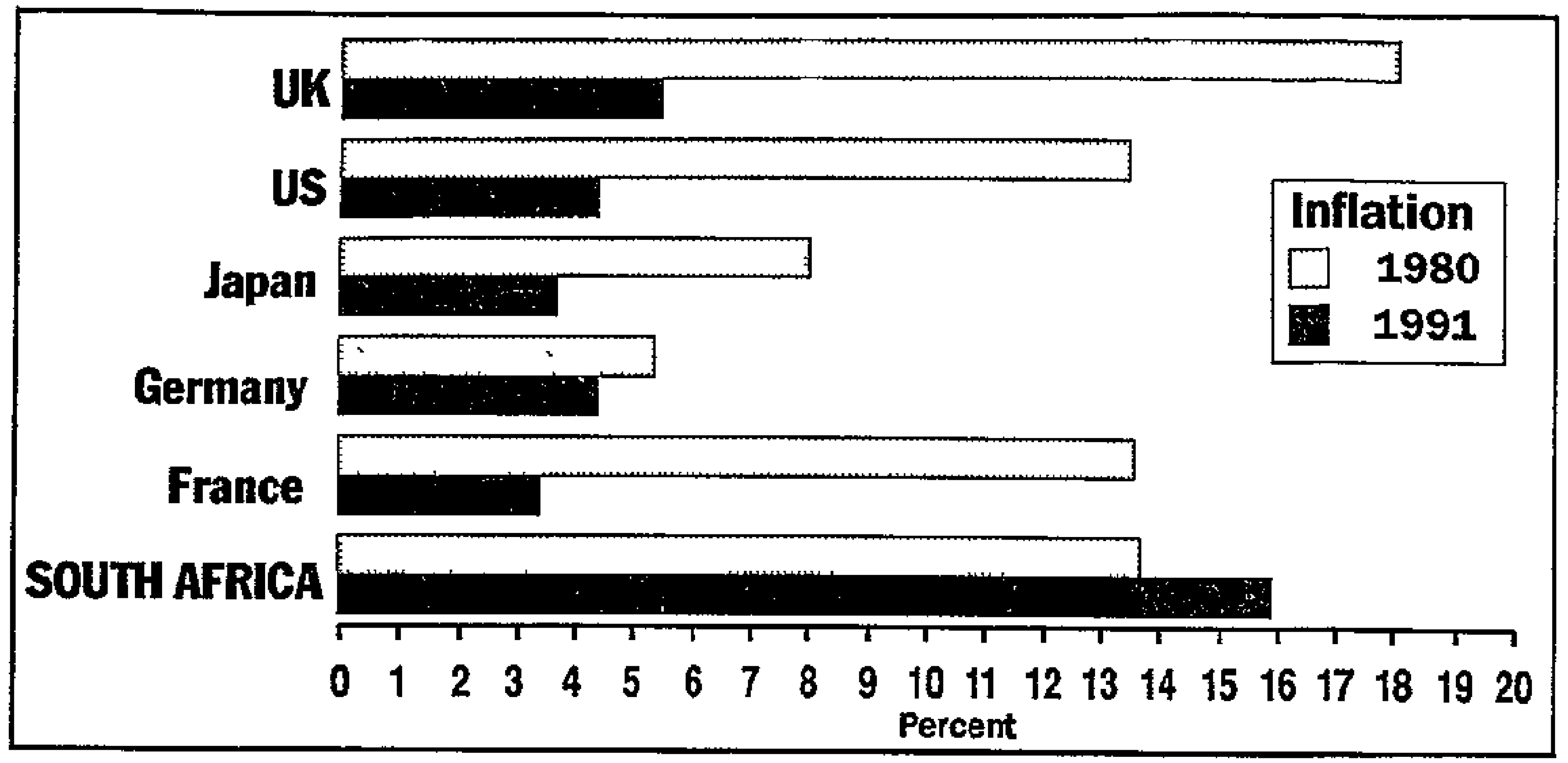
"Only time will tell if our fears are justified But it is most unlikely that the inflation rate will be less than 15 percent at the end of the year"

Future prospects?

"The longer-term scenario can cause ulcers

"In an environment in which pressure will be sustained for massive spending on social upliftment, to be financed out of huge Budget deficits, the potential exists for inflation to soar.

"We need to be thankful we have a Reserve Bank that has the courage to keep a firm hand on the reins" □



Odd man out . . . rising inflation in SA contrasts with trends elsewhere in the world.

Now they must join food queues

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Star 3/9/91

The recession is biting deeply — statistics show that more people are out of work, more are joining food queues and more are falling into debt. MONICA OOSTERBROEK and ABEL MUSHI investigate.

Feeding scheme . . squatters collect mealie meal at Vlakfontein.

Picture. Alf Kumalo

RECESSION in the townships and squatter camps of the Reef often means joining charity food queues to supplement the "piece-job" payments with which so many eke out an existence

Feeding schemes are finding it increasingly difficult to obtain sponsorships

Once a breadwinner with a family of six to feed, 37-year-old Joseph Mavhungu has joined the queue at the collection point of Operation Hunger's feeding scheme at the Vlakfontein squatter camp near Ennerdale outside Johannesburg

Survived

This handout — which affords his family a 12,5 kg bag of mealie meal, five cups of soup powder and a tin of fish — comes once in a month

The recently retrenched Mr Mavhungu, with no skills, said he survived by doing gardening in the neighbouring suburbs and selling imitation jewellery

"I'm keeping on trying to find a job but there's just no hope More and more people are losing theirs, and the competition keeps getting tougher," he said

Frans Muthali (57) sells vegetables and firewood since the engineering firm he worked for was forced to close

"These people are doing a wonderful thing," he said, adding that the rations were of great help to himself, his unemployed wife and their five children

And while 30-year-old housewife Rosina Musekwa collected a ration for her five-member family, her husband was job-hunting in in Johannesburg

A fixed total of 185 bags of mealie meal — "nowhere near enough" — were distributed monthly at the squatter camp, said Jabulani Mkhize, the man in charge of the feeding scheme.

"There are so many new people joining the queues that we have to use scheme membership cards for control," Mr Mkhize told The Star

Soweto's well-known community leader, Masechaba Mabaso, hands out food packages in Soweto every week, and this year the demand has risen dramatically

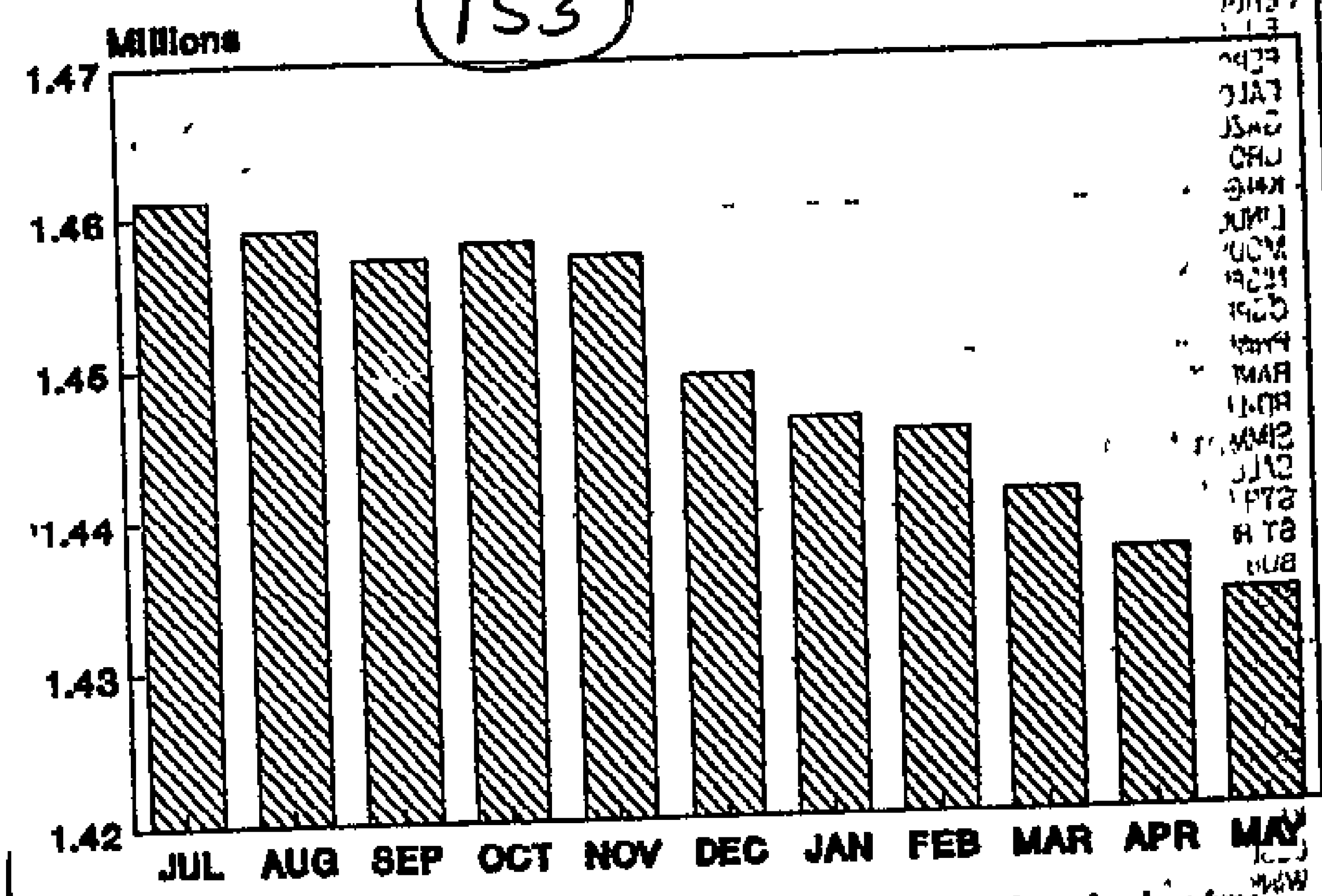
"Township violence was at its worst this year and many households who lost their breadwinners are depending on feeding schemes," she said

Her scheme, which gets its food from the Feed-The-Poor organisation and private sponsorships, has more than 50 distributors in Soweto □

Manufacturers shed thousands of jobs

Star 6/9/91

(153)



Down . . . Employment in the manufacturing industry

By Derek Tommey

The cure for high inflation is to hold down labour costs, say the pundits.

And this is exactly what manufacturers — the second-largest employers of labour after the public service — are doing, an analysis of the latest wage and employment figures show

They show that not only have they been reducing their labour complements, but have been keeping increases in wages and salaries well below the inflation rate.

This helps explain the cold breeze the retail trade is now feeling

According to Central Statistical Service's figures, manufacturers' monthly wage bills in the 11 months to May grew by only 4,6 percent, from R2,34 billion to R2,45 billion.

In the same period, the Consumer Price Index rose by around 12 percent

This means that when adjusted for inflation, manufacturing wages dropped eight percent in real terms between June last year and May this year.

Employment in manufacturing dropped 27 000 to 1,43 million in this period after a wholesale shedding of labour throughout the manufacturing sector

The food industry shed 3 800 people, the textile industry 3 100, industrial chemicals 1 700, timber 1 200, cement and lime 1 500, metal products 2 600, machinery and equipment 3 300 and motor vehicle assembly 2 500.

Several other sectors shed 500 to 900 people.

It is disturbing to note that the number of people employed in the manufacturing sector at the end of May was only 3 083 higher than in 1985 when, according to Reserve Bank figures, manufacturing employed 1,430 million, and about 40 000 fewer than in 1984, immediately before sanctions and other trade restraints were imposed.

Had manufacturing been able to maintain at least a three percent growth rate in employment in the troubled 1980s, some 700 000 more people would be in jobs today.

Moving to the wages paid in manufacturing, the average was R1 708 a month — an increase of 6,6 percent on the R1 602 paid last July.

The average white wage rose 8,2 percent in this 11-month period from R3 474 to R3 758 and the average coloured wage 6,9 percent from R1 104 to R1 180.

The average Indian wage rose a somewhat exceptional 15,9 percent from R1 476 to R1 702 and the average black wage 1,7 percent from R1 029 to R1 047.

Adjusted for inflation, the average manufacturing wage dropped 6,2 percent, the average white wage 4,6 percent, the average coloured wage 6,25 percent, the average Indian wage 1,5 percent. The average black wage fell 10,5 percent.

These are not particularly pleasant figures for the average worker in manufacturing.

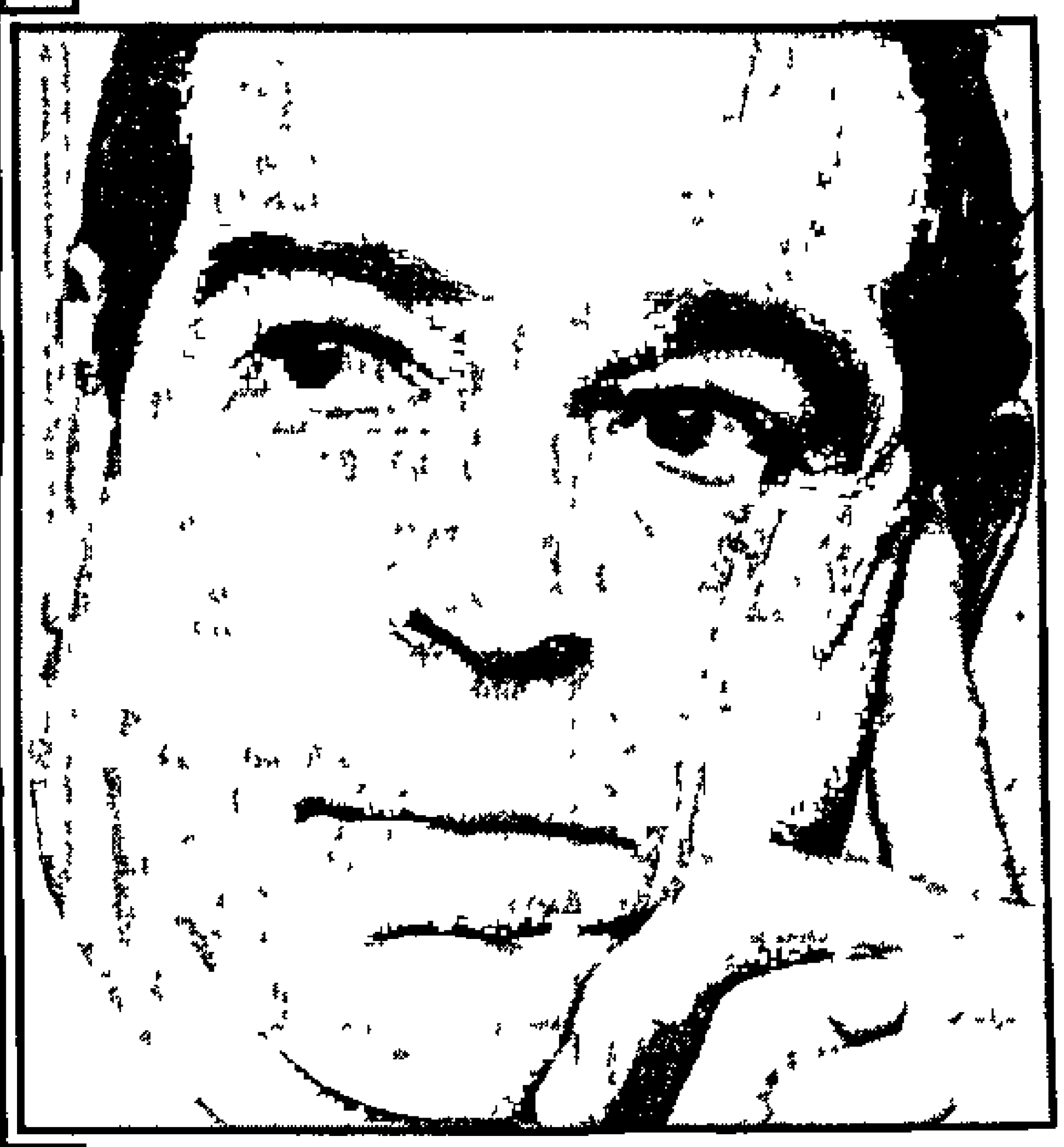
But they hold out considerable hope that South Africa can eventually bring down its high inflation rate.

It shows that some manufacturers are adjusting to the tougher economic conditions and are preparing to be more aggressive and competitive.

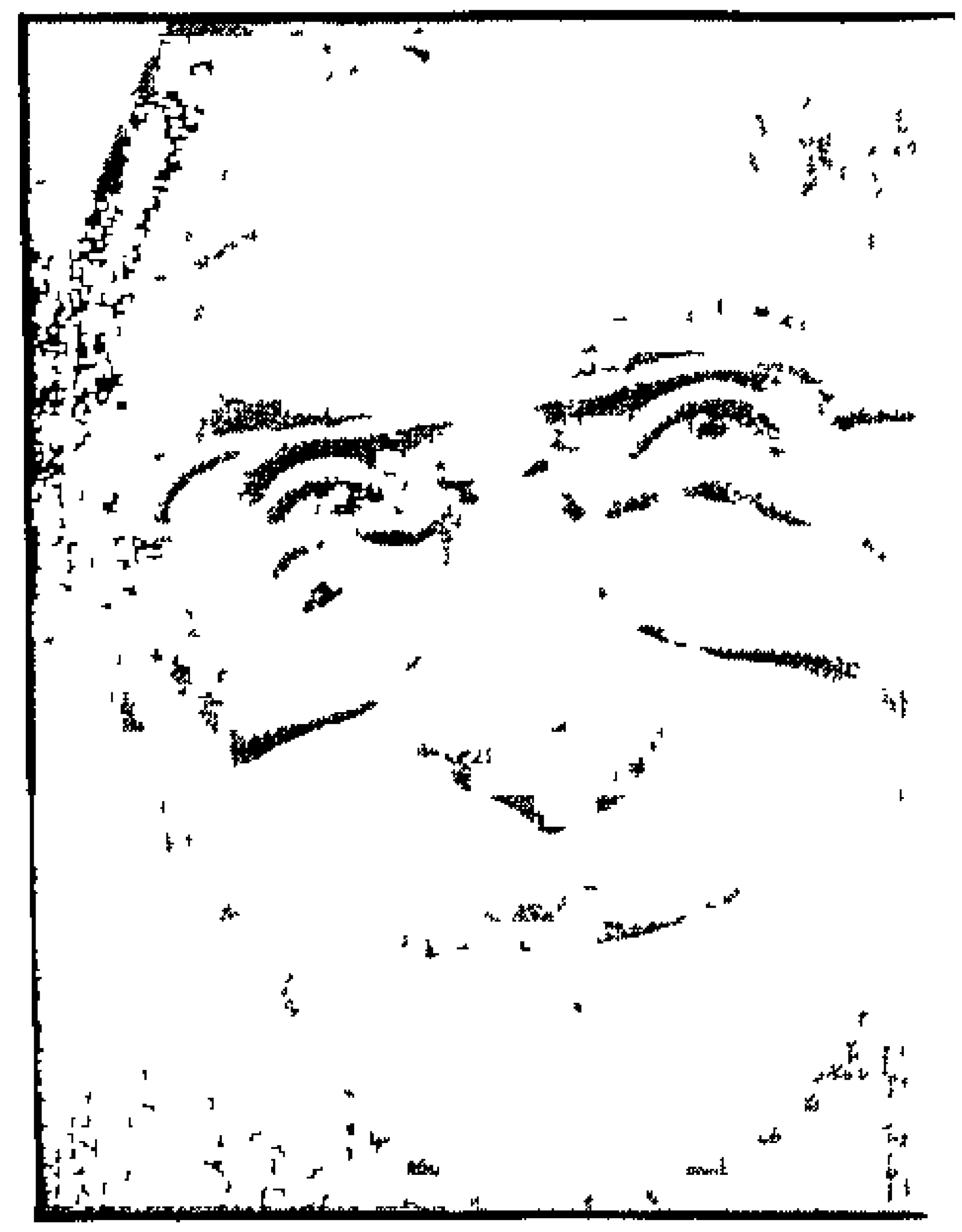
If the Government could persuade the public sector that the next wage increase should be in line with those in the private sector, the outlook for curbing inflation would be bright indeed.

The inflation

Reserve Bank versus Government



Chris Stals, Governor of the Reserve Bank, wants to bring inflation down, but he can't



Barend du Plessis, Minister of Finance, could bring inflation down, but he won'

What goes up can come down, but the political price is

Star 7/9/91.

HENRY KENNEY,
lecturer in business economics,
University of the Witwatersrand

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INFLATION and the future of the new South Africa have at least one thing in common they are topics on which all of us are experts

Just as we know that the South Africa of the future will be a happy nonracial democracy, a black dictatorship, another Lebanon, or simply a different version of capitalist exploitation, so inflation has been all things to all men

It has been the result of the Government printing too much money, excessively high interest rates, wages (or food prices, or administered prices) going up too fast, productivity which is too low or business fat cats making the most of their monopoly power We import it from abroad it is all due to apartheid, or lack of self-discipline, or just plain old fashioned greed You pay your money and you take your choice Explanations abound and confusion reigns

We can clear the decks by establishing what does *not* cause inflation

One of the clearest non starters is low productivity, even if wild horses would not drag such an admission from the National Productivity Institute The reason too is obvious If the annual rate of inflation is 15 percent, an increase in the rate of productivity growth of 3 percent (which is exceedingly high) would still leave us with an inflation rate of 12 percent Productivity improvements may be fine for the economy, but they have little to do with bringing down high rates of inflation

A poor finisher is the explanation of inflation in terms of cost increases, whether they be escalating wages or the "excessive" profits of capitalists The objections are fundamental and bring us to the heart of the matter

Let us suppose that as a result of the decisions of trade unions or a few large firms, the price level begins to rise At first there may be little response but eventually there will, assuming that the central bank refuses to "accommodate" the price rises by increasing the money supply

A cash shortage would emerge Individuals would cut back expenditures in an attempt to increase their cash holdings; they would get rid of assets such as bonds and equities, they would attempt to extend their credit at banks There would be upwards pressure on interest rates, which would put downwards pressure on demand

This brings us to what is now widely accepted by economists, of whatever ideological persuasion, namely that inflation is a monetary phenomenon There can be no sustained increase of the general price level — which is what inflation is about — unless it is accompanied by an expansion of the money supply Where economists differ is in believing whether governments actually can control the supply of money

A central bank can accommodate wage and price increases through fear of unemployment, or it can allow the government to finance its budget deficit through borrowing from the banking system, rather than through taxation or borrowing from the public When this happens, the money supply adapts passively to the pressures which central bankers have yielded to In South Africa we all know about a central bank which has a fine record of serving the interests of the National Party

It does not follow that the money supply cannot be controlled

THERE are however different ways of doing so The preferred method of central banks worldwide has been to do it directly, by manipulating interest rates The money supply then adapts to the targeted rate of interest if the rate is high enough, the quantity of money demanded declines by the desired amount and so, eventually, does the rate of inflation

Economists of the monetarist persuasion have never been happy about the propensity of central bankers to play around with interest rates They have pointed out that when the money supply adapts to what ever rate is aimed at, monetary instability must ensue They have argued that fixed targets of monetary growth, announced in public, convey crucial information If the policymakers adhere to the targets it would do wonders for their credibility

The public would become convinced that they are actually serious in doing something about inflation Individuals and institutions would stop behaving as if they believed that double-digit inflation had become a traditional way of life Inflationary expectations would go for a loop, the problem of handling inflation would suddenly become tractable What matters is conviction If the public believes that inflation will decline, then it surely will

The conduct of monetary policy in Western countries over the last few decades has been a sad disillusionment to monetarists

In spite of the apparent persuasiveness of their arguments for stable monetary policies, leading to predictability and lower expectations of inflation, governments and their central banks have continued to insist on discretion in the conduct of policy For a time during the 1980s it seemed as if there would be a widespread shift to monetary targeting The commitment did not last and was anyway poor in execution Central bankers have remained obstinately impervious to the strictures of academic monetarists that they could be far better at their jobs

South Africa has been no exception in the discretionary conduct of monetary policy It has added to the instability of an economy which, from the 1970s, has experienced highly variable economic growth Those who believe that inflation in South Africa is unique because it is all due to apartheid have got it all wrong Persistently high inflation only came after more than two decades of the apartheid regime It arrived to stay after 1970 and was largely the outcome of changes in the international economy, in particular the spread of flexible exchange rates

Until then South Africa had fixed exchange rates with the major industrial countries and low rates of inflation When flexible rates emerged aft collapse of the post-war B Woods system, the South can policymakers had a policy instrument at the posal they could now m the exchange rate Usuall managed it downwards meant inflation going upw

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's, Governor of the Reserve Bank, to bring inflation down, but he can't

Barend du Plessis, Minister of Finance, could bring inflation down, but he won't

can come down, but the political price is just too high

Star 7/9/91.

HENRY KENNEY,
lecturer in business economics,
University of the Witwatersrand

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central bankers to play around with interest rates They have pointed out that when the money supply adapts to whatever rate is aimed at, monetary instability must ensue They have argued that fixed targets of monetary growth, announced in public, convey crucial information If the policymakers adhere to the targets it would do wonders for their credibility

The public would become convinced that they are actually serious in doing something about inflation Individuals and institutions would stop behaving as if they believed that double-digit inflation had become a traditional way of life Inflationary expectations would go for a loop, the problem of handling inflation would suddenly become tractable What matters is conviction If the public believes that inflation will decline, then it surely will

The conduct of monetary policy in Western countries over the last few decades has been a sad disillusionment to monetarists

In spite of the apparent persuasiveness of their arguments for stable monetary policies, leading to predictability and lower expectations of inflation, governments and their central banks have continued to insist on discretion in the conduct of policy For a time during the 1980s it seemed as if there would be a widespread shift to monetary targeting The commitment did not last and was anyway poor in execution Central bankers have remained obstinately impervious to the strictures of academic monetarists that they could be far better at their jobs

South Africa has been no exception in the discretionary conduct of monetary policy It has added to the instability of an economy which, from the 1970s has experienced highly variable economic growth Those who believe that inflation in South Africa is unique because it is all due to apartheid have got it all wrong Persistently high inflation only came after more than two decades of the apartheid regime It arrived to stay after 1970 and was largely the outcome of changes in the international economy, in particular the spread of flexible exchange rates

Until then South Africa had fixed exchange rates with the major industrial countries and low rates of inflation When flexible rates emerged after the collapse of the post-war Bretton Woods system, the South African policymakers had another policy instrument at their disposal they could now manage the exchange rate Usually they managed it downwards, which meant inflation going upward

During the 1970s the gold price started rising rapidly, which would have made for appreciation of the exchange rate had it been left to the market

This would have been disagreeable to non gold exporters, so the authorities kept down the value of the rand by accumulating large quantities of foreign exchange reserves It meant that monetary policy had to adapt to exchange rate policy

Permanent undervaluation of the rand could only be avoided by reducing those large holdings of foreign exchange reserves It was achieved by expanding the money supply Demand increased, especially demand for imports The balance of trade deteriorated and the rand was no longer undervalued In the meantime the rate of inflation had gone up

The authorities resisted appreciation of the rand, but not its depreciation If, for instance, a lower gold price put downwards pressure on the currency, it could have been opposed by contracting the money supply, which would have resulted in lower imports But it would also have led to domestic recession and political unpopularity, which meant that the rand was allowed to fall.

The upshot has been that in the era of flexible but managed exchange rates after 1970 the rand has gone down rather than up, which has tended to give an inherent inflationary bias to the economy If monetary policy has been anything, it has been discretionary the money supply has had to adept to the exigencies of the exchange rate, which has been falling whatever market forces have had to say The economy since 1970 has been unstable, the monetary authorities have made it more unstable than it would otherwise have been The growth rate of the money supply has been too variable to convince anyone that the Reserve Bank was serious about putting an end to inflation Those who did think so would have been wrong

NOW the great days of gold are gone, probably for good, whatever its professional praise-singers at the Chamber of Mines may have to say Since the mid 1980s the pressures on the rand have been downward The Reserve Bank no longer has to prevent the exchange rate from going too far

It does not follow that the battle against inflation has been lost It can be won, at a price In the anti-inflationary game expectations are everything The public has to be persuaded that official announcements of intent are dead serious Once workers and firms are convinced that inflation will fall, they will adjust wages and prices accordingly

But the record suggests that suspicions are hard to overcome In the major industrial countries inflation came down sharply in the 1980s, but only after brief periods of fairly intense pain caused by restrictive monetary policies.

There is no reason to believe that South Africa can be an exception Our problem is particularly acute in the credibility stakes, the Reserve Bank straggles in at the end It has been proclaiming its anti inflationary intent for years, with no noticeable effect It is possible that Chris Stals does want to bring down inflation to 5 percent, which is the average level of our major trading partners However, there are no quick fixes It can be done, but only at the cost of much pain and suffering

The political price will be so high that we can safely assume that the Reserve Bank will never be allowed to get away with the kind of policies required to reduce inflation to even just below 10 percent If a low rate of inflation is a necessary precondition for long-term growth, in the new South Africa we will have to live with the fact that political constraints make that impossible million by the middle of next year, are living in houses of which the the books of banks and building soci- recession a

And now the local cure for high inflation

153 ARG 7/9/91

DERECK TOMMEY

Weekend Argus Correspondent

The cure for high inflation is to hold down labour costs, say the pundits.

And this is exactly what manufacturers — the second-largest employers of labour after the public service — are doing, an analysis of the latest wage and employment figures show

They show that not only have they been reducing their labour complements, but have been keeping increases in wages and salaries well below the inflation rate.

This helps explain the cold breeze the retail trade is now feeling.

According to Central Statistical Service's figures, manufacturers' monthly wage bills in the 11 months to May grew by only 4,6 percent, from R2,34 billion to R2,45 billion.

In the same period, the Consumer Price Index rose by around 12 percent

This means that when adjusted for inflation, manufacturing wages dropped eight percent in real terms between June last year and May this year.

Employment in manufacturing dropped 27 000 to 1,43 million in this period after a wholesale shedding of labour throughout the manufacturing sector.

The food industry shed 3 800 people, the textile industry 3 100, industrial chemicals 1 700, timber 1 200, cement and lime 1 500, metal products 2 600, machinery and equipment 3 300 and motor vehicle assembly 2 500.

Several other sectors shed 500 to 900 people.

It is disturbing to note that the number of people employed in the manufacturing sector at the end of May was only 3 083 higher than in 1985 when, according to Reserve Bank figures, manufacturing employed 1,430 million, and about 40 000 fewer than in 1984, immediately before sanctions and other trade restraints were imposed.

Had manufacturing been able to maintain at least a three percent growth rate in employment in the troubled 1980s, some 700 000 more people would be in jobs today

Moving to the wages paid in manufacturing, the average was R1 708 a month — an increase of 6,6 percent on the R1 602 paid last July.

The average white wage rose 8,2 percent in this 11-month period from R3 474 to R3 758 and the average coloured wage 6,9 percent from R1 104 to R1 180.

The average Indian wage rose a somewhat exceptional 15,9 percent from R1 476 to R1 702 and the average black wage 1,7 percent from R1 029 to R1 047.

Adjusted for inflation, the average manufacturing wage dropped 6,2 percent, the average white wage 4,6 percent, the average coloured wage 6,25 percent, the average Indian wage 1,5 percent. The average black wage fell 10,5 percent

These are not particularly pleasant figures for the average worker in manufacturing

But they hold out considerable hope that South Africa can eventually bring down its high inflation rate.

It shows that some manufacturers are adjusting to the tougher economic conditions and are preparing to be more aggressive and competitive.

If the government could persuade the public sector that the next wage increase should be in line with those in the private sector, the outlook for curbing inflation would be bright indeed.

Middle-class pounded into economic mess

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ARG 7/9/91

Weekend Argus Reporter

SOUTH Africans belonging to the middle classes have virtually been blown out of the economic water.

A combination of high interest rates, persistent inflation and poor salary increases have pounded many families into the worst position since the great depression

And little relief from the ravages of recession are in prospect

Most middle-income households expect to be hard hit by VAT and the increased petrol price. Those living in Johannesburg face soaring rates in the wake of massive increases in the municipal valuations of properties

These conditions are clearly reflected in increasing bankruptcies, distress selling of homes, dwindling retail sales and plunging demand for credit.

Mr Andrew Reekie, senior marketing manager at Stannic, said: "There is no doubt that the middle-class has been hard hit. We have seen it in very high levels of bad debt in our motor business, although this has appeared to level out in recent months, indicating that the weak have already gone to the wall

"Even the reasonably secure are having a difficult time meeting fixed commitments In different times, these would be regarded as good clients but now they are hanging on grimly."

He said such factors as higher taxes, lower wage settlements and mortgage bond interest rates, which have stayed high for longer than expected, had taken their toll

Demand for credit had plunged.

"The average man cannot even think of taking on new commitments at this stage," said Mr Reekie.

Another factor was that bank margins were under strong pressure from the Reserve Bank and there was little flexibility in the system

Even the recent reduction in the rate at which VAT will be levied holds little cheer

Econometrix motor industry specialist Mr Tony Twine says the middle-class will be hardest hit when it comes to running the family car

Higher-income groups will be least affected at 2,27 percent, lower-income groups slightly worse off at 2,48 percent and middle-income groups worst off at 2,73 percent.

Standard Bank says the situation is mirrored in figures for retail sales which held up fairly well last year, but have slowed dramatically.

The peak year-on-year increase in their value in 1990 was about 23 percent, but by mid-1991 this had dropped to 10 percent

The figures for hire-purchase lending and leasing showed an average growth of 14,5 percent in the first six months of this year compared to 20,7 percent in 1990 and 31 percent in 1989

The bank says this is an indication of consumers reaching the limit of their borrowing powers

In the field of credit cards, total monthly debit balances rose to R2,9 billion for the first half of this year, compared to an average of 2,5 billion last year

This might indicate consumers were resorting to their cards as they ran out of cash from other forms of credit.

However, the rise was in line with inflation (16 percent) and it was likely there were more cards in circulation

Consumers taken for inflationary ride

153 (826) ARG 7/9/91

INEFFECTIVE control boards, industries supplying the farming sector and a lack of competition among food manufacturers had to be blamed for the rising cost of food, a report by the corporate database and research organisation, McGregors Online Information, has revealed

Farmers, in particular, were being pressurised from all sides — squeezed between high input costs from the suppliers to their industry, and low prices for their products from the food manufacturer or the control board

According to the McGregor report, food prices were dictated primarily by weather conditions, agricultural productivity, marketing efficiency and vigorous competition among processors and distributors

In South Africa, however, control boards dictated what and how much a farmer should produce and what he should be paid for the crops, and there was little or no competition among processors and distributors

The food manufacturing industry and the industries supplying farmers with animal feed, fertiliser and fuel were essentially a series of oligopolies

The report slammed the "bureaucratic" control boards for placing huge costs on the consumer to fund their operation, with no benefit whatsoever

The Meat Board, for example, employed 1 600 people and these costs were carried by the consumer

The lack of competition in the food manufacturing industry meant that manufacturers used their muscle to pass increased costs directly to the consumer

The report contains a table of price increases over 10 years (from 1980 to 1990) showing that state and private oligopolies and control boards were equally responsible for leaps in prices of commodities and services

- The petrol price has risen by 138 percent, with five producers supplying 75 percent of the market
- Control boards saw to the 354 percent increase in meat prices, the 263 percent increase in the price of eggs and the 298 percent hike in milk prices
- Price control is responsible for the 347 percent hike in the bread price, the report says
- The public sector is responsible for a rise of 316 percent rise in railage costs and 350 percent in postage
- The control of private sector oligopolies is illustrated by the 406 percent boost in the price of aspirin produced by only two manufacturers

AECI probe blasts government policy

(153) CT. 10/9/91

From SHARON WOOD

JOHANNESBURG — Investors in new projects are significantly disadvantaged by SA's high inflation and corporate tax rates, says a recent report by stockbroking firm Davis Borkum Hare The broking firm drew heavily on research by AECI, although the chemicals group did not authorise its publication

The broking firm's report says that SA inflation and tax rates lead to cash margins on goods made in SA having to be significantly greater here than abroad if returns on new investments are to equal those in countries with less punitive tax regimes and lower inflation

The dilemma is that higher cash margins — defined as residual revenue left after all the cash costs of manufacturing have been met and which is used to increase working capital, pay tax and appropriate returns on capital — affect the price competitiveness of SA goods in export markets.

The study, which is being examined by government, says total tax burdens on new projects here are about two-and-a-half times those on comparable ventures in the UK or the Netherlands and as much as six times those in Taiwan.

It suggests the corporate tax rate be cut to 35% if foreign investors are to be persuaded to invest here in job-creating projects

The report stresses the need for certainty and credibility in corporate taxation

The study found that SA companies were more competitive in 1980 when there were better investment incentives than in other countries, the SA inflation rate was in line with competitors and SA's corporate tax rates were lower

The study says the solution lies in reducing tax because inflation is being addressed and will be controlled over time

● In his 1990 Budget, Finance Minister Barend du Plessis announced plans to cut the corporate tax rate to 40% over the next five years Recently he said that reaching that target might be delayed because VAT's initial rate had been cut to 10%.

Businessmen sink into the gloom of recession

Star 10/9/91.

By Derek Tommey (153)

Anyone looking at the latest Business Confidence Index from the South African Chamber of Business for signs of an economic upturn will be disappointed The trend is still downward

However, Sacob says that the August index may have been influenced by the pending introduction of VAT, which has caused a large-scale postponement of corporate purchases

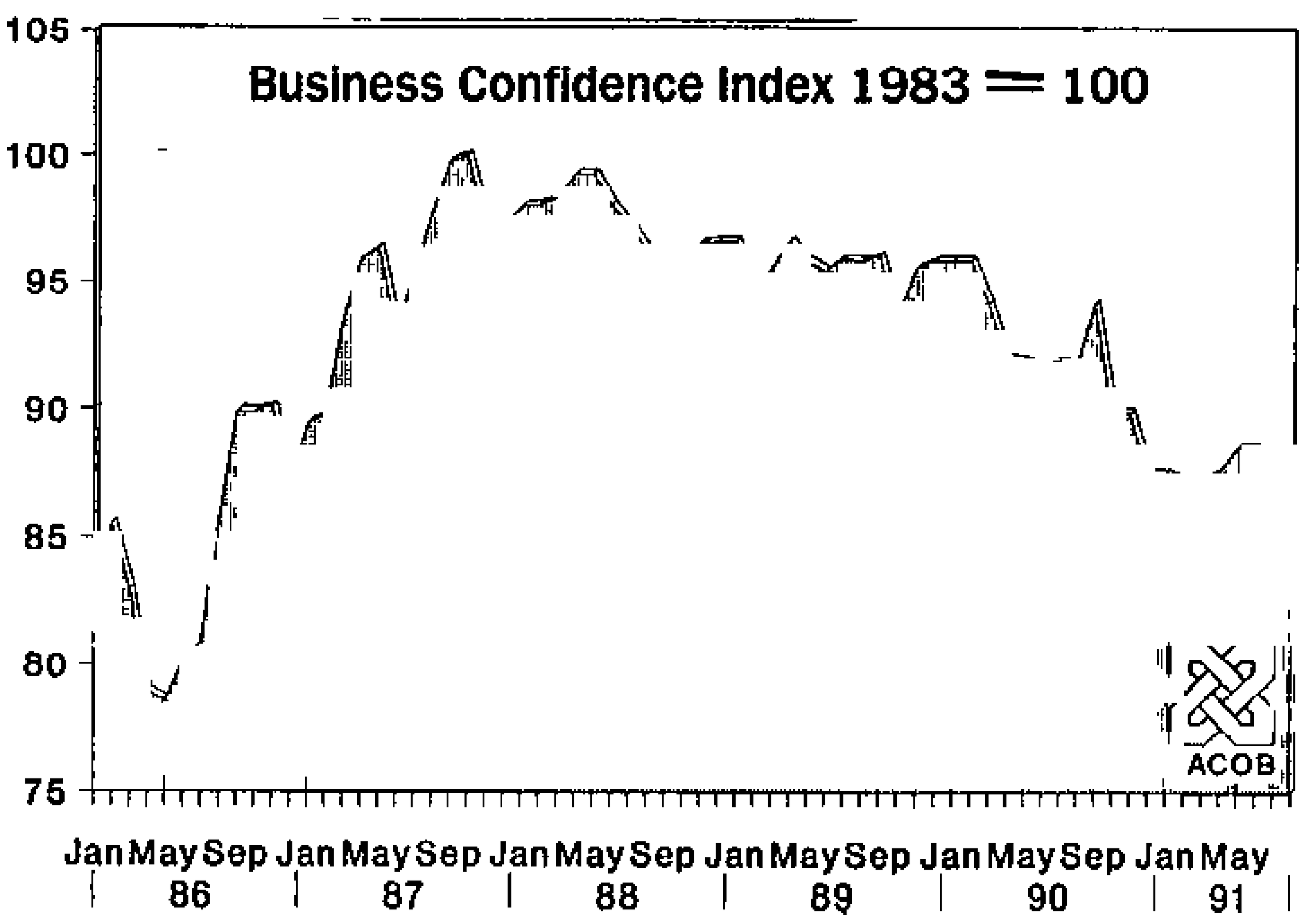
It adds that there is a great deal of uncertainty among both consumers and business about the impact of VAT's introduction on prices in the short-term

"It is now extremely important that VAT's introduction should take place as scheduled, if further damage to the economy and a deepening of the recession is to be avoided," says Sacob

It also believes that when the upswing does get under way its sustainability will have been improved by the country's relatively low debt gearing and improved access to world markets.

Overall, it says, the business mood continues to be fragile Continued high inflation and its implication for interest rates are also a cause for some concern, as is the poor performance of gold and platinum

But there is still some basis for optimism that a new upswing is imminent and that it will be sustained for far longer



than those experienced in the past decade

Although business confidence, as measured by the index, rose from 87,7 in April to 88,6 in May to raise hopes that perhaps the worst of the recession was over, by the end of last month it had fallen back to 88,2

Factors depressing the index included the lower gold price, the contimued rise in inflation, the drop in new car sales and the decline in the real value of building plans passed, the increase in unemployment, the drop in manufacturing output and increased insolvencies

On the positive side, the index was helped by the rise in imports and exports, the rise in share prices and an expected increase in retail sales in real terms

Sacob comments that the further small decline in the BCI appears to reflect the continued uncertainty surrounding the current stage of the business cycle and political developments — and confirms why South Africa cannot take its economic performance for granted

The economy continues to give mixed signals While there appears to be a general consensus that the economy will not deteriorate still further, there is a fairly significant divergence between the performances of different sectors of the economy

While some are starting to feel an improvement, others continue to experience recessionary conditions

This situation is common around the turning points of a business cycle, Sacob says

But when the upswing comes the fact that it is likely to coincide closely with that in the international business cycle should mean that the country's export performance will increase at the same time

Therefore, in spite of an inevitable rise in imports, pressure on the balance of payments will be limited by continued growth in exports

The monetary authorities will be able to allow the upswing to progress for longer before trying to curb the demand for imports

Sacob's survey of confidence levels showed that most manufacturers expected sales and production volumes to increase in the next 12 months and that capacity utilisation would also rise

But, facing the fact of high interest rates and continued excess capacity, most manufacturers still expected to cut back further on stock levels

Employment in the manufacturing sector will continue to be under pressure, with no increase expected in the employment levels of skilled people and a decline in the employment of unskilled workers.

Earlier expectations of a large-scale increase in real capital expenditure have cooled, and the trend will now be on maintaining existing capital stock rather than on new ventures

However, most manufacturers surveyed still expected to spend more in real terms in the coming year

Govt losing ground in fight against inflation

(153)

By Derek Tommey Star 13/9/91

The producer price index (PPI) for July shows that inflation remains stubbornly high and is even increasing, in spite of the Reserve Bank's tight money policy.

Figures issued by Central Statistical Services show that the PPI for all commodities for consumption in South Africa rose by 0,9 percent in July (1,4 percent seasonally adjusted) to 221,20 (1985 equals 100)

This brought the increase in producer prices in the 12 months to July to 12,1 percent

This is a deterioration from the position in June when the PPI showed an increase of 11,2 percent on the year-ago figure

Commodities

The prices of locally produced commodities also rose 0,9 percent in July to show a year-on-year rise of 12,5 percent In the 12 months tod June the price of these goods rose 12 percent.

The price of imported commodities rose 0,6 percent in July to show a year-on-year increase of 10,2 percent, thus continuing the tendency to show a smaller increase than local items.

But even this 10,2 percent rise is a deterioration on the 12 months to June, when imported prices rose only 7,9 percent

Helping to push up the PPI in July were a 3,6 percent increase in the price of agricultural foodstuffs, a 3,2 percent rise in the coal price, an 8,6 percent rise in fresh meat prices and increases of more than four percent in the prices of leather and footwear

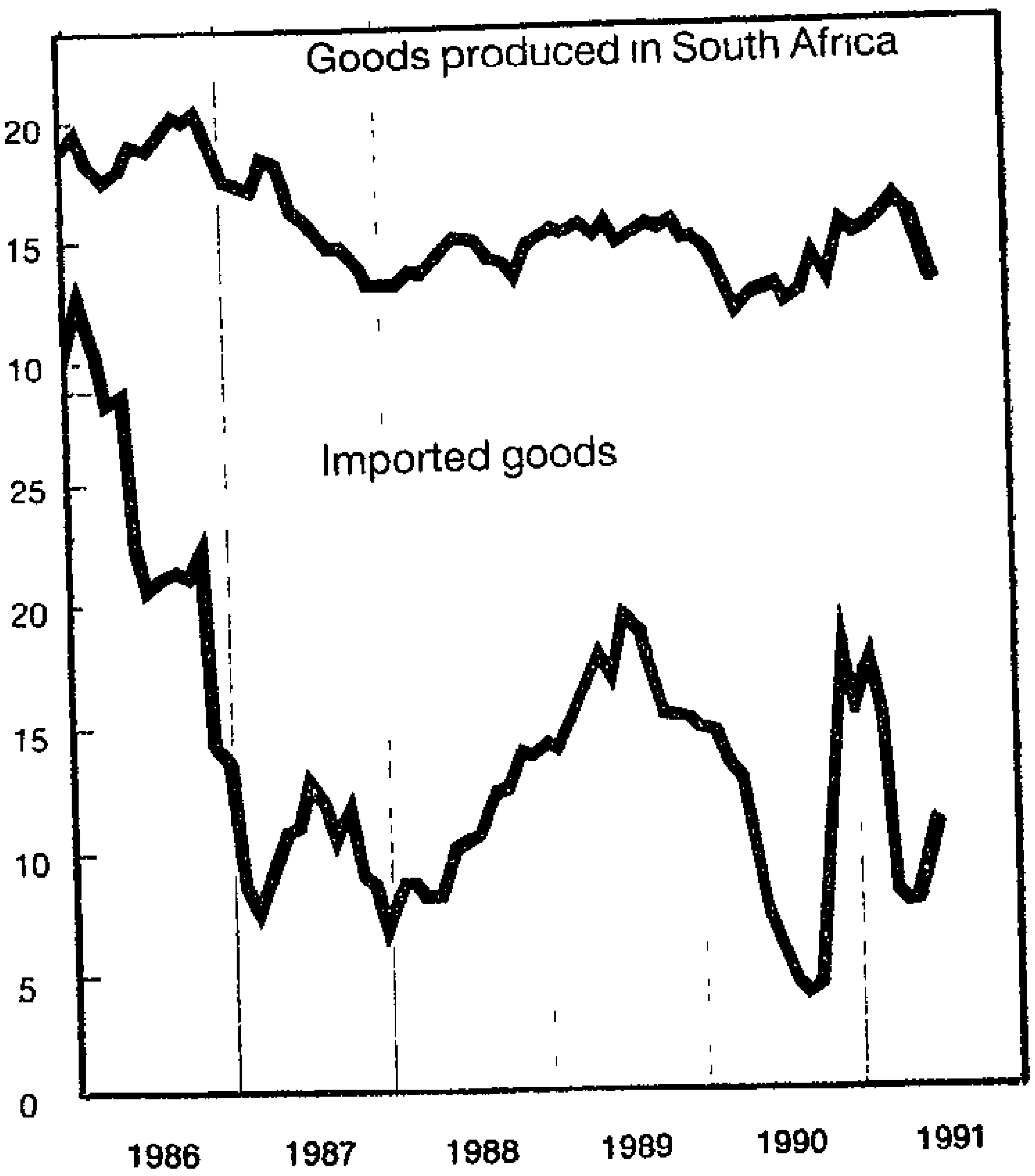
Other items to show significantly large increases in July were newsprint paper (6,1 percent), natural crude rubber (9,4 percent) and transformer oil (16,5 percent).

However, there is a little bit of good news in the figures

The price of bitumen dropped 5,5 percent in July, while the price of tar fell 3,3 percent, plastic in bulk 1,3 percent and tyres and tubes 0,2 percent

Items showing big price increases in the 12 months to July were farming products (15,7 percent), coal (31,5 percent), manufactured food (13,2 percent), tobacco products (16,4 percent) and paper, paper products and printing (16,35 percent)

These latest PPI figures will disappoint inflation-watchers



Producer prices: prcentage change over 12 months.

South Africa has now had more than two years of restrictive money and fiscal policies.

In the past 18 months to two years the prices of many of major exports have fallen sharply These two developments between them have squeezed the economy severely.

By now one would have expected firms, in a bid to improve their competitiveness, to restrict price increases, with overall prices showing much smaller increases than in the past.

However, one of the reasons why this probably has not happened is that the recession has been relatively mild until now.

Recession

As a result, many firms have tended to believe the tight money policy would not affect them.

But the longer the recession has continued, the harder it has been biting. Reports from industry suggest that for many firms the moment of truth has at last arrived

Because many firms underestimated the extent of the downturn and did nothing when they should have been tightening up their operations, they are now having to take drastic steps just to survive

Unless there is a marked recovery in the economic climate overseas, conditions in South Africa are likely to remain extremely difficult

This should ensure that the anti-inflation drive will at last start producing significant results.

PPI shows inflation on the rise

AUG 13/9/91

Business Staff

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Old give inflation policies new political weight

153 ACCT 14/9/91

Finance Staff

DISILLUSIONMENT over the Reserve Bank's anti-inflation policies is increasing.

Economists are emphasising the costs of fighting inflation (seemingly a losing battle) while the supporters of the current policy emphasise the evils of inflation and the risks run if tight monetary policies are eased

Conspicuous by its absence, however, is any reference to the recent secular downward trend of inflation in the western world and its implications for South Africa

In his annual chairman's statement at the end of August this year, the Reserve Bank Governor, Dr Chris Stals, referred to the damaging distortions created by a chronic high rate of inflation

Yet Dr Stals did not dwell on the economic consequence for South Africa of the high probability that within the next 10 years or so the rate of inflation in the industrial world will have fallen to virtually zero.

For most of the post-war period, political and economic forces tended to permit or even encourage inflation But now these forces are operating in the opposite direction

The political climate for inflation is altering because of the changing age structure of voters in western countries

The young and economically active tend to benefit from inflation, because they have skills that enable them to bid up their salaries

Inflation, however, is not in the interests of those who are retired and living on pensions

In western countries even people with indexed pensions merely keep pace with inflation, while most pensioners lose out

In 1980, 22 percent of the population of Britain was over 60, a percentage that by 2010 will have risen to 24 percent

This is not a major shift, but in some other European countries the relative importance of the elderly is becoming more pronounced

In Germany, the proportion of the population over 60 will have risen from 19 percent in 1980 to 27 percent in 2010, in France from 17 percent to 23 percent, and in Italy from 17 percent to 27 percent According to some estimates, by 2020 more than 30 percent of Germans and Italians will be over 60

If one adds people approaching retirement and subtracts children who do not vote, the situation by the end of this decade will be something close to a majority of voters in Europe for whom inflation will be the number one enemy

In the US there will not be quite as sharp an age shift as in the European Community, but in Japan it will be on the same scale as in Germany.

This demographic shift is only beginning to affect political parties and their attitudes towards inflation — but it is bound to grow.

Meanwhile, on the economic front, inflationary fears are so embedded in western countries that interest rates are now positive in real terms, and governments can no longer borrow money cheaply to finance budget deficits. This again is strengthening political opposition to inflation in the western world

If inflation hardly exists in these countries by the end of the decade, this could have important adverse implications for South Africa and its battle against the inflation curse.

If the inflation rate in South Africa remains around 15 percent and inflation in its major trading partner countries becomes derisory, the inflation rate differential will widen further.

This in turn would mean that South Africa will face an even more demoralising experience as the rand exchange rate declines on an ongoing basis by a larger amount against other currencies.

Even lower inflation rates in the western world will therefore not aid South Africa in its fight against inflation, and such a larger inflation rate differential would threaten to create a banana-republic image

VAT 'might lift inflation'

B/Day 11/9/91

GERALD REILLY

PRETORIA — VAT's introduction and the recent fuel price increase could push the inflation rate as high as 16% or 17% in October, a study by the Stellenbosch Bureau for Economic Research has found.

Bureau economist C J de Jager said a recent study showed the major causes of inflation could remain in place for years (153)

VAT would be an additional aggravating factor

The inflation rate would probably remain about 15% for September, while VAT was likely to add an extra percentage point and push the rate as high as 16% to 17% in October if the effect of the of the fuel price hike was taken into account.

VAT would add almost five percentage points to the CPI's food component and was likely to worsen unrest.

However, he said the inflation rate could drop to about 13% by October 1992

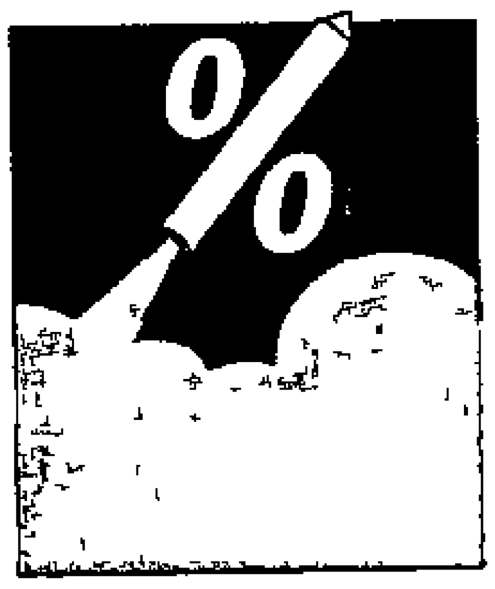
INTEREST RATES

Nailing the culprits

153

Inflation is being driven by government spending

FM 20|9|91.



Interest rates have been falling steadily in a number of major industrial economies Last Friday, the US Federal Reserve Board lowered its bank lending rate from 5,5% to 5%, which prompted at least one bank to drop prime by the same amount to 8% The UK base rate fell a half percentage point to 10,5% on September 4 and, in July, Japan's prime rate was reduced to 7,63% These are only the latest in a series of adjustments in key rates that have taken place this year

But these declines in countries that are among our major trading partners don't necessarily set the scene for a similar move in SA Though they ease pressures by reducing the cost of offshore funding, real interest rates in SA are still relatively low compared with those in countries with which we do business They have fallen as inflation has risen from a low of 12,8% in mid-1990 to nearly 16% in June

This is the heart of the problem Despite determined monetary policy, inflation has remained stubbornly strong

There are two reasons One relates to expectations that prompt businesses to raise prices, and workers to ask for wage increases, above the expected rate of inflation The other relates to government spending and its impact on aggregate demand

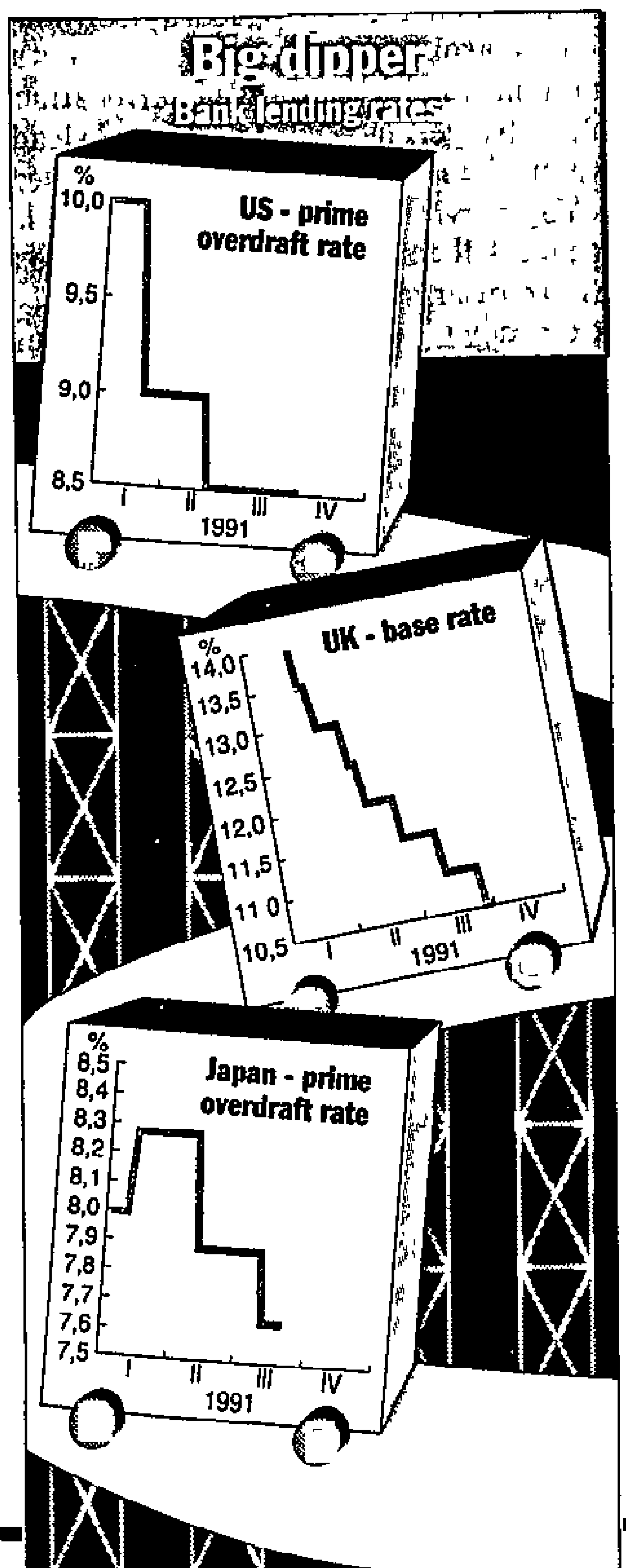
In the 12 months to June, consumption by government, which started to accelerate towards the end of last year, was 5% higher than in the previous 12 months This growth is expressed in real terms, that is, after the effect of inflation has been removed Economic growth in the period was negative So government's share of the economy is growing significantly With publication of figures on flows in and out of the State Exchequer Account in the first five months of the fiscal year, it becomes clear that appropriate monetary policy is being sabotaged by government's failure to impose fiscal discipline

Last month government spending was 29,7% higher than in August last year and, in the first five months of the fiscal year, it was up nearly 18% on the same period in the previous year This is well ahead of the budgeted rise of 13,7%

Nedbank group economist Edward Osborn argues that the sharp rise is due to a technical reason "It is off a low base, in that spending last year got off to a slow start This year's expenditure level in the first five months is almost exactly in line with budget estimates, excluding the R1,2bn contingency provision The big jump between July and August was entirely due to the half-yearly interest payments "

However, spending is only part of the problem Revenue rose 13% August-on-August and 4,1% over the five months — against a budgeted 11,1% rise for the year Businesses that want to survive the recession are cutting back on spending at an estimated rate of 15% this year But government, which does not have to generate an operating surplus or even cover costs, faces no such constraint on its spending It is free to make an operating loss year after year, to decide each year the extent of the loss, and then finally to generate an even greater loss at the end of the year In most years it makes full use of all these options

The 1991/1992 fiscal year is proving no exception Faced with a shortfall in tax inflows in the recessionary climate, government is not cutting back on spending but rather pressing ahead The result is that the deficit for the fiscal year, so far, amounts to more than R8bn, not far short of the year's targeted R10,1bn deficit



Source STANDARD BANK

Of even greater concern from the point of view of monetary policy, Reserve Bank Governor Chris Stals pointed out in his annual address, the deficit has been financed "to a large extent by an increase in the net claims of the banking sector on the government " Government has been running down its deposits with the Reserve Bank and borrowing from the commercial banks thereby creating assets against which the banks are able to gear up their business And government is doing so at a time when its avowed policy is to reduce the rate at which credit is extended

Says Standard Bank chief economist Nico Czypionka "This has contributed to a large build-up in the money market at a time when the Reserve Bank was desperately trying to mop up excess liquidity The running down of government deposits at the Bank had the effect of increasing net claims on government and as a consequence increasing the money supply "

As long as government spending causes monetary expansion, interest rates cannot fall without unleashing dangerous inflationary forces The losers then are private consumers who have been forced to cut back on their borrowings and businesses, which have been obliged to reduce their inventories, run down capacity utilisation and allow their capital stock to age The result is negative economic growth and rising unemployment

These developments reinforce inflationary expectations The role of expectations was highlighted by Deputy Governor Jaap Meijer in a speech to a trade association last week The inflationary impulses of the Eighties were excessive monetary demand, the weakening of the exchange rate and inflation Now, he saays, it "is an expression of deeply entrenched inflation expectations, inflation Now, he says, it "is an expression of deeply entrenched inflation expectations, rate tend to be regarded as permanent and possibly as foreshadowing further inflation increases, whereas declines in the inflation rate tend to be discounted as fortuitous, self-reversing and temporary "

From a strategic point of view then, it would not be advisable to reduce the official Bank rate Says Czypionka "The growing deficit comes at a time when consumer price inflation has been rising and when the introduction of VAT at the end of the month is expected to create at least a once-off rise in prices of 1,5%-2% Stals will not want to be seen to be accommodative "

continue

So those who would like to see interest rates fall should plead for less government spending and/or higher taxes Each of these, or a combination, would reduce the size of the deficit and its inflationary consequences

Of course, both remedies have a price An increase in taxes, in an economy that already has one of the highest corporate tax rates in the world, would be a huge disincentive to growth And a reduction in State spending would be politically difficult

It is only fair to concede that the need to effect a redistribution of resources has increased the demand on State coffers But this is only a part of the total picture Included in the Exchequer figures are countless outflows on wasteful projects including a wide range of industrial "incentives"

These include.

☐ Accelerated tax write-offs, announced in June, on capital expenditure for selected projects (*Economy & Finance* September 13),

☐ A regional industrial development scheme introduced in May to provide relocation assistance for overseas companies prepared to establish themselves in areas outside the PWV and Durban This scheme replaces a more wasteful earlier version and is scheduled to be run down over five years;

☐ The General Export Incentive Scheme to be in place for five years The open-ended nature of the scheme is already causing problems (*Business* August 23) because there are doubts as to whether the R2,4bn budgeted for the scheme will cover the actual costs,

☐ Zero VAT rating for exports,

☐ Export marketing assistance,

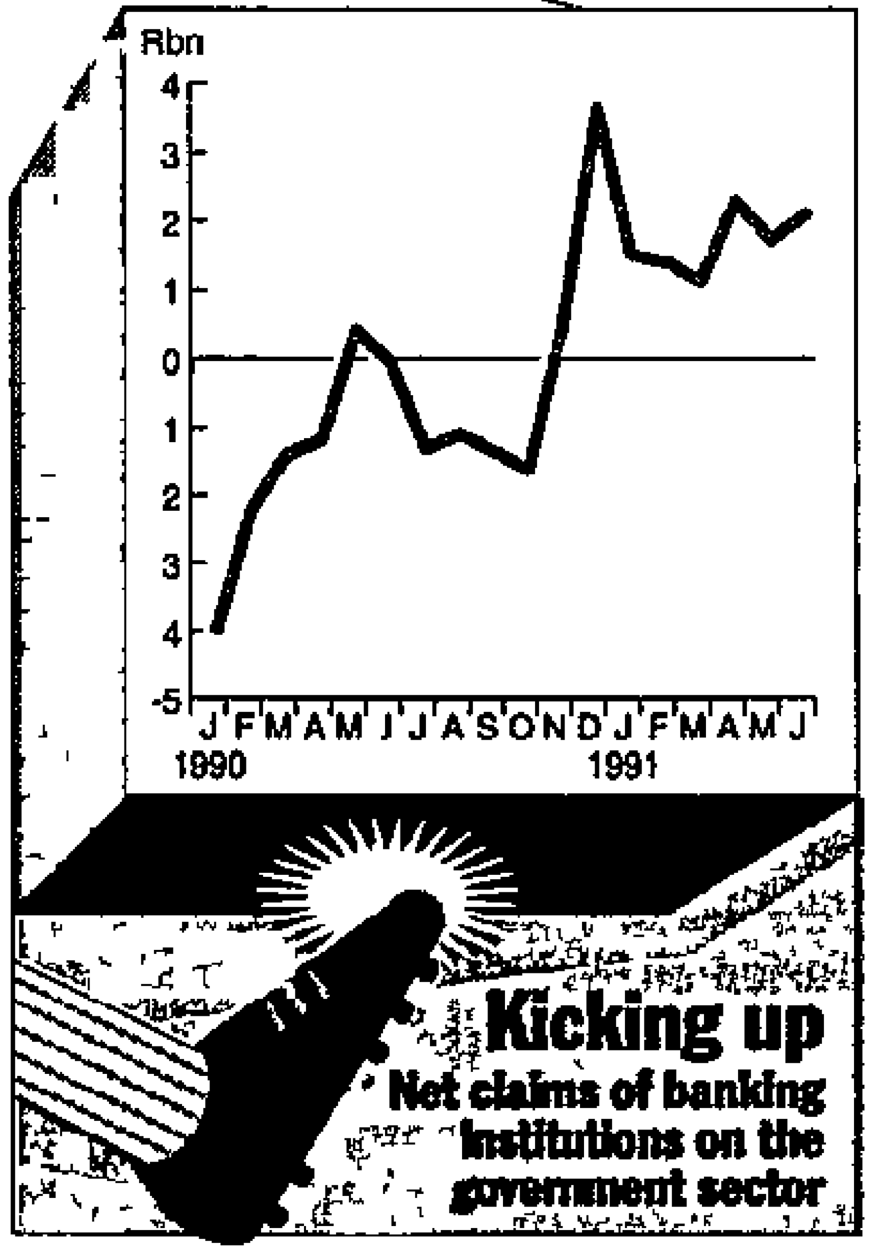
☐ A tax deduction of 25% of expenditure on scientific research, and

☐ A subsidy of up to 50% of the cost of technological innovations This is capped at over R40m for five years

These are ostensibly to promote growth in certain sectors and in specific regions, and to encourage exports Deputy Minister of Trade & Industry David Graaff points out that these types of incentive are common in most industrial countries "to promote specific aspects of industrial investment, including those that have low inflation and low tax rates"

But what these incentives avowedly set out to achieve could be accomplished if government lowered the tax rate and still achieved a non-inflationary deficit

The incentives are a visible example But as we all know there are countless other unnecessary outflows to dubious projects hidden in the published figures All on the top of the heavy costs of the replicated administrative structures created by apartheid



An unwelcome exogenous pressure is now coming from a falling gold price "which reduces the supply of credit," says Econometrix's Azar Jammine "So it is more important than ever to allocate our resources appropriately This means through the market mechanism and not through government intervention And as long as government's share of the economy continues to grow, markets cannot operate effectively"

Unfortunately, there seems no solution under the present inexplicable system of fragmented control Responsibility for the Budget rests with Finance Minister Barend du Plessis, but responsibility for State Expenditure lies with Amie Venter, also Minister of Regional Development, who assumed his present post as Minister of State Expen-

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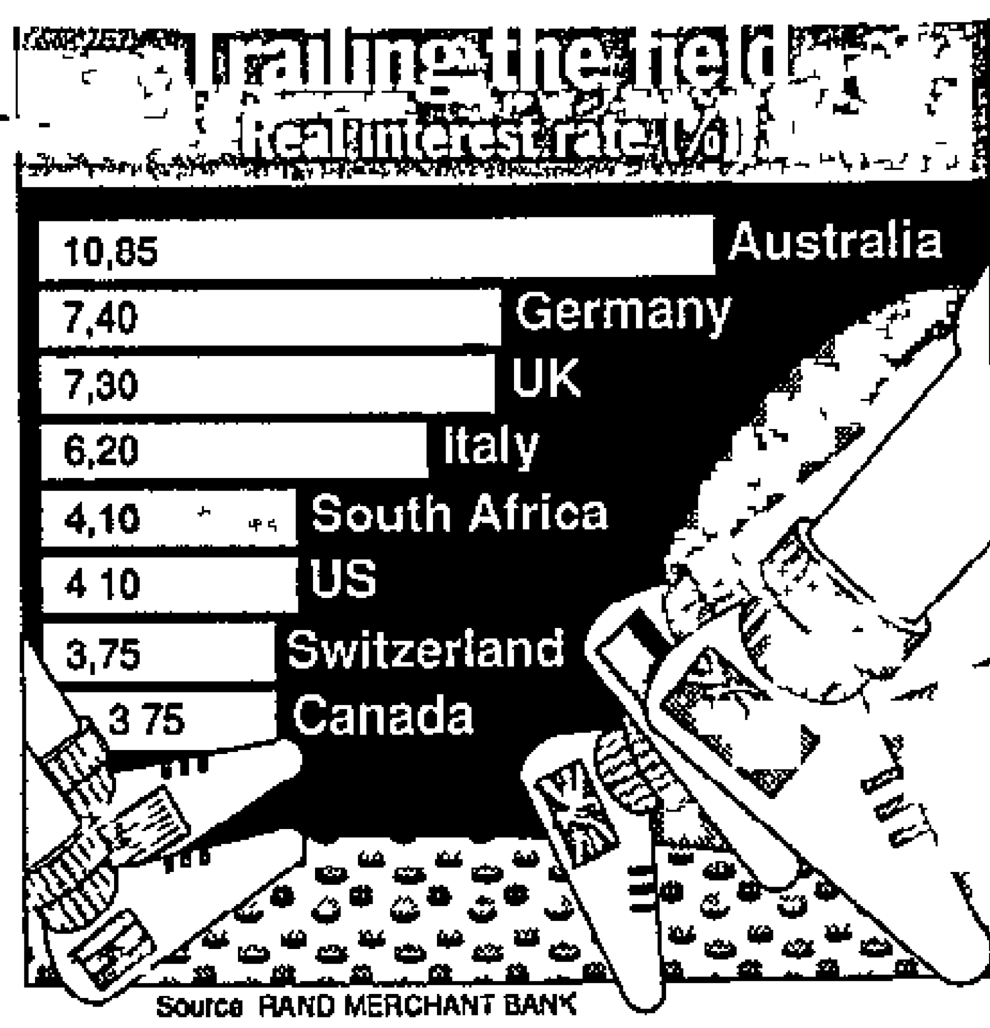

Source RAND MERCHANT BANK

diture in April

The arrangement is anomalous because the Treasury Act specifies that the Act must be administered by the Minister of Finance It must still be legally formalised by proclamation in the *Government Gazette*, under Section 26 of the Constitution Act, which allows the State President to assign responsibilities to different Cabinet ministers

Venter was appointed to the Cabinet in November and his main qualification for his present job appears to have been a spell as Minister of the Budget and Local Government in the Ministers' Council of the House of Assembly

An indication of the confusion that the division of responsibility creates comes from the fact that functional guidelines for the two departments have not yet been set This has plunged the two departments into a public squabble with State Expenditure Director-General Henry Kluever reportedly claiming he is not able to do his job adequately because of interference from Finance

The only person, besides Venter, who is formally appointed to State Expenditure is Kluever, the nine directorates that work through him are staffed by people from Finance They will be transferred when the arrangement is eventually formalised

Du Plessis, who is responsible for Revenue and the financing of the deficit, is also charged with formulating and implementing macroeconomic policy Which makes it perplexing that he not only agreed to the present arrangement, whereby expenditure is removed from under his direct control, but actually asked to be relieved of this responsibility He explained to the *FM*, at the time of Venter's appointment, that his various responsibilities did not leave him enough time to supervise adequately the spending of the various departments

Apart from the confusion and dislocation caused by this unsatisfactory situation, a casualty of the arrangement is that Finance Director-General Gerhard Croeser, who previously informally monitored off-budget spending, is no longer doing this crucial job And neither is Kluever

This expenditure is an important aggregate in the present situation Though it is provided for in the Budget, below the line, the flows add to the liquidity of the system if they are not financed by revenue raised but come, instead, from government's account at the central bank or are financed by borrowing from banks In July, for instance, a month when on-Budget spending was 7% lower than spending in the previous July, an amount of R450m was paid out below the line (If this amount had appeared on Budget, the decline would have been converted into a small increase) This was followed by below-the-line payouts, in August, of R37m and R59m

Any discussion of the deficit must take into account the cost of servicing State debt This is reflected in the Statutory Amount set aside under Finance for this purpose The budgeted amount was R15,8bn When the discount for RSA stock is subtracted, the net amount is R13,1bn

Without interest payments, government's State revenue account moves from a deficit into a surplus in the full financial year An important contributing factor to the size of the interest bill is high interest rates Also, government has been borrowing well in excess of its requirements in recent years and appropriating the surplus finance for a number of ad hoc purposes, such as the payment of foreign forward contract losses, top-up of government pension funds and financing of the Independent Development Trust

So public debt rises inexorably and government finances are trapped in a perpetual spiral of spending and borrowing In these circumstances our options are higher taxes, interest rates that remain painfully high in nominal terms or — if monetary policy follows the route of fiscal policy — hyperinflation Those who seek a scapegoat for the present policy of high interest rates need look no further than Venter, Du Plessis and their free-spending team ■

You're worse off — in case you didn't know

ARG 21/9/91

153

ROY COKAYNE
Weekend Argus Correspondent

PRETORIA. — The erosion in real earnings in the past six years few employees have escaped has been confirmed and quantified by a new annual salary survey.

Hay Management Consultants' latest survey also found there was still a difference in salaries along racial lines among lower-level employees, in spite of most organisations having a common pay policy for all employees

According to the survey, details of which were issued at a feedback session in Pretoria this week, the gross earnings of a clerk increased by 198,4 percent between 1985 and 1991, while the Consumer Price Index (CPI), which measures inflation, rose by 235,3 percent.

In contrast, the gross earnings of managers increased by 217,3 percent and of senior management and executives 230 percent

A comparison of the net take home pay, after tax and deductions, of married men with two dependents showed reduced earnings for clerical staff and managers Executive net earnings grew by 250 percent — exceeding the CPI increase

Hay South Africa's managing director, Mr Ib Ravnsborg, predicted a continuation of this trend. But, he said, the better-skilled section of the workforce seemed to weather the storm better, particularly professional staff and senior managers

Mr Ravnsborg said the financial position of the average South African could be improved through better individual skills, a reduction in the tax burden and a high and sustained economic growth rate.

"The first option is, without doubt, the avenue providing increased security and better compensation possibilities," he said.

According to the survey, overall salaries had increased by 12,9 percent in the past year. But the prospect of salary increases next year matching or being above the inflation rate was bleak.

Hay Management Consultants's survey manager, Mrs Maureen Hovy, said the predicted salary increases for next year were between 12 and 14 percent for unionised staff; 10 and 12 percent for general staff; 12 and 14 percent for management staff; and 13 and 14 percent for top executives

Mrs Hovy said there had been a trend away from a basic salary and that two-thirds of top executives now enjoyed a package based more on benefits

There had also been a significant movement in the past year toward incentives at senior management level, and a phenomenal trend toward incentives rewarding performance at top executive level.

Mrs Hovy said car entitlements for employees had not changed significantly between 1985 and 1991, but the cost to a company of providing the benefit had changed dramatically The provision of a car benefit had also moved downward in the organisational ranks

More than a third of companies had retrenched people, at all levels, over the past few months

However, the labour turnover figure was significantly down, dropping to 14,9 percent this year from 17 percent last year

South Africans facing 'three faces of inflation'

153 ARG 21/9/91

DUMA GQUBULE
Weekend Argus Correspondent

INFLATION in South Africa could go three different ways over the next 10 years

This is the view of EW Balderson economist Jocelyn Bell, who says her analysis is based on the stances of political protagonists now on the stage.

The "best case" scenario assumes that the transition to fully democratic government will be smooth and that the economy will be effectively kick-started

The result will be strong and sustained growth, making it possible to accomodate demands for increased government spending on education, health and welfare without any increase in taxation

Privatisation goes ahead once again and reasonable deregulation acts as another spur to economic growth. Reserve Bank Governor Chris Stals remains in his present position

The outcome of this scenario will be a falling rate of inflation, modest depreciation of the currency, and low, but positive interest rates.

The "middle case" scenario assumes that the economy is not kick-started and that it muddles along from recession to stagnation, with interludes of growth.

Inflation is allowed to rise until it stabilises at a rate of around 20 percent. The currency falls accordingly, and reaches R12,69 to the dollar by 2001 while prime interest rate rises to 25 percent

Chris Stals is kept on as Governor of the Reserve Bank, but he cannot hold the line on inflation.

Politically, the country mudddles along as a democratic government tries different ways to appease its supprters without making the necessary sacrifices to sound economic principles.

The "worst case" scenario, which falls short of total chaos, sees no return to sound economic growth because of political paralysis

The scenario is similar to "middle case", but much worse Politicians try to meddle with the economy, but leave Chris Stals in his job in order to create a semblance of economic rectitude.

Interest rates are kept positive, but inflation and the falling exchange rate keep on reinforcing one another.

Hyperinflation is avoided, but the economy is in a terminal state.

ARG 21/9/91 153

You're worse off — in case you didn't know

ROY COKAYNE
Weekend Argus Correspondent

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It's a long, slow haul for the economy — Sanlam

153

By Sven Lunsche Star 25/9/91.

Sanlam's economists foresee an improvement in general economic activities for 1992, but caution that the upswing will progress only slowly

In its latest economic review, Sanlam forecasts a decline in GDP of 0,6 percent this year, but a positive growth rate of two percent in 1992

The upswing however will be retarded by the stubbornly high inflation rate, increases in wages and salaries that exceed the inflation rate and continuously uncertain political climate, chief economist Johan Louw says

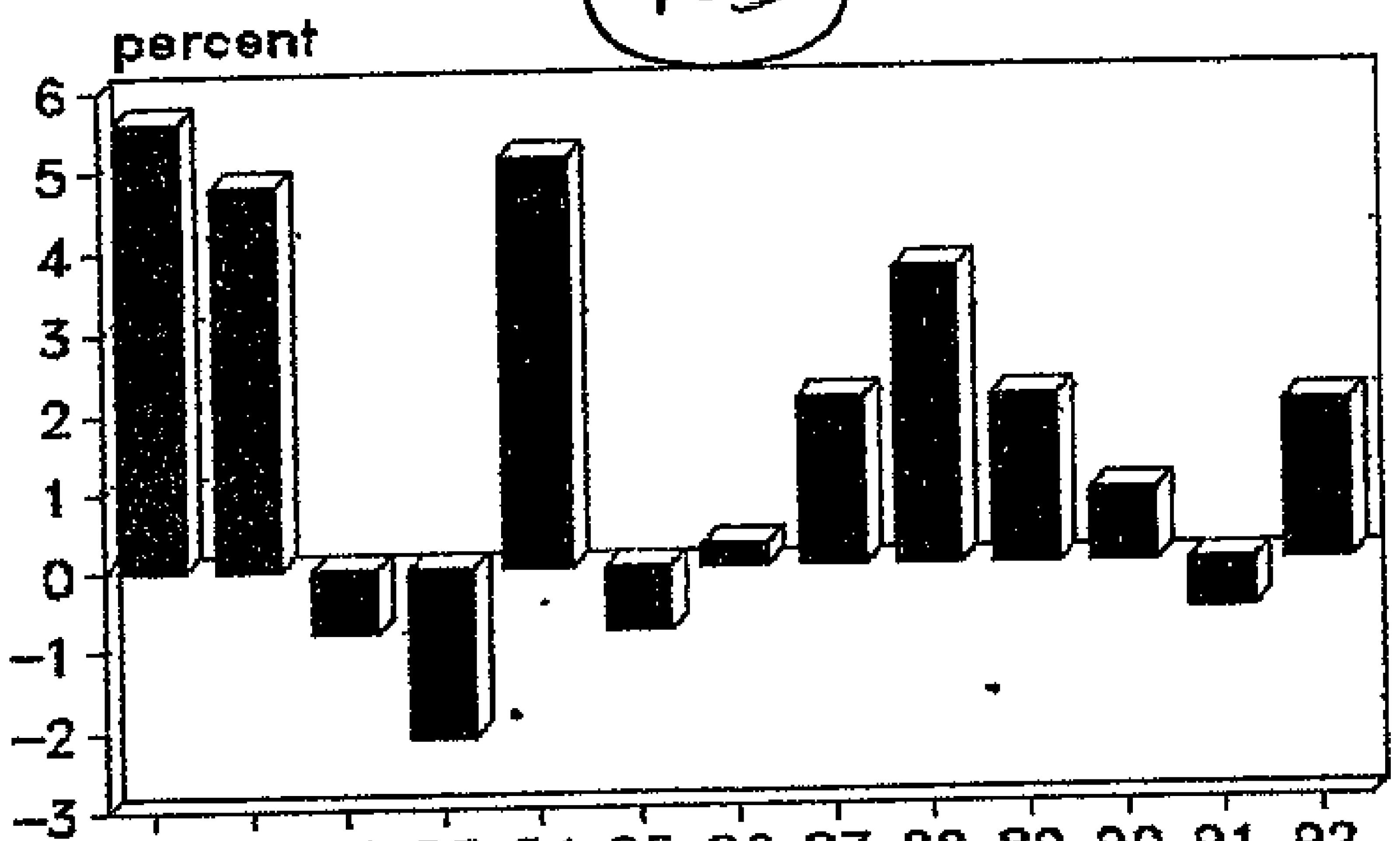
Inflation

He expects inflation to remain at levels of about 15 percent by the end of the year, but only after the implementation of VAT pushes it to 16 percent in October

Turning to the recession, which has now lasted for about 30 months, Mr Louw says it is significant that the intensity of the present downswing is considerably lower than that of the previous two recession phases

And there are a number of economic statistics which indicate that the economic downswing is bottoming out

- The Reserve Bank's leading economic indicator has been showing an upward tendency since January
- The public sector's current expenditure is showing a reasonably sharp increase
- The change to VAT forms part of a fiscal package that should encourage private consumer spending, as well as capital investment by companies
- The continued improvement in the balance of payments and the lifting of sanctions



GDP growth (1991/92 are Sanlam estimates).

Mr Louw emphasises, however, that in order to facilitate stronger growth the fight against inflation needs to be intensified

"A significant lowering of the inflation rate can be attained only if strict monetary policy is supported by fiscal discipline, restrained adjustments in salaries and competitive markets in respects of goods, services, capital and labour"

As a result no significant drop in interest rates is expected by Sanlam over the next few months

However, the economy should receive a boost from the improved position of the balance of payments, which is estimated to show a surplus of R4 billion to R5 billion this year

"The combination of the sustained surpluses on the current account of the balance of payments and the smaller net outflow of capital has led to a noticeable increase in the country's foreign reserves

"The chances are good that this trend will continue in the next few years, thanks to an expected continued improvement in the capital account and the benefits which can result from the lifting of sanctions," Mr Louw says

Recession bottoming

STANDARD Bank has joined the growing ranks of economic commentators who are predicting the end of the recession Star 28/9/91

In its latest Economic Review, the bank states that signs have emerged in recent months that the economy may be bottoming out and that conditions are beginning to stabilise in many sectors

The bank says "The impending recovery is likely to be neither rapid nor spectacular and conditions in many areas of the economy will continue to be difficult for some time to come". 153

Standard comments that investment spending has been held back because of the introduction of VAT. As a result, the last four months of this year may see this spend up spending coming through the system.

There could also well be several major private sector capital projects now on the drawing boards which could also help to boost the economy later in the year or early in 1992

Other factors are that inventories are now at rock bottom and have to be re-stocked and that imports will also show growth during coming months Exports should also grow — Sapa

False arguments cloud the debate on interest rates

B/Day 30/9/91 (153)

EDWARD OSBORN

THE FINANCIAL media are prone to attributing blame for high interest rates to excessive government spending, suggesting the high rates are required to reduce inflation which is caused by state expenditure being out of control

The most recent data used to illustrate this supposed lack of control are the August state expenditure figures In the period to August this year, spending was up by 17,9% compared with the same period last year. The Budget provides for a 13,7% increase over the year

Inflation has been with us for nearly two decades It is not a short-term phenomenon Wild and sweeping attributions of blame cloud the debate and affect the understanding of the inflation process

There are two fundamental misconceptions that have to be addressed — that government expenditure has become very high, and that it is out of control

The notion that state expenditure is out of control seems to be a popular one However, government departments are constrained in their spending by the statutory appropriations set by Parliament Even the transfer of items allocations to other uses has to be sanctioned, on behalf of Parliament, by the Ministry of Finance/State Expenditure

That is not to deny there will be unforeseen expenditures, like the recent fire damage relief in the Free State and Natal, but these will require *post hoc* parliamentary approval in a supplementary appropriation Act.

Of course there will be transgressions when the state structures are so complex and diffused through society, but the function of the Auditor-General, the watchdog of Parliament, is to bring these to light and make recommendations to Parliament on dealing with them. for example, the recent write-offs of overspending by Cape hospitals

But by and large the transgressions are small compared with total state expenditure. There is no question of state spending being out of control and departments being free to spend as they will

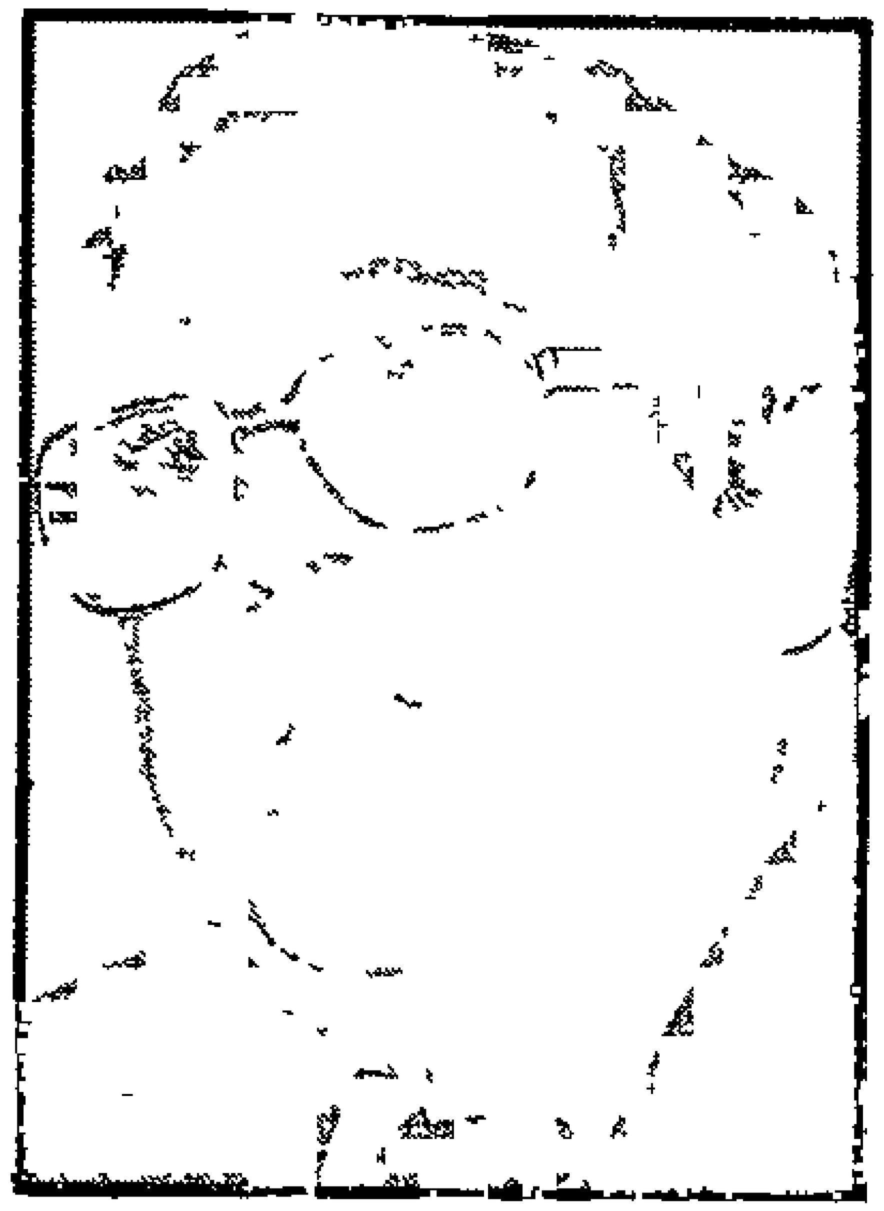
The point is also often made that, whereas large companies are riding the recession by making large cost reductions, the state is not. This, too, is astoundingly naive

Government is like a juggernaut which cannot be slowed or quickened smartly It is too complex a structure with a large dominating component of salary costs and transfers to other government tiers, regions and bodies, universities and technikons and the private sector In extreme circumstances, the state could impose a spending freeze, but not without massive problems of dislocation and disruption of services

Turning to the point of apparent excessive spending, it brings to mind Clem Sunter's remarks about the American disease of quarteritis In this country there is a media disease of annualitis, because much of the economic comment is simply on the level of making annual "gee whiz" percentage comparisons

In this case, the percentage comparison suggests a high level of spending because it so happens that departments made a slow start last year By August last year spending was only 40,3% of the annual total On a purely pro rata basis it should have been 41,7% By August this year the expenditure was 41,6% of budget It is therefore almost precisely on budget.

However, government finances are under severe strain because revenues are running almost R4bn less than expected in the Budget This is presumably because of the unexpected depth of the recession The Finance Department Director-General expresses some confidence about a recovery in revenues to the required level But that seems doubtful, especially after the hasty changes that have been made to VAT regulations. It is possible that, after the introduction of VAT and the dust has settled, further tax increases will have to be made to raise revenues



☐ STALS

Because of the lower revenues, the deficit after five months of the financial year was R8,1bn, compared with the Budget forecast of R10,1bn for the full year

However, this deficit, together with a large stock redemption of R2bn and some other transactions, has been covered by borrowings of stock of R9,4bn and a net increase of treasury bills of R1,8bn Government balances have actually increased by R500m since the start of the financial year

Nevertheless, the manner of borrowing is of concern to the authorities Reserve Bank Governor Chris Stals, in his annual address, said he was worried about the large element of finance represented by an increase in the net claims of the banking sector on government This has monetary implications, in that the Reserve Bank is battling to curb overall bank credit growth

It does not mean, however, an automatic addition to inflationary pressures Definite figures are not yet available, but it is likely that the banking sector lendings to government will be seen to be concentrated largely with the Corporation for Public Deposits, which assembles and channels free monies of other public sector bodies to the State Revenue Account and the banks

The commercial banks have been able to finance the lending to government with ease because of the reduced reserve requirements of the deposit-taking institutions The Governor mentioned a release of R1,2bn on this account alone Further, the balance of payments situation has been positive, injecting a net increase in liquidity into the system The Reserve Bank's difficulties have largely been coping with a highly liquid situation It is unlikely that the banks have created money in order to finance government There has simply been a redistribution of balances

Another reason for government's moving into a net liability position with the banking system — that is claims on, less deposits, of government — is the massive payment of R3bn to the Reserve Bank last December for foreign forward cover losses This effectively destroyed R3bn in government deposits, but not, of course, public debt.

And this is the most worrying aspect of the state's finances Government has tended to borrow well in excess of requirements in recent years, and there have been massive appropriations for various funds from the surplus finance, including the redemption of forex losses

The upward spiralling of public debt is, together with high interest rates, accounting for a rapid increase in interest costs For this year they are estimated at R12,9bn, or 15,4% of expenditure provisions before the contingency item of R1,2bn Indeed, without interest payments, the core budget is in surplus

The redemption of forex losses is, in effect, a conversion of non-interest debt of government to interest bearing debt, and on this score serious consideration should be given to the write-off of this debt

There is about another R11bn to go and at a rate of 16,5%, that represents an ongoing additional interest charge of R1,8bn a year to be met by future taxpayers A write-off would not be a free lunch, payment has already been made by the country through inflation

☐ **Osborn is chief economist at Nedbank.**

CIVIL DEBT JUDGMENTS CLIMB AS THE RECESSION HITS HOME

THE state of consumer credit is of concern when viewed against a background of increasing civil debt judgments over the past two or three years and the effect of the recession.

There are indications some consumers are unable to meet their debt commitments, says Consumer Credit Association executive director George Coppin. B Day 30/9/91.

Movement

"Recent trends show a movement from cash purchasing towards credit.

"This points towards a shortage of ready cash and the inclination of consumers to buy before prices increase because of high inflation rates."

He says most consumers have good intentions of meeting their debt commitments when they sign credit agreements, but unforeseen circumstances of unemployment, sickness or other unexpected financial burdens occur.

"In such circumstances it's advisable for the consumer to contact the credit grantor to explain the circumstances rather than to do or say nothing."

It's also important for the consumer to maintain a good credit record, because such records and information are used by the majority of credit grantors to assess credit worthiness

"The majority of retail credit grantors are prudent in granting credit so consumers aren't overburdened," he says.

However, there are other sources of credit in the market place extended to consumers via bank credit and mortgage loans, among others, which also add to the consumers' commitments. 153

"Also, escalating inflation, including aspects such as increased municipal rates and the rising costs of other essential services, is making inroads into incomes.

Encouraging

"Taking these factors into account, the immediate outlook for consumers and their ability to meet debt commitments is not encouraging."

Looking at the future, Coppin says an economic upturn is forecast, possibly during 1992, with increased economic activity, which will take some time to benefit consumers.

THE WEEK AHEAD by William Richards

A revealing delay in inflation data

B/Day 30/9/91.

153

THE now-you-see-it-now-you-don't August inflation rate could be published this week. The delay in publishing the figure has become so extended that the postponement in its release is having almost as much effect on local market sentiment as the figure itself.

Last week capital market yields rose noticeably on the announcement from Central Staistical Service that publication of the August CPI was going to be delayed for at least a week Not unreasonably the market took a bearish view of the expected announcement, reasoning that some new and inexplicable factor had emerged to corrupt the data

The official CSS explanation for the delay — the change in the base year for the index to 1990 from 1985 — was of little consolation to domestic market players who are generally expecting the change in the base year to have a net upward effect on the annual inflation rate

Nevertheless, a technical effect may lead to a small dip in the inflation rate from July's 15,8% This may arise from the movement in the index 12 months ago which gives the year-on-year increase to August 1991 a relatively high base.

Internationally, the week's most influential figures are likely to be those covered by the September US employment report due out on Friday

Although overall US unemployment has recently shadowed the 7% level, underlying recruitment trends seem to be beginning to reflect the embryonic recovery of the American economy from its brief three quarter recession Thus a possible tick-up in the national unemployment rate to 6,9% in September from August's 6,8% may very well mask more encouraging underlying trends in the job market.

For instance, the length of the average working week rose in August to its highest level since September last year, meaning that the additional increases in output that the US statistics are recording will shortly have to be accommodated by rising recruitment rather than longer working hours

Market expectations are accordingly for payroll numbers in both the non-agricultural and manufacturing sectors to have risen during September, and for these figures to lend Friday's employment report a generally positive influence

The US leading indicator, which groups together a series of forward-looking economic variables, is due to give its August read-out tomorrow

The indicator has risen for six successive months and its 1,2% rise ~~in July~~ was the largest monthly gain since June 1988.

Eight of the 11 components of the leading indicator were positive in July, and one of the few negative components that month was the length of the average working week This is now known to have lengthened in August, and should help give the indicator a seventh consecutive rise.

The US purchasing managers index for September is also scheduled for release tomorrow and should be another positive sign from a variable that looks over the immediate horizon to short-term economic prospects in the months ahead

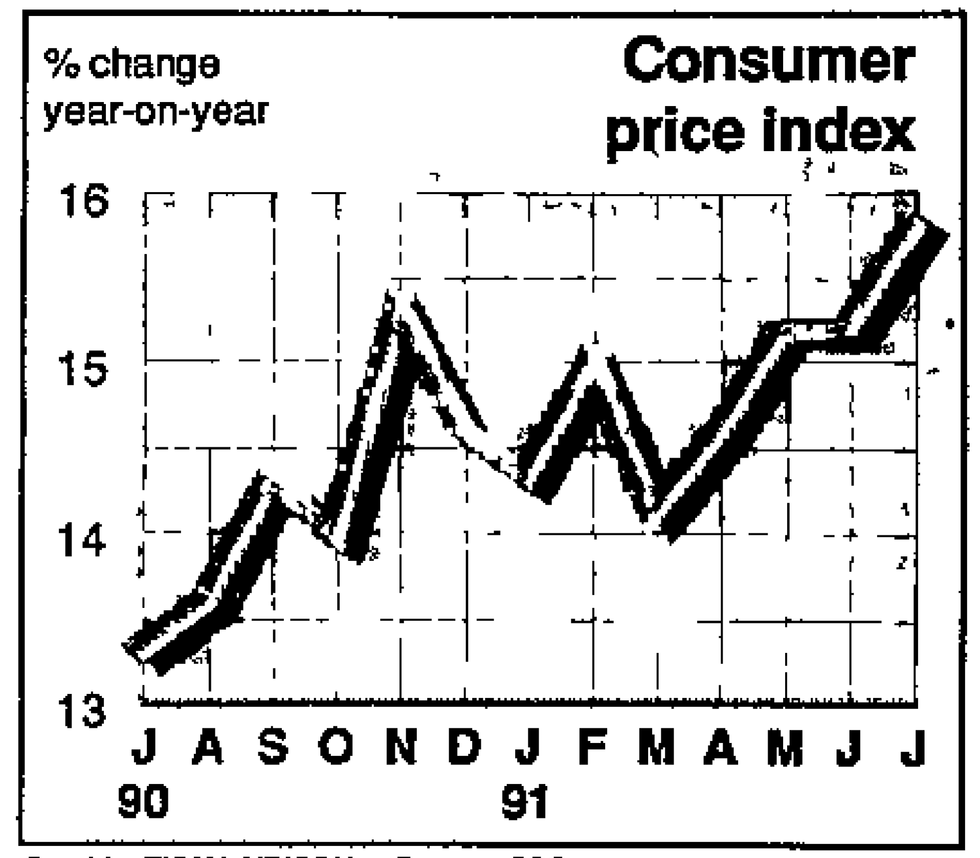
The index is already comfortably over the 50 level which marks the watershed above which the economy is held to be growing, having risen to 54,8 in August ~~from 51~~,8 in July

The policy-making arm of the US Federal Reserve, the Federal Open Market Committee, meets tomorrow to assess the overall US monetary stamps Markets are not expecting a decision to ease US credit conditions further to emerge instantly from the meeting, although authority to cut rates may be given to the Federal Reserve chairman if Friday's jobs figures warrant such a move

In Britain, interest rate movements have become almost completely linked to the propects of an early general election.

Last week's opinion polls showing the opposition regaining its lead over the government cooled expectations of another cut in British base rates, and the poll-driven UK financial market will be anxiously awaiting the results of the next mid-week test of electoral intentions, when a national newspaper runs an opinion poll.

If the poll is positive for the government and a November election is thought to be more likely, the markets will expect a vote-catching cut in interest rates.



Graphic FIONA KRISCH Source CSS

Inflation fears hit capital market rates

153

ANDREW GILL

CAPITAL market rates jumped higher yesterday as nervousness about VAT's effects on inflation and the widespread opposition to the tax gave the already bearish market another blow.

Dealers said reports sourced to Vatwatch that inflation could reach 30% if price trends in the run-up to VAT were left unchecked were negative for sentiment

Government's R150 stock climbed above 17% for the first time since October 1989 as it mirrored increases in other major bonds. It ended at 17,02% from 16,92% on Friday. Key market indicator Eskom 168 ended seven points up at 16,66%

Another factor influencing rates was the delayed release of August consumer price index figures. After the recent miscalculation in CPI and PPI figures, there were worries that the delay could signal further inaccuracies. B/Day 1/10/91

One positive point did emerge on the day, however, as the higher rates drew some interest from institutions previously hidden deep in the sidelines.

The interest did not evolve into serious buying but dealers were confident that any further increase in rates should be slight because of anticipated support.

The rates jumped despite a significant increase in the gold price and an improvement in the rand. Continued strength in the finrand was, however, proving to be a bearish factor because of the possibility that foreigners would liquidate their positions to take profits at current levels.

Recession axes seven businesses a day

8 10 ay 2 10 91

GERALD REILLY

PRETORIA — The increasing severity of the recession is reflected in the 1 027 businesses forced into liquidation in the first seven months of the year — almost seven every working day, according to Information Trust Corporation (ITC) (153)

ITC MD Tony Leng said Central Statistical Service figures showed that although liquidations and sequestrations were rising steadily, sequestrations were increasing the faster

They were up by more than 15% on January/June last year while liquidations rose 3% A total of 1 662 individuals were sequestrated against 1 438 in the same period last year — an average of more than 12 every working day

There was a record R1bn in civil judgments for debt in January/June this year

Leng urged granters of credit to exercise extreme caution in the current cash-strapped economy

Stals pledges to maintain firm hold on strict monetary policy

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Star 3/10/91

Finance Staff

Governor Chris Stals has committed the Reserve Bank to a tight monetary policy, regardless of the economic needs of the present or the new South Africa.

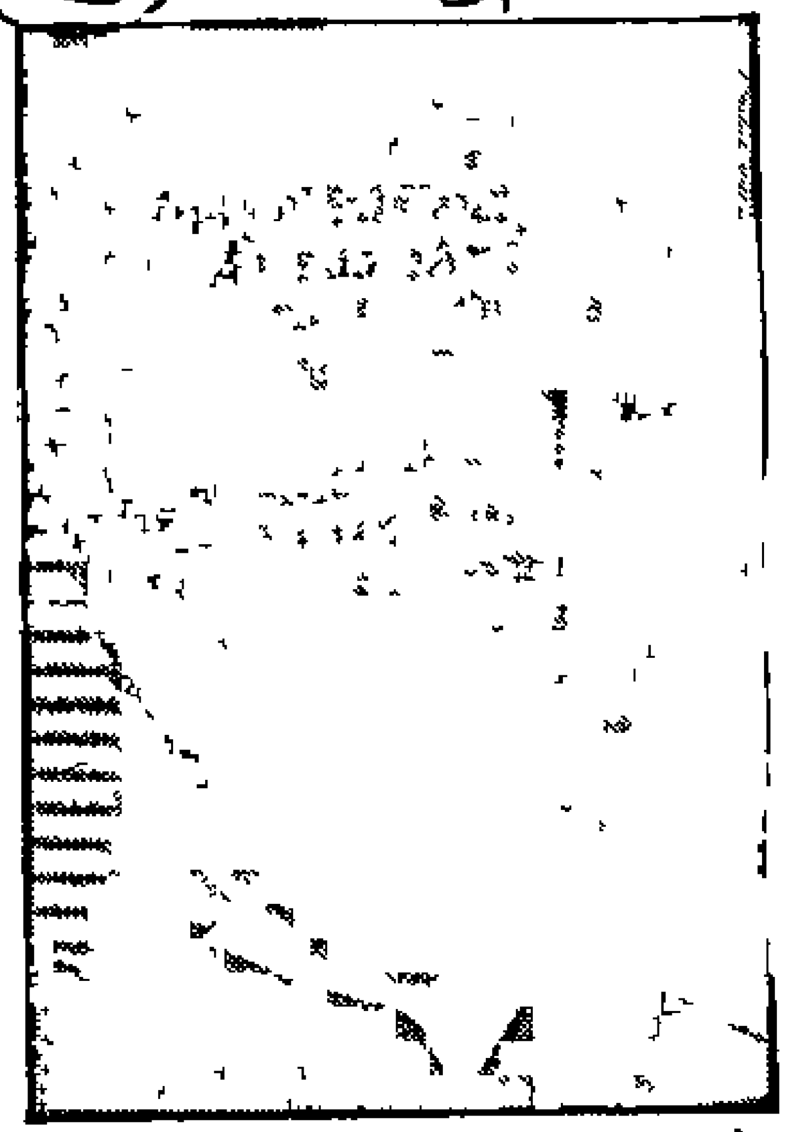
He told the Retail Financial Services Conference yesterday longer-term economic needs could only be served by applying fundamental financial discipline.

"Should we ever discard or ignore it, financial indiscipline will come back with a vengeance to haunt us in the form of inflation."

He said real interest rates were among the lowest in the world at less than two percent above the inflation rate.

A major disadvantage of a persistently high inflation rate was that it led to a malignant maldistribution of resources.

"The evidence is there that almost two decades of double-digit inflation inflicted unavoidable distortions on the economy," he said.



Chris Stals . . . malignant maldistribution of resources

While monetary policy could not remain aloof from the changing needs of South Africa, there were certain basic economic laws that could not be altered — not by politicians, not by the people and not by those responsible for the determination and implementation of policy.

"Any unnecessary waste of the limited resources of South Africa, now and in the future, must be avoided at all costs."

Dr Stals said the Reserve Bank believed maximum econmic growth would be promoted by a monetary policy that ensured optimum financial stability.

To achieve those objectives South Africa had to

- Keep the rate of money supply increase at least below the inflation rate
- Prevent excessive increases in bank credit extension
- Allow interest rates, as determined by market forces, to stay above the inflation rate
- Reduce the inflation rate, which would make lower interest rates possible.
- Protect gold and foreign exchange reserves
- Keep the average exchange rate of the rand as stable as possible.

Dr Stals called on financial institutions to provide reasonable access to their services for all people and "not only for the rich".

"The total savings potential of the community must be mobilised, preferably through an efficient financial system to take account of the many needs for financing economic development," he said.

Director-General of Finance, Gerhard Croeser, echoed Dr Stals' call for monetary stringency because the inflation rate "was still far too high and out of control", Sapa reports.

Dr Croeser, who was speaking at the conference on Tuesday evening, added, however, that at some stage South Africa was going to have to question its basic interest-rate structure.

He said the current level of interest rates saw a lot of businesses suffering and going under

SA inflation set to drop under 10pc — Stals

(153) ARG 5/10/91

JOHN SPIRA
Weekend Argus Correspondent

JOHANNESBURG. — South Africa's inflation rate could drop to well below 10 percent in the next three to four years.

That's the bold — and highly encouraging — prediction from Reserve Bank Governor Dr Chris Stals, architect of the nation's current restrictionist monetary policy designed to conquer the inflation cancer.

In a wide-ranging interview with Weekend Argus, Dr Stals, who has been severely criticised because of the failure of his policy to demonstrate tangible results, is optimistic that the medicine he has administered will have the desired effect, provided South Africa does not deviate from its policy approach

When inflation does decline, he points out, the rand will become a stable currency following the scrapping of the existing two-tier exchange rate system, and South Africa will take its rightful place as a significant player in world markets

He stresses that to expect short-term results would be unduly optimistic, indicating that had the Reserve Bank wished to go for a quick kill on inflation, it would have reduced money supply growth to zero

"We didn't take that option, because it would have created so much opposition that it would not have been possible to continue in that direction."

Dr Stals says after nearly two-and-a-half years of determinedly pursuing a strategy of restricted money supply growth, the bank's strategy is now showing signs of bearing fruit

"The producer price index is rising at a rate of between 10 and 12 percent and has been below the rate of increase in the consumer price index for the past eight months — an indication that the latter should soon start to fall off

"VAT might prove a temporary setback but I see it as being temporary only."

He identifies one of the major stumbling blocks as the tendency for wage and salary increases to outstrip productivity gains

"It is difficult to achieve the desired results of a tough monetary policy if trade unions do not moderate their demands"

On this front, he is also hopeful

"In 1989, aggregate salaries and wages increased by 18,5 percent, in 1990 they rose by 16,5 percent and in the first six months of 1991 the rate of increase had fallen to 15 percent.

"Further, recent pay settlements in the mining and motor industries suggest that a new and heartening trend is developing"

He poses the question "Why, after all, should there be a high rate of inflation in a country like South Africa? It's a country with a plentiful supply of labour, great potential to export and raw materials to produce many of the things we need.

"If we have a stable political environment, it shouldn't be difficult to bring inflation down."

Dr Stals strongly recommends the creation of an anti-inflation accord between the government, the trade unions, the Reserve Bank and the private sector

"Such an accord, combined with a persistent restrictive monetary policy, is bound to yield highly positive results."

Food gives weight to rise in inflation

BDay 7/10/91. (153)

ANDREW GILL

SHARP increases in food prices remained the bugbear in disappointing inflation figures released on Friday, economists said at the weekend

The figures, the first off the new base of 1990, showed a 15,6% increase from August 1990 to August this year compared with July's 15,8%

A relatively high 1,4% increase from July was recorded, according to the Central Statistical Service's (CSS) re-weighted August consumer price index data

At 15,6% the inflation rate is a full two percentage points higher than the 13,6% recorded in August last year

Higher food and transport costs were behind the inflation rate's stubbornness, with vehicle prices climbing 6% in one month and food up 2,9% on the month and 18% in a year — the highest since December 1987.

The rate was calculated on the new base of 1990 and the CSS said if the same base was applied in July the figure would have been 13,7%

Bankorp economist Nick Barnardt said vehicle price inflation of 23,8% was shockingly high and that a thorough investigation of vehicle prices should be undertaken.

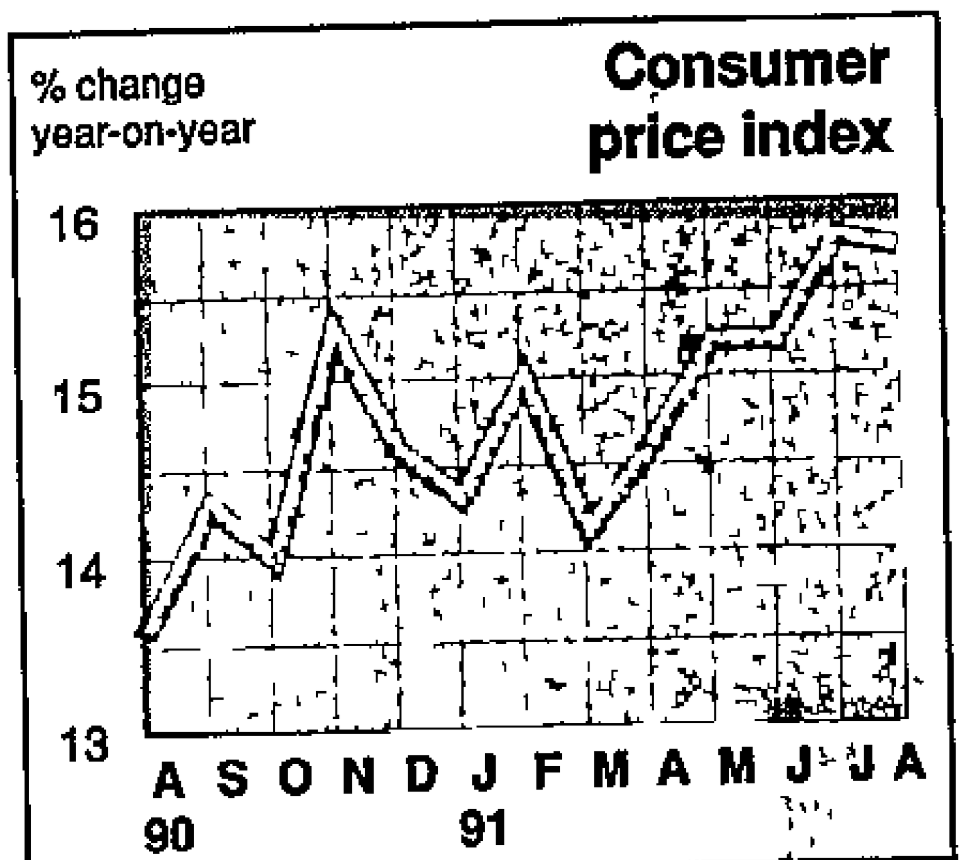
"In an industry with one-third excess capacity in the midst of a downswing these type of price increases are unjustifiable.

"We can't make a success of the economy in a new SA with this type of pricing," he said

Rand Merchant Bank economist Rudolf Gouws said food prices continued to be the huge bugbear with a 4,6% increase in meat prices in August alone

However, most non-food increases continued to slow. With food prices stripped out of the index the year-on-year rise was 14,8%

Gouws was optimistic that inflation would slow down over the coming months, possibly resulting in an inflation rate of 12,5% late next year.



Graphic LEE EMERTON Source CSS

Consumer debt civil judgments soar due to inflation

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SHARON SOROUR
Staff Reporter ARGT 10/10/91

HIGH inflation and interest rates have led to a dramatic increase in the number of civil judgments for consumer debt which runs into billions of rands.

A total of 45 800 judgments were registered in July — the highest monthly figure recorded, according to figures released by the Central Statistical Services.

Figures recorded during the first six months of the year increased by 29 percent to R1,277-billion compared to last year's figures for the same period, said Mr Tony Leng, managing director of the Information Trust Corporation. And he predicted this year's figure could reach R2,3 billion by the end of the year.

Many businesses were also in dire financial straits.

During the first six months of the year nearly 28 000 business judgments for debt were granted compared with 21 000 over the same period last year.

"The combined value of individual and business judgments for debt from January to July this year indicates that more than R1,4-billion has been lost in just seven months," he said.

The daily average of judgments every working day in July was 2 100 and this indicated "the inadequate credit investigations conducted by grantors of credit".

The ITC strongly recommended that credit givers ensured in advance that every credit applicant could meet their financial commitments.

"The recessionary conditions have placed added pressure on traders to maintain their turnover.

"The focus of the traders has shifted from the customer's ability to pay off debt to turnover and profit margins."

Traders tried to "soften" the losses they suffered after granting credit too easily by raising prices, which increased the inflationary spiral, he said

MANAGEMENT BUY-OUTS

FM 11/10/91

Scaling down

(153)

Rocketing interest rates, a slump in consumer demand and well-publicised difficulties of some large buy-outs have led to a sharp drop in the number and size of UK management deals in the past two years. Twenty large buy-outs were completed in the first half of 1991, compared with 30 in the same 1990 period, according to accountants KPMG Peat Marwick McLintock. The value of all deals, including an estimate for those smaller than £10m, fell to £1bn this year, from £1,61bn in the first half of last year.

The UK accounted for more than half of all MBOs in Europe, with 572 deals in 1990 (compared with 517 in 1989) But activity is increasing on the continent A total of 411 were completed in continental Europe in 1990 (374 in 1989) according to research at Nottingham University The most active continental markets were France, with 150 deals (130) Sweden with 40 (32) and Germany with 36 (25)

The UK market is dominated by deals worth less than £10m, in sharp contrast to the late Eighties, when each year set a new record for their size. The most common source of deals is once again the large company attempting to raise cash by disposing of non-essential activities.

The depth of the recession has meant managers often buy their company from the receiver Frequently the business being bought out is a healthy part of a larger, failed group The receiver may be willing to do a deal at a very favourable price to achieve a quick sale But the purchaser can't expect the usual "lock-out" period of other bidders while he carries out his checks. If a better offer is made, the receiver is bound to accept

The buy-in, rated until recently by many deal makers as providing a profitable new avenue of diversification, has fallen out of favour Many buy-ins have not performed as well as expected, either by comparison with their own forecasts or with comparable management buyouts.

Buy-ins are more difficult than buy-outs because incoming managers are not familiar with the company's problems. Private companies, in particular, frequently have unsophisticated financial control system.

Few people in the industry believe there will ever be a return to the large-scale deals of the late Eighties and listed company buy-outs seem unlikely to stage a comeback

Despite this, the long-term future of the management buy-out market seems assured Financiers are taking a more cautious attitude, but there is no shortage of either equity or loan finance for the well-structured deal ■

Black mine wages outstrip inflation

(153)

B/Day 18/10/91.

MATTHEW CURTIN

BLACK mineworkers on Anglo American's gold mines have seen their wages increase by a rate of 20% per person a year since 1970, nearly double the rate of increase in white wages and inflation, Anglo gold and uranium division chairman Clem Sunter said yesterday.

Sunter said Anglo's gold mines had gone some way already to meeting ANC president Nelson Mandela's "valid challenge" to the business community to find a constructive alternative to nationalisation The nationalisation card was likely to be "cashed in" during the negotiation process as consensus emerged on economic policies

However, Sunter said there was still a long way to go before the wealth and income gap between the haves and have-nots in SA was closed, but he wanted to dispel the impression that nothing had been done

He pointed out that black wages had risen by a factor of 4,5 since 1970, black labour costs as a proportion of revenue had risen from 8% in 1970 to 14% in 1990. At the same time white labour costs had fallen from 15% to less than 13%, while dividend payouts had fallen from 24% to 7%

In the same period, the number of workers employed in the gold division had increased from 117 000 to 181 000

Speaking at a presentation of Anglo's gold quarterly results, Sunter said black wages had risen from a low base in 1970, and wages still did not compare favourably with those in industry. A black novice surface worker earned R575 a month

That was one reason why Anglo was keen to implement bonus schemes to supplement wages, tied to profits and productivity

In the September quarter, the group's Ergo gold company, which was the first gold mining operation to introduce such a scheme, paid out R500 000 in profit bonuses, worth a 1% pay increase to workers

Sunter said management power had consistently devolved through the gold division since 1970, while Anglo's merit-based manning programme was funding black students and promoting black workers He said blacks made up 13% of the total number of certificated mineworkers.

With the promise of increasing jewellery demand likely to bolster prices, the prospects for growing employment on the gold mines existed.

Anglo American gold and uranium division chairman Clem Sunter wi Lionel Hewitt in the background at the presentation of the company gold quarterly results. Picture CATHERINE RO

The road to becoming a millionaire

S|Times(BUSS) 20|10|91

(153)

A REAL return is a little-understood term.

In short, it means that if your capital, or the value of your investment, has not grown at a rate faster than that of inflation, you have not achieved a real return on investment.

So if your money has been on fixed deposit and earned, say, 18% in interest and tax has taken up to 43% of that, the new sum with which you start the next year's investment has not kept pace with an inflation rate of more than 15%

If you started with R1 000, after a year on fixed deposit you would have R1 180 before tax. If tax took 43% of that interest, the amount to start the next year would be R1 103

But what could have been bought for R1 000 a year ago now costs R1 155 at 15,5% inflation. So savers lost ground and the compound effect over years is that the value of their capital is eroded.

Old Mutual Investors' Fund has consistently beaten the inflation rate soundly in the past 25 years

Salary

More particularly, in the past decade the compound annual rate of return from the Investors' Fund was 27% Inflation in that time averaged 14% a year This means there was a real return of 13% a year to investors

A monthly investment of R122 since the Old Mutual Investors' Fund was established would have grown to R1-million by now. The annual total return was 21,6%

Of course, 25 years ago R122 a month was a good salary, let alone a leftover amount for investing.

On a more realistic and affordable level, and assuming investors increased the monthly amount they put away each year by 15%, they would have had to have started saving R40 a month in 1966 to achieve millionaire status now

That was four times the minimum monthly sum in those days Today's minimum is R50, so it can be roughly compared with starting a R200 a month investment now, escalating at the rate of inflation

'Wider campaign against inflation'

JOHANNESBURG — Despite the severe recession over the past two years, no real dent has been made in the inflation rate, giving cause for grave concern, Sanlam said in its latest economic survey

Johan Louw, Sanlam's chief economist, says monetary discipline is no longer sufficient to fight inflation, adding a wider campaign against inflation is needed

This should include fiscal discipline, moderate increases in wages and salaries, increased competition for goods and services and a better balance between saving and consumption

"This process will make serious demands on the private as well as the public sectors It will also require sacrifices from every individual

"But it is inevitable if healthy economic growth and sufficient job creation are to be achieved"

Sanlam expects the inflation rate to remain above 15% for the next six months — as a result of VAT, fuel-price increases and higher excise duties

(153) CT 21/10/91

An average inflation rate of more than 15% is expected for the entire year, and an average of 14% for 1992 A decrease is expected as from the second quarter of 1992, to reach about 12% at the end of next year

Monetary policy 'is falling apart'

B|Day 21|10|91. (153)

SIMON WILLSON

THE disciplined monetary and fiscal management of the economy over the past two years is starting to fall apart, says Syfrets' latest quarterly economic review.

The review acknowledges that monetary policy has maintained a relatively restrictive stance. Fiscal policy, however, is far more expansionary than two years ago.

"The fiscal side of the divergence is based mainly on a changed political environment and expectations that have been created and which need to be satisfied.

"After a fair amount of fiscal discipline over the last three years, there are clear signs that this will be increasingly difficult to maintain. The off-budget spending is especially disconcerting," says the review

Addressing those who argue that the SA authorities could emulate the management of the US economy in the early 1980s, the review says the policies of former Federal Reserve chairman Paul Volcker are not applicable to present-day SA

Noting that the Volcker anti-inflation prescription was a restrictive monetary policy, stimulatory fiscal policy and a strong exchange rate, the review recalls that the result was one of the US's most severe recessions

SA does not have the option of using a firm exchange rate to bear down on inflation because of the country's sensitivity to exports, the review says. It adds that risking a severe recession would be detrimental to the economy considering the existing high level of unemployment.

Fiscal policy has to contribute to the fight against inflation, the review concludes. "The longer the fiscal authorities follow their current path, the more the private sector is crowded out.

"If the continuous crowding out of private business enterprises is not halted, the inflationary bias will not be cured in the longer term," the review warns.

It advances two possible alternatives to the current policy mix a "social consensus" between trade unions, the private sector and government in which wages are linked to productivity, and norms for budget expenditure increases being set in a new constitution.

Recession grave concern, says Sanlam

Sowetan 21/10/91

(153)

BELLVILLE — The severe recession over the past two years has made no real dent in the inflation rate and is cause for grave concern, says Sanlam in its latest economic survey

Sanlam chief economist Johan Louw says monetary discipline is no longer sufficient. A wider campaign against inflation is needed, which should include continued fiscal discipline

"Strict control over the growth rate of government spending is necessary, particularly current expenditure Budget deficits should also be financed in a non-inflationary manner"

He recommends more moderate increases in wages and salaries

Even during downswings and times of increasing unemployment, pay packets have grown faster than inflation As a result, SA has become less competitive internationally, Louw says

Better training for the labour force, increased productivity as a long-term strategy and concerted efforts to convince workers and unions that only improved production will create higher living standards are also suggested

There should be more competition for goods and services This would mean less protection for local manufacturers as well as the elimination of business practices leading to excessive increases in prices

A better balance between saving and consumption and favourable real interest rates could play an important role

He does not believe a lower inflation rate is likely in the short term The year-on-year increase in the consumer price index for all items has been higher than 15% for four months running

Sanlam expects the inflation rate to remain above 15% for the next six months as a result of VAT, fuel price increases and higher excise duties

An average inflation rate of more than 15% is expected for the entire year and an average of 14% for 1992 A decrease is expected from the second quarter of 1992, to reach about 12% at the end of next year, Louw says

He also warns that unemployment is getting out of control This is linked to the poor growth in the SA economy since the middle '70s

Special projects to create jobs could help — for instance, the 59 000 new job opportunities resulting from extra government expenditure of R1bn on social and economic infrastructure.

However, Louw warns that the problem of unemployment is too serious to be solved by such measures A solution will only be reached by a drastic increase in the rate of economic expansion

Statistics in the survey show that only seven out of every 100 new job seekers entering the labour market in the past five years could find full-time employment in the formal sector If the TBVC states are included the situation is worse

Although the indications are that SA's long-awaited recovery phase is on hand, Louw does not believe the prospects for a strong upswing are good

A low recovery is expected for 1992, with a real economic growth rate of about 2% SA had a negative growth rate of 0,9% in 1990 and negative growth of around 0,6% is expected for 1991

Louw does not expect a decrease in the bank rate and in banks' prime overdraft rates during the rest of the year — Sapa

Inflation drops a little

CT 22/10/91

PRETORIA — The inflation rate showed a mild decline in September, according to the Central Satistical Services.

The rate declined by 0,2 to 15,4% compared with August's 15,6%.

The food index rose by 1,3%.

This is the highest rate of increase in food since December 1987.

The large increases were seen in the price of meat, up by 4,6%, milk, cheese and eggs rose by 2% and vegetables were up by 5,6%.

Household appliances were up by 3,6% while transport rose by 4%. — Sapa

The great inflation deflation

Star 26/10/91

MALCOLM FOTHERGILL

FIRST, the good news — the official inflation rate will drop any day now

Now, the bad news — the drop will be on paper only, the man and woman in the street are unlikely to notice any difference

What is happening is that the Central Statistical Service has changed the way it decides what the official inflation rate, the consumer price index, is doing

Monitored

Its old "basket" of goods and services which it monitored to determine how an average household's pocket was hit by changing prices from month to month has been replaced by a new, improved model

The new model's weightings — the relative importance attached to each item — are different in many respects from the old weightings

And the result is that the inflation rate will, on paper anyway, be lower than it has been

Last month, the official, Central Statistical Service figure for the inflation rate was 15,6 percent

If the new weightings had been applied, it would have been about 13,7 percent

The reason for changing the "basket" of goods and services used to calculate the inflation rate is not to put employees at a disadvantage in their wage negotiations with employers, but to keep pace with what is happening in the country

This includes keeping tabs not only on how much people are paying for particular goods and services, but how much of the goods and services they are buying

The new CSS weightings have been determined by a survey commissioned last year from the Human Sciences Research Council

The HSRC chose 12 urban areas, and selected a representative sample of households in each so that their spending patterns could be established

Among its findings were that spending by the lower-income group (mainly blacks) now accounted for 19,42 percent of total spending, against 18,73 percent five years ago, and that the higher-income group (mainly whites) accounted for 56,5 percent, against the previous figure of 53,95 percent in 1985

The middle-income group's share has dropped from 27,35 percent to 24,09 percent

Startling

One startling finding was that the average South African now spends about 5,2 percent of his income on medical and health care, five years ago, this figure was 2,56 percent

Other changes are that the proportion of family spending on domestic servants has dropped, from 1,8 percent to 0,83 percent, but spending on "other" services, which includes holidays, insurance and eating out, rose from 6,77 percent to 9,49 percent

'Runaway inflation looms'

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ANDREW GILL

RUNAWAY inflation could become a reality if government persisted in failing to exercise fiscal discipline, Absa warned in its quarterly economic monitor released yesterday.

The group's economics department has predicted a budget deficit of 4% (R11,9bn) of gross domestic product for the year — the third major bank to forecast a deficit in that region so far It compares with the budgeted 3,8%

Moreover, extra-budgetary spending was taking place on a grand scale and despite Reserve Bank attempts to stem the inflationary tide by means of a restrictive monetary policy, it was unable to discipline the Treasury

"Given the public sector overspending, a restrictive monetary policy will depress private sector activity while the public sector will increasingly appropriate the productive resources in the economy"

However, it said, if the Reserve Bank abandoned its restrictive policy under these circumstances, substantially higher inflation rates might result.

A proper base still had to be created for the next upswing in the business cycle considering the constraints on growth like low fixed investments, a low level of foreign exchange reserves and an overly large budget deficit.

The Reserve Bank found itself in no position to relax its restrictive monetary policy with inflationary pressures still very real.

A reduction in Bank rate, not expected until the first quarter of 1992, should be considered only if international interest rates, real wages, money supply growth and long-term bond yields were all lower. The rand was bound to depreciate in due course. A rand/dollar exchange rate of R3,20 has been forecast for the end of 1992.

BDay 30/10/91

Rand to sag 10% — BER

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Business Editor

THE rand is likely to depreciate by 10% in 1992, the Stellenbosch Bureau for Economic Research (BER) forecasts.

It expects inflation to remain high. Pointing out that it has been "remarkably stable since the early 1970's" the report continues. "Unfortunately the inflation rate stabilised at a very high level and the stability could have caused inflationary expectations

"These expectations are perhaps the main contributor towards inflation. CT 31/10/91

"Employees, as well as employers, are expecting that inflation will at best remain at the same level.

"Price setters base their policy on this expectation. Salary and wage earners also base their demands on it. As a result a process is set in motion which actually prevents the inflation rate from declining"

The report says that uncertainty as a result of political and social turmoil is adding to the cost structure of business.

"It is impossible to quantify the effect of uncertainty on inflation but it can be substantial"

The BER expects uncertainty to increase during 1992 when negotiations are likely to commence.

Long recession 'almost at an end'

B Day 31/10/91

ANDREW GILL

SA FACED political and social unrest as sluggish fixed investment dampened job creation prospects, the Bureau for Economic Research (BER) said yesterday.

Business confidence levels would remain very low as political uncertainty was expected to last throughout 1992, it said.

In its forecast of macro-economic trends the BER said the "mild, but long and harmful" recession appeared to be ending, although the anticipated upswing would be slow and hesitant

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But prospects for employment remained bleak, with a forecast decline of 1,7% this year and no growth expected for 1992 Employment had been detrimentally affected by the 31-month downswing, decreasing at respective rates of 3%, 2,8% and 3,8% in the last three quarters of 1990.

Inflation, the report said was likely to stabilise at its current high levels with monetary policy remaining strict. However, there were still many factors exerting upward pressure on inflation

One element was VAT which could cause a one percentage point increase in inflation. But this was a one-off factor

Low productivity also caused high inflation, as would changes in the petrol price and the depreciating rand

The chances of a lower inflation rate were small and an average rate of 13,7% was forecast for 1992 following a 16% year-end figure for 1991 Interest rates would remain high along with the stubborn inflation rate

Exports, however, were expected to prove to be a stimulus for the upswing

BUSINESS

153 ARCT 2/11/91

Monetary ploys 'a total failure'

JOHANNESBURG — Nedbank's chief economist Mr Edward Osborn has slated monetary policy as ineffective in its attempts to curb inflation — by influencing demand

Addressing an investment conference in Johannesburg on Friday Mr Osborn said the Reserve Bank had "demonstrably failed ir achieving the slightest dent on inflation in something like 18 years since inflation first took off into the double-digit sphere"

This he said was boosted by the "hijacking antics" of the Oil Producing Export Countries and an emancipated gold price

He claimed that any downward movement in the rate of inflation would be seen by the authorities as success despite other influencing factors such as a good agricultural season in 1989/1990 and the apparent strength of the rand against a collapsed dollar — which "happened" to be the principal reason for the improved inflation performance in the first six months of 1990

Mr Osborn said the Reserve Bank had always pursued positive interest rates — rates positively in excess of inflation

However he said the only relevant point of concern with this type of policy was its effect on investment demand

He stressed due to high interest rates, high taxes, high import imposts and an unhealthy treatment of depreciation in the tax system, South Africa had the highest cost of capital in the world

The policy, he said, had emerged from advice given to the Reserve Bank based on the "strange notion" that negative rates resulted in capital formation at the expense of labour

He said according to a recent South African Chamber of Businesses study the cost of capital in South Africa was 23 percent compared with 15 percent in Australia and 3,4 percent in Japan

Mr Osborn presumed the central bank had also maintained high interest rates as an incentive to save and fund fixed investment but said there was little evidence to support this and charged the level of savings was dictated by the level of investment

One of the most disturbing effects of the tax system was that of bracket creep he said.

Bracket creep is the tendency for taxes to out-accelerate income increases

"On average the accelerator (bracket creep) is 1 66, which means that for an increase of 15 percent in taxable income there will be a 25 percent increase in income tax," Mr Osborn said This is powerfully inflationary, because salaried workers would always have to seek increases above inflation to maintain real incomes

In contrast to other economists, Mr Osborn believes the country should be grateful for the sustaining level of government expenditure, given the state of the economy and stagflation experienced at present

Regarding the future rate of inflation Mr Osborn said the expectations of the Reserve Bank were self fulfilling due to matching demands in wage increases

Liquidations peak as recession bites

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ARG 2/11/91

Own Correspondent

Liquidations and insolvencies, joblessness and poverty have peaked this year as the economic recession bites even further into people's pockets

During the three months spanning June to August, there was a 27percent increase in liquidations of companies and closed corporations compared to the same three months last year, according to the Central Statistical Service.

Insolvencies of private persons, individuals and partnerships for three months from May to July this year shows an increase of 9,6 percent on the same period last year.

In real terms, there were 513 liquidations and 902 insolvencies in the latest three month periods recorded this year. Liquidations leapt from 146 to 217 between July and August.

In addition, thousands of workers are being retrenched from companies attempting to curtail their costs, adding to an already unacceptable level of unemployment

According to a University of Pretoria sociologist, Professor J Groenewald, an estimated 42 percent of the economically active population in South Africa is jobless

Those worst affected are the black youth, women and the poorly educated, particularly in remote rural areas.

The country's population growth was continuing to outgrow its economic resources

The SA Chamber of Business stated recently that business confidence has been a hostage to the political process, but had also been dented by the lower gold price and the decline in retail sales

On the other hand, business confidence was bound to be boosted by prospects of an upswing in exports once the world economy picked up.

Prospects of short-term decline in inflation not good — Sanlam

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Star 6/11/91

Finance Staff

Short-term prospects for a significant decrease in the inflation rate are not promising, says Sanlam in its latest economic review

It expects the average inflation rate for 1991 to be higher than 15 percent, but says it will tend to be moderately lower from the second quarter of next year onwards.

By the end of 1992 a rate of around 12 percent is forecast, in line with the prediction by Reserve Bank Governor Dr Chris Stals

However, for the year as a whole price increases are still expected to average about 14 percent.

Sanlam says that the underlying economic, social and political conditions make it difficult for monetary action alone to reduce inflation significantly

Inflation should be fought on a much wider front than strict monetary policy alone, which it believes could drain the system of money to the extent that the economy would not be able to accommodate a considerable increase in wages and salaries, it says

Sanlam suggests maintaining fiscal discipline, including strict control over growth in government spending, particularly current expenditure

It says the aim should be to reduce the role of the public sector in the economy

Furthermore, budget deficits should be financed in a non-inflationary manner, avoiding short-term banking-sector loans, Sanlam says

More moderate increases in wages and salaries should also be granted, since recent sharp increases in remuneration, despite economic difficulties, had led to a rise in unemployment.

High wage increases had also adversely affected SA's ability to compete on the international markets

Limiting the rise in labour costs would depend largely on better training for the labour force, increased productivity and convincing both labour and employee organisations that real wage and salary increases must not exceed improvements in productivity

A further step in bringing down inflation is lowering the high level of protection given to local manufacturers, which would allow for greater foreign competition in the domestic market

Despite the recent decline in upward pressure on interest rates, Sanlam says rates are not likely to come down this year

In addition, the lack of investor interest in capital markets, particularly in longer-term securities, has been offset considerably by a strong demand for funds from the public sector

Inflation eats into benefits of VAT

S Times 10/11/91

(153)

By CAS St LEGER

AGAINST all predictions, value added tax has tended to lower prices — but the benefit to consumers is already being eaten away by general inflation.

The first Vatwatch survey since the introduction of VAT has shown prices have risen steeply over the past three months

Prices decreased by an average of only 0,29 percent countrywide since VAT was introduced on September 30 But, during the previous two months, prices shot up more than two percent a month

Vatwatch chairman Professor Louise Tager said "This is a disappointing trend, indicating that despite VAT being three percent lower than GST and the fact that the demise of GST meant considerable savings for the business sector, there was hardly any decrease in October

"In fact, there was a cumulative increase of 4,53 percent in prices over three months"

Zero

However, at independent stores in black towns October prices decreased by 3,9 percent. In Port Elizabeth, prices decreased by 2,9 percent and in Johannesburg by 2,6 percent

Elsewhere, however, October prices ranged from a zero increase in East London to 2,2 percent on the East Rand

The trend came to light in the fourth comprehensive, countrywide market survey conducted on behalf of Vatwatch

The results of the survey show that despite the lowering of the tax rate from 13 percent GST to 10 percent VAT, prices of goods and services dropped by only 0,29 percent.

However, this price reduction came off a base that had been highly inflated in the two months before the introduction of VAT At the end of August, prices were 2,56 percent higher than at the end of July

At the end of September — just before the introduction of VAT — prices had risen another 2,26 percent

Vatwatch said the price reduction of 0,29 percent in October appeared to indicate the inflationary trend of the previous months was continuing, off-setting any savings that might have been derived from the lowering of the tax rate

Taking into account this price increase trend, as well as the small reduction for October, the net price rise since the end of July has been 4,53 percent.

In the three-month period monitored by Vatwatch, prices increased most steeply in black homelands, at 10,1 percent, followed by independent stores in black towns (8,4 percent), major rural towns (8 percent) and the Durban/Maritzburg area (6,3 percent)

The lowest price increases over the period were recorded at East London (1,2 percent), the Free State Gold Fields (1,4 percent) and in Johannesburg (1,5 percent)

THE WEEK AHEAD by Simon Willson

Long recession is not over yet

B Day 11/11/91 (153)

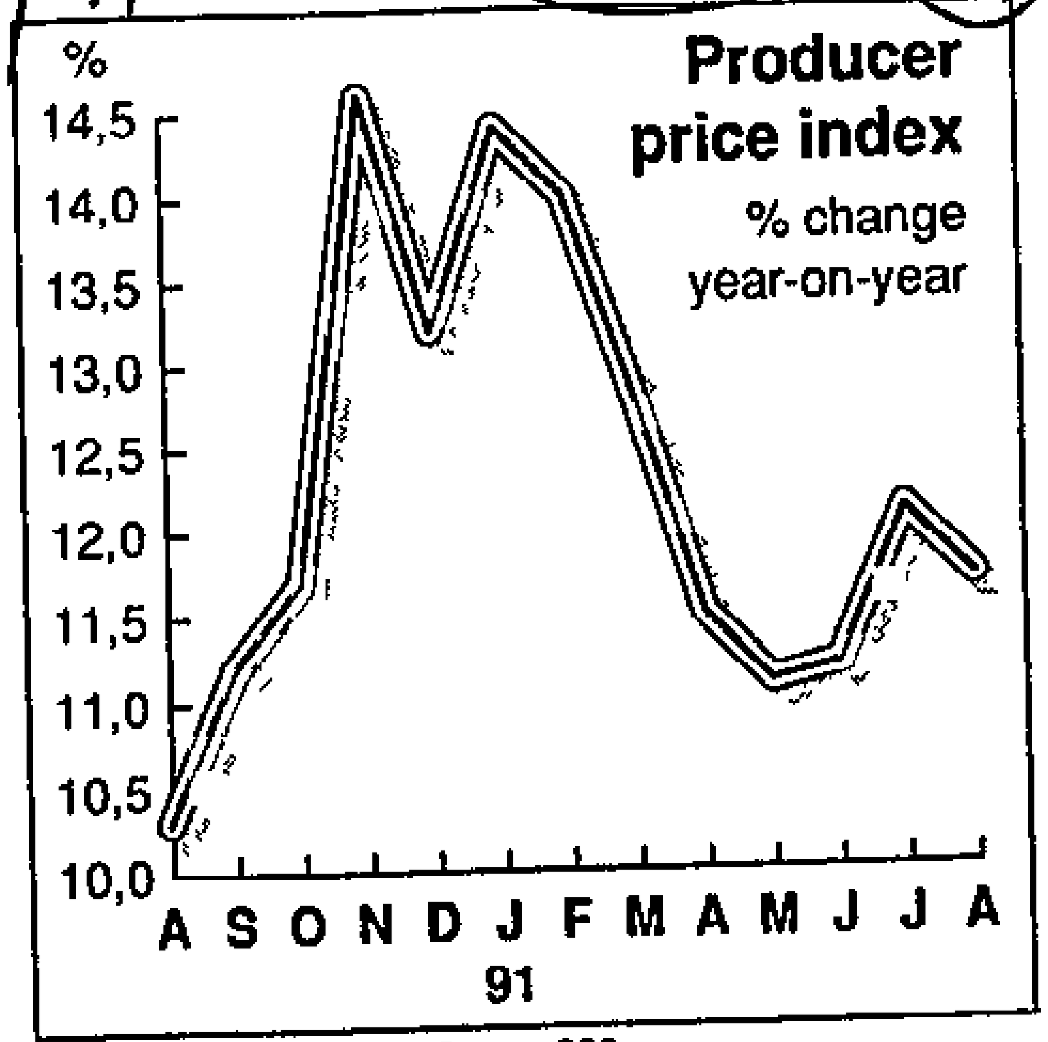
NO END to what is already SA's longest post-war recession appears to be in prospect when the third quarter GDP figure is released later this week There may, however, be a modest dip in the rate of producer price inflation when the September PPI is released mid-week

The current recession, now identified by successive quarters of GDP declineexpressed quarterly at an annual rate, still looks well entrenched The -0,1% figure for the second quarter was the seventh consecutive quarter of annualised GDP decline Fulfilling the technical definition of a recession requires only two consecutive negative GDP quarters

Although the -0,1% second-quarter GDP decline was the smallest contraction of the recession, it is unlikley to have reflected a recovery trend in the economy that could have pulled the GDP positive in the third quarter Analysts believe new depressant factors hit the GDP variables in the September quarter, effectively delaying to the fourth quarter a possible return to a positive quarterly GDP

The main drag on overall economic performance in the third quarter is likely to have arisen from the introduction of VAT Analysts think they have detected a lot of deferred expenditure ahead of VAT's debut at the end of September, and this is expected to hold back the relevant aggregates in the GDP components

Mining and agriculture had a reasonably good second quarter and were the main contributors to the narrowing of the GDP decline from the first quarter's 1,2% decline Third



Graphic FIONA KRISCH Source CSS

quarter performance in the primary sector, however, is not expected to have been as good — particularly in terms of agricultural output volumes This week's figure looks set to come in somewhere between 0,5% and -1,0%

Prospects for a return to a positive quarterly GDP in the fourth quarter — for the first time since the 1,0% recorded in the third quarter of 1989 — are overshadowed by last week's anti-VAT stayaway and the degree to which the stoppage was observed in the primary sector

The much revised rate of PPI inflation is beginning to assume a recognisable pattern again, two months after the June figure was statistically transformed at a stroke from 14,1% to 11,2% In the year to August PPI inflation was running at 11,7%, down from July's 12,1%, and general expectations in the market are that the rate will continue to decline for the rest of calendar 1991

Behind these bullish PPI projections are the high bases for the index 12 months ago as the effects of the Iraqi invasion of Kuwait began to feed through to the oil price In addition, the strong real trade-weighted rand should continue to bring a restraining influence to bear on the imported component of the PPI A PPI inflation rate of close to 11% for the year to September is thought likely in the market

Internationally, three other countries are due to release their latest rates of PPI inflation this week Tomorrow the UK rate for October should decline again, from September's 5,6% to around 5,3%

US PPI inflation for the year to October is due out on Thursday and should be below 2%. It has settled at a low level, enabling the US authorities to cut interest rates again last week. Annual PPI inflation in October in western Germany is due out sometime this week — the Germans never say exactly when — and should be little changed from September's 2,6%

Final September retail sales for the UK are scheduled for release today and will proably confirm the message the by-election voters sent to the Conservative government last week. the recession is not over yet and times are tough Sales are likely to be around 0,5% down on the same month last year

Stals warns on money supply

BDay 12/11/91 (153)

MONEY supply growth which exceeded the real economic growth rate would inflate prices and jeopardise financial stability, Reserve Bank Governor Chris Stals said yesterday.

Money supply grew at an annualised 8,7% in September from February when the Deposit-Taking Institutions Act was implemented. This was well above present levels of economic activity and the estimated potential economic growth in SA of between 2% and 5%

Speaking at a Bureau for Economic Research conference in Somerset West yesterday, Stals said monetary policy had not been restrictive enough and SA's real interest rates remained much lower than in most industrial countries

The Reserve Bank had succeeded in bringing money supply growth down to lower levels,even though it remained higher than real economic growth

"Until now greater financial stability has perhaps reduced the upward monetary pull on the inflation rate but has not succeeded tempering the non-monetary factors," he said

Creating financial stability would be the most important monetary policy objective during the 1990s

SHARON WOOD

Stals said the objectives of the Reserve Bank did not conflict with the future economic environment

"Optimum economic growth becomes possible only in an environment of financial stability

"Financial instability . leads to greater poverty, to a greater maldistribution of resources and to an erosion of the efficiency of the market system," he said.

It would also deter foreign investors, reduce local producer competitiveness and inevitably lead to a lower economic growth rate.

Sacob director-general Raymond Parsons told the conference the independence of the Reserve Bank should be secured in the new constitution because it was important to give the Bank a high degree of autonomy in deciding monetary policy

"The position of the central bank needs to be institutionalised and clarified in the constitution

"Inflation tends to be lowest in countries in which the central bank enjoys the greatest degree of independence"

Inflation could only be kept under control if strict monetary policy was underpinned by an equally conservative fiscal policy, he said.

Producer price inflation falls

From SHARON WOOD

CT 12/11/91

JOHANNESBURG — Lower imported inflation saw producer price inflation fall to 11,4% in the year to September from 11,7% in August

The fall in producer price inflation disguised a relatively large domestic price increase of 1,4% month on month, which pushed the producer price index up 1,1% — the highest monthly increase since April this year

Food prices continued to dominate price increases, with primary food prices up 2,2% month on month and manufactured food prices up 3%

Sanlam economist Johan Louw welcomed the lower producer inflation rate and said the 0,3% decline in imported inflation was particularly promising because it could contribute to a slower increase in the local component "The figure was more in line with expectations and hopefully indicated that consumer price inflation would be lower next year," he said

Domestic price inflation of 11,7% in September remained on the high side, but it was hoped that as the economy slowed and wage and salary increases were lowered, domestic producer inflation would fall.

"The decline in imported inflation to 10,1% was probably a result of a low level of inflation overseas and the more stable rate of the rand It could also have been for technical reasons because the decline came off a low base," he said

Monthly price increases of note were in petroleum and coal product prices (up 4,6%) and in other chemical products (up 3,4%)

Pay rises below rate of inflation

153

Star 15/11/91

Finance Staff

For the first time since 1986 the growth in the aggregate wage bill has dropped below the inflation rate, says Old Mutual's economic monitor

Old Mutual says the growth in the wage bill was 14,5 percent in the second quarter, with inflation at 15 percent over the same period

At the same time, the level of employment in the mining, manufacturing and construction sectors reached its lowest levels since the early Eighties

Chief economist Dave Mohr believes the economic recovery will be sluggish and does not foresee any marked improvement in the consumer's position

"We don't expect employment and per capita wage rates to improve before profit and production levels have recovered.

"This will depend on rising exports, increased public-sector spending on social infrastructure and some renewed private sector investment activity," he says

Mr Mohr says consumers are under increased pressure as interest rates and debt levels remain high against historically low personal savings ratios

This would leave consumers with very little room for raising their real expenditure levels significantly in the near future, he says

Mr Mohr is confident that once the economic recovery has started, there will be a number of factors that should sustain growth.

"The scenario for exports looks more positive for 1992 as sanctions are gradually lifted, the international economy starts recovering and the recently introduced policy aimed at promoting exports takes effect," he says.

Rates cut: SA 'almost' ready

CT, 15/11/91

By ARI JACOBSON

CONDITIONS are almost right for a cut in interest rates, governor of the Reserve Bank Dr Chris Stals said yesterday.

Most of the available financial statistics — besides the consumer price index — indicated the time wasnear for a drop in interest rates, he said.

In an interview Dr Stals said the monetary authorities could accept a real return on interest — the prime lending rate less the rate of inflation — of about 5% before rates could be cut.

At present, he said, the prime rate of interest offered by banks at 20,25%, less an inflation rate of 15,4% in September, edged towards the 5% real return target.

But Dr Stals added other leading economic indicators like money supply growth, bank credit growth, the exchange rate, the balance of payments (BoP) and foreign reserves were also assessed before considering an easing of monetary policy.

He expressed concern about the high rate of inflation, the extension of bank credit and growth in the money supply

THE WEEK AHEAD by Simon Willson

A fine array of inflation rates on offer

B/Day 18/11/91 (153)

NO FEWER than four different measurements of SA's rate of consumer price inflation will be published this week when the CPI inflation rate for the year to October is released

Not to be outdone, the SA money supply figures for October — due later in the week — will also offer at least three variations to choose from Only SA's October trade balance will consist of one indivisible number

The immediate problem for the financial markets is choosing which of the plethora of inflation and money supply figures to accept as genuine In addition, the markets will have to try to second guess the authorities as to which of the numbers flying around this week will have the most influence on short-term monetary policy

Distortion

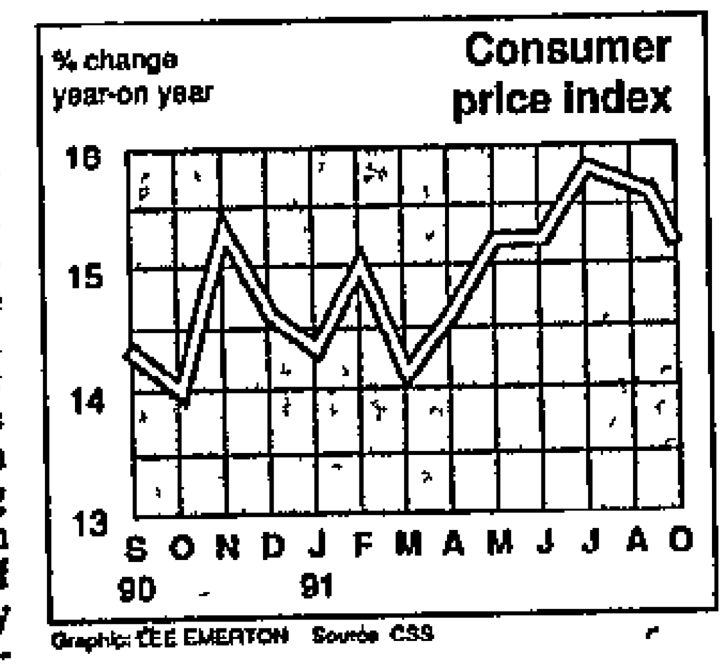
The multifaceted inflation rate will arise because the Central Statistical Service (CSS), besides publishing the normal, all-items inflation rate that stood at 15,4% in the year to September, will also issue for the first time what it calls a "total" CPI figure This will exclude the effects of both GST and VAT, and is designed to show how prices would have performed if VAT or, previously, GST had not been levied. Outside the increasingly rarefied confines of the CSS this would be known as the underlying or core inflation rate

But CSS will add two more inflation rates to this fine array, by showing the difference made on its figures by the change in the base year for the CPI calculation The August inflation figure this year used, for the first time, a 1990 shopping basket of goods instead of the previously applicable 1985 basket.

Thus the latest headline inflation figure of 15,4% in September is a year-on-year calculation using a 1990 shopping basket for the index in September this year, but a 1985 basket for the index 12 months earlier To reflect what is technically a distortion arising from a comparison between different baskets, CSS also calculated an inflation figure for September that used the 1990 shopping basket for both this years and last year's applicable month, and came up with 13,7%

So this week we will have spread before us a grand total of four different inflation rates; two overall inflation rates — one arising from a 1990-on-1985 basket for the year on-year comparison and one from a 1990-on-1990; and two underlying inflation rates also using the unmatched and matched shopping baskets Of this selection, most pundits will opt for the overall, 1990-on-1990 variant which may still stay below 14% in September The others look like quaint curiosities — although the Reserve Bank might accord them grander status, which is why the markets will have to take note of them.

In issuing a multiple-choice inflation rate, SA is only falling into line with the practice in many other advanced industrial countries The US issues headline (overall) and core (excluding food and energy) measurements of both its CPI and PPI The more eccentric UK publishes three different consumer inflation rates one headline rate, one excluding mortgage interest rates, and one excluding the poll tax. For months, British analysts and politicians have been able to select the rate that most suits their cause; now their SA counterparts will have the same opportunity



Graphic: LEE EMERTON Source CSS

Because they view the two official measurements of SA's monetary aggregates to be distorted, domestic analysts have been calculating their own version of the money supply figures for most of this year There are now three money supply numbers to choose from. the two official figures issued by the Bank, which measure year-on-year M3 change and change from the fourth quarter of 1990, and the private sector analysts' figure, which uses February 1991 as a base The analysts seek to strip out the distortions caused by the Deposit-Taking Institutions Act, by using the February base. But they cannot disregard the Bank data as these are stacked up against the authorities' 8%-12% guideline for M3

From this impressive selection, it is clear that the pace of year-on year M3 growth is slowing down and should drift below 15% in October from September's 15,1% The rolling increase in M3 based on the fourth quarter of 1990 is also slowing, but from a much higher level It also stood at 15,1% in September but is aimed at the 8%-12% guideline range, which is thus unlikely to be hit this year The analysts' February-based M3 growth rate is down in single figures, and is likely to go lower, but is not targeted by those who set short-term monetary stance

By comparison to the stimulating variety of inflation and money-supply figures on show, the October trade balance will be pedestrian, offering only one figure and one trend from the previous figure The September surplus of R1,5bn could become a benchmark in the months immediately ahead The SA Foreign Trade Association (Safto) has said 1992 will be the best year for exports in seven years, while reports from the major conglomerates say consumer demand is beginning to soften — a trend that should show through in import figures

Internationally, the German CPI is due out in midweek and should show inflation ticking up again from October's 3,5% to a level close to 4%, which should help maintain expectations of higher German interest rates before the end of the year UK retail sales for October are released today and may corroborate recent signs of economic recovery in the UK by rising from September's level, which was unchanged from August's

Wednesday's publication of US housing starts in October are likely to show the opposite. that the US recovery is in danger of aborting Analysts expect housing starts to slide below the psychologically important 1-million level for the first time since May, again raising the spectre of a dip back into recession by the stalling US economy

High rates 'may be here to stay'

B/Day 19/11/91

153

ANDREW GILL

INTEREST rates close to 20% could remain a fact of life for years to come, Bankorp warned in its November issue of Econovision.

While lower inflation in 1992 should provide scope for two cuts in lending rates, the accelerating economic recovery foreseen in 1993 — and its pressures on credit creation, imports, the balance of payments and exchange rate — could prevent prime falling below 18%.

Towards 1994, moderate increases were possible from this level, it said

Next year the economy was likely to be dominated by five important structural features, while undergoing patchy business cycle improvement in the first half and a broader upswing in the second.

The five features were political change, domestic economic co-operation, internationalisation, fiscal expansion and high interest rates

In response, business should be prepared for ongoing instability while communicating with all political groupings and improving co-operation with labour

Interest exposure should be limited by strict inventory and cash flow policies, using production facilities to maximum before expanding capacity

Internationally marketed rights issues for expansion purposes were another consideration.

Business should expand exports and other international involvement and provide for "almost inevitable" increases in certain taxes while finding ways to profit from government's development spending and tax incentives

Constraints on SA's "re-internationalisation" during 1991 because of the domestic recession on imports and world slowdown on exports should begin falling away next year

This, the further lifting of sanctions, rising international tourism and the setting up of offices by a growing number of international organisations would add to the "re-internationalisation" trend.

Growth rates of exports and imports should exceed the overall growth rate considerably.

The trend should continue for some years with positive implications for transport, banking, hotel and insurance services It should also induce fiscal expansion because of increased financial resources at government's disposal

'Stable rand' policy not compatible with high inflation

B/Day 20/11/91

SIMON WILLSON

153

FALLING inflation among many of SA's major trading partners is widening SA's adverse inflation differential with the main industrial economies and posing questions about the Reserve Bank's management of the rand.

The authorities' "stable rand" policy already means that the rand is stronger against a basket of trading partners' currencies than it would be if the inflation differential was fully reflected in the exchange rate If the authorities continue to pursue trade-weighted rand stability as SA's adverse inflation differential widens further, industry will be put under pressure as higher domestic costs are not offset by a weakening rand

Figures released last week showed continued falls in the US and UK inflation rates The year-on-year rise in the US consumer price index slowed to a four-year low of 2,9% in October, and the annual rate of UK inflation as measured by the retail price index dipped to 3,7%, its lowest in more than three years.

Last week's figures underscored the most significant feature of current inflation rates among SA's trading partners they are coming down in unison In the recent past, average inflation among these same trading partners was higher than it is now because one or two of the countries concerned would always have sharply above-average inflation rates The spendthrift British, French or Italians could always be counted on periodically to stoke up double-digit inflation to wreck the low trading-partner average created by the more abstemious Germans and Japanese.

In 1980, for example, when SA inflation averaged 13,8%, average inflation among the seven biggest economies in the OECD — which comprises most of SA's main trading partners — stood at 12,1% All but Japan and Germany of the "big seven" had double-digit inflation, and an adverse inflation differential for SA of less than two percentage points was of little consequence either to exporters or to the exchange rate

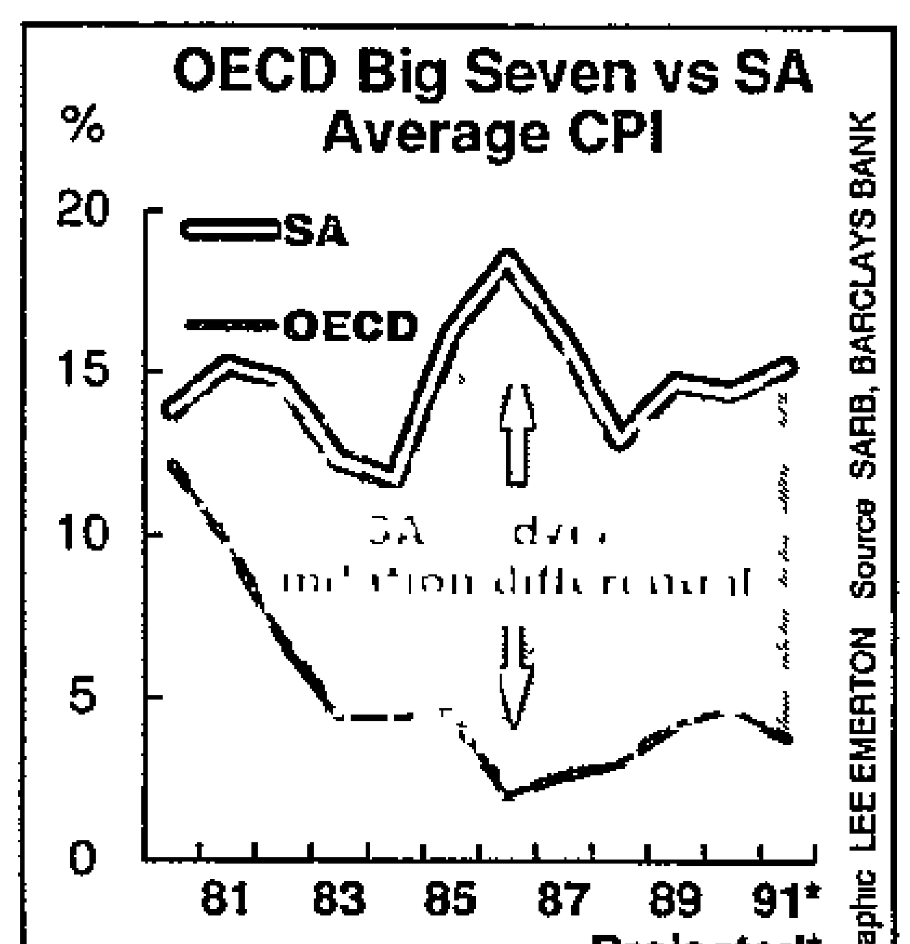
By 1985, when SA inflation averaged 16,3%, the OECD big seven average had fallen to 4,6% The French, British and Italians weighed in with their inflation rates above 5% that year, saving SA's adverse inflation differential from being even wider The differential of more than 11 percentage points was partly reflected in a 27,5% plunge in the trade-weighted rand during the same year SA industry was thus compensated for its sharply rising domestic costs by earning higher rand-denominated export proceeds

Last year, OECD big seven inflation averaged 4,7% against SA's 14,4%, and the adverse differential was about 10 points But because the trade-weighted rand adjusted only 7% downwards during 1990, it failed to reflect fully the inflation differential Exporters were therefore not fully compensated for their higher domestic costs

This year, average inflation among the OECD big seven will decline further while SA's inflation rate rises again The difference now from the situation 10 or even five years ago is that OECD big seven inflation is likely to stay down The era of double-digit inflation rates in the countries that always used to supply them — the UK, France and Italy — is over SA will no longer be able to count on rogue, double-digit inflation rates among some trading partners to haul the partners' inflation average up and contain the adverse inflation differential.

The watershed for the UK, France and Italy in these countries' own private battles against inflation has been membership of the European monetary system (EMS) Since the EMS is effectively a Deutschmark bloc whose monetary policy is run by the Bundesbank, the German central bank, the system's great attraction is that it offers German-style monetary discipline and the prospect of low, German-style inflation

When France pitched the franc into the EMS at the beginning of the 1980s the country was in the middle of a nightmare stretch of four consecutive years of double-digit inflation averaging 12,5% between 1979 and 1982 EMS membership has so transformed the French inflation profile that in July this year French inflation dropped below the German rate for the first time since 1973



In October last year, as the UK weathered a third consecutive month of inflation above 10%, full EMS membership was conferred upon sterling with the same overall objective to lower inflation and to keep it low With the help of some technical factors, UK inflation has also fallen steeply in the months since the pound joined the EMS The Bundesbank's monetary discipline will probably restrain even UK inflation in the years ahead through the EMS constraints Indeed, before the end of the year, the UK inflation rate is likely to fall below the German rate for the first time since 1965

Italian annual average inflation was in double figures between 1973 and 1984 Italy's perennially high budget deficit (about 10% of GDP) makes Italy one of the most inflation-prone of SA trading partners, but the lira's EMS-related constraints have neutralised even that powerful contributor to inflation

The months prior to sterling joining the EMS at the end of last year are, therefore, likely to be the last in which an aberrant inflation rate among SA's trading partners pulled the partners' inflation average upward and protected SA from either devaluation or swingeing domestic cost-cutting

The past 12 months have shown what lies ahead for SA's inflation differential with major trading partners In October last year, OECD big seven average inflation was 5,6% Last month it is likely to have been barely 3,5% and heading lower — in all likelihood to stay low UK and US inflation more than halved over the 12 months to October, French inflation dipped by more than half a percentage point and the German and Japanese inflation rates were little changed at their traditionally low levels

Meanwhile SA inflation, at 14% in October 1990, is likely to have risen by about two percentage points when last month's CPI figures are released later this week

EMS membership, the breakup of the oil exporters' cartel and the need for the US and Japan to disinflate and remain competitive with the world's largest trading bloc (the EC) form the combination of factors likely to keep inflation low among SA's trading partners for the decade of the 1990s It is possible that average inflation among SA's trading partners will not again exceed 5% before the turn of the century

Under the prevailing management of the rand exchange rate, this has far-reaching implications for local industry The SA authorities are committed to maintaining a strong real trade-weighted rand because it is disinflationary a falling exchange rate is to be avoided because it generates its own inflation by making imports more expensive. So even if the adverse inflation differential exceeds 10 percentage points, the exchange rate will not, under current management, be allowed to offset the higher domestic costs squeezing local industry

If the exchange rate does not adjust for a higher inflation differential, then something else must give in order to trim domestic costs to levels that preserve and maintain trade flows Industry will have to retrench, curb pay increases and/or increase productivity Either way, if the rand does not adjust, the domestic inflation rate will fall by hook or by crook SA's trading partners are now securely locked into a low-inflation environment, and this injects added urgency into the Reserve Bank's anti-inflation drive If industry and wage-earners do not co-operate then they, rather than the rand, will take the strain

SOWETAN BU

Wages fall below the inflation rate

Sowetan 21/11/91 (153)

THE position of the South African consumer has steadily worsened as average wage increases have dropped below the inflation rate for the first time since 1986.

By JOSHUA RABOROKO

According to Old Mutual's latest economic monitor the increase in the wage bill was 14,5 percent by the second quarter, with inflation over the corresponding period 15 percent.

At the same time the level of employment in the mining, manufacturing and construction sectors has reached its lowest point since the early 80s.

Chief economist Dave Mohr does not foresee any marked improvement in the consumer's position in the near future and believes the economic recovery will be sluggish

He says "We do not expect employment and per capita wage rates to improve before profit and production levels have recovered. This will depend on rising exports, increased public sector spending on social infrastructure and some renewed private sector activity. The low level of inventories relative to sales should also assist

"Consumers are under increased pressure as interest rates and debt levels remain high against a historically low personal saving ratio This leaves consumers with very little room for raising their real expenditure levels significantly in the near future "

He expected a mild upswing during the course of next year, but that the financial position of most consumers would not improve much in the early stages

On a more positive note he said once the economy started its recovery, a number of factors would sustain the growth

The scenario for exports looks more positive for 1992 as sanctions are gradually lifted, the international economy starts recovering and the recently introduced policy aimed at promoting exports takes effect

"Another positive aspect is that the relaxed sanctions pressure against South Africa reduces the need to stockpile oil," said Mohr

Interest rates 'set to drop early next year'

(153) (88)

B/Day 25/11/91.

SHARON WOOD

INTEREST rates would probably be cut in February or March next year and decline to about 17% by the end of 1992, Sanlam said in its latest Economic Survey released on Friday.

Sanlam expected the fight against inflation to receive continued high government priority in the year ahead There would be only a gradual relaxation in monetary policy

The inflation rate was expected to decline to 12% by December next year, and average inflation for the year would be about 14%, it said.

Relatively high wage increases of about 14% to 15% next year would exert upward pressure on the inflation rate, along with a higher fuel price, rapid rises in food prices and depreciation of the rand Sanlam expected the rand to depreciate to an average of R3,05 to the dollar during 1992, compared with R2,77 this year.

"In addition, the danger exists that the high level of government expenditure — especially if this cannot be financed without the excessive use of bank credit — could impede the monetary authorities' attempts to curb inflation," the report said

However, Sanlam said, the expected retention of monetary discipline should help force inflation to lower levels through the maintenance of high interest rates, slower money supply growth and a relatively stable performance in the effective exchange rate of the rand

Business conditions were expected to improve next year with indications of a lower technical business-cycle turning point developing. But available information showed economic activity was still weak in most industries and the recovery phase would be sluggish at first, it said

"A marked increase in the prosperity of businesses and individuals is not foreseen prior to about the middle of 1992"

Sanlam forecast a decline of about 0,6% in GDP this year and a growth rate of about 2% next year

The prospect of relatively low real economic growth next year meant the number of unemployed would rise further

Council report lists causes of inflation

B Day 27/11/91 (153)

Political Staff

CAPE TOWN — Soaring administrative costs incurred by a proliferation of government institutions under previous constitutional policy was one of the major causes of inflation, a committee of the NP-controlled President's Council said yesterday

The council's committee for economic affairs pointed out that SA's inflation rate had been consistently higher than 10% since 1974, reaching a high of 18,6% in 1986

The cumulative effect of this had been that "a typical assortment of consumer goods that could be bought for R10 (£5 at the time) in 1945, would cost no less than R242,76 in 1990"

Despite government's anti-inflation measures, the rate had stayed between 13% and 15% since 1974 Between 1985 and 1989 it was 10 percentage points higher than SA's five main trading partners abroad.

The committee's report on "a strategy, goals and policy for obtained active consumer co-operation in action against price exploitation and inflation" was tabled in the council yesterday

It said that fundamental to inflation was "a chronic imbalance between the increase in the effective contributions to the national product and the greater increase in the effective demands on this national product, accompanied by an increase in the country's money supply"

Among the "driving forces" behind the high inflation rate were:

- The high gold price of 1970s, which led to a strong rand exchange rate with a negative effect on the country's export capacity A declining rand since had increased the prices of imported goods,
- Increasing international pressure on SA in the form of trade embargoes, which resulted in the development of strategic industries and increased cost structures;
- Excessive tariff protection for local industries, which increased cost structures and blunted the incentive for industrialists to be cost effective,
- Unfavourable international economic developments, which led to a decline in the inflow of capital from outside, and later to an outflow of capital as a result of sanctions,
- Rising government expenditure, which was covered by deficit financing through money creation,
- A shortage of skilled labour, which increasingly restricted SA's economic growth capacity;
- The emerging trade union movement, which conducted a sustained campaign for higher wages without higher productivity; and
- Inflationary expectations, which led to a fall in consumers' savings ratio and a rise in credit purchases.

Exchange rate key weapon in fight against inflation

BDay 28/11/91 **SIMON WILLSON** (153)

BOLSTERED by the Reserve Bank's resolve to defend its external value, the inflation-adjusted rand this year is set to reach its highest average level since 1984

Referring to the rand as strong at a time when the SA currency has, during the past 12 months, plumbed new bilateral lows against most of the individual major currencies may seem disingenuous But the rand's strength arises from the fact that it should be a lot weaker, on average, given the inflation disparities between SA and its major trading partners

The rand's effective exchange rate — its value against a weighted basket of trading partners' currencies — has also been weakening steadily The pace of the effective rand's decline has slowed up considerably over the past two years, but it is still dropping on this measurement too

Where the rand is strengthening, however, is on its real effective exchange rate — the level of the effective rand adjusted for inflation Strictly, to hold its value steady, a currency's effective exchange rate must adjust in line with the inflation differential between the currency's host economy and its trading partners

Thus SA's inflation rate of about 15% and its trading partners' average of about 5% leaves SA with an adverse differential of some 10 percentage points According to the textbooks, the effective rand should be falling by about 10% a year to equalise the cost differences between the various economies, to keep SA export prices competitive and to compensate SA exporters for rising domestic costs

But, as the rand's real effective strength is now showing, the Reserve Bank has torn up the textbooks. A major part of the Bank's counter-inflationary strategy is now to defend the internal and external purchasing power of the rand The internal part of the Bank's mission is accommodated by its attack, using tight monetary policy, on the rate of domestic inflation in SA, the external part involves stalling the effective rand's precipitate depreciation during the late 1980s

In holding up the nominal effective rand, the Bank has not allowed the currency to fall by the margin specified in SA's adverse inflation differential with major trading partners Since the effective rand is not falling by enough to reflect the difference beween SA's inflation rate and those of its trading partners, then the real trade-weighted rand is strengthening

Expressed as an index where January 1979 equals 100, the real effective rand is set to post an average of around 92 for calendar 1991 Such an outturn would represent the first annual average above the 90 level since the 97,1 averaged in 1984

Achieving a real effective average above 90 for this year would be a significant indicator of the rand's strength the 1984 high was attained in the days when there was a smaller inflation differential, a lower level of domestic political unrest, a net capital inflow, no debt standstill and no financial rand. In 1991 the underlying factors are much more negative, and yet the real effective rand is strengthening towards its 1984 levels The trend is a tangible sign of how seriously the Bank is taking its mission to defend the rand's external value

The implications of the strong real effective rand on the local economy are basically twofold. lower levels of imported inflation, and greater constraints on manufacturers' ability to offset rising costs

Most of the steady fall in producer price inflation in the first half of this year — from 14,4% in January to 11,2% in June — was attributable to the slowdown in the rate of imported inflation, while domestically generated inflation was little changed The slowing rate of imported inflation was the direct result of the strong real trade-weighted rand and should, ultimately, feed into domestic inputs and bring the rate of PPI inflation down to single figures before the end of this year

In not compensating domestic manufacturers for their higher costs, the strong real trade-weighted rand exerts another disinflationary influence on the economy that should eventually spin off into the official inflation statistics Since local companies' rand earnings are not rising in line with SA's inflation differential with its trading partners, these companies have to find other ways of staying competitive and of selling their products abroad

They are obliged to trim costs by rationalising, improving productivity, lowering overheads and internal economising — the kind of cost-consciousness that might not have been forced on the corporate sector without the discipline of the strong real exchange rate Such cost-cutting can be expected to lead to domestic price-restraint that, in the end, should benefit SA consumers by lowering the rate of domestic inflation

Another indication of the relatively recent significance of the real effective rand's level in SA's exchange-rate policy is the sudden appearance of the figure in the Reserve Bank's quarterly bulletin As a regular time-series, the real effective rand was first published in the bulletin only in March 1990 It is no coincidence that the March 1990 bulletin was the first to have emerged under the full authority of Bank Governor Chris Stals, who succeeded Gerhard de Kock in late 1989

One of the recognisably different features of the Stals governorship from that of his predecessor has been the public affirmation of the Bank's "mission" the protection of the domestic and external value of the rand An example is this statement by Stals in April "Our policy is to keep the value of the rand against a basket of the more important currencies relatively stable, taking into account the differences in the inflation rate between SA and other countries"

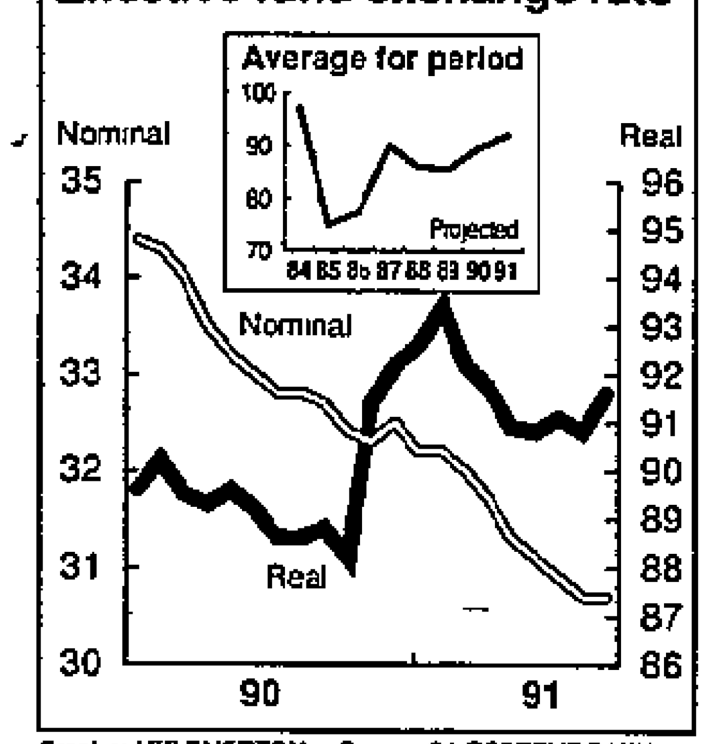
This exchange-rate objective, together with the conscious modelling of the Bank on its aggressively independent German counterpart, the Bundesbank, virtually required the addition of a real effective rand rate to the Bank bulletin Suddenly the effectiveness of the Bank's exchange-rate management, previously monitored only by the qualified few with access to the relatively obscure international data required, would instead be fully exposed to public scrutiny

There was apparently some initial concern at the Bank in publishing a real effective rand rate. doubts existed in some quarters as to whether the relevant SA statistics and those of its trading partners were directly comparable and could provide a consistent and accurate index. These fears were partly borne out in August this year when the SA producer price index was radically revised

The rate of producer inflation is used to deflate the nominal trade-weighted rand and the nominal effective rates of trading-partner currencies to arrive at a real effective rand This meant a substantial upward revision to the real effective rand index barely a year after its debut in the Bank bulletin The index had to be made stronger to reflect the sharply lower rates of domestic producer inflation that resulted from the revision to the index

The result of the revision was a real effective rand that was 13% stronger on average over the first half of this year than as portrayed in the original statistics that used the unrevised PPI The revision found, among other things, that the disinflationary force exerted by the Reserve Bank's exchange rate management has been even more vigorous than previously thought. The pay-off — when it comes — in a lower inflation rate should, accordingly, be even more gratifying

Effective rand exchange rate



Graphic LEE EMERTON Source SA RESERVE BANK

ARG 29/11/91

Food prices send inflation rate through the roof

153

SVEN LUNSCHE

JOHANNESBURG — The surge in the inflation rate to almost 17 percent last month should force a rethink of monetary policy by the Reserve Bank

Central Statistical Services (CSS) reported yesterday that the inflation rate soared from 15,4 percent in September to 16,8 percent last month — its highest level in over four year

Excluding the impact of VAT, October's rate would have registered 15,6 percent

Deputy Governor of the Reserve Bank Dr Jaap Meier said yesterday that the increase was "on the high side of our expectations"

He added that the high level of inflation effectively ruled out any interest rate cut before the end of the year

His comments come just one day after the Governor, Dr Chris Stals, expressed himself satisfied with the impact of the Bank's tough stance on factors which had been exerting upward pressure on inflation

Dr Stals said that for the first time all sectors of gross domestic expenditure were showing a decline, including private sector consumer spending, which had risen until the second quarter of this year.

Furthermore, wage and salary increases were falling below inflation levels thus reducing the upward pressure from this source, he said.

Economists also point out that the rapidly improving level of the foreign exchange reserves made it less essential to curb the demand for imported goods.

Undoubtedly the introduction of VAT has led to price increases way above what the government had hoped for, not only in October but also in the months leading up to the introduction of the new tax system

But the question many economists feel the Reserve Bank must address now is whether a continued tough monetary stance will prevent price exploitation such as is being applied under the guise of a new tax

This is beyond the Bank's sphere of control and should be left to the fiscal authorities, who also need to address the impact of government spending on overall price levels

The Bank has achieved what it set out to do, namely to reduce the upward pressure on price levels by keeping interest rate at high real levels — the fact that inflation itself has not come down cannot be blamed on the Bank

However, the economy is as flat as a pancake and the monetary authorities should consider the cost of its tough stance

With political pressures mounting, the economic upswing cannot be held back much longer and an increasing number of economists have been calling for a cut in interest rates early next year

This would provide the essential stimulus to release the pent-up demand for investment and set the course for a more sustained upswing over the next few years

■ Food prices in October, as measured by changes in the food component of the Consumer Price Index (CPI), increased by a year-on-year 25,7 percent, its highest level in over a decade.

On a monthly basis, between September and October this year, the increase was a staggering 5,6 percent with large contributions coming from products such as meat (10,6 percent), vegetables (9,1 percent) and fruit (8,5 percent)

The introduction of VAT has hit food products particularly hard since most food items were previously exempt from GST

Of the overall monthly CPI increase of 1,9 percent, food prices thus contributed one percentage point Housing costs accounted for 0,3 percent of the monthly rise and medical and transport costs for 0,2 percent each

The impact of soaring food prices on overall cost increases is also illustrated by the fact that excluding food the inflation rate in October would have registered only 14,6 percent

The CSS also shows the impact on the CPI of the change in the base year for its calculations.

The August 1991 inflation figure used a 1990 shopping basket of goods as its base for the first time, with some significant changes in weightings which contributed a lower CPI than would otherwise have been the case

Food price hikes the main culprit

VAT blamed for rocketing inflation

B/Day 29/11/91

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ANDREW GILL

VAT-fuelled price hikes saw the inflation rate rocket to a 52-month high of 16,8% for October, latest figures show.

The CSS said yesterday the consumer price index shot up by 1,9% in one month as food prices continued their runaway rises.

Food inflation was 25,7% in October, its highest in more than a decade, and the main contributor to the latest inflationary blow. From September the food price index climbed 5,6%.

The 16,8% year-on-year rate compares to September's 15,4%.

The implementation of VAT was responsible for 1,2 percentage points of the increase, with other factors causing a 0,2 percentage point rise

If VAT was stripped out of the index, the figure would have been 15,6%, still higher than September's 15,4%.

The Co-ordinating Committee on VAT said it proved government and big business were cashing in while the poor suffered. The capital market saw it as a bullish sign, while economists found it "disappointing to expected".

Bankorp chief economist Nick Barnardt said the figures were disappointing as there had probably been increases in anticipation of VAT before October and there was no evidence of the fall in some retail prices that independent bodies had claimed was occurring

He hoped positive factors like the stable exchange rate, and lower increases in import prices, money creation, the PPI and salaries and wages would be reflected in a considerable decline in CPI inflation next year Interest rates and inflation had to be reduced before a meaningful upswing in the economy, he said.

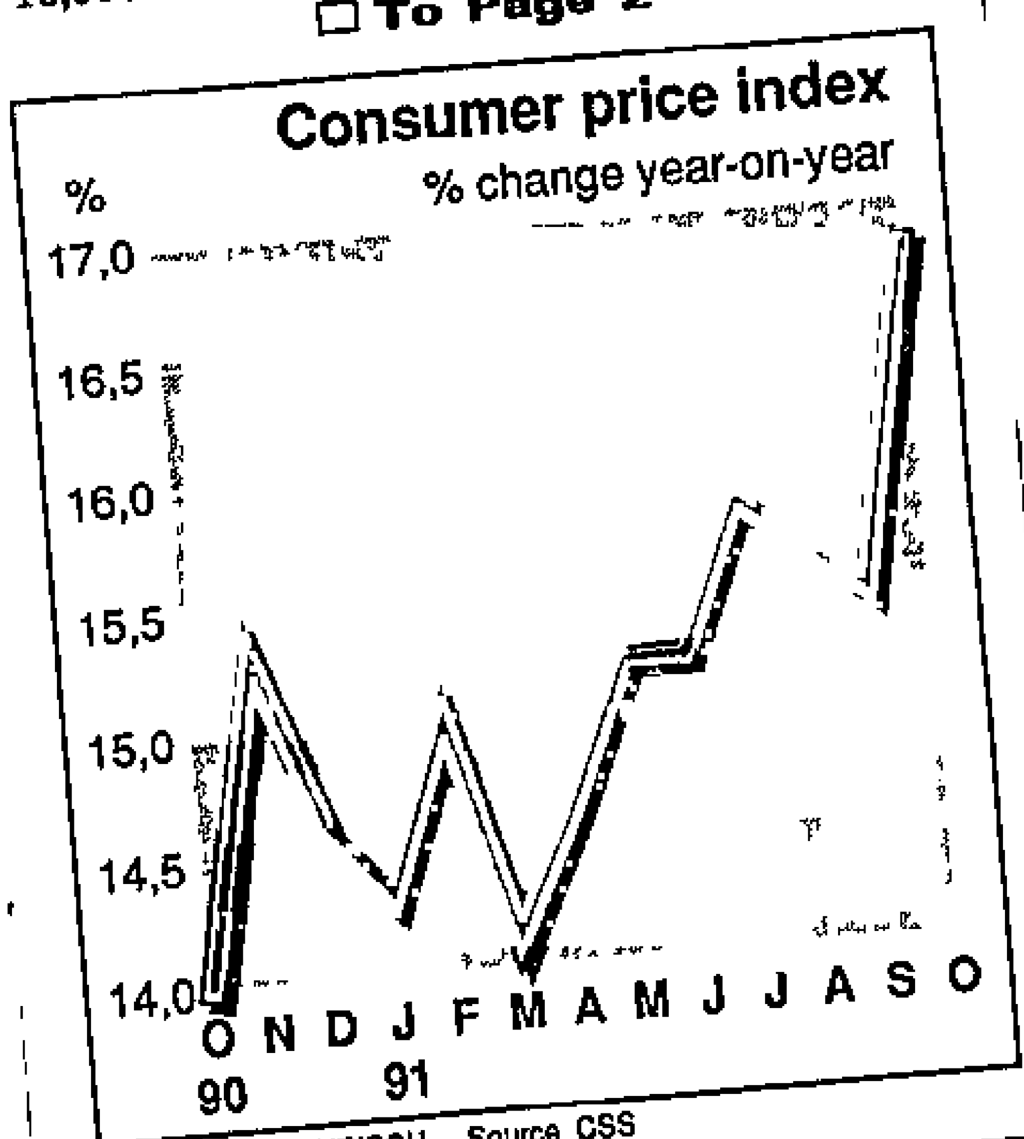
Southern Life economist Mike Daly said the figures were in line with neutral expectations, and were a technical fillip before starting to fall. "We should expect almost 14% by the middle of next year and about 12,5% by year-end," he said

A substantial drop in the rate should start coming through once the effects of VAT had worked through the index in 12 months, Daly said.

Other economists had mixed feelings about the rate, but there was optimism that it would not go higher.

Capital market rates bolted to lower levels yesterday after the news, with the figure coming in at the lower end of its expectations The benchmark Eskom 168 strengthened to 16,27% from Wednesday's 16,38%.

☐ To Page 2



Graphic FIONA KRISCH Source CSS

Inflation

B/Day 29/11/91

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☐ From Page 1

Co-ordinating Committee on VAT chairman Bernie Fanaroff said the figures proved government was incompetent and could not be trusted to run the economy

They showed VAT had contributed substantially to worsening the plight of the poor and the consumer Food price inflation, in particular, proved that big business had cashed in

"The Vatwatch pledges which were signed by the big chain stores and food manufacturers were not worth the paper they were typed on."

Also, Vatwatch had no teeth and merely served to try to pull the wool over the eyes of the people of SA Worse was still to come on the inflation front, he warned Most of the foods that government zero rated would be taxed from March.

Of the components of the food price increases, meat prices, fruit and nuts and seafood products were the main culprits, while sugar, coffee, tea and cocoa prices all decreased.

STAR 29/11/91 (153)

Inflation takes off

By Sven Lunsche

The surge in the inflation rate to almost 17 percent last month should force a rethink of monetary policy by the Reserve Bank

The Central Statistical Service (CSS) reported yesterday that the inflation rate soared from 15,4 percent in September to 16,8 percent last month — its highest level in over four years

Excluding the impact of VAT, October's rate would have registered 15,6 percent

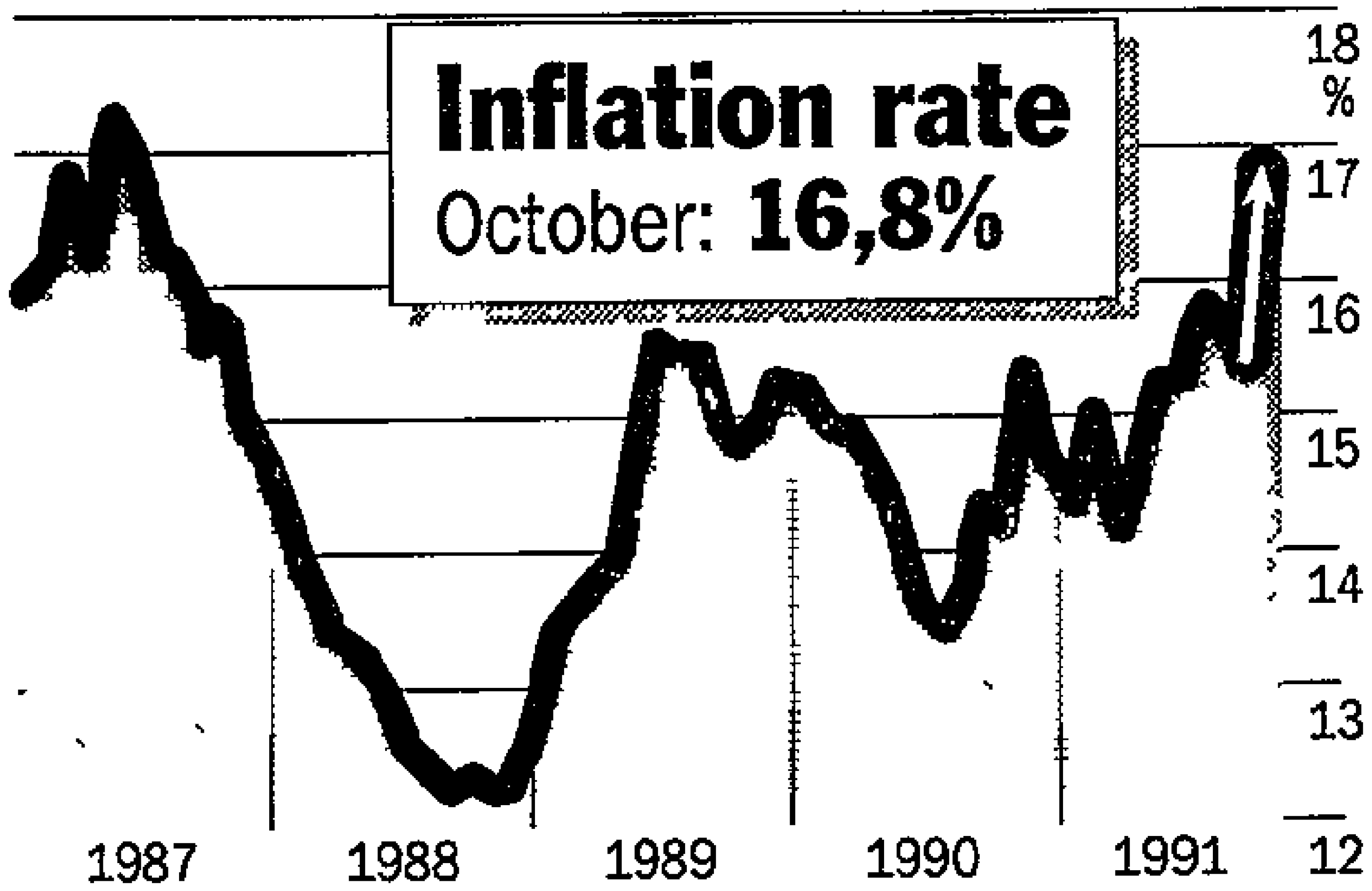
The Deputy Governor of the Reserve Bank, Dr Jaap Meier, said yesterday that the increase was "on the high side of our expectations"

He added that the high level of inflation effectively ruled out any interest rate cut before the end of the year

Tough stance

His comments come just one day after the Governor, Dr Chris Stals, expressed himself satisfied with the impact of the Bank's tough stance on factors which had been exerting upward pressure on inflation

Dr Stals said that for the first time all sectors of gross domestic expenditure were showing a decline, including private sector consumer spending, which had risen until the second quarter of this year



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From bumping to jumping off the bottom

S(Times(Buss) 1/12/91 (153)

TOP 100 COMPANIES

By MIKE BROWN, economic consultant, Frankel Max Pollak & Vinderine Inc

THE South African economy entered this year locked in the debilitating embrace of an enduring cyclical domestic recession.

On top of this, the Persian Gulf crisis, the international economic slowdown, poor commodity prices and the sanctions campaign meant that little help could be expected from exogenous sources

Faced with this start, the economy has done little more than "bump along the bottom" of the cyclical trough for most of 1991

A latent revival in inflationary forces added to the economies woes Of course, the Persian Gulf confrontation and higher oil prices played a role in the inflation resurgence as did the weakening rand

However, rising wages — they were still growing by 16,6% in the first quarter of 1991 — and large retail price increases, particularly for food, both seemingly linked to continued excessive inflationary expectations, were the main culprits

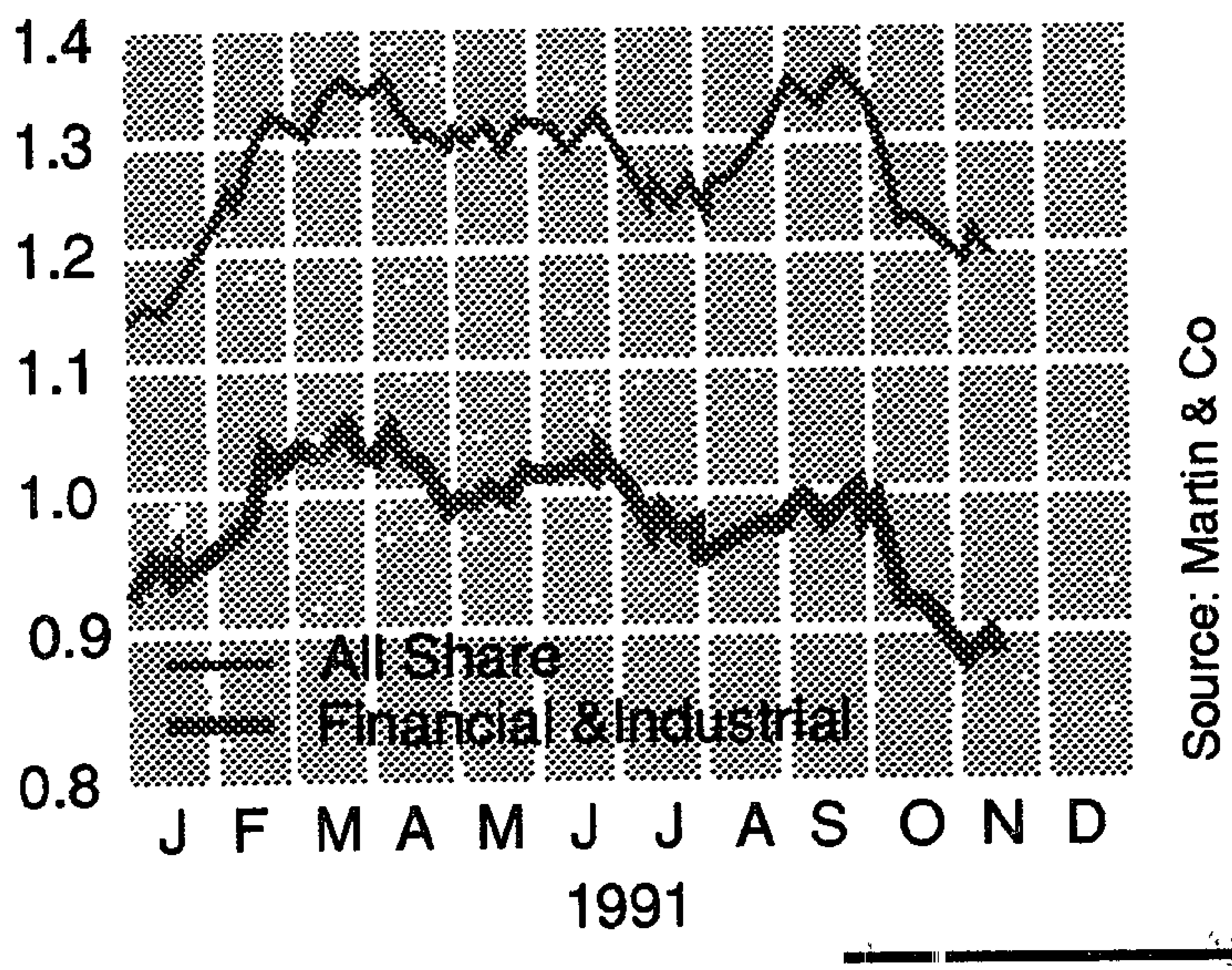
The private consumption and private business fixed-investment sectors had largely defied the recession, but both finally succumbed to resurgent cost-push pressures, which eroded real buying power and fell back into negative real growth rates from the second quarter

Conversely, of course, the general weakness of these areas of the economy should lead to greater resistance to price increases by consumers and less accommodation of wage demands, both of which might help to reduce inflation escalation, for a time, in the coming year

The authorities perhaps took this year's main prize for indecision The "big mistake" was the Reserve Bank's premature lowering of interest rates early in March — only to be subsequently stabbed in the back by an expansionary Budget, the weaker rand and a declining current account surplus

All the interest-rate drop succeeded in doing was financing inflation and the bank spent the rest of the year intervening in the money market to offset its precipitous action in March

Retail & wholesale relative index



Feeble

The fiscus was only slightly less feeble. A sharp rise in State spending characterised recent quarters, helping to promote inflationary expectations and raising severe doubts about the control and efficiency of Government outlays

The widespread resistance to VAT indicates that this concern about fiscal efficacy might have more general support than purely ambitious trade union leaders

The outlook for next year is more favourable. The economy is showing signs, technically at least, of being at its lower turning point The big debate now — after more than two years of "soft landing" — is the angle of take-off expected for the recovering economy

Signals flash for an escape from trough

The flat flight path school of thought looks for about a 1% real gross domestic product growth rate in 1992, mainly based on modest net export gains and inventory restocking

The steeper take-off proponents argue that in the post-sanctions environment SA's export growth potential is positive, and that the economy can afford to go for an investment-led kick-start

This presupposes a political climate that would not deter both domestic and foreign investors from getting oft-publicised projects and expansion under way In this case, a 3% or more real GDP growth rate is attainable

For the corporate sector, the steeper flight path is the only realistic option Another year of negative per capita growth in the economy would

Jobless

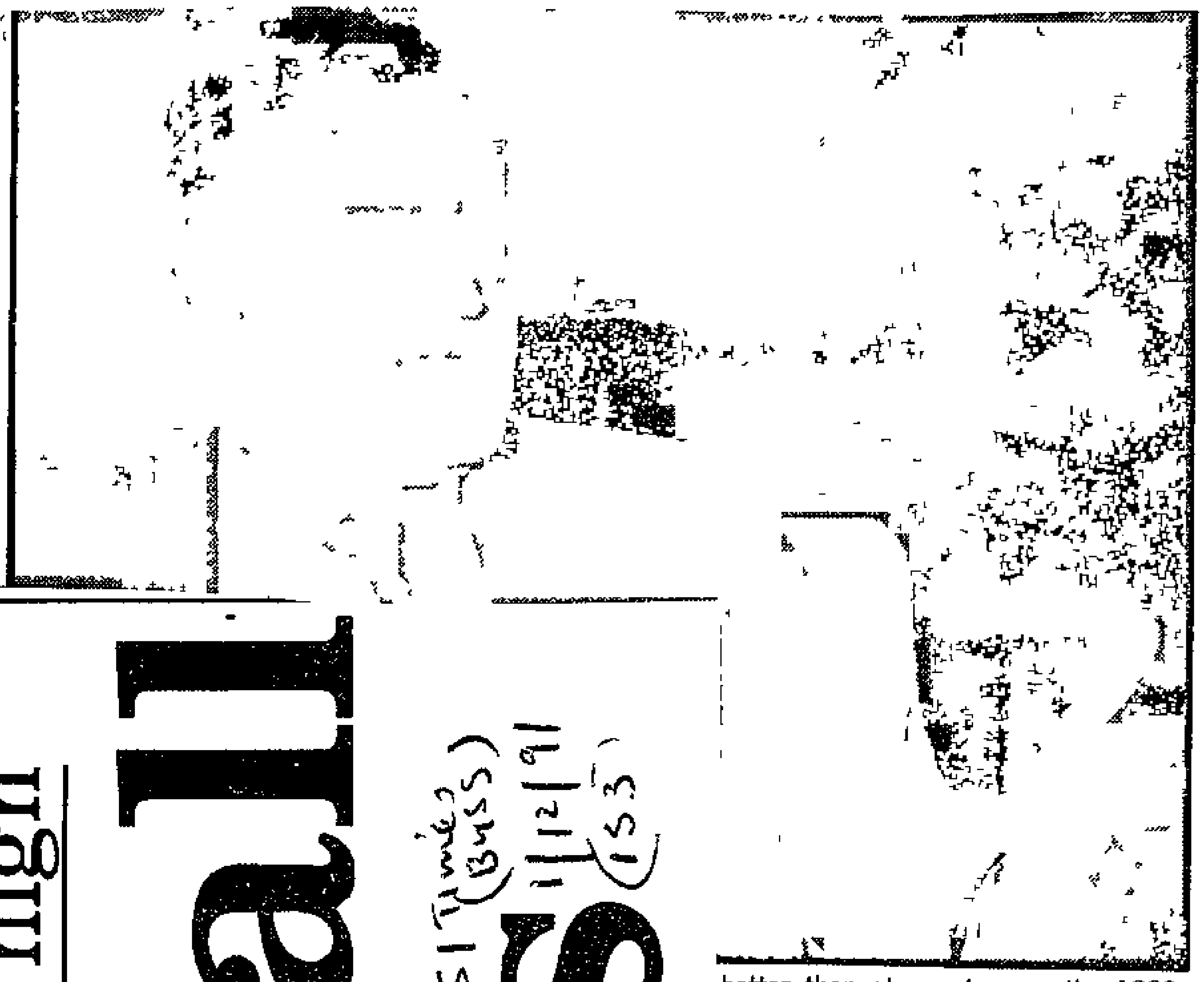
- Severely erode the consumr markets absorption powers
- Mean the third year running of declining corporate surpluses, which could translate into a negative savings rate for the economy
- Promote further rises in unemployment
- Deter foreign investors
- Translate into another year of real negative earnings growth for the industrial sectors of the stock market

Continued economic underperformance could severely damage the entire structure and relevance of the private enterprise free-market system and cast severe doubts about the continued buoyancy of the JSE

Price rises feared as inflation hits 52-month high

Economists call for cool heads

ST Times (Buss) 1/12/91 (153)



b‑tter than at any time in the 1980s

By ZILLA EFRAT

BUSINESS has been warned not to be panicked by inflation's leap to a 52-month high of 16,8% in October.

The biggest danger in the sudden surge is that it will provoke a round of across-the-board price increases and higher wage demands, adding another another loop to the inflation spiral and undermining the economy's hesitant recovery

The "keep cool" call from economists underlines confidence that the inflation rate will begin to fall next year and should be about 11% by the end of the year

It also underpins Reserve Bank Governor Chris Stals' encouraging statement that for the first time in recent years all sectors of gross domestic expenditure are falling, including private-sector consumer spending which had been increasing until the second quarter of this year

Strict

Bankorp chief economist Nick Barnardt says business holds the key to its own recovery, especially in 1993

"Once the inflation rate begins to fall, interest rates will come down and wages and prices can be adjusted This will lead to an upswing in economic conditions"

In London, SA Ambassador Kent Durr painted a bright future for the economy at UBS Phillips & Drew's investment conference

"The underlying economic situation is now more conducive to sustained economic growth than at any time during the 1980s"

He said access to world capital and money markets would help the easing of strict measures to restrain domestic demand

"The monetary authorities are, however, steadfastly sticking to their aim of bringing inflation down by maintaining positive real interest rates and progressively reducing monetary expansion. Real progress is being made"

Food

Economists say the October jump in inflation was an expected one-off event which should not lead to higher inflationary expectations

The surge came on the back of the introduction of VAT, which accounted for 1,2 percentage points of the increase

Soaring food prices contributed largely to the rise If food inflation at 25,7% is excluded, October's rate would have been 14,6%

Many economists say the jump was in line with their forecasts and they expect the dust of the VAT introduction to settle early next year

Nedbank chief economist Edward Osborn says the increase should be a one-off aberration, given that basic food items which were previously exempt are now subject to 10% Vat

However, Dr Osborn believes the mechanics of VAT will begin to work themselves through early next year when the credits on intermediary inputs and capital items start coming into the system

He says the position should stabilise and inflation should start moving down This trend will be helped by the filtering through of generally lower wage increases in the manufacturing sector

Mr Barnardt expects inflation to fall to about 10,8% by the end of next year He says the rate should drop gradually until the middle of 1991 and then sharply thereafter

Dr Osborn forecasts an inflation rate of 15,7% in December, 15,6% in March and 14,4% in June

He says a rate of 11,5% is possible by the end of 1992 if not countered by higher wage demands and labour unrest He does not expect a significant drop in the inflation rate until late in the second quarter of next year

Anglo American senior economic consultant Jim Buys forecasts year-on-year inflation to fall to 12,5% by the end of next year

THE MONEY MARKETS by Andrew Gill

Inflationary expectations jump

Business Day 2/12/91. (153)

INFLATIONARY expectations, the often quoted reason for stubborn inflation, last week jumped even higher.

The capital market may have taken heart from what turned out to be the lower end of its expectations but that move merely served to display a growing acceptance of double digit inflation

Having had fears of a massive rise in inflation to over 17%, the market found room for optimism despite more than a four-year high in CPI growth.

Expectations of a big drop in inflation once VAT has worked its way through the index by October next year are realistic, but so is the fact that year-on-year figures will be on the top side of acceptable.

The net effect, apart from knocking spending power, is to create increased expectations of high inflation after months of relative success in that field, as reflected in the below-inflation increases in salaries and wages

What the figures will do to the money market is debatable Some three-month rates have already discounted a one percentage point fall in the bank rate, but the likelihood of such a move is minimal, at least before Budget

An excessive cash flow remains dominant in an undersupplied market and fundamentals are likely to go out of the window in the face of strong demand

This was reflected again in Friday's Treasury Bill tender of R200m as the alloted rate slipped to 16,16% from 16,19% Despite continuing its mopping up operations, the Reserve Bank is finding it impossible to stop rates falling

Not only does it have to contend with poor fundamental weaknesses in the inflation struggle, but it has to watch banks take advantage of the liquidity in dropping rates in order to save on the deposit side

Consumers watching developments must wonder whether they have drawn the short end of the stick — inflation is untenably high, savings rates are showing almost no real return, and lending rates are higher than most can afford.

AHI calls for lower interest rates

The Arikaanse Handelsinstituut said yesterday it hoped the monetary authorities would react to market forces in the money and capital markets without discarding monetary policy, as speedily as possible

AHI president Mr Attie du Plessis said in a statement it was clear the present sluggish tempo of economic activity, the good balance of payments situation and the improved money supply and inflation was increasingly being reflected in the interest rates on capital and money market rates. STAR 3/12/91

The problem South Africa faced, Mr du Plessis said, was how to rejuvenate the economy and to ensure the up-swing lasted long enough to sustain the necessary economic growth and job creation — without stimulating inflation. 153

Mr du Plessis said the business organisation was of the opinion that an important part of the solution to the problem lay in fiscal policy and suggested that a restriction or even a reduction in the authority's current expenditure appeared neccessary.

In this regard the AHI recommended specific action such as the reduction of taxation in favour of increasing expenditure.

While the AHI placed great importance on the IMF's criteria that the fiscal deficit before borrowings should not exceed three percent of GDP — these goals, given the present domestic economic situation should possibly be given a once-off lower priority than normal — Sapa

Effectiveness of high interest rates challenged

STAR 4/12/91 (153)

A leading businessmen has called into question the authorities' determination to use interest rates as the only weapon to reduce inflation

Grant Thomas, executive chairman of Malbak, says in the company's annual report

"At this stage of its history, South Africa badly needs both stability and growth While the object of reducing inflation is laudable and entirely understandable, one can't help wondering whether the authorities should continue to rely on the single weapon of interest rates

"This is particularly relevant in the absence of statistics confirming that the battle against inflation is being won, and in the face of economic suffering and social disorder

"Not for a moment am I suggesting that the goal of reducing inflation be abandoned — I am suggesting that it has equal priority with the need to generate growth, create jobs and improve stability and confidence

"Other fiscal and monetary tools exist to curb demand which, if used as a package and in conjunction with measures to stimulate long-term growth, can create progress on all these fronts," Mr Thomas says — Sapa

SOUTH, DECEMBER 5 TO DECEMBER 11, 1991

UNIT TRUSTS

MAKING YOUR MONEY WORK

Unit trusts: The way to get BIG things

South 5/12 - 11/12/91 (153)

A unit trust is an investment scheme that invests a pool of money in stock market shares The money comes from individuals or groups, who in return receive "units" in the pool These units represent equal shares in the trust's investment portfolio, produce an income and fluctuate in value according to the interest and dividends paid and the stock exchange prices of the investments **LYNDA LOXTON** reports

HIGH INFLATION and taxation are eating away at the real value of South African savings As a result, many people are finding that, no matter how much they save, savings accounts alone are not enough to build up the capital needed for those major events in their lives like getting married, buying a home, paying for their children s education or ensuring a comfortable retirement

"The tough economic conditions of today make it extremely difficult for an investor to accumulate capital because of the negative effects of inflation and taxation, says the assistant general manager of the Board of Executors Unit Trust Management Company, Mr Colin Roux

"For example, if inflation were to continue at a mere 14 percent a year over the next 10 years, you would need about R4 to buy what you can buy today for R1

"On the other hand, if you were to invest in a fixed interest investment earning, say, an interest rate of 20 percent a year, and pay tax on the interest at 44 percent, your after-tax rate of return would be 11,2 percent

"This is well below the inflation rate and you would have to earn an interest rate of at least 25 percent a year just to keep pace with inflation — and still show no real capital growth.

"For investments to show real growth, a higher after-tax return than the inflation rate must be attained "

The Old Mutual's assistant general manager of unit trusts, Mr Bastiaan van der Westhuizen, put it this way "Even a 15 percent inflation rate can cut the buying power of your savings by half in five years "

Inflation now stands at about 16 percent so you can imagine what it is doing to your savings

One way round this problem is to invest in unit trusts, not to replace savings accounts, but to build up your capital to pay for those "big" things in your life This is because unit trusts invest their unitholders' money in a spread of shares on the Johannesburg Stock Exchange, which has potential to provide high returns

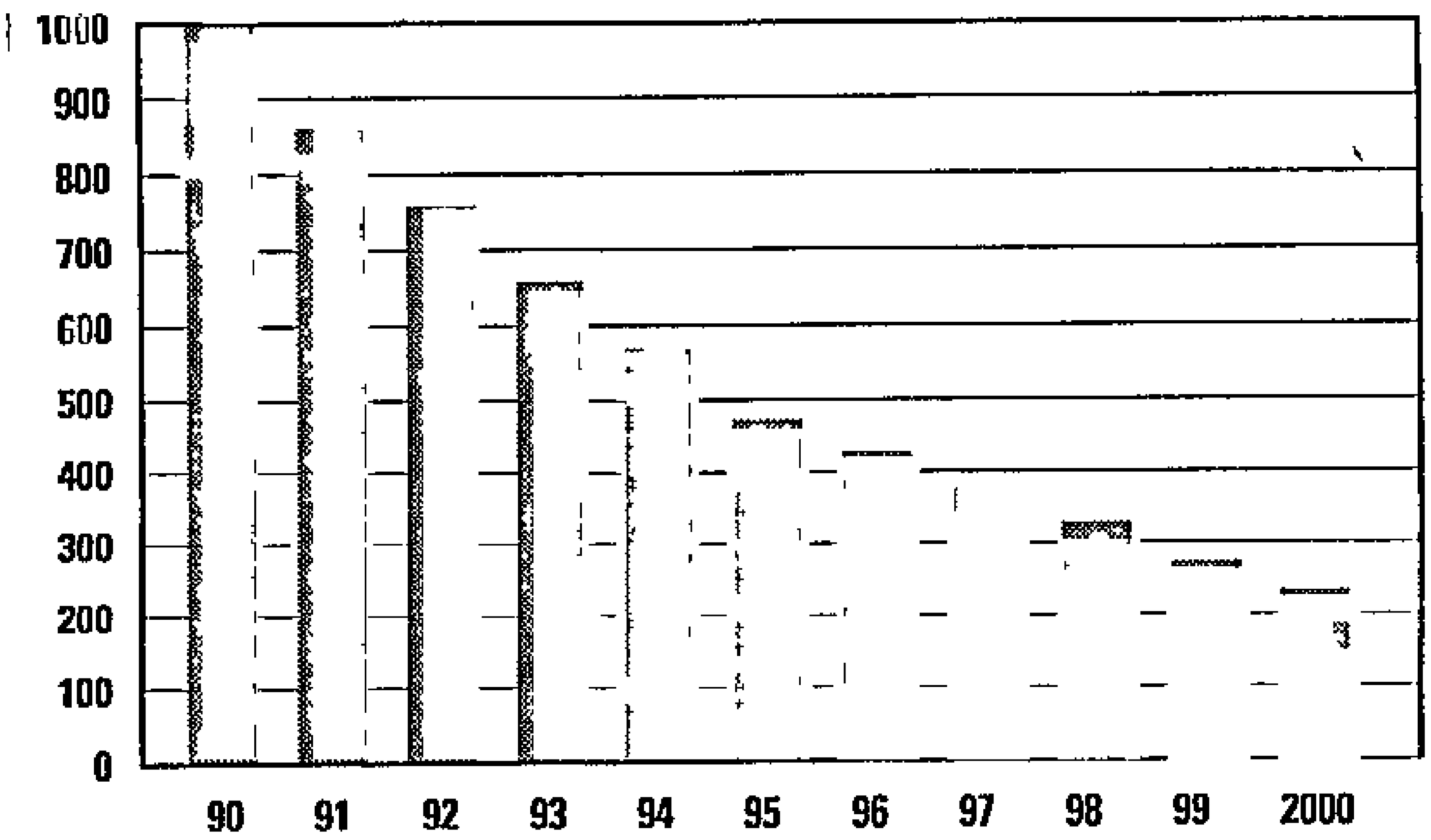
Old Mutual, for example, has calculated that a monthly investment of R125 in its Investors' Fund since it was launched in October 1966, would have grown to no less than R1 106 307 today Of course, R125 was worth a lot more in 1966 than it is today, but this gives you an idea of the growth potential of unit trusts

This was a return of 21,99 percent a year," said Van der Westhuizen

"Even R50 a month invested in the fund would have given the unit holder a R437 126 nest egg

HOW INFLATION ERODES CAPITAL

R1000 INVESTED – 15% p a INFLATION



Where to get your unit trust:

General equity funds: BOE, Fedgro, CU Growth, Guardbank, Momentum, Metfund, Metlife, NBS Hallmark, Norwich NBS, Old Mutual Invest, Safegro, Sage, Sanlam, Sanlam Index, Sanlam Dividend, Senbank General, Southern, Standard, Syfrets Growth, Syfrets Trustee, UAL, Volkskas.

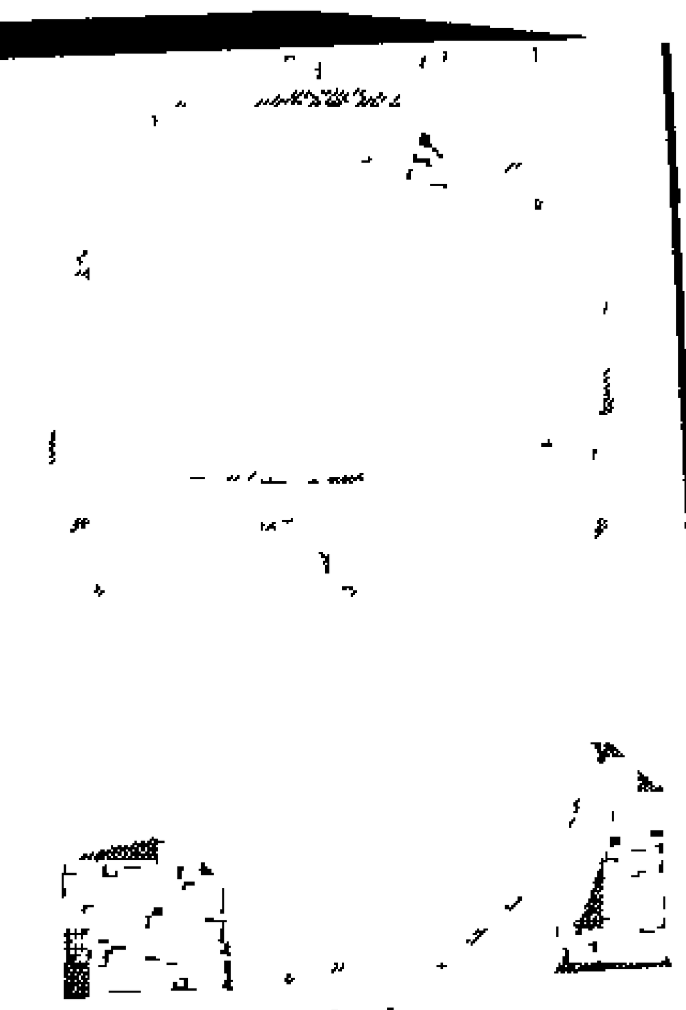
Income/ gilt funds: Guardbank Resources, Sage Resources, Sanlam Industrial, Sanlam Mining, Senbank Industrial, Southern Mining, Standard Gold, UAL Mining, UAL Select, Old Mutual Mining, Old Mutual Industrial, Old Mutual Gold, Old Mutual Top Companies

Special equity funds: Corbank, Guardbank Income, Old Mutual Income, Standard Income, Syfrets Income, UAL Gilt

SA inflation rate 'set for 10% next year'

153

CT 7/12/91



Rob Lee

Business Editor

THE inflation rate could come down to 10% by the end of 1992 or early in 1993, forecasts Rob Lee, senior portfolio manager at the Board of Executors Fund Management

He says in his Investment Outlook survey for December that monetary policy is paying off with inflationary pressures now being seriously eroded

"Producer price inflation has risen at an annualised rate of only 5% since January

"Underlying money supply growth has now been below 10% for a significant period. The narrowest definition of money supply, notes and coins in circulation, grew by only 8,9% in the year to October while the annualised growth in the broadest aggregate, M3, was close to 8% in the period from February to October

"Money supply growth is therefore no longer 'financing' a 15% inflation rate and it is only a matter of time before consumer price inflation moves to lower levels

"An inflation rate of close to 10% by the end of next year or early 1993 now seems achievable, providing the Reserve Bank does not allow itself to be panicked into a too rapid reduction of interest rates next year."

Emphasising the need to maintain a strict monetary policy Lee continues "The first really significant cracks in SA's stubbornly high level of inflationary expectations are now starting to develop and it would be folly to risk undermining that achievement now"

Lee says increasing evidence that the private sector is planning a significant increase in capital expenditure in the next two or three years is also encouraging

"In addition to the large capital projects that have been announced or are soon to be announced a perusal of recent company reports and statements reveals a general trend towards accelerated investment expenditure across a wide range of industries

"These plans are of course vulnerable to losses in confidence due to negative economic or political developments, but the potential for an economic recovery powered by private sector investment is greater now than it has been for many years."

Discussing the share market, Lee says "Technically the charts of both the gold price and gold shares continue to build solid looking base formations with the potential to move higher in due course

"We remain cautiously positive about the merits of gold share investments at this point

"As is the case with world equity markets our share market remains at historically high rating levels and requires a solid rising trend in company earnings to develop before any further significant advance could be justified

"Since such a rising trend is some months away the market remains vulnerable to weakness in the short term"

Pointing out that SA lacks the comfort of a low inflation rate to support low dividend yields, Lee says that structural protection is, however, provided by exchange control, the increased maximum exposure to equities allowed to investment managers by the new prudential investment guidelines "and particularly by the ongoing privatisation of state pension funds which have historically had no exposure to equities at all"

W/mail 13/12 – 18/12/91

Two-month Ellerines pay strike ends

152

The two-month strike involving more than 2 000 South African Commercial, Catering and Allied Workers' Union (Saccawu) members at the Ellerines Group of furniture companies was resolved this week.

The settlement included a R175 across-the-board increase backdated to July 1. Workers who refused individual settlement approaches from management will receive an additional lump sum of R30.

A new minimum wage of R1 057 a month, March 21 as a paid commemorative day and 7,5 percent commission for sales exceeding R30 000 for sales advisors were other features of the settlement.

During the turbulent strike, workers being arrested for ignoring court interdicts which prohibited them from picketing. The company secured three such supreme court interdicts nationally during the course of the strike. It also secured an interdict against the strike in Transkei, claiming that Saccawu is not registered in that country.

Cuthbert's strike off

The three-week-old Cuthbert's strike was suspended unconditionally this week.

INTEREST RATES

Real life

FM 13/12/91

153

The inflation-adjusted prime lending rate fell from about 6% in January to 4% in September, says the latest edition of the Reserve Bank *Quarterly Bulletin* Of the move, 0,75 percentage points was due to a shift in the nominal rate and the rest was due to inflation

"In certain countries pursuing restrictive monetary policies, such as Spain, Australia and New Zealand, real rates of 10%-12% were applicable in September 1991 "

As a result of easier money market conditions, "the part of the yield curve covering unexpired maturities of up to one year from September 1991 started to display a normal — if only marginally upward — slope for the first time since June 1989 This changed significantly the profile of carry costs associated with the accumulation of longer-term assets by investors This development may also have given borrowers an incentive to substitute short-term for somewhat longer-term debt " ■

13|12\91

the deck chairs?

FM 13/12/91 (153)

ker, and financial supervision was transferred to State Expenditure soon after

Finance Minister Barend du Plessis remains responsible for broad policy relating to the Budget and sets expenditure limits in consultation with the Cabinet

The separation of functions was decided on, Du Plessis told the *FM* in April, because other responsibilities prevented him from devoting enough time to expenditure control

"This runs concurrently with compiling the following Budget and requires full-time attention" He said that rather than delegate this function to a deputy Minister as in the past, it was considered advisable that it was under the direct control of a full minister

Let us hope this turns out to be the case

Despite a sharp decline in consumption expenditure by government in the third quarter (see below), real outlays were still 9% higher in the first half of fiscal 1991-1992 than in the previous year, according to the latest Reserve Bank *Quarterly Bulletin* This pushed the ratio of government consumption to GDP to 19,5% in the first nine months of the calendar year, from 17,3% in 1985. So government can't afford any deterioration

It is difficult to see why the new arrangement should work better It would seem that further fragmentation of control over financial affairs **(see Leaders)** would make it harder for all concerned ■

ECONOMIC OUTLOOK FM 13/12/91

Finger of blame (153)

Official inflation figures — the rate at which consumer prices rise over 12 months — has kept monetary policy tight, though most other indicators signal that a relaxation is appropriate While producer prices have been rising much more slowly and real labour costs first decelerated and later declined, consumer prices soared — well ahead of the introduction of VAT

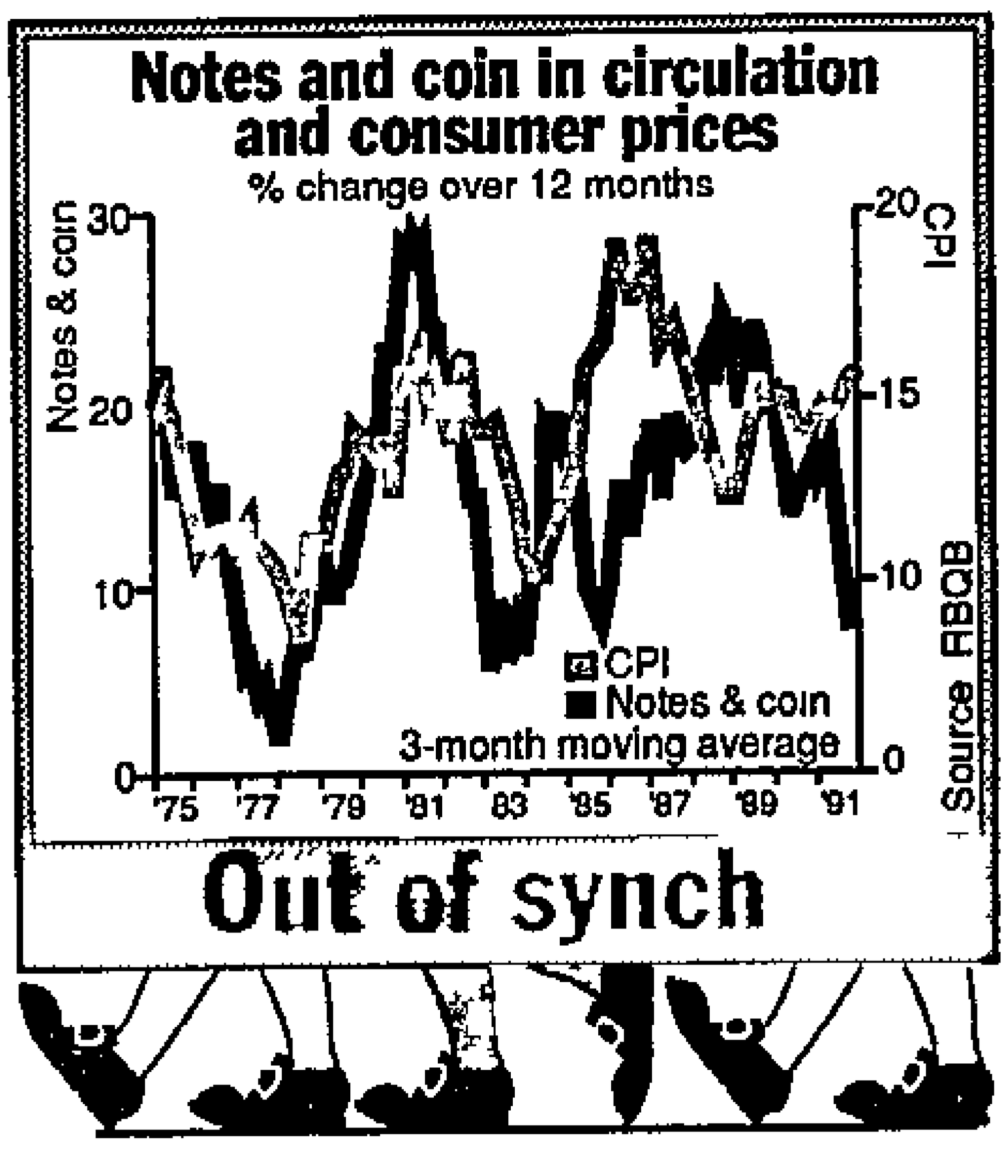
The Reserve Bank *Quarterly Bulletin* shows

☐ The quarter-to-quarter rate of increase in production prices (seasonally adjusted and annualised) fell from a peak of 20,8% in the fourth quarter of 1990 to 1,7% in the second — a 21-year low The year-on-year rate has declined from 14,6% in November 1990 to 11,4% in September, and

☐ The year-on-year rate of increase in (non-agricultural) real unit labour costs fell from 2,9% in the second quarter of 1990 to 0,8% in the fourth and 1,7% in the first quarter of 1991, before declining by 2,1% in the second quarter — the latest available figure The real wage per non-agricultural worker fell 1,3% in the second quarter, compared with the corresponding quarter of 1990

At the same time, demand for credit was rising more slowly The annual increase in

☐ HP credit and leasing finance fell from 17,4% in December to 11,5% in September, and



Out of synch

☐ The balance outstanding on credit cards dropped from 19,1% in December 1990 to 15,2% in September

From February (when new regulations led to a technical increase in credit creation and money supply data) to October, annualised growth in

☐ Credit extended to the private sector was 14,4%, and

☐ The broad money aggregate M3 was 7,9%

Growth in notes and coins in circulation slowed from about 17% in the first three months of 1991 to about 7,8% in the three months to September

These developments can be seen in declining expenditure in the third quarter (The following are all seasonally adjusted annualised quarterly changes)

☐ Private consumption expenditure fell 1,9% (from -1% in the second quarter and +0,3% in the first);

☐ Government consumption expenditure plummeted by 24,1% (+3,6%, +18,6%), and

☐ Gross domestic fixed investment fell 11,5% (-5%, -4,7%)

With inventories still falling, these changes led to a 6,4% shrinkage in gross domestic expenditure (-3,1%, +17,6%)

Lower spending brought a 15,6% dip in import volumes in the third quarter (after rising 32,3% and 45,5% in the previous two quarters) An 8,3% increase in import prices cut the decline in value to 8,7% (These are

continue, →

P.T.O.

Stals must drop interest rates to stem bankruptcies

BDay 13/12/91

LUKE DOIG

(153)

THE severity of the current recession is becoming clearer with the release of figures outlining the broader social tragedy in areas such as unemployment The social effects of the recession are, in my view, a direct consequence of the manner in which business has been forced to suffer under a regime of inflexible monetary policy Indeed, the information at our disposal as the country's largest credit insurer, suggests that the term depression may soon be in vogue

There can be no doubt that for the Reserve Bank to allow business to suffer under such high interest rates will jeopardise the transformation of the economy.

The Bank sees as its aim the creation and maintenance of a stable financial environment which will be conducive to long-term economic growth

This approach is in line with the policies adopted by many central banks abroad Monetary policy, where it is the sole role of such institutions, is no longer seen to be an architect of economic policy

This is the new order, as opposed to the policy the Bank followed in the '80s and — one is tempted to add — as opposed to conventional wisdom

Reserve Bank Governor Chris Stals contends that economic policy is supposed to remain the domain of the relevant (governmental) authorities, usually reflected in the application of fiscal policy.

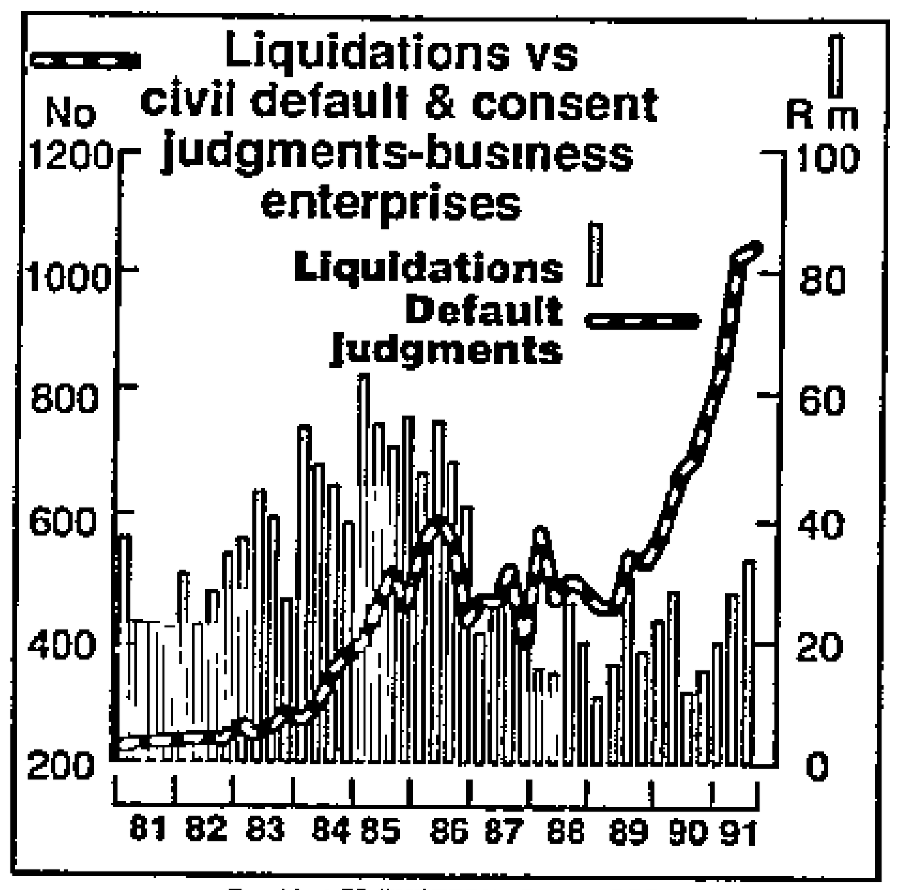
But, we are currently witnessing a divergence of policy as applied by the powers controlling monetary and fiscal policy

The government may be trying to engineer an upturn but more probably is merely trying to satisfy social upliftment demands The Reserve Bank will counter by saying it is endeavouring to allow such plans scope within a stable financial environment

To this end the monetary authorities have applied a relatively strict policy in an attempt to maintain the external and domestic value of the rand, namely, the exchange rate and inflation respectively

However, despite high real interest rates, inflation is now at a higher level than when Stals assumed office

Does recent international experience on the role of monetary policy indicate that all subscribe to the view expressed above?



Graphic LEE EMERTON Source BER & RESERVE BANK

Interest rates in the UK have been systematically lowered from 15% in mid-1990 to the current level of 10,5% Retail prices peaked at 10,9% in September and October 1990 and have since come off to 3,7% in October this year

Likewise in the US, where rates have declined from close on 10% in late 1989 to the current 4,5% Inflation of 4,8% in 1989 rose to 5,4% in 1990 and was down to 2,9% in October this year

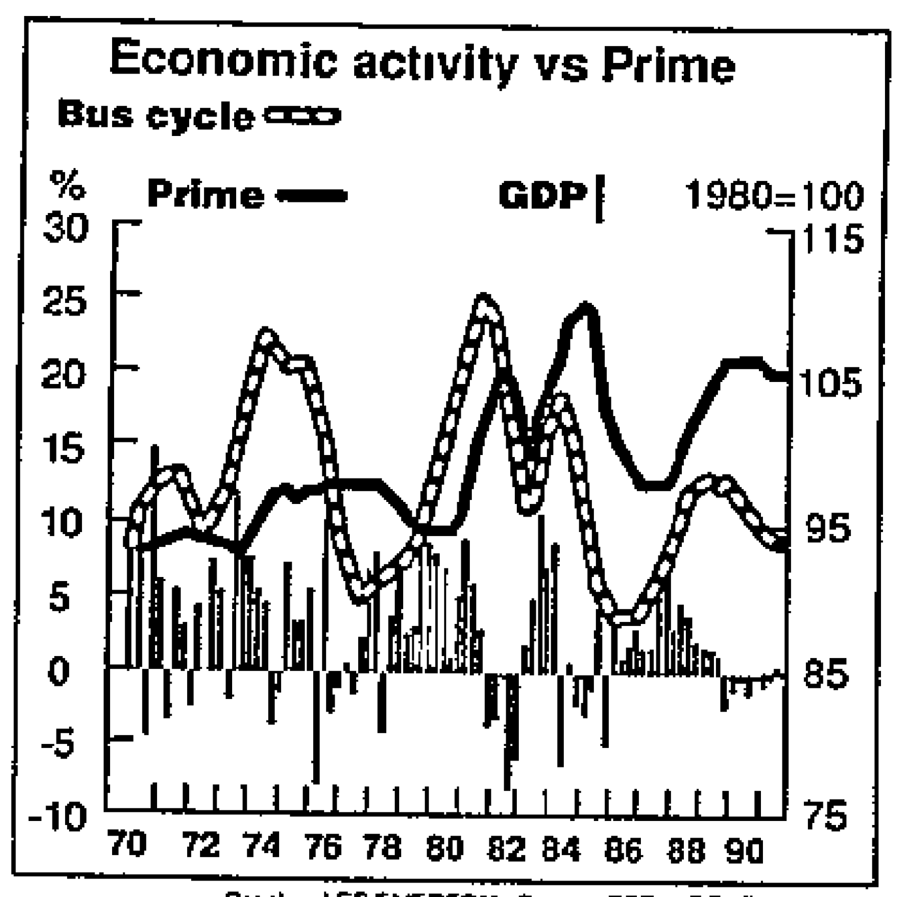
While it can be reasoned that the decline in inflation facilitated interest rate reductions, was it not the very real threat of an even deeper and prolonged recession that necessitated such interest rate cuts?

In fact, it could be argued that the extremely high level of business failures — the highest in the US since the Depression, and the highest in the UK for more than a decade — forced the hand of the Federal Reserve and the Bank of England respectively.

In other words, not pure monetary issues were at stake, real economic, social (and admittedly, in some instances, political) factors played a decisive role

Such a scenario now exists in SA too

An analysis of the two previous economic downswings is revealing The 1981-83 downturn of 19 months saw civil default and consent judgments for debt against business enterprises rise from R12,9m in 1981 to R15,3m in 1983 There is undoubtedly a lag between the lower turning point in the business cycle and the resultant beneficial impact on economic activity and prosperity.



Graphic LEE EMERTON Source BER & RESERVE BANK

Hence, debt judgments were still rising in 1984 when the onset of the next downturn served to further exacerbate matters

The 1984-86 recession (downturn) of 21 months saw debt judgments of R49,7m in 1984, a doubling to R101,8m in 1985 and then up to R136m in 1986 before settling back at R104,2m in 1987

Over this time liquidations had risen to 3 061 in 1985 and 2 741 in 1986 before also subsiding to 1 809 in 1987 Thereafter civil debt and liquidations figures were fairly acceptable

The economy peaked in March 1989 and civil debt jumped 61% to R189,9m in 1990 — the highest in the past 10 years The first nine months of 1991 have seen debt judgments totalling R232m, implying a potential 1991 total of close to R310m.

While it would appear from the graph that liquidations have been fairly stable, the upward trend over the past four quarters indicates a theoretical 1991 total of 1 886, an 18,6% increase

Our economy is likely to turn only in late 1991 at best — but more likely, in mid-1992 If this fact is taken together with the Reserve Bank's steadfast refusal to consider a drop in rates until early 1992 (based on latest indications), then an even more debilitating scenario with regards to civil debt and liquidations may arise in 1992

The prospect of this drastic deterioration leads me to call for at least a 2% cut in interest rates

The responsibility of commerce to provide employment to the ever-growing labour pool is being hamstrung by the burden business is being expected to carry, even if the Reserve Bank does help lift the chronic rate of business failures which now seems inevitable during 1992

☐ **Doig is senior economist of Credit Guarantee.**

The slow road to recovery begins

S/Times (Buss) 15/12/91 (153)

IT's official — South Africa will move into a new recovery cycle next year, says Reserve Bank Governor Chris Stals.

The economy will show better growth than that achieved in the past two years, but Dr Stals warns the turnaround will not be spectacular He says it takes time for the improved conditions to work their way through to the main stream

By IAN SMITH

"The recovery will be a slow process, just as the downturn took time to turn into recession," he told Business Times in an interview this week

South Africa moves into the new year with many of the fundamentals for growth, except inflation, in better shape

"Just about everything else is in line," says Dr Stals

The growth in money supply has been reduced from 27% to 9% and foreign-currency reserves are healthier than they have been for years

Capital

Reserve Bank holdings of R9-billion with another R1,5-billion in the banking sector cover SA's imports for eight weeks

Unused foreign credits of another R4,5-billion mean that imports for nearly three months are covered

At the same time, says Dr Stals, there is a good chance that SA will end 1992 with a positive capital flow — the first year without a loss since 1984

After two years of heavy debt repayments — R3-billion in 1990 and about R2,4-billion this year — the load will be lightened next year with about R2,5-billion scheduled for repayment

SA is rolling over about half of the debt falling due, which means that less than R1,5-billion should leave the country

Dr Stals does not envisage that the balance of payments will be a serious problem again until SA nears a growth rate of about 4,5%

Much of the pain felt by the private sector in the current recession has been due to the fact that it coincided with a spell of adjustment for the economy

Advances have been made, but Dr Stals says there is no room for a significant fall in interest rates until inflation is brought more tightly under control

"The lower rate of growth in the money supply will have an effect on inflation only next year"

The improvement in the balance of payments means that the supply of money is improved without Reserve Bank intervention, making room for a small fall in interest rates

Target

"The balance of payments inflow and capital from the rest of the world are beginning to have an effect on market interest rates," says Dr Stals

Prime overdraft of 20,5% could come down "a little", but this must be in response to market forces

There is a convention that overdraft rates should be three percentage points above Bank Rate, but commercial banks do not have to follow the tradition rigidly

Real interest rates — above the rate of inflation — must remain for the foreseeable future The Reserve Bank rate is only two percentage points above the inflation rate, but commercial interest rates give some room for manoeuvre

Dr Stals does not set a target for a fall in inflation next year, but he hopes there will be some reduction

"We will beat inflation We haven't beaten it in 18 years, but we will"

Interest rates below the inflation rate cannot be sustained

"That would entice everyone into borrowing again They would not be able to handle the debt burden when interest rates rose, as they inevitably would"

Dr Stals has no sympathy with anyone who borrows money at current high rates and then complains about the burden of servicing loans

"But I do have sympathy for the man who borrowed at 15% and now finds that he has to pay 22%"

One of the greatest threats facing the economy is overspending by the Government

"There is an expectation that spending will increase substantially in the next few years because of the many legitimate demands on the State

"But the Minister of Finance and the Cabinet are aware of the dangers of excessive Government spending

"The Minister of Finance has a difficult task in controlling expenditure at this time We must warn against too high expectations"

CHRIS STALS Monetary medicine is working

A slow road, says Stals

S Times 15/12/91

SOUTH AFRICA will begin to move out of recession next year — but don't expect a boom.

The recovery will not be spectacular, says Reserve Bank governor Dr Chris Stals But for the first time for years many of the early signals for recovery are good

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Dr Stals says it has been the longest recession since World War 2, and was worsened by the need to fight inflation and to make basic adjustments to the economy

● See Business Times

Inflation eroding price advantage of exporters

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S TAR 19/12/91

By Neil Behrmann

LONDON — Last week's historic European Community Agreement will increase pressure on South African exporters and the rand, unless rampant inflation is checked.

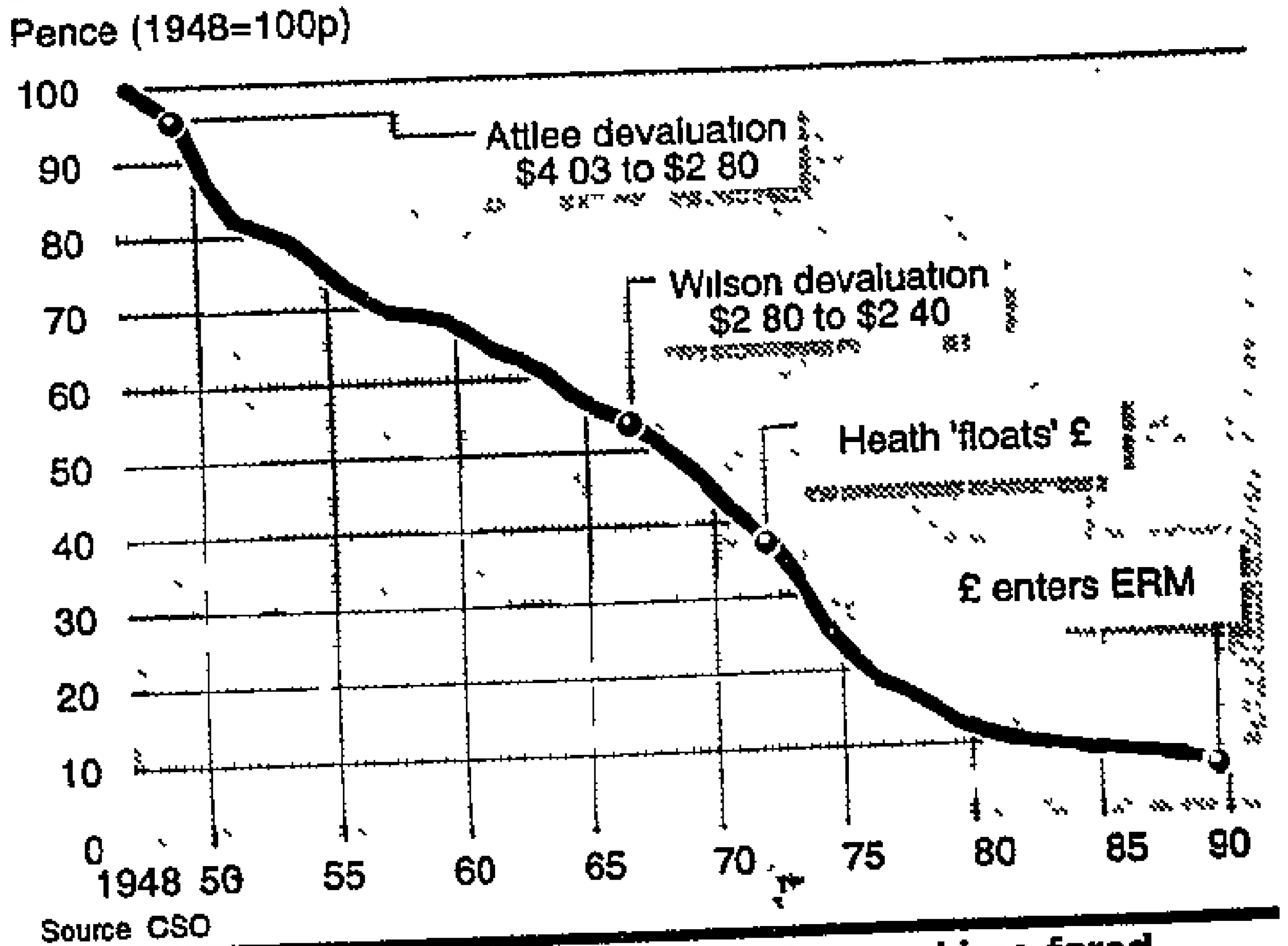
The most significant economic agreement at the summit held in Maastricht in the Netherlands is that the 12 member states should meet strict economic goals of low inflation, limited budget deficits and uniform interest rates

By the end of the decade, those member countries that will meet these goals will be in a position to forge a single currency, managed by an independent European central bank

Britain has the option to keep sterling free, but in reality it is likely to follow other European nations.

What is the importance of all this to the South African economy?

Purchasing power of the sovereign pound



Going down . . . how the British pound has fared.

To remain competitive with the biggest economic bloc after North America, inflation must decline. If price rises are not kept in check, it is inevitable that the rand will slide against European currencies during the rest of the decade

The rand is, of course, already under pressure Latest South African inflation rates are now nearly more than three times the level of the European Community average of 4,6 percent.

According to Organisation for Economic Co-Operation and Development (OECD) projections, European inflation will slip below four percent by the end of 1992

At current rates of inflation, consumer prices in South Africa would double in under five years, while in Europe it would take 15 years

Since the 12 European states intend grinding down inflation in tandem with Germany's sound money policy, the gap with South Africa will widen even more

Take Britain as an example. In 1979, inflation was 22 percent. Now it is just over four percent.

In a foreign press briefing last week, UK Chancellor of the Exchequer Norman Lamont said the pound would not be devalued in the European Exchange Rate Mechanism

It would eventually trade in a narrow 2,25 percent fluctuation band against a central German mark rate of 2,95, he said

Tough anti-inflation policies run the risk of a prolonged recession in the UK and other European nations, which will cramp demand for South African exports

For the present, South African manufacturing exporters have a price advantage because the rand has been weak during the past eight years

Unless inflation falls drastically or the rand depreciates, exporters will be priced out of the European market.

Inflation falls but food rises

(153) CT 20/12/91

Own Correspondent

JOHANNESBURG — Food prices kept going up in November, but the rate of inflation dropped

Yesterday, figures from the Central Statistics Service showed the overall rate of consumer price inflation dropped to 15,5% in the year to November from the four-year peak of 16,8% recorded in October

The figures also showed that annual food price inflation, already 25,7% in October, surged to a new 10-year high of 26,9% in the 12 months to November

Food price inflation is running at its highest level since the 29,5% recorded in March 1981, the figures show.

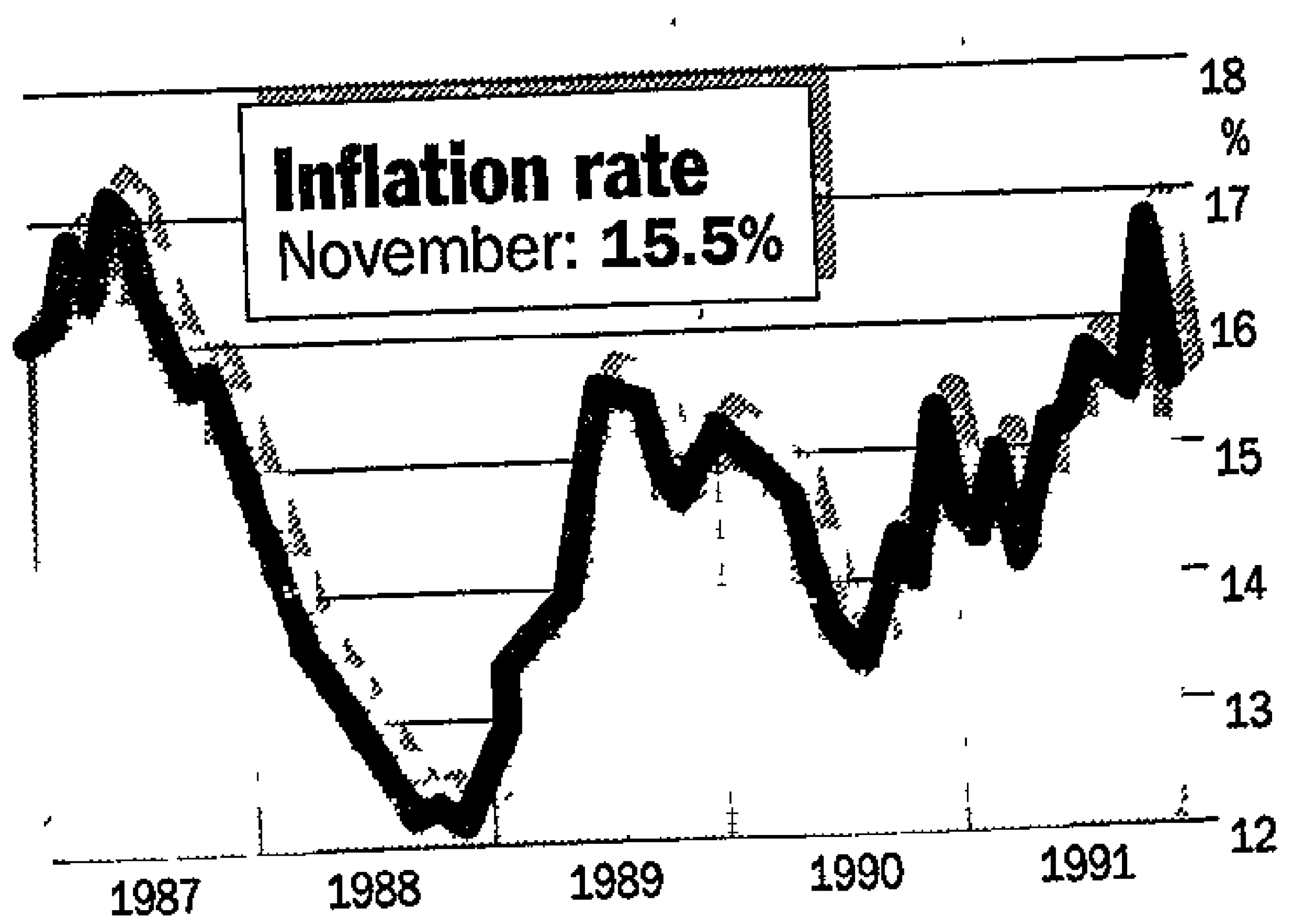
Fruit and nut prices are rising at an annual rate of 43,4%, closely followed by meat, up by 38,1% on a year ago, and vegetables, 33,9% more expensive than in November 1990

A Red Meat Producers' Association spokesman confirmed that since October, production prices had shown a marked increase after lagging for about four years. He said prices could be expected to increase over the next two years

Pick 'n Pay chairman Mr Raymond Ackerman said apart from the effect of VAT on meat prices, meat was generally more expensive when there were good rains, and there was a glut of meat during a drought

● SA faces 'two more hard years' — Page 5

● CPI slips — Page 9



Inflation dips but the fight is far from won

STAR 20/12/91.

By Sven Lunsche

153

The renewed surge in food prices in November will make it difficult for the inflation rate to fall below the 14 percent level next year

The Central Statistical Service's monthly Consumer Price Index (CPI) released yesterday shows that food prices in November surged by 26,9 percent, their highest increase in over a decade.

The overall inflation rate, however, fell back to 15,5 percent in November from its VAT-induced 16,8 percent in October

The renewed surge in prices has strengthened calls on the Department of Finance's Commission into the food pricing structures at producer and retail levels to speed up its inquiry.

In its recent Economic Survey Sanlam economist Johan Louw said that although the rate of price rises at production level had declined slightly over the past few months, prices were still increasing on a wide front and this was impacting adversely on consumer prices

There was little to suggest that price rises of locally produced goods will abate significantly from their current high levels, but imported inflation is set to fall further thus benefiting the overall inflation fight.

The imported producer price index in October showed a mere 4,9 percent year-on-year rise, as a result of a lower international oil price and the fairly steady external value of the rand.

"Taking into account the expected lower international inflation rates and a relatively stable rand we believe that as far as imported goods are concerned, price rises will moderate further in coming months," Mr Louw says.

On balance therefore he predicts an average inflation rate of 15,3 percent this year and 14 percent in 1992.

This is in line with the recent year-end estimate by the Econometrix research institute which forecast the same average for 1991, but a slightly higher average rate of 14,3 percent for next year.

According to the CSS food prices between November and October this year were up by 3,1 percent, with meat rising by 5,1 percent and fruits by 9,2 percent.

Facing the unthinkable

STAR 28/12/91 (153)

Money Matters

MAGNUS HEYSTEK

IS ANYBODY'S job safe anymore? Ask yourself the question How long could you survive if you were retrenched tomorrow? One month? Two months?

Maybe longer if you have been prudent and wise and have a nest-egg tucked away for a rainy day?

But the sad truth is that most people would survive barely two months without a regular income

South Africa is not a welfare state. And considering the state of the economy, it's unlikely that it will be one in the foreseeable future That means you alone must provide for yourself and your family

For most middle-class white-collar workers retrenchment has always meant some mine or factory closing down Those days are over

A striking characteristic of the recession has been the widespread phenomenon of white-collar retrenchment — even among highly skilled workers The unthinkable is now happening all around us

The MD of a large firm of placement specialists had the following to say "I have never seen so many CVs cross my desk in all my life

"Most of these are from highly educated and skilled middle and senior managers who have been retrenched or who fear that they could be retrenched"

The recession has been the longest yet endured By December last year it had entered its fourth year of stagnating or even negative growth

While some kind of upswing is expected this year, most economists do not see a sharp upturn in job creation in the near future

The December quarterly bulletin of the Reserve Bank showed that although the recession is not as severe as the previous downturn in 1985-86, it has been accompanied by a sharp contraction in employment across the entire spectrum of the economy

Even some government and semi-government sectors have made certain jobs redundant.

Moreover, if you are lucky enough to keep your job in the troubled times ahead, the chances are that your salary increases will not keep pace with inflation.

Some instances have been reported where staff have been asked to accept pay cuts across the board in order to keep their jobs

Other companies have put a freeze on salaries

Annual salary increases are likely to be four or five percentage points below the inflation rate of around 16 percent

Until fairly recently wages continued to rise at levels well above the inflation rate, but from the second quarter of this year wages began to fall in real terms

In the third quarter wages were dropping below the inflation rate, which meant that, on average, people were getting poorer

But getting back to our original question. How long could you survive if you lost your job today?

And associated with this What are your most important financial responsibilities?

The first answer we partly know For some people it would be possible to find another job fairly soon and they would not have to start drawing on retrenchment payouts or savings

But today more and more people are finding it increasingly difficult to walk into another job soon after retrenchment.

Sometimes it can take up to six months — or longer — to replace your source of income And then you might find your salary and fringe benefits are substantially lower than before

But while you're retrenched, your expenses don't come to an end Your regular financial commitments for house, car and other possessions still have to be met.

Your car you can sell. You can walk or take a bus But your house is another matter This suddenly becomes your most important priority in life — apart from providing food for yourself and your family.

Worst of all is that your retrenchment will be not of your own doing You may have been a hard-working and dedicated worker, but because of factors beyond your control, you lose your job

However, it is now possible for the first time to take out insurance against it happening to you.

Sage Specialised Insurances, a subsidiary of the Sage Life group, recently introduced two products to meet the needs of the market

The two products — Job Loss insurance and Bondpayer — are similar

For a regular premium you can take out insurance that will either pay your bond while you are unemployed, or if you don't have a bond, pay you an income for up to 12 months while unemployed

Job Loss insurance pays you up to 60 percent of your monthly earnings For as little as R2,80 a day you can qualify for a total of R14 400 in benefits At inception you select the six- or 12-month plan

If you earn R10 000 a month and you decide on the six-month plan, a monthly premium of R210 will ensure that you receive R6 000 a month for six months

This would surely pay your bond and most, if not all, of your expenses.

Think about it what does R210 buy today? A meal for four at a steakhouse Certainly not much more

Alternatively, to get the same benefit for 12 months you would need to pay a monthly premium of R310

The benefit you receive depends on your monthly earnings and the premium you pay

While the premiums are tax-deductible, the income you receive in terms of the Job Loss policy, unfortunately, is fully taxable

The advantages of Job Loss insurance are

- You can keep up your bond repayments
- Cope with your regular expenses
- Take time to find the job you want.
- Look after your family
- Keep your savings intact

In principle, the Bondpayer policy is similar If you find yourself retrenched, Bondpayer will pay your monthly mortgage for up to 12 months

Bondpayer pays up to 150 percent of your monthly bond repayments For instance, if your bond repayments are R2 500 a month and you opt for the 12-month option, you will receive a maximum benefit of R3 750 a month for a premium of only R206,25 per month.

As in the case of Job Loss, your premiums are fully tax-deductible.

Break those inflation chains

S TTTL 31/12/91 (153)

RESOLUTIONS

Thinking of New Year resolutions? Then take the plunge and make 1992 the year of the assertive consumer.

APATHETIC, downtrodden, uninformed South African consumers have had many labels stuck on them and not all of them are unfair

Leading consumer activists have some choice advice for consumers tired of being labelled

An informed consumer is a good consumer, says the South African National Consumer Union And, the best place to start is by knowing your consumer rights

These are to choose, to be informed, to organise, to safety, to be heard, and the right to redress

Consumer Council assistant director (communications) Daan Kruger says people will be able to make better choices if they are informed

"Everyone should take stock of himself as a consumer Inflation is regarded as public enemy No 1, but there is also such a thing as personal inflation We need to ask if we are spending our disposable income judiciously

"Is every buy I make the best I can do? It's no use going across town to get a special bargain and spending a fortune on petrol," says Mr Kruger

So, tomorrow his resolution will be "To take stock of myself as a consumer What have I done? What can I do? What does the situation allow me to do? Do I insist on good services and courtesy? If a price is beyond my reach, do I inform the seller?"

There will also be introspection and soul-searching, says Mr Kruger

"Do I fight for myself or do I expect other people to do that for me?"

Housewives League vice-president Jean Tatham will take time to make informed decisions "I'm going to look and phone around before buying anything There are new products on the market and I'm going to take some time to try them "

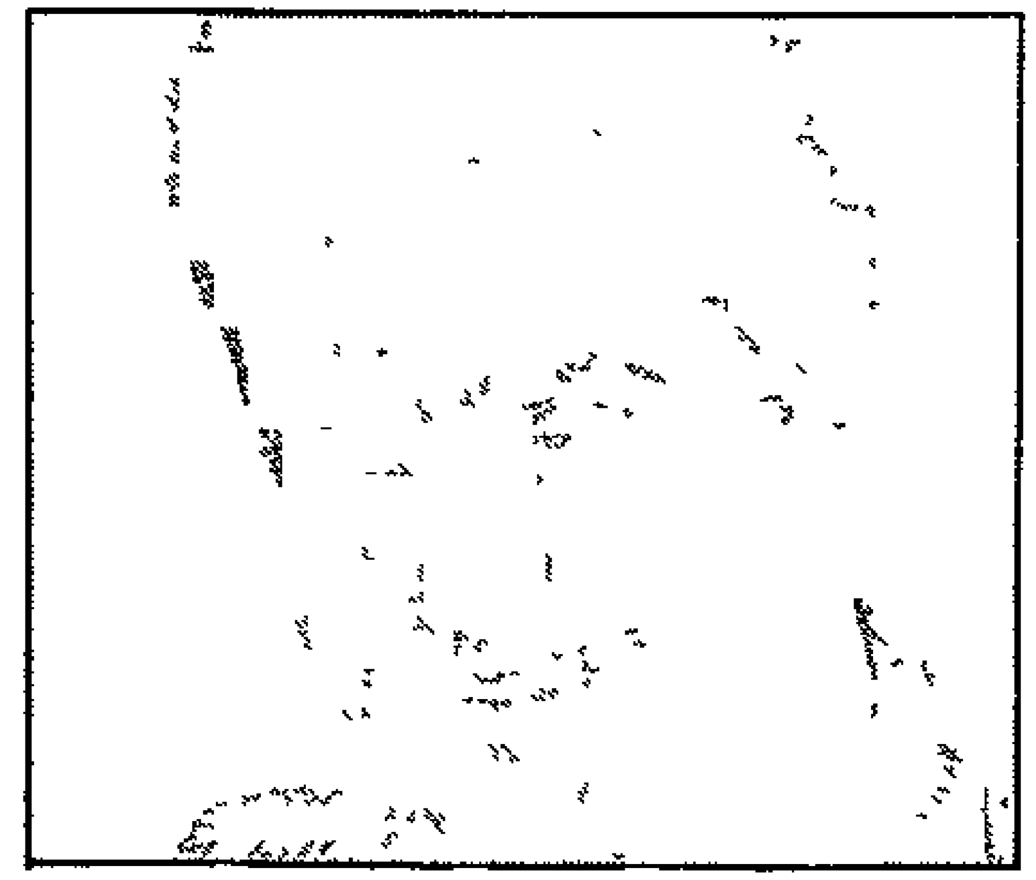
Econometrix chief economist Dr Azar Jammine believes consumers can play an active role in fighting inflation by not accepting high prices

"I'm going to shop around and resist buying if the prices are too high," says Dr Jammine, admitting that it is easier said than done

But, by trying new products and choosing the prices they pay, consumers can help break the "inflation psychosis" South Africans find themselves in

Go on, be daring Make this the year of the active consumer

TRENDS REPORTER



Shopping around Econometrix chief economist Dr Azar Jammine

INFLATION – 1992

JANUARY – AUGUST

FM 3/1/92 (153)

MONEY SUPPLY

In check

FM 3/1/92

The broad monetary aggregate M3 grew by an annualised 9,24% between February and November, according to Reserve Bank provisional figures Though up on the annualised 7,45% between February and October, it remains within policy limits

February is used as the base month because subsequent growth is free of that month's technical distortions which substantially boosted monetary growth as various transactions, previously not reflected on banks' balance sheets, were brought within the definition of money supply

M3 grew 13,84% to R182,1bn over 12 months, while from the base of the current target year in mid-November the annualised rate is 15,1% to a seasonally adjusted R182,1bn.

Revised figures for October show M3 grew at a marginally lower rate than the provisional figures published last month.

- Over 12 months, 15,77% to R179,9bn;
- From the base of the current target year, an annualised 14,22% to R178,7bn, and
- From February, an annualised 9,24%

Growth over 12 months to October in the other monetary aggregates was

- M1A 15,6% to R30,8bn,
- M1 24,85% to R58,5bn, and
- M2 21,71% to R152,2bn

From February to October credit extended to the private sector grew at an annualised rate of 12,7% to R189,9bn ■

INFLATION FM 3/1/92

Hope after VAT

(153)

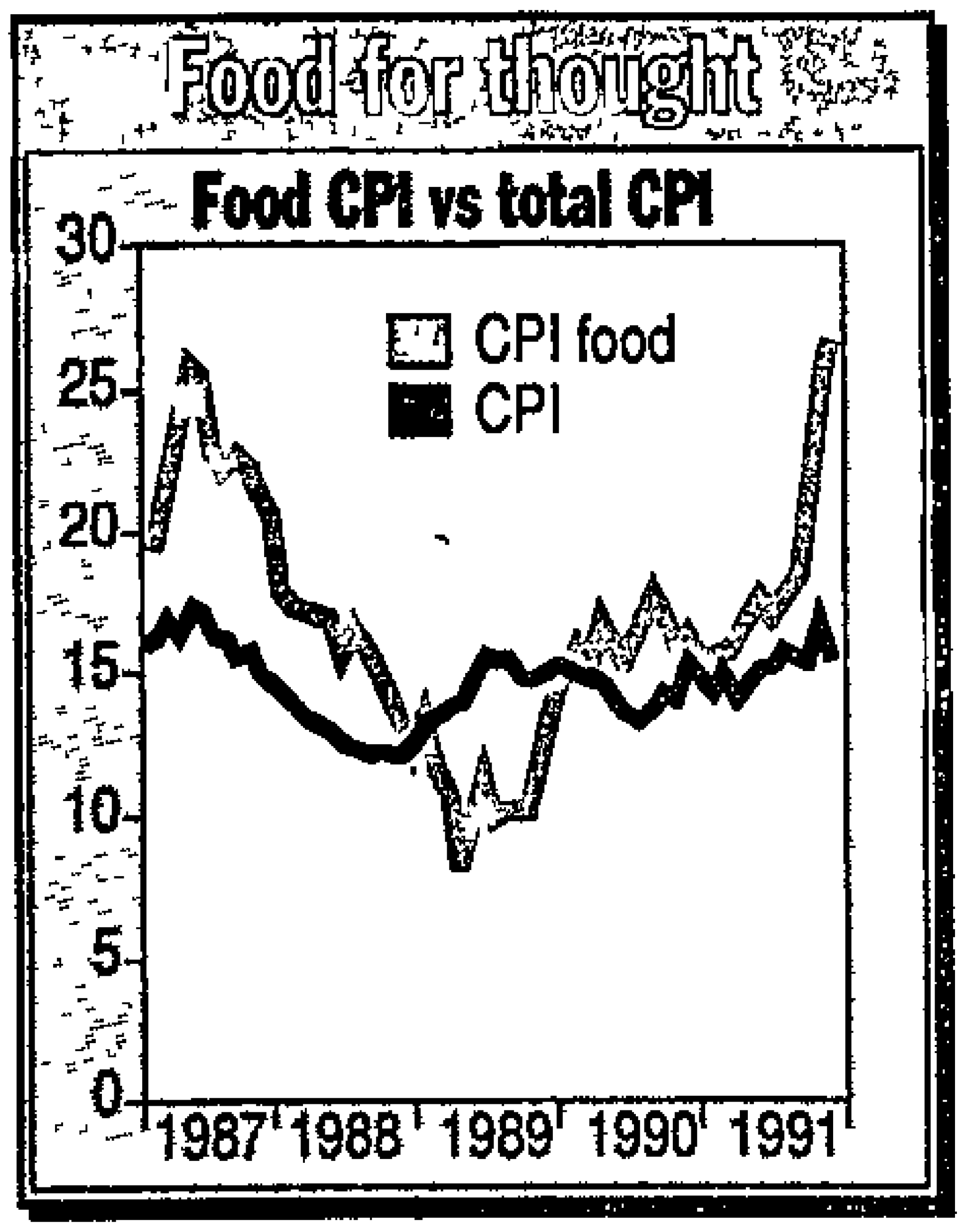
There is good news on the inflation front Not the sharp deceleration in the consumer price index in November to 15,5% annually, from 16,8% in October — that is largely technical, says Central Statistical Service In November 1990, the index jumped 2,1% because of higher fuel prices; so this November's increase is off a relatively high base

What is encouraging is that the monthly increase was only a seasonally adjusted 1% — or a little over 12% annualised While it's not wise to base a forecast on a one-month figure, it is an indication, however tentative, of the path of inflation There are also reasons why it is appropriate to attach importance to the November figure

One is that it is the first monthly figure which is not affected by VAT, introduced on September 30 The second is that the modest total rise came despite a seasonally adjusted 2,4% increase in the price of food, which has a weighting of 18,64% in the index Other components are rising much more slowly — all items excluding food rose only a seasonally adjusted 0,8% in the month and 12,7% in the 12 months to November

Exceptionally high increases in food prices — and the divergence between consumer and production price rises — are under investigation Meanwhile, some facts emerge from a breakdown of various production and consumer price figures Production prices for November are not yet available, so the October figures can serve as a comparison

The figures show that retail food prices were up 26,9% in the year to November,



while meat prices, which represent about a third of the food sector, rose 38,1%

Compare this with the food component of the production price index for October.

- Agriculture — subsector food up 21%,
- Manufacturing — subsector fresh meat (price paid at the abattoir by the butcher) 20,5%; and
- Manufacturing — subsector other 12,9%

Let's hope the soaring trend in food prices, particularly at consumer level, will eventually evoke resistance. Though consumers can't stop buying, they can cut back and buy selectively

On the producer level, there may well be ways to eliminate supply bottlenecks by properly deregulating markets, including meat. Since July, when the Meat Board cut the flow of meat slaughtered in uncontrolled areas to controlled areas (*FM* July 26), meat prices have soared

While food prices remain a serious problem, another major component of the index is performing far more favourably

With a weighting of 20,54%, housing prices rose only 6% over 12 months and 1% in November A reduction in the official Reserve Bank rediscount rate expected early in the year is almost certain to be followed by a fall in the general pattern of interest rates, including those on mortgage loans

- The inflation rate was calculated using the 1985 weighting for November 1990 and the 1990 weighting for November 1991 If the new weighting had been used for both months, the inflation rate would have been only 14,3% This rate is also achieved if the effect of VAT is stripped out — so the new tax added 1,2 percentage points to the inflation rate that month ■

Is the world facing another depression?

STAR 4/1/92 (153)

Money Matters

MAGNUS HEYSTEK

ECONOMIC news over the festive season was dominated by signs of a worsening world recession.

Here are just some of the many signs that were reported in the world's premier financial publication, the Financial Times.

- More than 80 000 homes have been repossessed during 1991 in the United Kingdom. Banks have launched an emergency £270 million rescue package to stave off further repossessions
- UK companies are being liquidated at a rate of more than 1 000 a week.
- Consumer confidence in the United States is at its lowest in 10 years; the property market is in the doldrums, millions are without work and cuts in the bank rate appear not to have had any impact.
- In Japan property prices have dropped by more than 30 percent in a year; interest rates have been cut in an effort to stimulate the economy.
- In Germany, most probably the most resilient of all world economies, signs also pointing to a recession.
- Unemployment in most industrialised countries is reaching record levels.

The question now being asked is: Is the world heading for another Great Depression? And if it is, what can Mr Average Citizen do about it?

The current worldwide economic slump, from which South Africa cannot escape, calls to mind the best-selling book by American economist Dr Ravi Batra called The Great Depression of 1990. A revised version, which includes commentary on recent economic developments has just been released.

In essence, says Batra, the world is already in the grip of what he calls the "world's worst economic crisis in history".

Batra's contention is based on the validity of long-term economic cycles, averaging about 30 years in duration. "Since the 1960s escaped a great depression, the 1990s will experience a cumulative effect — the worst economic crisis in history.

"The seeds of this calamity have already been planted by the misguided fiscal policy of the Reagan Administration. During the 1920s, the pro-business pro-affluent tax cuts caused a sharply higher concentration of wealth which eventually led to the collapse of the economy.

"The tax cuts of 1981 and 1986 are producing the same effect," Batri says.

The disparity in wealth, coupled with a shaky banking system in the late 1920s, was one of the primary factors leading to the Great Collapse of 1929 and the subsequent four years of economic depression.

This time around the Depression will last for seven years, with world economies only starting to show real growth again in 1997.

The disparity in wealth in the US, he says, is now climbing at an unprecedented pace. "Within a few years, it will even surpass the peak reached in 1929."

Batri quotes the New York Times as reporting that the richest five percent people in America have more income than the bottom 40 percent of the population.

Batri also highlights the striking similarities between current economic developments and those during the 1920s leading up to the stockmarket collapse in October 1929.

These include:

- Sharply rising stock markets.
- Increases in unemployment.
- Sharp drops in energy prices.
- Increases in bank failures.
- Tax cuts favouring the rich relative to the poor and the middle-class
- Sharp declines in the prices of agricultural products.

When Batri's book first appeared his contentions were met by a large degree of disdain. Not any more. Many economists and analysts today are sharing some of these gloomy predictions.

I, for one, fervently hope that nothing like this comes to pass. But it would be foolish to ignore all the warning signals that are flashing brighter than ever across the globe.

- NEXT WEEK: What steers economic cycles and what investment strategy should be followed to avoid the worst consequences of such a calamity.

Rate of inflation may fall to 11,5%

BDay 3/1/92. (153)

SHERIDAN CONNOLLY and SHARON WOOD

TWO years of stringent Reserve Bank monetary policy could pay off this year, with economists expecting inflation to fall to about 11,5% by the end of the year.

Economists said yesterday a number of factors would contribute towards a steady fall in consumer price inflation from its peak of 16,8% in October, paving the way for a long-awaited interest rate cut in the first quarter.

Money supply had grown at a low 9,2% annualised rate between February and November, labour remuneration increases would probably continue to slow and the benefits of VAT should begin to filter through to lower price rises, they said

As a result, inflation was expected to average about 14% this year compared with a 15,3% average last year The prime overdraft rate would probably fall by at least two percentage points during the year, they said.

Most economists expected prime to drop to about 17,5% by the end of the year, with the first cut due towards the end of the first quarter.

Sanlam economist Johan Louw said the inflation rate would remain above 15,5% until April but would decline steeply for the rest of the year

Reserve Bank Governor Chris Stals would probably announce an interest rate cut in February, he said, despite the expected relatively high level of inflation

"Mounting political pressures and rising unemployment will force Stals to drop interest rates in the first quarter," said Louw.

"There is a long lag between changes in the money supply and the inflation rate and he cannot wait until inflation comes down Instead he will probably look at the leading indicators and drop the prime rate in anticipation of lower inflation," he said.

There was room for lower interest rates because the financial position of the man-in-the-street was weak and there would be no risk of overstimulation, he said.

Nedbank chief economist Edward Osborn said consumer price inflation would come down gradually and he expected inflation to average about 14% during the year, reaching 11,5% by year-end.

Producer inflation would fall to about 10% and remain at that level throughout the year, he said.

Osborn agreed that the first cut in the prime rate could be expected in the first quarter and that it probably would be 17,5% by December.

Bankorp economist Jacques du Toit was less optimistic, saying there would be two one-percentage-point cuts in prime to 18% by the end of the year.

Inflation bites poorest hard

STAR 7/1/92 (153)

The mandarins at the Central Statistical Service put the rate of inflation at 15,5 percent a year in their latest count. Closer examination of the figures, however, shows that the impact of the prices spiral hits many South Africans much harder than others, reports MICHAEL CHESTER.

NO WONDER there are so many arguments between any two consumers whenever the conversation comes round to talking about how hard inflation is knocking the family budget.

The root cause is the vast difference in the way each one of us feels the clout of the prices spiral — depending on where we live, our income bracket, our eating habits, our lifestyles Even age may come into it

Examination of the detail buried inside the regular bulletins put out by the Central Statistical Service (CSS) shows that inflation strikes with total disregard for either logic or compassion when it selects victims

A broad brush-stroke informs us that the rate of inflation, as measured by the consumer price index, now stands at a national average of 15,5 percent a year

That immediately causes a few snorts when CSS mandarins give a breakdown of how the average varies depending on size of salary or wage packets

Tempers flare when consumers in the middle-income bracket discover they are feeling the pinch worst of all with an inflation burden as much as 16,3 percent heavier than a year ago Their sense of injustice boils to rage when they find that neighbours in the higher-income bracket escaped with a lower average inflation of 15,3 percent

(Inflation for lower-income families, according to official figures, stood between the extremes at 15,4 percent.)

But griping among consumers in all three groups is muted when they come across the scale of inflation carried by pensioners. It now emerges that it is pensioners — the most vulnerable of all consumers — who are scorched most by the inflation inferno

On a national average, the spending power of their pensions shrank by 16,2 percent over the past year

Worse, if they live in or around Johannesburg, it shrank more than 17 percent. For pensioners in East London it shrank 17,4 percent — for reasons that CSS bulletins leave unanswered

The inflation impact on pensioners gives an early clue to inflation's chaotic pattern

Take away all the frills of high living-styles and one finds it is the food bill, one of the biggest items of all in the frugal budgets of pensions and most lower-income families, that suffers the harshest treatment from inflation

Analysis of official figures shows that food bills on average have rocketed by up to 26,9 percent compared with a year ago, almost twice as bad as the average inflation level.

Take away food bills and the national average of inflation would sink from 15,5 percent to 12,7 percent.

The focus of outrage has centred on meat prices, which have climbed by more than a stunning 38 percent. But one also finds that vegetable prices were hit almost as hard, with increases of nearly 34 percent. Fish costs almost 28 percent more than a year ago Still worse, prices of fruit and nuts rose fastest of all — by well over 43 percent

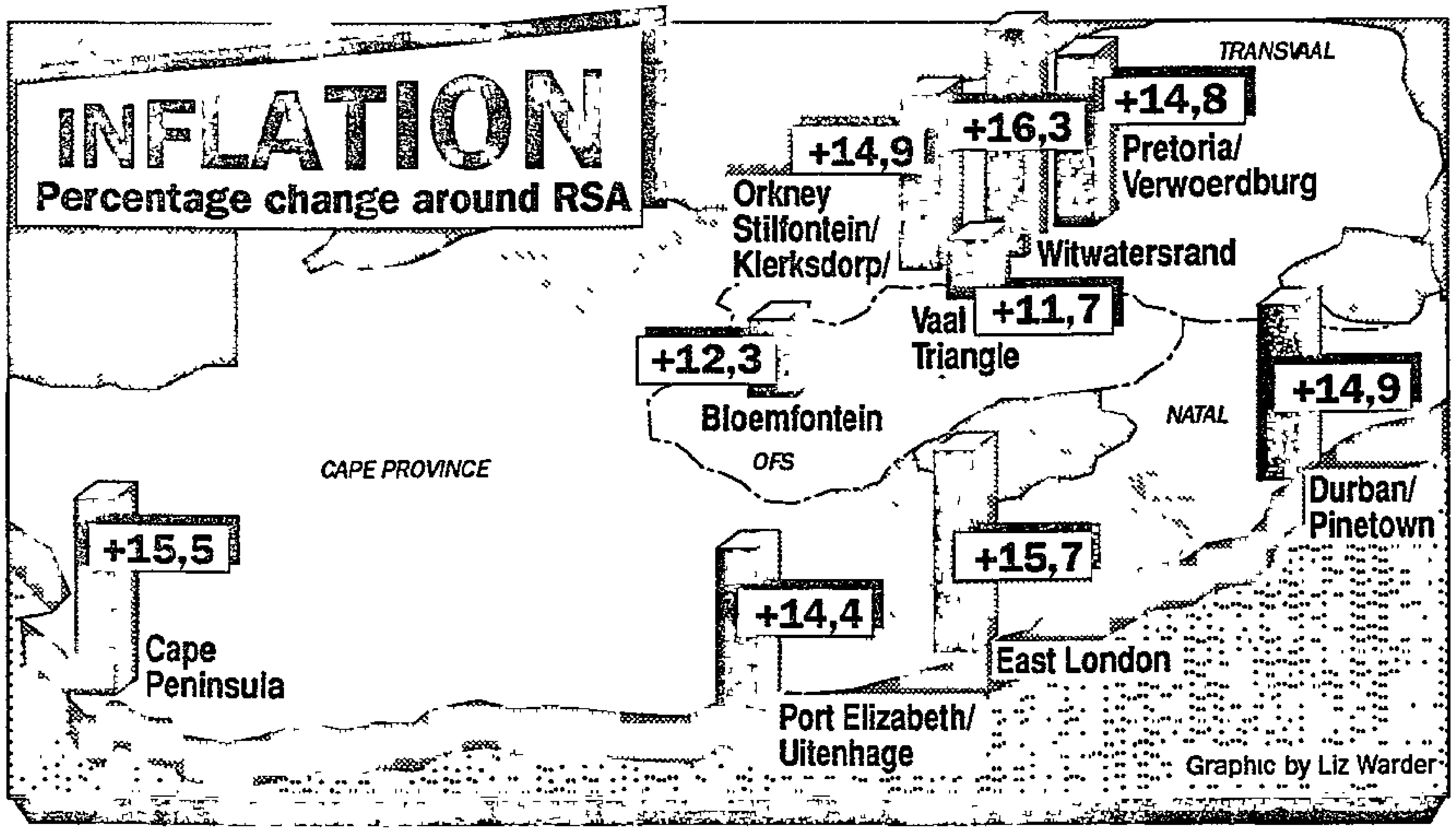
There was little consolation to be found in drinking away one's sorrows, as prices of alcoholic drinks jumped 18,7 percent, nor in trying to escape in a pipe dream — tobacco items were more than 23 percent dearer

And popping pills to soothe the headache was an even more expensive escape Medical care and health expenses went up nearly 27 percent.

The pattern of inflation seems to be peppered with anomalies For instance, the affluent section of society who own their own cars were able to enjoy an actual decrease in running-cost bills, thanks to cuts in the price of petrol from the peaks hit a year ago when the Gulf War sent world oil prices into orbit.

In contrast, lower-income travellers find that the cost of public transport has on average jumped by almost 17 percent.

Perhaps one could find a haven somewhere in South Africa to seek refuge from the gales of inflation?



The first advice must be following CSS surveys, don't try to find shelter in Johannesburg or elsewhere on the Witwatersrand Here, on average, inflation was at its highest — 16,3 percent on living expenses

It was also higher than the national average in Maritzburg In Cape Town at least price increases stayed on the average level of 15,5 percent

What about Durban or Pinetown — 14 9 percent? Or Pretoria or Verwoerdburg — 14,8 percent? Better still, if it appeals, what about Bloemfontein, with an annual inflation rate down below 13 percent?

What about the Vaal Triangle — Vereeniging, Sasolburg, Vanderbijlpark? Bingo That's where inflation has been lowest of all in the past 12 months at a mere 11,7 percent

Moving towns may be better than holding thumbs in the hope that South Africa will find solutions to bring inflation down to the sort of forecasts being made by the main overseas industrial nations — between 3 and 5 percent over the next three years

Among the most optimistic forecasts, the prediction from Nedbank chief economist Edward Osborn is that the inflation rate should gradually reduce to around 11,5 percent by the end of this year

The Econometrix research unit in Johannesburg has also done its homework on the outlook — with a number of optimistic forecasts that the price spiral may be tamed soon

Director Dr Azar Jammine concludes, however, that inflation has little chance of falling much below 13 percent in the next 12 months — even if the Reserve Bank sticks to its guns on monetary discipline and the socio-political climate improves He fears that chances of bringing it down into single digits will remain remote until South Africa solves problems in its economic system created by Government overspending and punitive levels of taxation □

BUSINESS

Is the rand slip-sliding away?

(153) W M ail 10/1-16/1/92

Bad news for consumers and importers but good news for exporters — that's the effect of double-digit inflation and a shrinking rand, reports **REG RUMNEY**

Chris Stals

Derek Keys

THE value of the rand will once more slide this year against other major currencies

Greasing the slide is South Africa's double-digit inflation rate This stood at 15,5 percent in November, around 10 percent above the inflation rates of South Africa's major tradng partners

Inflation in the European Community countries rose in November to 4,8 percent compared to November 1990 The October figure was 4,4 percent.

Inflation over the same period in the United States stood at 3,0 percent and in Japan 3,5 percent, acccording to Eurostat Year-on-year inflation dropped in Britain, down to 4,3 percent from 9,7 percent in October

Late last year the then-chairman of one of the country's biggest conglomerates, Gencor, noted in the annual report "Gencor has the worst of all possible worlds weak markets and a currency which generally maintains its external value while depreciating internally at 15 percent per annum Thankfully, this cannot be a stable situation but it may be some time before economic logic reasserts itself"

Since then Derek Keys has had to relinquish the chairmanship of Gencor to become Trade and Industry Minister

Sanlam's latest economic bulletin notes that in the last part of last year the rand stayed relatively stable, weakening against the British pound, the Deutschemark and the yen, but appreciating against the dollar.

"In order to limit inflation, it is the policy of the SA Reserve Bank to keep the real effective exchange rate of the rand (ie the trade-weighted exchange rate adjusted for the differences between South Africa's inflation rate and the average of those of its most important trading partners) more or less stable"

This implies the rand will devalue, but not by more than the differences in inflation in South Africa and an average rate of inflation in those countries South Africa trades with.

Sanlam believes the effective value of the rand, on a weighted basis, will drop by about six percent this year

"As a weakening of this extent will be less than the relevant differences in inflation, it will mean that there will be a limited appreciation in the real effective rand during the next year."

This turn of events is linked, in Sanlam's view, to the following developments on the international currency markets·

● A firming of the US dollar against the mark and the yen.

● A moderate weakening of the pound within the "exchange rate mechanism" after the British general election, expected in July 1992

So Sanlam expects the rand will

● Weaken against the dollar by about 10 percent.

● Drop by about 6 percent against the yen

● Depreciate by about 4 percent against the mark.

● Remain stable against the pound

Sanlam's report already looks out of date, although it was only written before the year end As it happens the pound has already appreciated against the rand sharply, and the dollar has weakened against the rand

Standard Bank treasury division GM Chris Kenny points out the rand is already trading at historical lows against major currencies like the yen and mark — despite the present weakness of the dollar against the rand

Should the dollar appreciate the rand may weaken even further against the other major currencies

Kenny believes the rand could depreciate by 10 percent against major currencies during the year

However, First National Bank group treasurer Ken Russell believes that while the rand will eventually reflect the inflation differential, it will not go into free fall this year

Reserve Bank governor Chris Stals. he points out, has made it one of his tasks to maintain the stability of the external value of the rand So the Bank would "manage" a gradual deterioration of the rand

A lower rand would be a relief for South African commodity exporters such as Gencor

The gold mines, for instance, at an exchange rate of \$1 = R2,74 get only R959 for an ounce of gold, as opposed to R1 060 in the middle of last year.

Russell reminds that Stals has said the mines should be assisted by fiscal policy, not, as in the past, by devaluation of the rand

At the same time as making exports cheaper a lower rand makes imports more expensive This will hurt consumers, of course, but not only them To boost exports capital intensive machinery has to be imported So what benefits the commodity exporters, eg gold, to a certain extent hurts the exporters of value added goods Also a depreciation in the currency boosts inflation, so it is to be avoided

Enough of an improvement in domestic inflation will, of course reverse the necessity for devaluation But nobody is expecting South African inflation to drop to the levels of our main trading partners — not for quite a while, anyway

Inflation proving a stubborn enemy

STAR 10/1/92

OUTLOOK '92

By Dr Azar P Jammine director and chief economist, Econometrix

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One of the big disappointments of the past year has been the failure of the consumer price inflation rate to decline inspite of a relatively tight monetary policy being maintained throughout by the Reserve Bank

Indeed the inflation rate, at 16,8 percent last October, was at its highest level in four-and-a-half years

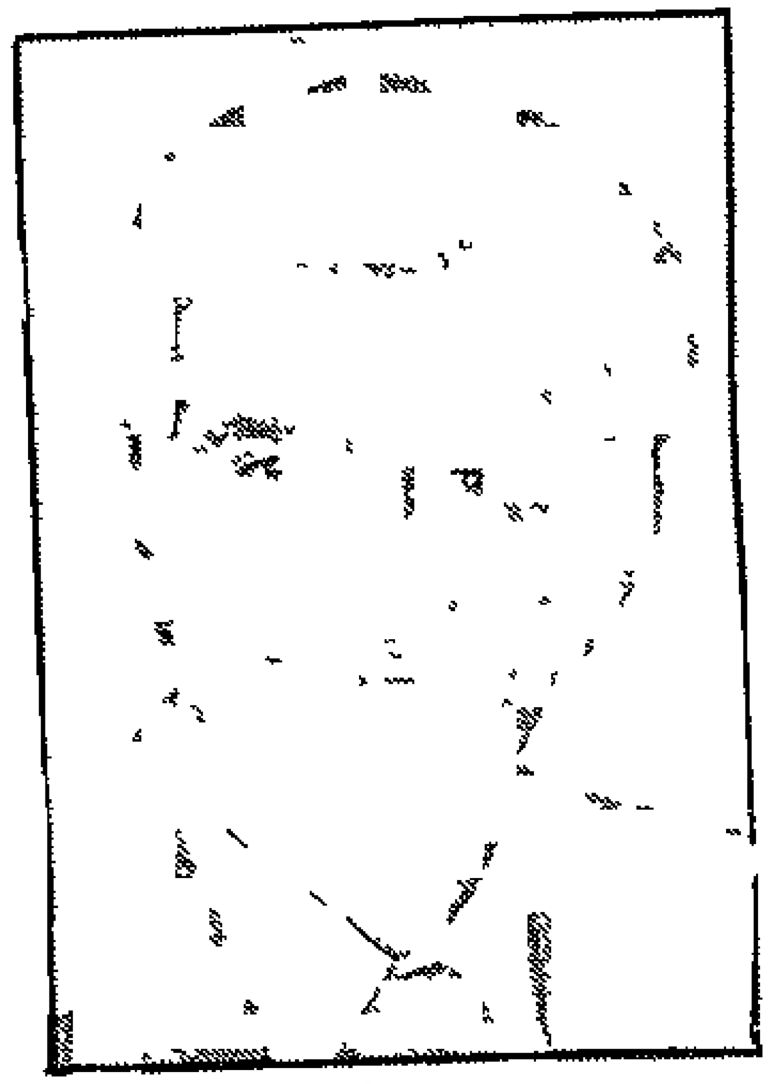
While there is reason to believe that the October figure will also prove to be the highest figure for the next two years, one questions whether inflation will decline as much as it ought?

Credit demand

That inflation this year is likely to decline is a difficult premise with which to argue The growth in credit demand, which had remained quite high until early last year, has slackened off perceptibly under the ongoing weight of high interest rates

As a consequence the growth in money supply has tailed off to an annualised rate of 8 percent, which is well below the inflation rate

The fact that monetary growth has declined to such an extent is sufficient to ensure that inflation can move only in one direction this year, and that is downward



Azar Jammine

Theoretically, with monetary growth so low and with the economy as weak as it is, single-digit inflation should be in the offing

However, to hope for single-digit inflation is to ignore the structural impediments which have prevented inflation from declining in the past and which are still likely to be around this year

Firstly, the enormous power wielded by the country's trade union movement, as well as continued social and political pressures to grant substantial wage increases to lowly paid workers will ensure that, in spite of growing unemployment, wage increases will remain too high to accommodate a sharp fall in inflation

It is only now, after nearly three years of recession, that average wage increases have begun to lag even marginally behind inflation

Secondly, concentration of power in big business will continue ensuring that a substantial portion of wage and other cost increases keep getting passed on to the consumer rather than be absorbed by the business sector

Moreover, in some business sectors, concentration is such that falling demand is met, not by a reduction in the rate of price increases, but by an even faster rise in prices to make up for lost revenue

Thirdly, government consumption expenditure is likely to continue increasing at a rapid pace ahead of inflation, both because increases in state bureacracy seem to have acquired an inbuilt momentum that is difficult to reverse and because political and social pressures are such that the government will be compelled to devote ever more resources to uplifting the masses and redistributing the wealth of the nation

Finally, there are enormous distortions in the food pricing structure which have to be addressed before a meaningful decline in inflation can take place

The fact that food prices at the consumer level have risen by 27 percent over the past year and have continued rising faster than producer prices of food for six successive years is an enigma which the government is currently investigating

Distortion

The distortion has, however, contributed to a situation in which consumer price inflation is 16 percent whereas producer price inflation is only 11 percent

Unfortunately inflation expectations are built around consumer and not producer prices and this leads to a self-fulfilling inflation process

In conclusion, the type of recession now being experienced in South Africa would have led to a massive fall in inflation had it happened in most other countries

But in view of the structural distortions in the economy and the socio-political pressures on government to overspend, the decline in inflation expected in 1992 is unlikely to be as substantial as one would have liked

Lower inflation outlook still looking bleak

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ARG 11/1/92

Business Staff

ONE of the big disappointments of the past year has been the failure of the consumer price inflation rate to come down in spite of a relatively tight monetary policy being maintained throughout by the Reserve Bank, writes Dr Azar Jammine, director and chief economist of Econometrix

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As a consequence the growth in money supply has tailed off to an annualised rate of 8 percent, which is well below the inflation rate.

The fact that monetary growth has fallen to such an extent is sufficient to ensure that inflation can move only in one direction this year, and that is downward

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Stals's inflation policy takes in a social strategy

BDay 16/1/92

(153)

SHARON WOOD

MONETARY policy has carried the primary burden in the fight against inflation, and it is now time to look towards a social accord to address the problem of structural inflation.

This is the view of Reserve Bank Governor Chris Stals, who believes that an accord between government, labour, business and the Reserve Bank is necessary to address structural problems such as labour, exchange control and tariff protection

"The Reserve Bank has done what it can on the cyclical side . . perhaps we could now look forward to more success in the fight against inflation on the structural side," he says

Stals sees a social accord as involving agreement between all the major players in the economy to limit wage and price increases below a certain percentage This would reduce the inflation rate by breaking inflationary expectations and restraining the cost-push pressures prevalent in the SA inflation rate. This will only be successful if there is greater co-operation between the different parties but Stals says he is optimistic that Codesa will build greater co-operation.

Exchange controls and tariff protection must also be reduced to assist in reducing inflation, he says. The Department of Trade and Industry is working hard on the Independent Development Corporation tariff proposals, which Stals sees as an important part of the structural solution to the problem.

But the structural approach to inflation does not mean that Stals will let go the reins on monetary policy. He is adamant that the Reserve Bank has no alternative but to continue fighting inflation by applying not an unduly restrictive monetary policy, but a disciplined one

Stals is still confident that inflation could reach a single digit and says that the fight against inflation has to continue until it reaches that stage, because if it does not SA will have to isolate itself from the world.

With inflation still above 15%, even after two years of restrictive monetary policy, single-digit inflation appears out of reach But Stals does not think it an impossible goal in a new SA and under a new government. He believes, in fact, that a policy addressing inbuilt structural problems may have more success under a new government

"We shouldn't concentrate on the negative aspects of a new SA, because perhaps a new government will bring about a different relationship between labour and employers, which could make it easier to break down structural inflation," he says

Stals's view of the future of the battle against inflation hinges on whether the new government will attach as high a priority to inflation as does the Reserve Bank, and on whether the Reserve Bank will retain its independent role in implementing monetary policy

There have been unofficial discussions between the Reserve Bank and ANC economists, says Stals The ANC is aware of the importance of reducing inflation through restrictive monetary policy.

But the future of the Reserve Bank in the new SA remains unclear, and Stals is unwilling to discuss the future set-up at this stage He does believe that it should remain largely unchanged and that the Bank's independence should remain intact

Low-income blacks will become the more important voters and they are normally worse hit by inflation because middle- and high-income earners can better protect themselves against it Therefore any new government will have a vital interest in fighting inflation

The Reserve Bank will not be directly involved in Codesa, which is in line with its view that it should not get involved in political activities It may, however, participate in a professional advisory capacity at workshops if asked to do so, Stals says

He also suggests another way to deal with structural inflation — a macroeconomic structural adjustment programme SA can bring in the World Bank, the IMF and international investors if they want to play a role in SA, he says.

"As SA makes more progress on political negotiations it will become easier to put such a programme together. It would be comprehensive, with its main objective to reduce poverty"

Fighting inflation will have to be an important element of the programme, says Stals, because financial discipline will remain crucial in the new SA. Persistent inflation is the most serious obstacle to income redistribution and sustainable growth.

Stals remains tight-lipped on the outlook for interest rates for the year and his hints are ambiguous. On the one hand, he says the present rate of growth in money supply is acceptable and monetary policy has run its course. But on the other hand he says reducing interest rates by creating more money will not solve the problems in the economy and he will not stimulate the economy by injecting more money into the system

"If SA was in the same situation as the US, where monetary policy is almost dead because consumers have built up substantial debt during the long upswing and banks are not in a position to advance new loans, I would have been happy to reduce interest rates But SA's situation is not the same because there is still a huge demand for bank credit and consumers will spend if interest rates come down"

Whichever way the new government and the Reserve Bank choose to revitalise the fight against inflation, it is clear that restrictive monetary policy is here to stay Single-digit inflation remains a distant dream, along with unity and co-operation between SA's major political players, but the Reserve Bank governor is optimistic that these goals are within reach

Stals drops hint of a possible rate cut

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STAR 17/1/92

By Sven Linsche

Speculation is mounting that an interest rate cut will be announced around Budget time in March

Some economists suggest, though, that a one percent reduction could come sooner — as early as mid-February.

Reserve Bank Governor Chris Stals yesterday slightly relaxed his hard-line monetary stance by telling the SABC that there were encouraging signs pointing to a reduction in interest rates.

He added that the growth in the money supply, bank credit extension, producer price inflation, the foreign exchange and gold reserves and the exchange rate were moving in the right direction, reports Sapa.

He added, however, that the continued high level of inflation remained the major obstacle to an imminent cut in interest rates

Dr Stals said that reducing rates while the inflation rate remained relatively high would bring only short term relief. In the long term, high inflation led to a lower economic growth rate.

For this reason a strong monetary policy was necessary for stability, he said

Under control

Attaching the condition of lower inflation rates to a possible rate cut has been standard policy by the Bank over the past few years

Nevertheless, many of the factors that contribute to upward pressure on prices have been brought under control by the Bank's tough monetary stance

Credit extension has virtually come to a standstill and wage and salary increases have been well below the ruling inflation rate over the past few months.

Producer price increases are running at their lowest level in almost seven years and these will inevitably work themselves through to the consumer level, economists say

Certainly the money market has been anticipating a decline in interest rates for some time.

Short-term rates (the 90-day Bankers Acceptance rate) this week eased to 16,2 percent, its lowest level in almost three years, widening the gap to the prime rate to over four percent.

In the beginning of 1990, a few months after the last rise in the Bank rate was announced, the gap was just over two percent

Good signs

In its latest Economic Review, released yesterday, Syfrets economists comment that the deepening recession and shrinking bank credit supply would enable the Reserve Bank to lower interest rates in the first quarter this year

As a result they expect the economy to start picking up steam over the next few months, although consumer spending is expected to lag the recovery by six months.

A possible cut in interest rates is likely to be the only sweetener for consumers in the 1992/3 Budget, which Syfrets expects will hold little relief in the form of personal income tax cuts

They say that the participation of extra-parliamentary groups in the Budget process was an unknown factor, but that it could prove crucial to tax policy this year

"We believe that there is already a fair amount of co-operation and if that is the case, it is most unlikely that direct tax rates will be lowered.

"Although it has been stated that the long-term aim is to bring down the level of direct taxes and increase indirect taxation, this seems highly unlikely in view of the political sensitivity of VAT.

"The Minister may still surprise us but if our assumption on the level of co-operation — strengthened by Codesa — is correct, scope for tax relief is limited," Syfrets comments

Unit trusts provide safe hedge against inflation

B/Day 9/1/92

(153)

LINDA ENSOR

CAPE TOWN — Investments in the R11,4bn unit trust industry provided the man in the street with a safe hedge against inflation last year — provided he avoided most gold, mining, high income and gilt funds.

The market value of all unit trust assets rose 51% to R11,4bn last year from R7,57bn in 1990, Pretoria University Graduate School of Management professor Hugo Lambrechts said yesterday.

And while the total number of unit holders has not been finalised, considerable growth is expected over 1990's figure of 735 405.

Galloping industrial shares pulled the industrial index to a high of 42,35% last year compared with 1990's 33,15% and ensured handsome returns for investors in the industrial funds which, on a yearly repurchase-to-repurchase basis, have generated returns of 44,59% (Sanlam Industrial Fund) and 42,51% (Old Mutual Industrial Fund).

Lambrechts' survey of returns released yesterday showed that even a few general equity funds managed to achieve returns of over 40% well in excess of the 31,02% rise in the all share index

Sanlam Dividend Trust (44,69% on a repurchase-to-repurchase basis), Southern Equity (41,58%) and Syfrets Growth Fund (41,12%) were the top three among the general funds Thirteen other general trusts trotted along in the 30-40% band, while only three trusts — the CU Growth Fund (formerly Allegro, 23,38%), Fedgro (26,87%) and Norwich NBS (24,65%) — meandered behind in the 20s

Syfrets Growth Fund with a return of 31,42% is the best performing general unit trust on a three year term while Old Mutual Investors' takes top spot in the five-year (21,59%), seven-year (29,29%) and 10-year (25,77%) categories Guardbank Growth Fund takes the honours over a 15-year term with 29,29%, the survey showed

Most portfolio managers do not believe industrial shares have the potential for much further growth this year and have their eye on mining shares as the generator of good returns Their view is based on the expectation that an upturn in western economies will stimulate demand for SA minerals and commodities

However, they believe returns as high as 40% cannot be expected.

Last year most mining funds just kept pace with or lagged seriously behind the inflation rate The two exceptions were the UAL Mining & Resources Fund, which achieved a 24,46% return, and Guardbank Resources with 20,38% This compared with the rise in the Mining Producers' Index of 17,13% and the Mining Financial Index of 23,58%

The two gold funds turned in negative returns while the high income and gilt funds either did slightly better than the inflation rate or lagged behind it Standard Bank Extra Income Fund was the best performing high income fund with a yearly return of 19,7% on a repurchase-to-repurchase basis

UNIT TRUST PERFORMANCES TO DECEMBER 1991

UNIT TRUST & INDICES	1 YR(R-R)	1 YR(S-R)	3 YRS	5 YRS	7 YRS	10 YRS	15 YRS
GENERAL EQUITY FUNDS							
All Share Index	31,02	31,02	24,56	16,24	24,72	23,28	27,84
BOE Growth	36,37	26,84	—	—	—	—	—
CU Growth (Allegro)	23,38	16,58	—	—	—	—	—
Fedgro	26,87	18,17	—	—	—	—	—
Guardbank Growth	32,34	23,51	25,33	20,82	26,17	24,59	29,29
Metfund	37,25	27,87	21,60	—	—	—	—
Metlife	—	—	—	—	—	—	—
Momentum	37,57	28,63	27,44	—	—	—	—
NBS Hallmark	30,47	21,28	22,54	—	—	—	—
Norwich NBS	24,65	15,88	18,48	—	—	—	—
Old Mutual Investors'	36,77	27,06	25,78	21,59	29,29	25,77	28,89
Old Mutual Top Companies	—	—	—	—	—	—	—
Safegro	30,98	23,18	—	—	—	—	—
Sage Fund	36,64	27,66	24,75	19,75	24,97	22,81	26,46
Sanlam Index Trust	30,60	21,88	25,59	19,14	25,86	22,91	26,26
Sanlam Dividend Trust	44,69	35,07	24,55	18,81	21,72	18,21	22,63
Sanlam Trust	33,58	24,78	25,62	18,39	23,11	21,38	25,11
Senbank General Trust	—	—	—	—	—	—	—
Southern Equity	41,58	32,17	22,58	—	—	—	—
Standard Bank Mutual	30,88	22,70	24,56	19,67	24,85	22,12	25,46
Syfrets Growth Fund	41,12	32,00	31,42	—	—	—	—
Syfrets	—	—	—	—	—	—	—
UAL Unit Trust	30,02	21,43	26,01	17,20	23,57	21,76	26,05
Volkskas	—	—	—	—	—	—	—

Corporate tax, inflation 'chasing away' investors

B/Day 20/1/92

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JONO WATERS

THE poor fiscal climate in SA as a result of high corporate taxes and inflation has reduced the country's attractiveness to both local and overseas investors, says AECI MD Mike Sander in the group's quarterly journal, Prospect

Sander cited analyses which showed that projects undertaken in SA paid almost 2,5 times as much tax as a project in Holland or Britain, and six times as much as in Taiwan

Conversely, investor returns, given the same cash margin, are 4,5% in SA compared with 8,4% in Holland, 8% in Britain and 10,2% in Taiwan, he said.

If SA was to ensure success and stability in future, economic growth was needed at a rate where increasing numbers of people were employed and their earning aspirations met, Sander said

"The time is long past when production and export of raw materials could be relied upon to generate sufficient jobs and wealth to satisfy SA's needs"

He said it was unacceptable to export SA's resources at unattractive prices and in doing so, provide employment for citizens of other countries who produced higher valued manufactured products.

The manufacturing sector had to play the major role in future wealth creation, and employment should become the focus of investment in SA

For manufacturers to participate successfully in external markets, certain conditions were necessary — a fiscal system which made SA producers competitive with other world producers, a stable productive workforce and good enterprising management within companies

"Labour relations and associated issues such as inadequate training, are also limiting industrial development at present," said Sander

An imbalance between technical and non-technical education in the workforce and boycotts and stayaways in black schools had all contributed to lower productivity

Furthermore, without a sound partnership between labour and management the task of being internationally competitive was very difficult to achieve, he said

On the management side, Sander said industry could prosper if maximum benefit was derived from the economic environment where SA had a comparative advantage.

He said SA had access, at a relatively low cost, to raw materials, as well as a good infrastructure, high calibre technical resources, an established support industry, a professional and adaptable management base and good links with major international companies.

Markets waiting for reassurance from maverick inflation data

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- BDay 20/1/92

THE WEEK AHEAD
by Simon Willson

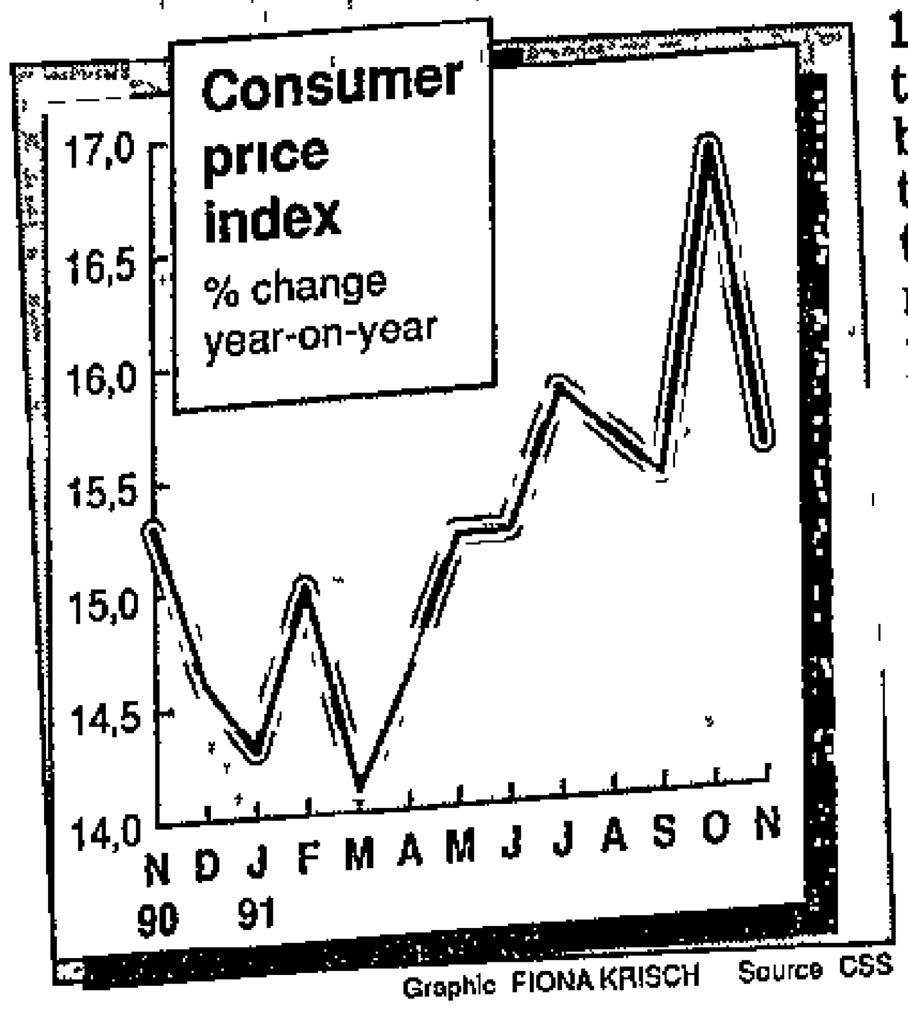
ALTHOUGH the releases of three key December indicators — the trade figures, inflation and money supply — are bunched together this week, it is December's inflation rate that will be the most keenly watched. A repeat of November's steep, 1,3-percentage-point fall in inflation to 15,5% from October's four-year high is not in prospect, but even a modest further easing in the rate of price increases will reassure the markets.

Less reassurance is needed on the trend in the other two variables The trade surplus is steadying at its higher levels on the back of soaring exports and stagnant imports, and at least one of the measures of broad money growth should show a continued slowdown in the expansion of the money supply But this quiet and justified confidence on the trade figures and on money supply does not yet extend to the movements in the consumer price index (CPI) that yield the inflation rate

Inflation remains the maverick among the rest of the key indicators that, at last, are beginning to move together in the general direction advocated by the authorities. The nature of this week's December CPI number appears to depend largely on what food prices did last month

Inflation tumbled to 15,5% in the year to November from October's 16,8% despite the biggest year-on-year rise in food prices — 26,9% — for more than 10 years The fall in the overall inflation rate in the last CPI data was helped by a high base for the index in October 1990, when there was a 26% petrol price increase.

There will be no such technical influences helping to slow the December inflation rate. Any further slowing in inflation from 15,5% will have to have a contribution from a topping out in that formidable rate of food price inflation. That should come about, as the categories of food that showed the biggest year-on-year increases last month were meat, fruit and vegetables These are the food categories that were exempt from GST but liable for VAT and which therefore had to take a knock.



Graphic FIONA KRISCH Source CSS

The 3,1% month-on-month food inflation rate posted for November should have slowed in December, easing the magnitude of the increase in the food index since December 1990 Since food, at 19%, holds the second-biggest weighting in the CPI, the effect in the overall index should be noticeable. Housing, at 21%, holds the CPI's biggest weighting but the stability of mortgage rates means its influence is neutral.

The trade surplus should again be around or above the R1,5bn mark — well adrift of the record R2,75bn surplus recorded last October but close to the November surplus of R1,84bn Domestic conditions remain sluggish enough to continue to depress imports and to force domestic manufacturers to look to foreign markets for sales.

One or more of the three available measures of broad money supply growth is likely to show the required slowdown when the December M3 aggregates are published this week In November, the year-on-year rate of M3 growth slowed to 13,84%, the annualised rate of growth since February bumped up to 9,5% and the rolling increase based on 1990's last quarter edged up to 15,1%

For December, perhaps two out of the three could show a decline, the annualised rate since February holds the greatest significance as it strips out the distortions of the Deposit-Taking Insitutions Act

Internationally, the US and UK governments will be awaiting with some trepidation the latest instalments of sensitive economic data ahead of the national elections each must face later this year As each economy falters at the start of what the textbooks say should be a cyclical upswing, a British poll is due by early July and the US presidential election is slated for November

Later this morning British retail sales data for December will be published, and the portents are not good. The November rise of 1,3% was helped by a late cut-off date that included some Christmas buying and, although today's figure will be supported by the same seasonal influences, it looks set to go negative again and be less than 1% ahead year-on-year, implying a fall in real terms Consumer credit fell for a fourth consecutive month in November, showing that British shoppers are busy paying off debt instead of borrowing to buy more

The key US figure of the week is Wednesday's December housing starts, which fell by 2,1% in November An expected small positive outturn would still leave total starts more than 5% adrift of last year's level

Inflation up: 'No cut in interest rate'

153 CT 24/1/92

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The index of food prices surged to its highest level in 11 years, climbing to 28,3% in the year to December.

Substantial increases were recorded in various food prices in year-on-year terms — prices of fruit and nuts increased by 56,4%, meat prices were up by 38,8% and vegetable prices were up 38,1%.

The 28,3% increase in food prices is the highest level recorded since March 1981 when food prices increased by 29,5%. Medical care and health expenses rose by 26,2% in the year to December.

Excluding the effects of VAT, the rate of increase in the consumer price index was 15% in December compared to 14,3% in November.

Price increases in 1991 averaged 15,3% compared to an average rate of 14,4% in 1990 and 14,7% in 1989.

The average inflation rate for 1991 has been set at 15,3% — the highest level in three years.

Overall, food prices increased by 19,6% in 1991, compared with 16,1% in 1990 and 10,9% in 1989.

SA Reserve Bank Governor Dr Chris Stals said the poor performance of the CPI would certainly affect a decision to drop interest rates.

"For me and the man in-the-street this figure is disappointing," he said.

However, he said that while the CPI was an important indicator, "there are other figures we watch like the money supply, out in the next few days, and the gold and forex reserves at the end of the month".

Dr Stals said he was not suprised at the latest inflation figure because "December 1990 had a low level of inflation growth and the year to December 1991 carries the distortion with the introduction of VAT".

The major problem was the CPI's inability to respond to the positive input from the producer price index (PPI), down at 7,9% for the year to November.

However, Old Mutual economist Mr Johann Els said there was a lag between the PPI influencing the CPI.

He said food inflation had a much heavier impact on consumer inflation and this was currently being investigated by the Board of Trade and Industry.

Australian model of pay restraint is ideal to fight SA inflation

(153)

SIMON WILLSON B/Day 23/1/92

RESERVE Bank Governor Chris Stals's call for a social accord to combat inflation will be brought into sharp focus next week by the release of a normally humdrum southern hemisphere statistic

The figure, scheduled for publication next Wednesday, is the rate of inflation in Australia in the year to the fourth quarter of 1991 (the Australians measure inflation only by the calendar quarter, not month by month)

Until recently, the Australian inflation rate was just one more erratic number from a primary product-based economy going through the throes of restructuring Suddenly, however, Australian inflation has locked into a pattern Next Wednesday's figure is likely to be one that astonishes not only comparable, competitor economies such as SA's but also the developed Western industrial economies

Australia is about to announce an annual inflation rate of about 1,5%

This will mean that Australian inflation is lower than Japan's, lower than Switzerland's, lower than Germany's — lower than in all the economies famed for their thrift and abstemiousness For at least the first quarter of this year, Australia's inflation rate is likely to be the lowest of all those reported to the 24-nation Organisation for Economic Co-operation and Development (OECD) — the grouping of advanced Western industrial economies

Australia with the OECD's lowest inflation rate? How can this be?

Is this the same Australia as the one that has been living way beyond its means for nearly two decades, the country whose sustained import binge has chalked up an unbroken current account deficit since the mid-'70s? Yes.

It is the same Australia as the one which has splurged fantastic sums on grandiose domestic projects, in the process ballooning its gross foreign debt from a mere $US15bn in 1980 to more than $120bn last year

It is the country that, for most of the '80s, has been governed by a trade union-friendly Labor government Moreover, the Labor prime minister for all but the past two months of this period was previously a hard-drinking, womanising trade union boss It is a nation of instinctively militant organised labour, whose miners and transport workers are famous for their rapid deployment of the strike weapon

How, it may reasonably be asked, can a free spending, import loving, strike happy, debt ridden economy such as Australia's have an inflation rate that puts to shame other OECD economies of legendary parsimony and self denial?

The answer to this perplexing question provides the link with Stals's social accord prescription for combating inflation The main reason Australia's inflation rate has fallen so consistently and is now so low is that Australia has the industrial world's longest lasting, most successful and least publicised incomes policy

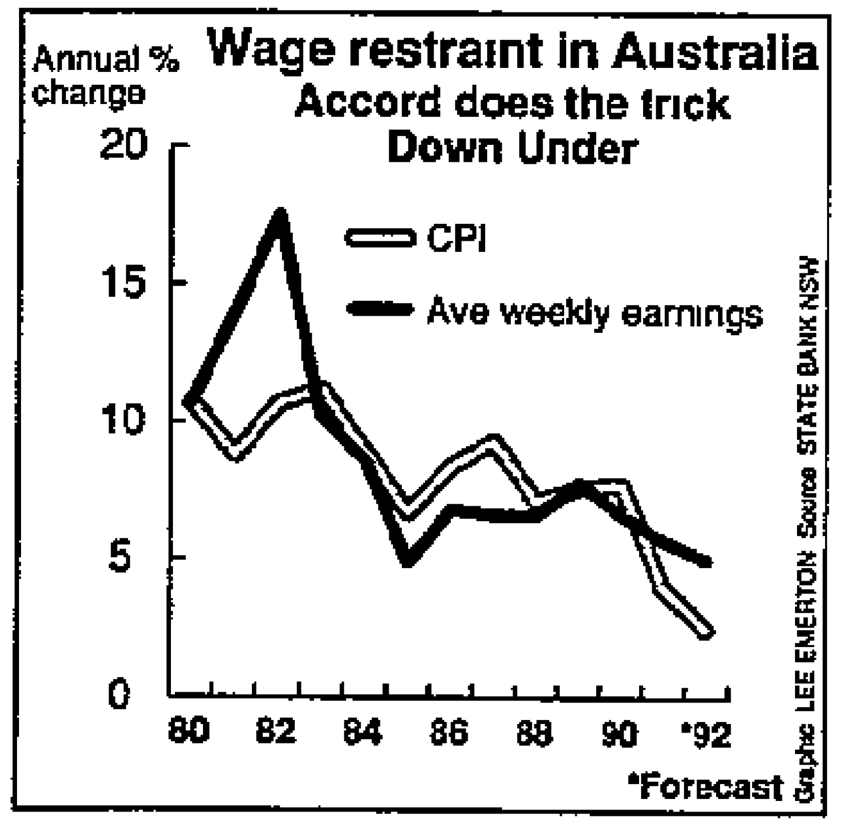
Recession has only helped disinflate the Australian economy since the end of 1990; Australian economic growth tanked ahead during the '80s — at more than 5% in 1985 and by more than 4% in 1987 and 1989 — while inflation was slowing

The incomes accord between the federal government and the Australian Council of Trade Unions (ACTU) was instituted in 1983 and has been renewed every year since The accord involves government and unions agreeing on a maximum limit for pay increases in the year ahead, and sticking to it

The government has used the accord to cut real wages — pay levels adjusted for inflation — with the co-operation of national trade union representatives. There have been disagreements, when the government's offer and ACTU's claim were referred to arbitration But, as the chart shows, the results in terms of inflation have been spectacular There has been an incontrovertible correlation between the decline in inflation rate and pay restraint

How has the Australian government managed to sweep the ACTU militants along with an incomes policy that ostensibly undercuts the trade union function by eroding the real pay levels of ACTU members?

The Labor government did, it is true, start out with an advantage in that it was an avowedly socialist party when it was elected in 1983, headed by a former ACTU boss in Bob Hawke But the government also needed a carrot to give some incentive to ACTU to go along with the accord, and cannily used tax reform as that carrot



The government, elected on a platform of restructuring the Australian economy, was planning anyway to follow the Thatcherite/Reaganite formula of cutting direct taxation and loading up indirect taxation as the main federal revenue-generator

In the early days of the accord, Hawke made personal tax cuts conditional on acceptance of statutory pay limits His argument, which proved quite persuasive when the nascent accord was at its most vulnerable, was that ACTU members would be no worse off in disposable income terms if they accepted a cut in real wages that was offset by lower direct tax takes from their wage packets

It worked like a charm The accord was accepted at the outset and had a chance to operate Australian real wages began to fall, with all the favourable knock-on effects on export competitiveness and on inflationary expectations. By the time the tax incentive part of the package was delivered, there was real evidence of lower inflation to support the extension of the accord. The Hawke government won four consecutive elections.

Australian inflation, which was well into double digits and close to SA levels 10 years ago, is about to become the lowest in the industrialised West Wednesday's figures will show that Australian prices take a year to rise by as much as SA prices often do in a month

Stals's advocacy of a social accord in SA to tackle structural inflation and inflationary expectations is, whether intended as such or not, an endorsement of Hawke's accord model and a recommendation that it be emulated, at least in part, in SA without delay And why not? When there are two large land mass, southern-hemisphere primary product exporters with competitiveness and productivity problems among their militant labour forces, and one has an inflation rate of more than 15% and the other one of less than 2%, there must be something the first can learn from the second

Given the Australian precedent, Stals's point about a social accord attacking structural inflation and inflationary expectations is well made What better time to approach SA organised labour with a plan to start agreeing pay limits for a year or so ahead than when government, business and labour are all sitting around tables anyway?

In forums such as Codesa and gatherings convened by the Consultative Business Movement, collective action in the national interest is already being discussed in the constitutional, political and social fields It is a relatively small step to accommodate pay bargaining among other such weighty topics

It is not only the SA unions that would have to be persuaded to accept the concept of an accord The government has been unusually proscriptive about regulating national pay levels, as this statement last year by the Finance Minister's special economic adviser Japie Jacobs shows. "... government has no intention of intervening in wage negotiating procedures Government has no wish to cross swords with organised labour It has no intention of even considering the implementation of an incomes policy"

A figure due out in the early hours, SA time, of next Wednesday morning should change the preconceptions of Jacobs and a great many others

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153 CT 24/1/92

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BUSINESS

How accurate is the inflation rate?

W/Mail 31/1/- 6/2/92

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Is the official inflation rate correct? How does it weigh up against different measures?

***REG RUMNEY** reports*

EVERY now and again someone gets it into their heads to question the official inflation rate, as measured by the Consumer Price Index.

This upsets the Central Statistical Service, which computes the index But it's only natural to examine such an important indicator

There has at times been much argument about whether the CSS has gone about collecting and interpreting its raw data correctly.

A neat way of cutting through the argument is to find a separate and different way of measuring inflation — and then compare the two to see if the CPI is wanting

There are a number of handy different measures of inflation available They can be found skulking in South Africa's national accounts, for which the Reserve Bank is responsible

The bank produces no inflation figures as such, but it does use its own inflation rate or "deflator" to adjust its figures for inflation

The deflator is used to adjust for inflation such things as the all-important measures of a nation's economic performance, the Gross Domestic Product and Gross National Product

Two figures are given for each of these vital stats a figure at current prices and a real — ie adjusted for inflation — figure.

Implicit in the real figure is the deflator It's a simple mathematical exercise to work out the deflator for a number of years and arrive at year-on-year figures for inflation Those interested in the method should refer to *The Practical Guide to South African Economic Indicators*, by PJ Mohr and others of Unisa's Economics Department (Lexicon Press)

So how does the official inflation rate measure up?

WHICH IS THE REAL INFLATION FIGURE?

Year	CPI	GNP deflator	GDE deflator	PCE deflator
	%	%	%	%
1986	18,6	15,0	14,9	17,0
1987	16,1	14,0	14,4	15,8
1988	12,9	14,8	14,7	13,3
1989	14,7	18,1	18,4	15,2
1990	14,4	14,9	15,5	14,4

The accompanying table compares the offical inflation rates for five years with some of the most relevant deflators

There are discrepancies between the CPI and the GNP and GDE deflators in 1986, for example, and again in 1989 But they are not great enough to rule out the accuracy of the CPI

Notice the Private Consumption Expenditure (PCE) deflator is far closer to the CPI.

The PCE, because it covers consumption spending only, is a natural choice for comparison with the CPI. It also has advantages over the CPI: it covers the whole economy, not only the urban areas

This applies to the other deflators as well — all provide a more comprehensive coverage of the price level than the CPI or the Producer Price Index

The PCE also reflects the prices of goods and services actually bought. The CPI, by comparison, is a "fixed-weight" index. This means the importance or weight accorded to, say, food is fixed in the CPI for a period of around five years. The PCE deflator does not have that artificiality.

However, various components of the CPI are used in estimating PCE at constant prices. Since this is the key element in determining the PCE deflator, it is not surprising there is a similarity between the PCE and the CPI. The link makes the PCE less useful as an independent measure of inflation.

All this is not to say the deflators should replace the CPI. There are other technical reasons for not relying on implicit price deflators alone for calculating inflation

One good practical reason is that the data from which the deflators are calculated are at best available on a quarterly basis. The monthly CPI is much more up to date.

What about instituting another measure of inflation? When governments produce more than one measure of prices to the consumer, the more favourable one is regarded with suspicion

The British government produces a tax and price index (TPI) as well as a Retail Price Index, which is the equivalent of our CPI. The TPI includes the effect of changes in direct and indirect tax, and in the tax-cutting Margaret Thatcher years this arguably made inflation look more favourable than the RPI. Some saw the TPI as a political ploy

The same charge cannot really be levelled at the introduction in South Africa of a dual rate of inflation in the monthly figures since October last year, the month Value-Added Tax was introduced. Now the CSS produces an inflation figure with and without VAT. The main purpose seems to be to show the direct effect of VAT on inflation, not to produce a more attractive inflation rate

In the end, there is more than one measure of inflation. As with all statistics, each contains valuable information but should be handled with care

Higher taxes and less to spend, warns economist

(153)

STAR 3/2/92

The international economic slowdown will be deeper and last longer than expected, and South Africans will pay higher taxes and have less to spend, says insurance giant Southern Life's chief economist, Mike Daly

In his latest Economic Comment, Mr Daly says the US economy in particular is struggling to emerge from recession.

"Interest rates have been dramatically reduced to encourage a new borrowing and lending cycle, but to little avail so far," he adds

Mr Daly cautions that continued low US inflation does not hold out much promise for the gold price, while non-gold metals and mineral prices have yet to break out of their steep three-year decline

He foresees continuing pressure on the profitability of gold mines and more retrenchments in the first half of this year.

"South African export volumes grew by a satisfactory four per cent in 1991.

"But in view of the recession in the industrially developed countries at the start of 1992, the outlook for South Africa's international trading environment appears to be far from encouraging," he says

Mr Daly believes export volume growth will be at its strongest in the second half of the year, coinciding with accelerating economic growth overseas.

"The deepening inability of the formal sector to provide jobs for the increasing number of workers entering the labour force annually is leading to a feeling of despair among school-leavers, a questioning of the value of education and a rising crime rate as a survival strategy," Mr Daly adds

He predicts a further weakening of real personal disposable income (PDI) growth in 1992 and that fiscal drag will ensure the individual's tax burden becomes even greater

"Inflation will also remain high, particularly in the food sector," he says

Longer-term benefits stemming from the introduction of VAT should ease domestic inflation, and low inflation at the producer level will be reflected in consumer prices, he says — Sapa.

, Tuesday, February 4 1992

Executives expect inflation to remain

BDay 4/2/92 (153)

SEAN VAN ZYL

EXECUTIVES of the top hundred companies quoted on the JSE do not expect inflation to drop significantly in 1992.

But the majority believe the prime overdraft rate will slip by about two percentage points to 18% this year, renewing business confidence, a survey report released by the Bureau of Market Research (BMR) said

The report, the seventh of its kind, based on the opinions of influential corporate executives, indicates that the business community is not optimistic about a dramatic fall in the inflation rate this year

It expects an inflation rate of about 14,8%, compared with last year's average of 15,3%, and predicts a marginal 1% real growth rate in the economy for 1992

Furthermore, the executives anticipate that the rand will continue to deteriorate against the dollar in 1992.

The report's findings suggest an average forecast exchange rate of R2,90 a dollar compared with last year's R2,76 a dollar

The executives are not very optimistic about the gold price They believe a strong recovery in the international gold price will be unlikely, with the majority of respondents predicting an average price this year of about $377

The average gold price for 1991 was $362

While union activity is expected to increase in 1992, the majority of the executives believe labour unrest and strike actions will decline in 1992.

However, they do not expect a significant decrease in the total number of unemployed in SA in 1992

Many remain sceptical about a reduction in total unemployed and seem to expect stagflation — low economic growth, high inflation and high unemployment — to continue

As many as 90% of the executives agree there will be greater pressure on them in 1992 to fulfil their social responsibilities.

While the predictions point to an economically, socially and politically uncertain business environment in 1992, 54% of the respondents expect overall greater business confidence, the report concludes

Recessions reflected by debt figures

GERALD REILLY (153)

PRETORIA — Rising debt figures continue to reflect the poor state of the economy and the recession.

6/ Dec 5/2/92

Central Statistical Service figures released yesterday showed summonses for debt issued in the three months to end-November increased to 268 516. This was 10,2% up on the same three months in 1990.

And civil judgments for debt increased by 7,2% to 135 618 in the same three months.

CSS said that in November 44 274 judgments for debt were passed.

Not only were the numbers greater, but the amounts involved were also sharply up.

The average amount per judgment in the September-November period was R5 286.

Compared with the corresponding period in 1990, this was an increase of 22,6%.

Inflation high, but rates will drop soon

(153)

CT 25/1/92

By ARI JACOBSON

CONSUMER inflation may be moving higher — but all other leading economic indicators are pointing to an interest rate cut soon, economists canvassed yesterday said

The bank rate currently stands at 17% and the overdraft rate charged by banks to their prime customers is 20,25%

Reserve Bank governor Chris Stals has demarcated a positive real return on interest rates of about 5% as a satisfactory benchmark With inflation as measured running at 16,2%, the real return — the difference between the prime overdraft rate and the inflation figure — is about 4%

But Stals has also stated that while inflation remains a major concern, it is but one of many economic indicators analysed by the monetary authorities

Life assurer Old Mutual's view is that the interest rate cut may come before the budget, said economist Johann Els

Els said the weakness of the real economy, the favourable producer price index figures, sound money supply growth and a solid foreign exchange position should allow rates to fall by then

But Els said should government embark on an expansionary path of higher spending, through the budget, this may prevent interest rates from falling because of the inflationary impact

"Stals must co-ordinate monetary policy to tie-in with fiscal measures."

Sanlam's chief economist Johan Louw is another who believes interest rates will come off soon — his forecast is for the end of March

Louw pointed to the latest money supply figures which on an annualised basis from February 1991 showed a growth in the region of 8% to 9% — neatly within the Bank's money supply target of 8% to 12%.

First National Bank economist Cees Bruggemans is anticipating a cut in the first half of the year

Expect 12% inflation in '92 — Sanlam

CT 27/1/92

(153)

By ARI JACOBSON

A DECLINE in inflation to about 12% and the moderate lowering of interest rates is what can be expected, from an economic perspective, in 1992 — according to Sanlam's latest economic review.

But a real economic growth rate of about 2% predicted by chief economist Johan Louw should ensure that the recessive trend (based on technical data) will not persist this year.

Louw is optimistic that exports will continue to improve as "sanctions crumble" to allow for the widening of existing markets and the exploitation of new markets.

Also "more favourable capital movements will occur with the gradual lifting of financial sanctions."

In addition he expects the current budget to be stimulatory — the government focusing on increasing social expenditure.

This coupled with lower interest rates and a lower rate of inflation, through 1992, should have the necessary impact on real economic growth.

Louw tackling the problems associated with SA's inflation — says "it's significant that the rate of price rises at production level has declined noticeably in the past few months.

"The month-on-month rise for November of only 0,5% is encouraging and should have a positive effect on consumer prices in due course."

The consumer price level for the year to December rose at a rate of 16,2%.

He says the food price effect on consumer prices "yet again emphasised the urgency of the governments current investigation into food price hikes".

But Louw is confident although inflation may remain at this level over the next few months it "will tend lower in the second quarter of this year to about 12% by December 1992"

Louw adds other reasons for the decline in consumer inflation over the current year will be:

- Relatively slow increases in labour renumeration;
- A mild lowering of interest rates;
- Recent slow growth in the money supply and the granting of credit; and
- The filtering through to consumer prices of VAT concessions (on capital and intermediary inputs).

On interest rates Louw says "the Reserve Bank is expected to maintain its discipline and continue to aim at positive real interest rates".

But he anticipates a mild relaxation in monetary policy — the first cut in the bank rate should occur in the first quarter of '92, he says

COMPANIES

Gold mining needs inflation stemmed

GOVERNMENT needs to take urgent, bold steps to deal with inflation if the gold mining industry is to stem the erosion of its real income and secure the future of threatened mines and jobs

Chamber of Mines senior economist Francois Viruly said in an article in the latest Chamber Newsletter that gold mines had been highly successful in containing working cost increases, but the relief had been fleeting in a climate of high inflation and a poor gold price.

"The industry's austerity measures resulted in the cost of milling a ton of ore increasing by just 6,3% in 1991, compared with 1990 — much lower than the 16,2% inflation rate over the same period."

Viruly said an increase in gold grade in the year meant a more impressive increase in working cost per kilogram of gold produced, which rose a mere 1,6% or about a tenth of the official inflation rate.

"Methods employed in 1991 to achieve these results included the negotiation of a cost-containment agreement, use of more cost-effective mining techniques and the mining of higher grade areas."

In an attempt to sustain revenues, the industry also made selective use of forward selling and the gold option market to lock in better prices, he said.

Viruly said macroeconomic policies to effectively counter inflation were needed, including the need for government to reduce expenditure. — Sapa.

FINANCE

Inflation makes us poorer

STAR 12/2/92

Since the early '70s, South Africans have been faced with an inflation rate of well above 10 percent. The end result has been a steady erosion in the buying power of money. **Magnus Heystek**, in his book The Allied World of Money, investigates the problem.

153

Inflation affects all of us, it will make all of us poorer over time It will eventually reduce our standard of living, it will destroy our confidence and peace of mind

You don't believe me? Speak to anyone who retired on a fixed income in the last 10 to 15 years At an inflation rate of 15 percent, the purchasing power of your money halves every 4,8 years

This creates uncertainty and fear about the future You cannot make plans for anything worthwhile in your life, not for your old age, not for the education of your children, not for the care of your loved ones

Inflation can, and is, destroying the moral fibre of our nation Someone once described a country with a high inflation rate as a country "where no one tells the truth any more".

In the face of inflation-induced uncertainty, it is only human for you to try to protect yourself by constantly demanding a bit more than you expect or offering a little less that you otherwise would

Honesty disappears in an inflationary world Cabinet Ministers get up in Parliament, stating that income taxes will not be increased, knowing full well that inflation will do the dirty job for them

Here are some examples

Inflation has become a way of life Inflationary expectations have become the single largest cause of inflation We have simply stopped believing that inflation will ever come down The Reserve Bank has admitted as much

Taxes and dividends are being paid from profits that don't exist Very few companies adjust profit figures to make provision for inflation

Down-sizing is commonplace Consumer products are becoming smaller while the price remains the same or only increases slightly

Inflation has become so commonplace that we don't realise its effect any more.

The Allied World of Money by Magnus Heystek available at The Star at R35

Inflation rises to 16,2 percent

Finance Staff STAR 23/1/92

The inflation rate rose in December to 16,2 percent, up from November's 15,5 percent, with food once again showing the largest price increases (153)

For the year the average inflation rate was 15,3 percent, against 14,4 percent in 1990, Central Statistical Service (CSS) figures issued today show.

Largest contributors to December's 2,8 percent increase in food prices were grain products (0,6 of a percentage point), meat (1,3) and fruit and nuts (0,5).

Sacob supports call for cut in income tax

STAR 21/1/92

153

By Derek Tommey

The poor performance of the economy is adding weight to a recent submission by the South African Chamber of Business (Sacob) to the Government for an immediate cut in personal income tax in the next Budget

The submission included a warning that the recession could become much worse

The argument gains increasing relevance as signs mount that if South Africa wants a brighter economy this year, it will have to pull itself up by its own bootstraps

Stimulus

Reports indicate that it could be six months or even a year before the economy receives any major stimulus from overseas

Yesterday's sharp fall in Japanese share prices is just another indication of a continued weakening in international economic conditions

The fall was triggered by Friday's report of a marked decline in American imports in November

This was taken as showing that the US was now exporting its recession with all its painful effects to Japan — and one could add to South Africa, as well

Sacob, in its submission to the Minister of Finance, said that the South African economy had been underperforming for the past 15 years and it was imperative to maximise the next upswing

It warned against regarding the mild appearance of the recession in 1991 as a sign that it could soon be over

The length of the recession, combined with the effects of bracket creep (not adjusting income tax for inflation), and the tight money policy had finally started to affect spending and the final phase of the recession in South Africa "could prove to be unexpectedly severe", it said

It pointed to the expectation that only seven out of every 100 job-seekers were expected to find employment in the formal sector as an indication that the economy was already in serious trouble

As a remedy, it proposed a reduction in both the rate of company income tax and individual income tax

It said the most effective incentive to investment was a reasonable personal and company tax rate

Adjustment

At present these tax rates were far too high when compared with those of our trading partners, it said

It pointed out that there was no allowance in these taxes for the effect of inflation on profits and individual incomes

The individual was automatically paying a greater proportion of income to the taxman, even if salary increases were to compensate for the effects of inflation

Sacob said the Government made no significant adjustment in the last Budget and not much in previous Budgets for bracket creep.

This had resulted in an increase in personal income tax as a proportion of total tax revenue from 25 percent to 37 percent.

Sacob said the maximum marginal personal income tax rate of 43 percent was far too high

It reduced the ability of the individual to save and also to spend, thereby retarding South Africa's economic growth

Sacob also called for the new income tax tables to come into effect soon after the Budget so that taxpayers could at once feel in their pockets the benefits of tax cuts

It said a marked reduction in the company tax rate was also necessary to enable companies to plough back a higher proportion of their earnings

The nominal rate of 48 percent was much higher than in many other countries, and compared with 34 percent in the United States

Thirty years ago the company tax rate in SA was 30 percent.

Sacob also opposed any increase in the rate of VAT from its present 10 percent

Although it did not mention it, it must be appalled by the effect an increase of, say, two percentage points in VAT would have on already extremely depressed retail sales

Inflation to fall – expert

(153)

STAR 12/2/92

Quoting Stellenbosch University Bureau for Economic Research Director Dr Ockie Stuart, the Rode Report on the South African Property Market forecasts an average inflation rate of 13,7 percent for 1992 dropping to 12 percent by the year-end.

But the implication is that the bank rate and thus interset rates in general will remain high. Most of the cuts should occur during the second half of the year.

Dr Stuart anticipates the average prime rate for 1992 to be about 1,25 percent below that of 1991. He describes fiscal policy in 1991 as stimulatory.

The 1992-93 budget is likely to be expansionary as well.

Because of an anticipated large deficit before borrowing, it also could be inflationary.

It appears the construction sector in particular should benefit from the anticipated higher expenditure on fixed investment.

He says that apart from the budget proper, money seems to be being increasingly pumped into the economy through bypassing the budget.

Actual government spending is likely to be more than will be reflected in official figures.

A GDP growth rate of about 2 percent is forecast for the calendar year 1992, but the overall tempo of economic activity is likely to be fairly sluggish

Stals sticks to monetary guns

STAR 19/2/92

152

By Sven Lünsche

Reserve Bank Governor Dr Chris Stals yesterday put paid to speculation about an imminent cut in interest rates.

He strongly re-affirmed the Bank's policy of linking a reduction in interest rates to clear signs that consumer price inflation was receding

Economists have been speculating that the Bank could announce a cut in its rate before or at the time of the Budget speech next month.

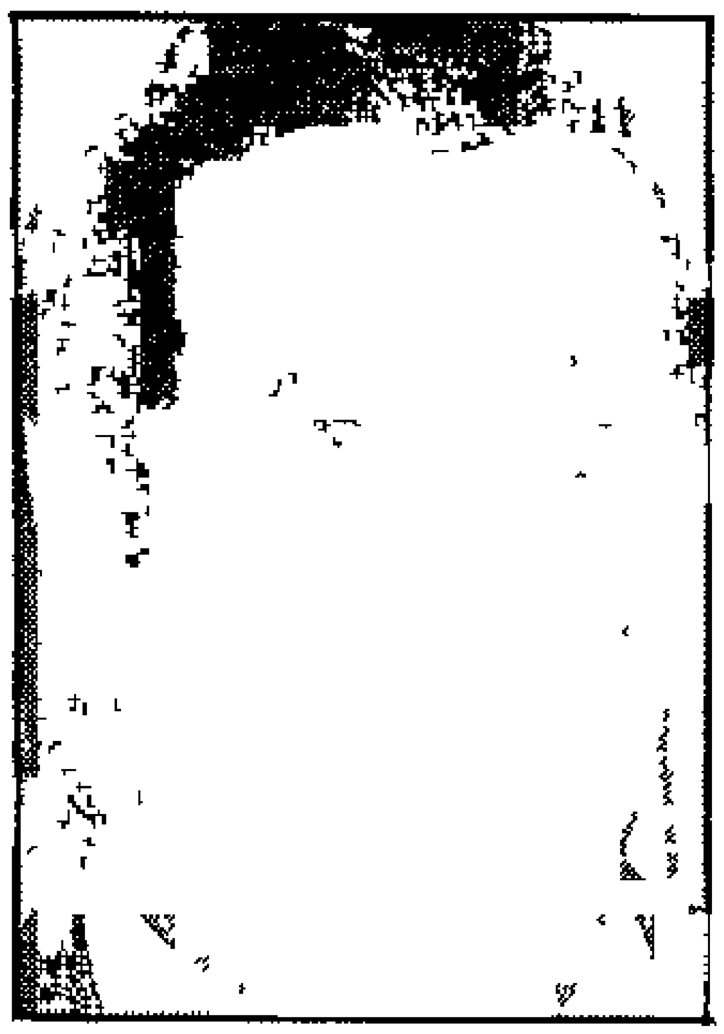
On the money markets short-term interest rates have been falling steadily in the past few weeks in anticipation of a cut in the Bank rate

However, Dr Stals told delegates at the annual Frankel Max Pollak Vinderine conference yesterday the bank would "maintain its present level of monetary tightness"

He warned that after almost 20 years of double-digit inflation, South Africa might already be in some form of stagflation (high inflation coupled with negative growth rates)

"In this situation we cannot afford to revert to the arcane policy of short-term cyclical demand management and its inevitable results of a stop-go economy

"The Reserve Bank therefore continues to stick to its policy of medium-term objectives and general financial stability, rather than short-term spurts of growth that slowly but surely step us up to higher levels of inflation, and a lower macro-economic growth potential."



Dr Chris Stals .. adamant

The Bank's tight monetary policy had already achieved a number of desired results

- The broad money supply measure M3 had increased by an annual rate of only 7,4 percent since February last year and credit extension to the domestic sector had slowed to an annual 10,7 percent over the past 10 months
- The gold and foreign exchange reserves had increased to R9,4 billion, equal to just over two months' worth of imports, while the Bank had no foreign liabilities outstanding
- Producer price inflation had declined from a high of 14,6 percent in November 1990 to 8,6 percent in December last year

However, Dr Stals also listed a number of factors which mitigated against a premature cut in interest rates.

Topping the list were high consumer price inflation rates and the pressures on the Minister of Finance to create additional expenditures to meet the demand for social spending.

Furthermore, the drought in the summer rainfall areas threatened to prevent "the breakthrough we so desperately need in our struggle against inflation"

Dr Stals emphasised, however "To the extent that the rate of inflation does decline during 1992, scope will be created for some relaxation in monetary policy"

But in calling for a major overhaul of South Africa's entire production structure, he warned that such a restructuring could not be jeopardised by an early balance of payments crisis, or by escalating inflation

"At this stage there can be little doubt about the need for the retention of disciplined monetary and fiscal policies"

Looking at other monetary factors in the year ahead, Dr Stals said the balance of payments should produce a slightly smaller current account balance, but sufficient to offset the modest net capital outflow expected

"Against this background it should be possible to keep the exchange rate of the rand relatively stable."

In his keynote address to the conference, Finance Minister Barend du Plessis warned that the economy had not yet bottomed out, but added that a positive growth rate should be achieved.

Investment spending could take the lead in boosting the economy, after gross domestic fixed investment had slumped by 8,5 percent in 1991, he said

Getting poorer by the day

STAR 15/2/92

(153)

Money Matters

MAGNUS HEYSTEK

HOW often have we heard the expression: "Things will get worse before they get better."?

Well, we're going to be hearing it a lot more.

Most people know by now that the economy did not pick up as was forecast at the beginning of 1991. In fact, its performance was dismal with the gross domestic product (GDP), the sum total of all goods and services, declining by just under one percent.

And with the drought tightening its grip on the country one can expect further declines in GDP this quarter.

Figures released yesterday by the Central Statistical Service (CSS) reveal that the economy unexpectedly slumped back again during the fourth quarter of last year. This is also clearly evident in the latest batch of company results, especially companies exposed to the spending power of consumers.

And how do we know that the economy deteriorated during 1991? Simple. Most of us had less money in our pockets than a year earlier. In fact, Mr Average experienced a per capita decline of four percent in real wealth.

The economy at year-end was officially in the grip of its longest-ever recession; more than 36 months. Some would argue that this is more like a depression. The answer depends on whether or not you kept your job during 1991.

But watch out when the economists start losing their jobs.

This sad state is the result of several factors: the continued high level of interest rates, low levels of political confidence, a fall-out from a world-recession as well as high levels of taxation.

Under the governorship of Dr Chris Stals the Reserve Bank has kept a tight lid on monetary policy by keeping interest rates very high. But up 'til now it has not had the desired effect on the persistently high inflation rate.

Inflation is still stuck around the 14-16 percent levels and shows no signs of coming down. However, there is reason to believe that it could decline to around 12 percent by the end of the year. But haven't we also heard that before?

The local economy has also been affected by slower world growth. The US economy is still struggling to emerge from its recession while the UK and other major European countries are still in a recession. This obviously has a negative effect on our trade with these countries.

But perhaps the major factor affecting the economy is the political uncertainty created by the negotiation talks, the high levels of unrest and crime.

However, not all is gloom and doom. Exports, despite weak world markets, are rising. This is mainly the result of the removal of trade barriers with former major trading partners.

It augurs well for the future when world trade picks up but it will take time for this to filter through into the pocket of the man-in-the-street.

Another factor depressing the spending ability of ordinary consumers is the high levels of taxation combined with wages increasing at a lower rate than inflation. This situation also, will only change once the economy starts growing again in real terms.

But the good news is that the foundations are currently being laid for a longer and more sustainable upswing. Inflation is coming down, the growth in money supply is well down while wage and salary increases are being moderated.

Any upturn in world economies, which could happen very soon, will immediately lead to higher exports, higher revenues and ultimately more job opportunities.

Hopefully the next upswing will be longer than the previous upswings of the '80s. But only time will tell.

Inflation up: 'No cut in interest rate'

153 CT 24/1/92

HOPES of a short term cut in interest rates were dashed yesterday with a shock rise in the inflation rate.

Inflation, as measured by the consumer price index (CPI), rose to 16,2% year on year in December, compared with 15,5% in November.

The index of food prices surged to its highest level in 11 years, climbing to 28,3% in the year to December.

Substantial increases were recorded in various food prices in year-on-year terms — prices of fruit and nuts increased by 56,4%, meat prices were up by 38,8% and vegetable prices were up 38,1%.

The 28,3% increase in food prices is the highest level recorded since March 1981 when food prices increased by 29,5%

Medical care and health expenses rose by 26,2% in the year to December.

Excluding the effects of VAT, the rate of increase in the consumer price index was 15% in December compared to 14,3% in November.

Price increases in 1991 averaged 15,3% compared to an average rate of 14,4% in 1990 and 14,7% in 1989.

The average inflation rate for 1991 has been set at 15,3% — the highest level in three years.

Overall, food prices increased by 19,6% in 1991, compared with 16,1% in 1990 and 10,9% in 1989.

SA Reserve Bank Governor Dr Chris Stals said the poor performance of the CPI would certainly affect a decision to drop interest rates.

"For me and the man-in-the-street this figure is disappointing," he said.

However, he said that while the CPI was an important indicator, "there are other figures we watch like the money supply, out in the next few days, and the gold and forex reserves at the end of the month".

Dr Stals said he was not suprised at the latest inflation figure because "December 1990 had a low level of inflation growth and the year to December 1991 carries the distortion with the introduction of VAT".

The major problem was the CPI's inability to respond to the positive input from the producer price index (PPI), down at 7,9% for the year to November.

However, Old Mutual economist Mr Johann Els said there was a lag between the PPI influencing the CPI.

He said food inflation had a much heavier impact on consumer inflation and this was currently being investigated by the Board of Trade and Industry.

Pay rises 'lower than inflation'

B/Day 20/2/92

DIRK HARTFORD

WORKERS are likely to receive below inflation wage increases while retrenchments in almost every sector are set to grow, according to the results of a survey of 76 companies by Gavin Brown and Associates' Erica Jankowitz

Estimated wage increases this year ranged from 8% to 17% against inflation estimates of 11,5% to 14%

Many companies said productivity and flexibility would have to be conceded for wage increases.

Although short time was being worked in a number of companies and natural attrition was cutting jobs, many companies said that if the recession bottomed out this year they hoped to keep job losses to a minimum

Jankowitz said unions were moving away from across-the-board percentage wage increases to a more sophisticated percentage or cash amount demand

According to the survey, the major issues on union agendas this year, other than wages, were. (153)

- Job security including a moratorium on retrenchments, no subcontracting, no temporary workers, a reduction in overtime and retraining instead of retrenching;
- Training programmes to be negotiated including reskilling, literacy and numeracy training;
- Disclosure of financial information, especially if productivity deals were signed,
- Centralisation of bargaining,
- Housing subsidies and allowances, and
- Taxation demands around the VAT controversy

Major issues for employers included flexibility clauses, merit increases and productivity

On productivity, employers would want to decrease absenteeism, increase production quotas, introduce incentives and cut down on wastage, Jankowitz said.

BUSINESS DAY, Thursday, February 20 1992

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Protectionist policy a factor in inflation

(153) (56A)

By Derek Tommey

STAR 31/1/92.

South Africa "is still stuck with a sanctions mentality" which was seriously hindering economic growth, says Wayne Mitchell, executive director of the Centre for Promotion of Foreign Investment in South Africa

In a press release yesterday he said the Government should lower its high import duties to make the manufacturing sector more competitive and better able to compete in world markets.

Mr Mitchell said many countries were eager to trade with South Africa and investment funds were banking up. But South Africa so far had done little to make itself ready to conduct normal international trade

"We haven't begun to break down our own considerable sanctions barriers — or even adjusted mentally to the new scene"

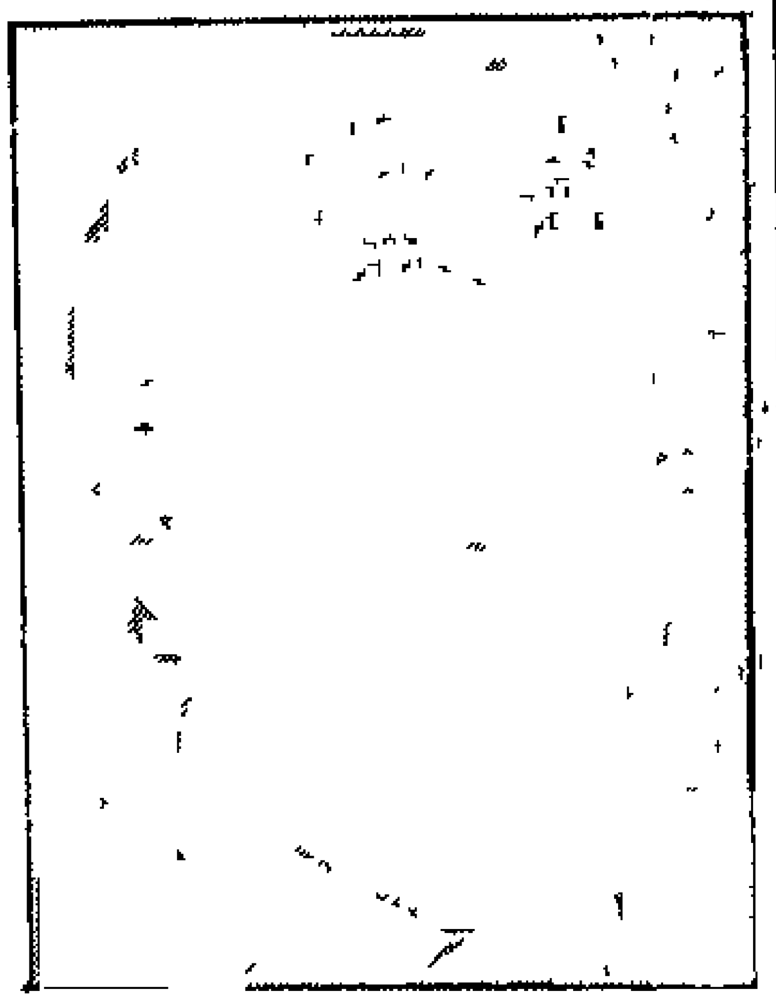
Manufacturers needed to be able to compete at home before they can expect to be competitive internationally. This meant that high import duties, which were restricting open trade and competition, must be reduced.

The protectionism afforded industry had led to extreme price hikes and to inflation

He highlighted areas where extreme gaps existed between South African and European Community import duties

One area was cars Although the price of cars had risen alarmingly, there was still a 110 percent import duty plus a 12 percent ad valorem duty plus a 20 percent surcharge on imported cars The EC duty was 10 percent. In addition, most EC countries had well organised and efficient commuter services, he said

Clothing made of 100 percent cotton carried a 30 percent import duty and a 15 percent surcharge, yet the textile and clothing industry was calling for further protection The EC imposed a surcharge of 14 percent.



Wayne Mitchell . . high import duties restricting competition.

South Africa's high level of illiteracy made radios and TV sets crucial for communication and education Yet radios carried a duty of 25 percent, a surcharge of 40 percent and an excise duty of 37,5 percent The EC imposed a duty of 14 percent

Imported TV sets carried a 90 percent duty and a 38 percent excise duty In the EC the duty was 14 percent

Other areas where extreme gaps existed included educational toys, electrical appliances and computers.

Mr Mitchell said that if the surcharges were scrapped and a move made to bring in a duty-free or a flat-rate duty system by a certain date, South Africa would be demonstrating to the world that it had confidence in its industries and products and this would benefit the rand

He said that taken together, a lowering of import duties, an improvement in the exchange rate, the ending of the import surcharge and a one percentage point cut in interest rates would give the economy the boost it so badly needed.

NUM-Chamber negotiations bear fruit

w/mail 21/2-27/2/92

Initiatives from a breakthrough mining industry summit last year seemed to have run aground — but this week unions and employers agreed on some key issues, reports
DREW FORREST

AFTER eight unproductive months, union-employer talks set in motion by last year's mould-breaking mining "summit" are starting to bear fruit.

At a Chamber of Mines executive meeting this week, the mining houses finally achieved consensus on the need to back a National Union of Mineworkers' proposal of a high-level inquiry into laws touching mine health and safety

The proposal, tabled in a commission set up by the summit to probe industry standards of health, safety and welfare, won broad employer support but was resisted by Gold Fields of South Africa, which saw it as an invasion of its right to manage.

GFSA, often at odds with the other groups, apparently came under pressure at a chamber meeting last week and offered to reconsider its stance. This week, sources say, it agreed to back the inquiry proposal

At the same time, employers have reached agreement on the need to revise the tax system as applied to workers' retrenchment packages It is understood the issue is to be raised with government by chamber president Naas Steenkamp during his upcoming annual "tour" of ministerial offices in Cape Town.

In the summit commission on mine retrenchments, the NUM pointed to the injustice inherent in the hefty taxation of severance pay — in some cases more than 25 percent, according to union economist Martin Nicol

Retrenched miners have little hope of re-employment, but because most are not registered under the PAYE system and lack the education required for the necessary paperwork, they cannot reclaim their tax payments.

"The receiver is retaining a large sum of money he has no right to," Nicol commented "For many miners, the retrenchment package is the last link with economic life." The problem was shared by workers in all industries, he stressed.

In at least two important respects, however, the Chamber response falls short of NUM demands tabled in summit commissions.

Sources confirmed this week that employers had set their face against a permanent union-employer mining commission, which would keep industry policy under constant review.

"It's seen as an intolerable intrusion in the autonomy of the mining houses, whose circumstances differ widely," a source said. "There's also a feeling that a process with an amorphous brief, as opposed to talks about specific problems, would be a waste of time."

Sources also said that while employers supported the idea of an inquiry into safety laws, sanctioned by government but drawing in outside experts, they did not believe it should look at the question of worker participation in safety issues. "This is seen as an operational matter, not one in the public domain," the source said.

NUM general secretary Kgalema Motlanthe confirmed the union wanted legislation to compel labour's involvement in safety management.

The employers' decision to throw their weight behind certain NUM proposals follows long months in which the summit process stagnated

NUM concerns about lack of progress are shared by some employers, who argue that a key weakness has been steering committee chairman Van Zyl Slabbert. "He's overcommitted, and doesn't give the process the time it deserves," one said

Labour loses out as inflation soars

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By DREW FORREST

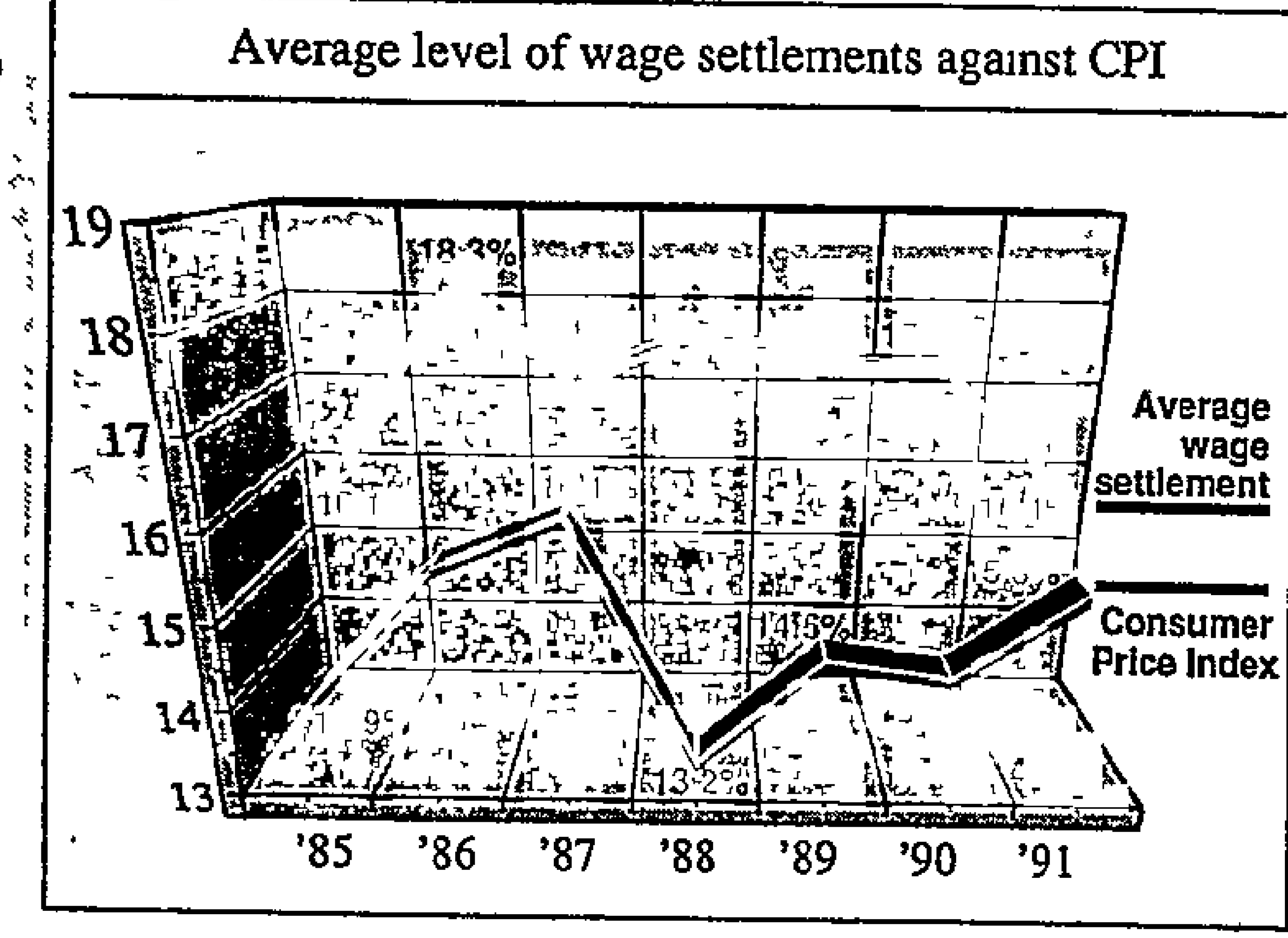
FOR the first time in at least seven years, trade union negotiators are losing the battle for real wage increases. w/mail 21/2-27/2/92

In the latest *Bargainers' Bulletin* of labour consultancy Andrew Levy shows that the average level of wage settlement in industry for the last six months of 1991 was 15,3 percent, down sharply on the annualised 16,1 percent figure.

The consumer price index for the whole of last year averaged 15,3 percent but, partly under the influence of Value-Added Tax, it rose sharply in the closing months — to 16,8 percent in October and 16,2 percent in December.

Real wages defied the recession by 3,1 percent in 1989 and 2,9 percent in 1990.

With a projected South African growth rate of 1,5 percent and continued international recession, the *Bulletin* predicts that settlement levels will continue to fall this year to between 13 and 14 percent.



"The issue for the unions will be how to achieve a sensible balance between real incomes and job security," it comments.

A further sign that labour is on the retreat is the sharp drop in opening wage demands. The figure for the whole of last year was 47,8 percent, but this fell sharply in the second half of the year to 39 percent.

In the heady days of 1989, the average initial pay demand was an 86.3 increase on the existing payroll.

Protecting retirement funds against inflation

75% loss after only 10 years

STAR 25/2/92

By Desmond Smith
Senior General Manager
Individual Assurance
Sanlam

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Recent research has revealed that only nine out of every 100 people retiring at the age of 65 will be financially independent.

A male at that age can expect, on average, to live another 14 years, and a female 18 years. Add to this the fact that after only 10 of those years, if current inflation rates persist, each present rand will be worth only 25c and it becomes evident why the vexed question of inflation continues to receive so much attention from life assurers' product development departments.

The challenge to them is not only to maximise returns but also to protect, after retirement, whatever provision has been made against the ravaging effect of inflation.

We believe that at Sanlam we have a few excellent solutions.

Retirement saving

The abolition of requirements regarding prescribed investments in mainly low-yielding Government Stock at the end of 1989 brought more investment freedom for life offices. Sanlam's market value managed fund, 500 Plus, was created to exploit this opportunity to the full.

It is a specialist fund which is managed at the discretion of the portfolio manager, as against some competitors' portfolios which are invested, for example, in shares only.

So far our approach has borne fruit and we are very happy with the results — the 500 Plus having outperformed all share funds.

And the portfolio manager's total freedom to change the composition of the portfolio in accordance with market fluctuations facilitates aggressive growth. During the past year, for example, he could fully invest in cash when the JSE was on the decline and fully in shares during rising phases.

With the 500 Plus portfolio I think we have the solution to the needs of those wanting an aggressive investment portfolio, which at the same time provides more security than a 100 percent equity linked portfolio.

Of course, this is not the right type of retirement investment for everyone.

For people who have made enough provision for the normal assurance needs and seek the highest possible return on their discretionary income, however, there is place for the aggressive approach — provided it is not the only source of retirement planning, but rather a complementary element of a well planned, comprehensive retirement portfolio.

Investors must always keep in mind that future performances could fluctuate appreciably and will be determined by a combination of sound portfolio management and favourable market forces.

With 500 Plus taking care of returns before retirement, we can turn to protecting income after retirement against inflation.

Retirement growth

It has always been the dilemma of the retirement annuity investor that his money is invested in growth assets up to retirement — but at the moment of retirement he is locked into whatever long-term interest rates are then available.

An interesting alternative to the conventional fixed-interest life annuity is Sanlam's Bonus Annuity, launched in February last year.

A special life annuity portfolio was established which differs from traditional annuity portfolios in that it invests in growth assets, such as shares and property, in addition to interest investments.

Annuitants share in the portfolio's profits by means of a bonus, declared annually in the form of a percentage growth rate. A first bonus of 14 percent was declared earlier this year.

Sanlam guarantees the full bonus annuity payment. Growth, once awarded, cannot be taken away.

This product should therefore appeal to pensioners who wish to combine security with growth potential.

Although the initial bonus annuity payment is lower than the comparable fixed-interest annuity payment, this should not deter investors who are aware of factors such as the high life expectancy after retirement and how fast high inflation reduces the value of a fixed pension.

Desmond Smith ... only nine out of every 100 people retiring will be financially independent

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Regulatory bodies blamed for food price inflation

STAR 27/2/92 (153)

By Sven Lunsche

The SA Chamber of Business (Sacob) has blamed "obvious intrusions into the food industry by statutory marketing organisations" for the escalating food prices.

In its submission to the Board of Trade and Industry committee, currently investigating the reasons for soaring food prices, Sacob also rejects the notion of a price cartel between the major retail groups.

"The retail industry is merely passing on price increases of the products supplied to them," Sacob says.

Sacob makes no mention of recent claims that a cartel of three major wholesalers and distributors of meat products was partially to blame for the hike in prices.

The majority of food retailers and wholesalers are members of Sacob.

Sacob's submissions to the BTI are summarised in the chamber's latest newsletter.

Sacob is sharply critical of the direct intervention in the marketing of agricultural commodities through the Marketing Act, which "has both discouraged competition and promoted a high degree of concentration in the food processing industry".

Numerous regulatory measures have been introduced for controlling the marketing and processing of food and over twenty commodity boards operate with varying degrees of power, Sacob says.

"None is designed to promote competition and, in essence, they have led to the protection of the inefficient through a centrally determined price for production."

Sacob singles out a number of other factors which need to be addressed in order to find a long-term solution to food price rises:

- Labour productivity — a slow rate of productivity growth causes prices to accelerate.
- Crime-related costs and shrinkage, which account for up to two percent of turnover in the retail indstry.
- Adjustments to the delivery and reception mechanisms.
- Transport costs, which have a high impact on prices.

Sacob has serious misgivings over the methodology employed in compiling the Consumer Price and Producer Price indices and doubts whether it is possible to compare the two indices.

Turning to the retail industry, the chamber says the retailers' position at the end of the food chain makes them the inevitable "whipping boys" of the public.

More than any other factor, they are sensitive to price.

At the retail level, the food industry is in a state of permanent price war where no company can be out of line with its major competitors.

"An examination of the balance sheets of the four major retail groups over the past three years reveals that none of them showed a profit before tax in excess of three percent," Sacob says.

The chamber is unequivocal "in its support for the elimination of impediments that curb competition" but stresses that food price increases are not the cause of inflation, but the indicators of it.

"The true cause of inflation is a complex set of factors which include an inflexible approach to interest rates, an inability to contain government spending and the inflationary expectations attuned to the evidence of the past 15 year," Sacob concludes.

How to survive that depression

STAR 11/1/92

(153)

Money Matters

MAGNUS HEYSTEK

LAST week's article on the possibility of a worldwide depression caused quite a stir.

Some readers agreed, while others thought that nothing was to be gained by spreading those thoughts of gloom and doom

Much of the article was based on the book The Great Depression of 1990 by American economist Dr Ravi Batra, coupled with the projections of the Russian economist Kondrattief, another proponent of economic cycles.

He too predicted a worldwide depression around this time.

And, as I suggested last week, reading through international financial publications, one finds much to reinforce this suggestion.

In a nutshell, the English-speaking economies of the world — America, Canada, Britain, Australia and others — are in a bad shape.

The economies of Germany, Japan and the Pacific Rim are, in contrast, doing much better But even these economies will suffer if the American economy should go into a nosedive.

The United States, despite a marked shift in economic power to the East in recent years, is still the dominant force in world trade. Today it is as true as ever If America sneezes, the world catches a cold

Batra suggests that the depression could last as long as seven years and that it would be deflationary, with the prices of commodities and luxuries declining gradually, coupled with a steady escalation in unemployment and business profitability

The greatest threat facing Mr Average is personal bankruptcy.

Therefore you should begin to increase your savings now, avoiding frivolous and unnecessary purchases Spending on luxuries should be reduced and wherever possible, eliminated

This may sound a bit austere but it will pay off later

Even if you doubt the possibility of another depression, the strategy of increasing your savings cannot hurt.

You'll build up cash reserves and will be in a position to make investments later at greatly reduced prices.

How much money should you save?

Traditionally you should have the equivalent of about three months' salary in reserve, but, in the light of the deteriorating economy, this should be increased to six months — perhaps even more if your current employment is considered risky

This also applies to people living on fixed incomes and government pensions, difficult as it may seem If government revenues are under pressure, which they are likely to be, pensions will not be increased to reflect rising living costs

Fortunately, prices will come down as manufacturers battle to maintain output.

People close to retirement or approaching retirement should consider taking out the maximum cash values available on the RAs In the case of retirement annuities and pension funds, the maximum cash (one-third) should be taken out.

The reason is that, in a worst-case scenario, some pension funds could go bankrupt as the economic situation affects the industries that they rely on for continued contributions

People in provident funds have the advantage that all the money can be taken out in the form of cash.

Batra suggests that the values of residential property could decline by as much as 50 percent Rather sell now, rent for a number of years and buy back later, he suggests.

With the property market weak and declining and inflation coming down, a better area of investment would be the stock market — provided you know what you are doing.

But certain shares will have to be avoided, especially in those companies that will be exposed to declining markets, such as energy, construction and luxury markets

Blue chips, he says, will keep on rising and many growth stocks will outperform the market.

Fixed-income investments, while less risky, won't offer the same kind of capital appreciation as carefully-selected shares

But the advantage of fixed-income investments is that they act as preservers of capital since they are backed by the highest-quality security Once again, only the highest-rated securities should be considered.

Good news for South Africa is that Batra suggests that gold will benefit from a worldwide economic calamity.

"Whenever times are tumultuous, people turn to gold," he says "This is the dictum of 10 000 years of human history, and has been true in every society since man turned from barter to gold as a medium of exchange.

"Currencies may come and go, but gold retains its eternal lustre."

So, once again it seems as if gold is going to be South Africa's financial saviour

Recession bites the top bracket

BDay 15/1/92 (153)

NINA SHAND

THE recession has taken its toll on the top end of the residential property market. Prices have dropped in real terms, and sellers are being forced to mark down properties to secure sales

Prices are increasing at less than 1% a month, but building costs are rising at 2% a month, according to residential property analysts

Worst-affected are houses in the higher end of the market, in which owners are being forced to drop their estimates of their house's worth Camdon MD Scott McRae said the market was resisting over-pricing

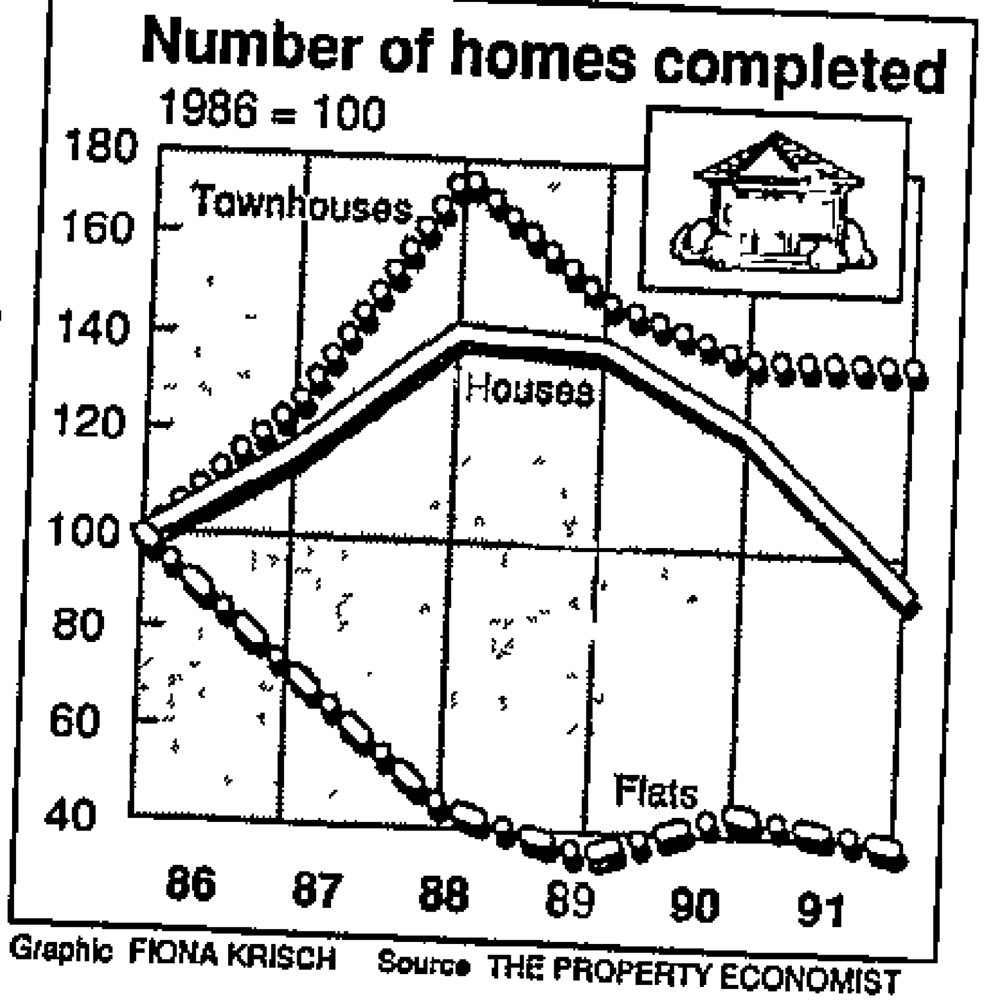
However, two growth areas have been identified despite the depressed state of the market cluster housing and sectional titles Property economist Neville Berkowitz said these were popular, not only because of relatively attractive prices but for the security they offered

Homes showing little or no increase in prices were those in the R150 000 to R250 000 bracket Berkowitz added that building a house was 35% more expensive than buying an existing home.

McRae said interest rates should be cut to stimulate the market and provide some relief, especially for first-time home owners Even a small drop would be a great morale booster and have a positive psychological effect on home buyers

There had been lots of activity during the first 10 days of January, he said, and signals for a healthy property market in 1992 were evident, but the market was "generally soft" and property analysts were not optimistic.

A spokesman for First National Bank's home loans department said he expected interest rates to drop one percentage point in the next three months, and at least two percentage points by the end of the year



Graphic FIONA KRISCH Source THE PROPERTY ECONOMIST

Industrial market

OUTLOOK '92

By Syd Vianello industrial analyst, Ed Hern, Rudolph STAR 15/1/92

When I made my predictions for 1991, my confidence level was reasonably high because I had come through the previous year with virtually full marks

This past year I regret to say it was not to be.

Not that I misread the market completely — all that happened was that the market rose by more than 40 percent instead of the predicted 20 percent

Perhaps in analysing prospects for this year, we should examine why this seemingly strange paradox has occurred — a paradox of an incredibly strong market (with a substantial re-rating) against the background of a fundamentally very weak economy

A few reasons come to mind

- The composition of the industrial index is an important factor, in that around 10 stocks comprise around a weighted 50 percent of the industrial index

Many of these stocks are consumer-related stocks or rand ...ges where the impact of the ...rating economy, in both in... has been delayed (and ... been felt) or is irrel-

...ds theory remains a factor in that the institutions and now certain government or quasi-government pension funds have become major investors in equities in order to beat inflation

- World wide there has been a substantial re-rating of stock markets in the face of deteriorating economies, so what has happened in SA represents a natural spill-over, given our strong correlation with London and New York (153)

It is noteworthy that the PE ratio of the Dow Jones is now nearly 30.

In the coming year we think the position will be somewhat different, in view of these factors

- Profitability of consumer-related companies has at last come under pressure, with earnings growth having declined to well below the inflation rate

Who knows — we may even witness negative earnings growth

Profitability of GDFI-related companies has in the meantime deterioted even more significantly

Clearly the economic slowdown precipitated by Dr Stals' economic policies is now having the logical impact on company profitability

- We are not so sure the weight-of-funds theory will hold true to the same extent this year

In particular, we refer to the huge government overspending in its budget and expectations of even greater demands for social upliftment in coming years

Someone must finance this and for it to be non-inflationary, government will have to borrow from the very assurance companies whose prescribed investment requirements were lifted some years back, thus precipitating the strong rise originally in the JSE indices

We thus expect these rules to be re-introduced to fund the budget deficit with the inevitable negative impact on the market The converse is increased taxes, with the same negative impact

- World economies remain precarious, particularly in the UK and US and while the respective governments can be expected to do everything possible to revive their economies before elections later in 1992, it seems right now that no great success may be achieved before such elections

This in turn will delay an export-led recovery

If the lessons of the last recession are something to be re-enacted, then it may take a long time before the impact of the expected interest rate drop in early 1992 filters through via an improved economy

More particularly, the political situation remains very unstable (people still remember the ANC threat of a 33 percent tax on assets, despite it being denied) and I think it may well be most difficult to encourage increased spending against this climate.

This in turn will prolong the delay in creating a climate for increased employment. It is noteworthy that in more than one annual report recently published company chairmen were questioning whether the recovery will occur before the end of 1992 or whether it will not be delayed to 1993

- The gold price remains locked in between seemingly upper and lower limits, thus proving unable to revive the economy

We predict therefore that the industrial index will drift down in the coming year and while we think evidence of a recovery in the economy may become apparent (with the inevitable positive impact on the market), we have difficulty in believing the overall level of the industrial market will be much above present levels by the year-end

Straitjacket caused girl to scream in pain — inquest

ARG 16/1/92 (153)

A TEENAGE girl who spent part of a night screaming in pain in a straitjacket in Pollsmoor Prison was merely shaken roughly by a wardress the next morning, a judicial inquest in Wynberg has been told

The girl, 19-year-old Carol Anne Meyers, died in hospital on July 2 1989 after prison staff strapped her into the device for more than 23 hours when she was overheard talking about committing suicide

A University of Cape Town student and psychiatric patient who was in a cell opposite Miss Meyers, and who asked not to be named in Press reports, said that after being in the jacket for most of a day, Miss Meyers was "screaming and shouting that she was in pain" and that she wanted to urinate

"In the morning Adjutant Louw came to the cells asking if there were complaints Debbie (the name by which the witness knew Miss Meyers) complained about being in pain Adjutant Louw shook her

"The wardress was not shaking Miss Meyers to make her comfortable, but so that Miss Meyers would get pains. She's a very rude lady," the student said.

During breakfast time, from 7 30am to 8am, Debbie was screaming in pain

"I called Adjutant Swartz and told her that Debbie was in pain Adjutant Swartz said I would be the next one going into the straitjacket, and ignored Debbie"

After the intervention by a member of the prison's medical staff, Miss Meyers was dragged to the prison hospital on a prison blanket by a number of prisoners

Dr Warwick Williams, who was working at the Victoria Hospital casualty department on June 30 1989, said when Miss Meyers was brought in, he was told she had been vomiting blood and passing black stools

He found her temperature to be 33 deg C — two degrees below the lower limit of a clinical thermometer Her pulse was 140, her blood pressure unrecordable and her blood sugar level zero

She was bleeding from her genital and urinary tracts and hospital staff found it difficult to find a vein to get blood for tests. Dr Williams said he was not told by prisons staff that Miss Meyers had spent 23 hours in a straitjacket.

The inquest continues. — Sapa

starts more than 3% adrift of last year's level

Downward pressure on rates continues

SID ay 20/1/92 (153

THE MONEY MARKETS
by Sheridan Connolly

SOLID downward pressure on market rates continued unabated last week with the Reserve Bank still not prepared to loosen its grip and bow to expectations of a cut in key interest rates

Dealers said the market's mood was far more buoyant after a better-than-expected drop in the annual rate of producer price inflation (PPI) to 7,9% in November from 11,1% in October

There was renewed optimism for an emerging downtrend in the consumer price index (CPI) which could allow Reserve Bank Governor Chris Stals room for some easing in official interest rates

With a lot of cash in the market, the Reserve Bank issued two special Treasury bill (TB) tenders in the week — a seven-day R500m tender and a five-day R800m tender.

Dealers said the first special TB tender, issued on Tuesday, received a very disappointing response in the market but the second issue, on Wednesday, was better received. They viewed the special issues as part of the Bank's routine mid-month operations to drain excess liquidity from the market.

In the weekly Reserve Bank Treasury bill tender, a lower average rate of 15,94% was received for the allotted R200m and applications for the tender totalled R659,5m. Dealers said lower rates confirmed the extremely bullish sentiment which had been building up in the market in the last month or so

The special tenders brought the money market shortage more or less in line with the R1,5bn level which the Bank is said to favour. Towards the end of the week, the Bank indicated the money market shortage stood at R1,451bn.

On the back of good liquidity levels in the market, the 90-day liquid BA rate eased to 16,15% compared to the previous week's level of 16,20%. Dealers believe the BA rate has bottomed out, saying there will be a kickback in the rate should an imminent official rate cut fail to materialise.

In the capital market, rates were only marginally moved by the PPI figures as the market had largely discounted a drop in the rate of producer price inflation, dealers said. Throughout the week, rates continued to move sideways with the market awaiting the release of fresh data, particularly the release of the CPI data due out about mid-week.

Downward pressure on rates continues

BDay 20/1/92 (153)

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Outlook bleak at mines ●

STAR 6/4/92

A weak gold price has already caused the loss of thousands of jobs in South Africa's mining industry and more than a dozen marginal mines are still in a profit danger zone, despite a wave of austerity measures to reverse the spiral in production costs, reports MICHAEL CHESTER.

THE NUMBER of jobs that South African gold mines have been forced to axe because of the dramatic slide of world bullion prices has swollen to 110 000 — in spite of a programme of austerity measures designed to hold the casualty toll as low as possible

Moreover, as the gold price sinks even lower and struggles to survive above $340 an ounce, the Chamber of Mines fears that still more cuts may hit the labour force — already down from 534 000 in 1986 to 424 000 by the start of 1992 — unless the outlook improves

The latest alarm bells have been rung by Gengold chairman Gary Maude, who warned at the weekend that underground work at the West Rand Consolidated mine may be forced to a standstill this year

The mines have become trapped between low gold prices and the soaring costs of production

What has gone wrong?

South Africa was the envy of bullion markets around the world a decade ago with its massive gold production At home, its mines were relied upon to serve as the goose that laid the golden eggs for the entire economy

The decline can be tracked in the computer records at the Chamber of Mines in Johannesburg

When the gold boom hit global markets in 1980 — triggered largely by the Soviet invasion of Afghanistan that sent international investors scurrying to seek safe havens for their cash — South Africa was in the grandstands

The gold price rose to a phenomenal $850 an ounce And South Africa, by far the largest producer, was turning out bullion at the rate of 675 tons a year — equal to 71,3 percent of Western world production

By last year, the average gold price had been more than halved at $359 and annual production was down to 598 tons

Moreover, South Africa's role among world producers had shrunk dramatically

It now accounted for no more than 34 percent of global production outside the Soviet bloc

The lion's share of an overall output that had climbed to 1 115 tons was now divided between such growing rivals as the United States, Australia, Canada and Brazil

Mercifully, the South African mines were able to benefit from the chronic erosion of the rand exchange rate which slashed the value of the rand by two-thirds in US dollar terms

Through the bizarre distortions caused by the devaluation, despite the collapse of bullion prices, the mines were earning more rands for every ounce they produced than they were in the 1980 boom

However, all the benefits were wiped out by rocketing production costs as double-digit inflation sank its teeth into profit margins and newly emerged black trade unions flexed their muscles at wage negotiations

The working costs for every kilogram of gold output had streaked from R4 165 in 1980 to R25 975 by the end of last year

By the early 1990s, the mines had not only been knocked from their perch as the cheapest gold producers in the world but their actual working costs were now among the highest

Mines have been hit by new shock waves as bullion prices in recent trading dipped to around $340 an ounce, the lowest for six years in United States dollar terms

And concern has been deepened by still worse news from key markets — the gold price in Swiss francs is now at its weakest since 1978 and in Japanese yen at its lowest in 20 years

Production costs have been cut to the bone to avert retrenchments and even mine closures, especially at marginal mines, says Chamber of Mines senior economist Ivor Leibowitz

Thousands of jobs were saved when the National Union of Mineworkers last year agreed to a radical new pay package which held general increases down to about 5 percent or 6 percent but offered the incentive of bonus payments linked to the performance of the gold market and productivity levels

As it turned out, the weak gold price on world markets hit the bonus element tied to the bullion market

But co-operation in productivity schemes yielded bonus pay-outs which lifted the overall size of increases for many miners to about 16 percent — "better than most workers did in the recession"

The success of the schemes, plus austerity measures, slowed down the annual increase in average mine working costs which surged by 25 percent in 1987 to no more than 1,6 per cent last year

It was a triumph that was also linked to management strategies to close down sections of mines where the low gold content of the rock involved working at a loss and concentrate instead on the shafts that promised richer yields

The result for last year was that the amount of ore that was mined dropped down from 111 tons to 107 million tons but the average gold content rose from 5 05 g to 5,20 g a ton

The relentless pressures of high inflation, however were still snapping at the heels of mines without rich grades to save them

The Sulfontein gold mines collapsed under the burden — and there were still as many as 13 mines, with combined labour forces of 97 000 workers listed by the Chamber of Mines as marginal and hovering in the danger zone at the start of this year

That particular formula is based on working profit staying at least 6 percent above working revenue to leave a reasonable chance of staying alive

If one draws a line that puts mines in the danger zone if their operating costs are running higher than R30 000 a kilogram as some analysts do, the lists expands to 17 — almost one in every two mines

Fortunately at least in economic terms the main thrust of total gold production comes from the heavyweights with high grade ore to work on

The lowest of all operating costs — and thus the chance of best profits — are enjoyed by such mines as West and East Driefontein Kloof Beatrix and Kinross

Economists at the Chamber of Mines feel fairly confident that overall South African bullion production will manage to stay at about the current 600 tons a year at least until the mid-1990s

However it seems the richest of the pickings have already been taken Though the average grade of ore milled last year edged higher to 5,20 g of gold a ton old timers recall that the average grade 20 years ago was more than twice that — at 13 g a ton

Also the more production is concentrated on the higher grades the faster total gold reserves will vanish and so short en the life-spans of many mines — unless investors come forward to foot the bill for replacing them with new mines

Harry Oppenheimer former chairman of Anglo American has been quoted by the Financial Times of London as saying that unless the scenario improves, total gold production by South Africa could fall by as much as between 100 and 200 tons a year — perhaps 30 percent — by the year 2 000

The mind boggles at the implications for the economy

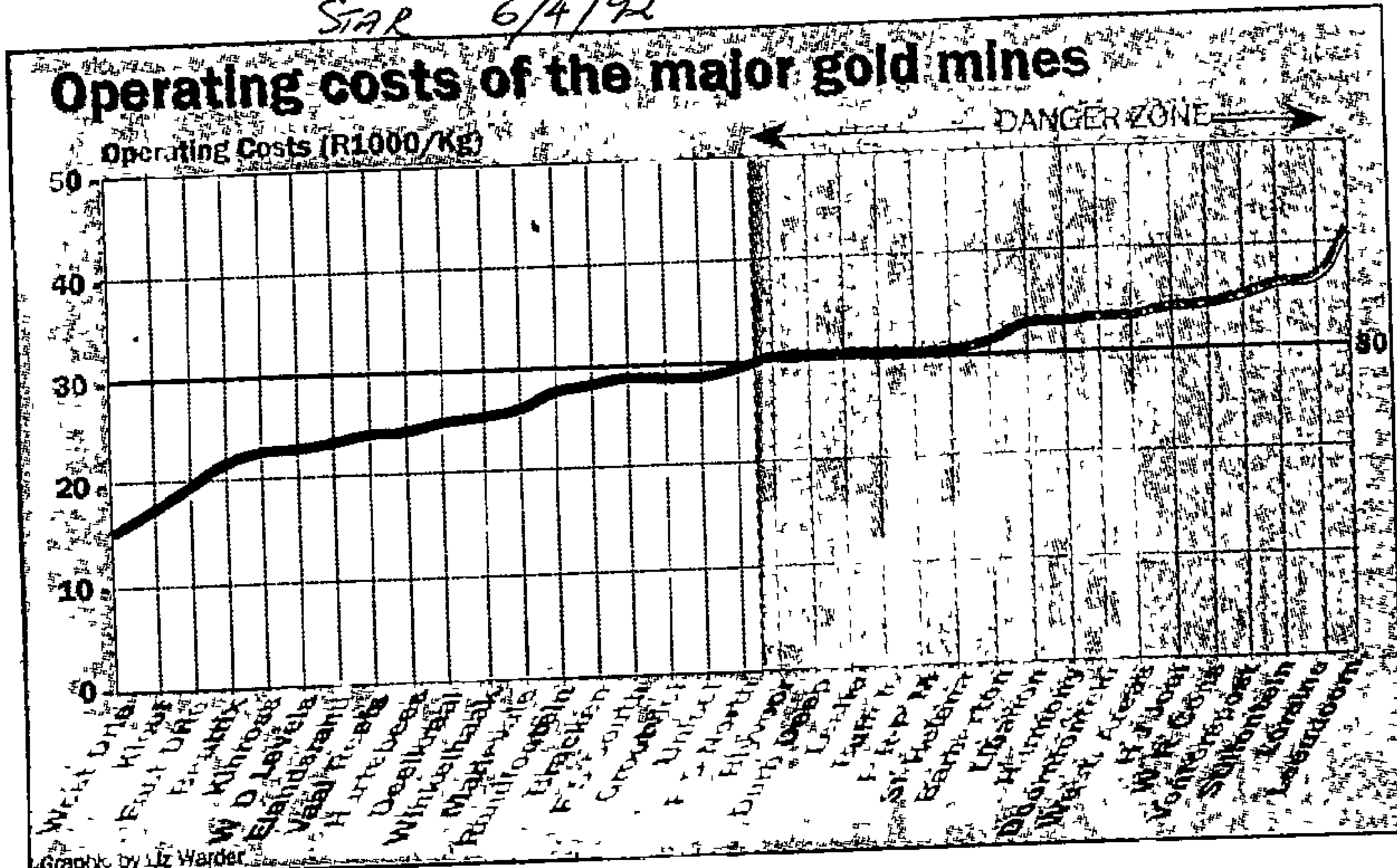
There comes a limit to the cost-cutting that can be achieved,' says Mr Leibowitz 'And many mines have reached or are very close to the limit by now

'If the gold price stays at current levels of about $340 an ounce, more production cut backs will be inevitable '

The next hurdle for the mines will be the annual round of wage negotiations with the National Union of Mineworkers due in June

The union already looks disillusioned about the part of the bonus incentive package that was linked to the performance of the gold price Much may depend on union attitudes towards the renewal of agreements on productivity bonuses

It is not only the gold price that makes nerves twitch at the mines More ulcers are en flamed by the stubbornness of double digit inflation which gnaws away at profitability □



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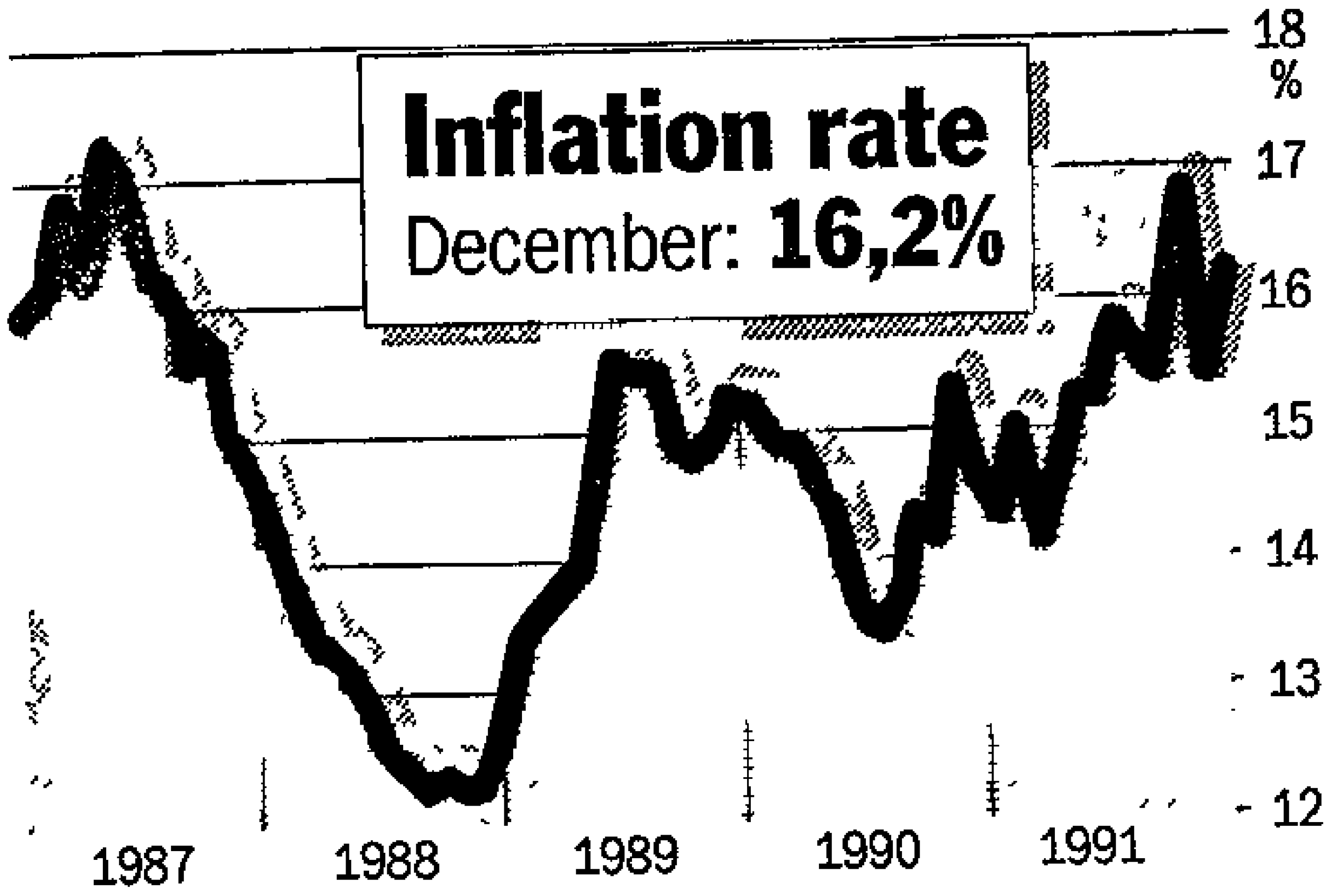
Hopes of early rate cut recede as inflation heats up.

STAR 24/1/92

By Sven Lünsche (153)



The renewed rise in inflation, hard on the heels of a record deficit before borrowing for the first nine months of the current fiscal year, is likely to prevent a reduction in interest rates in the near future.

Inflation rose to 16,2 percent in December from November's 15,5 percent as food prices continued to surge, the Central Statistical Service (CSS) reported yesterday

For the whole of last year consumer price increases averaged 15,4 percent, compared with 14,4 percent in 1990

Economists had hoped for a continued fall in inflation after it had dropped from its five-year high of 16,8 percent in October to November's 15,5 percent.

The Reserve Bank had indicated that a continued decline in inflation could well lead to a drop in interest rates by March at the latest, as most other economic indicators — money supply, wage increases and credit demand — were moving in the right direction

Speculation intensified when the producer price inflation rate dropped to 7,9 percent in November — its lowest level since August 1984

However, in the wake of the latest consumer price inflation figures; Boland Bank said yesterday "this was most likely to prevent a reduction in interest rates for the foreseeable future"

The delay has also been exacerbated by recent government statistics showing that the deficit before borrowing — the difference between government spending and revenue — had risen to R9,7 billion for the first nine months of the current fiscal year

The deficit is set to surge to about R12 billion for the full year, forcing the Government to borrow more from local capital and money markets and putting upward pressure on interest rates

Boland Bank said food price increases still constituted the most important stumbling block in the way of lower inflation

Food prices surged by an annual 28,2 percent in December and were the largest contributor to the monthly 1,3 percent rise in the overall Consumer Price Index (CPI)

"It is evident from month-to-month figures (November to December) that sharp price increases over a broad spectrum of consumer goods before the Chrsitmas season were responsible for the increase in inflation."

Boland Bank said it was ironic that the gap between the producer and consumer price increases was now more than seven percentage points

"It is clear that the lower turnover and consequent higher unit costs of business, resulting from sluggish economic conditions, is shifted to consumers, who are known in South Africa as patient price-takers"

Absa senior economist Adam Jacobs also holds food prices largely responsible for the rise in inflation, Roy Cokayne reports

Mr Jacobs said yesterday cost-push factors and possibly supply problems, particularly in the agricultural sector, were pushing up food prices

THE MONEY MARKETS

by Sheridan Connolly

Inflation dashes hopes of lower rates

BDay 27/1/92

(153)

IN the money markets last week, the release of higher consumer price inflation data put a damper on hopes of any official easing in interest rates in the short term The alarming increase in consumer inflation to 16,2% in December from 15,5% in November was likely to delay chances of any official cut in key interest rates, dealers said

Subsequent to the release of the CPI data, the 90-day liquid BA rate drifted upwards to 16,20% from its recent 16,10% level but rates and liquidity conditions still warranted some easing, dealers said

In its efforts to tap excess liquidity from the market, the Reserve Bank last week allotted three special short-dated Treasury bill tenders, which were well received in the market. The Bank's mopping up operations were routine for mid-month with excess liquidity present in the market, dealers said.

Dealers expected liquidity to drop slightly this week with revenue payments to government falling due

On Thursday the Bank indicated the money market shortage lower at R769m compared to R967m on Wednesday. In the weekly Treasury bill tender, the average rate for the allotted R200m tender bounced up to 16,06% from last week's 15,95%. Applications for the weekly tender totalled R338,9m.

Capital market rates eased in the beginning of the week on the back of positive sentiment regarding SA's return to the ecu bond market. However, downward pressure was abrubtly halted with the release of the disappointing CPI figures.

Despite harder rates, dealers do not expect strong upward movement on rates as the underlying market sentiment remains bullish At the end of the week, the benchmark Eskom was up 11% to 16,30% from levels of 16,24% on Thursday. The RSA 2004/6 was also higher at 16,73% on Friday from Thursday's 16,66%.

A lower year-on-year decline in money supply growth did little to pacify the markets Money supply growth slowed to 12,4% in December against 14,5% in the year to November

The uptick in the BA rate reflected the markets' response to President F W de Klerk's speech at the opening of Parliament on Friday in which he emphasised government's commitment to maintaining tight controls on spending

Curbs paying off, says Stals

B/Day 29/1/92.

PRETORIA — Although a sustained drive to tame inflation appeared at face value to have had little effect, fears of a South American-style spiral had evaporated, Reserve Bank governor Chris Stals said.

But he said the latest data showing inflation rose to an annual 16,2% in December from 15,5% in November, was disappointing.

"Certainly we will continue with our restrictive monetary policy."

But, referring to unemployment estimated to be running at 40% of the formal workforce and socio-economic development needs, he said: "We cannot really use monetary policy to the extreme because of the hardship it would cause." (153)

He said monetary policy had become "relatively neutral", and portrayed it as a means now to contain inflation while the structural problems feeding it were addressed.

Greater attention should focus on factors such as wage negotiations, monopolistic practices and concentration of economic power, among others, he said. — Reuter.

'Cash squeeze will continue'

(153) STAR 30/1/92

By Michael Chester

Economists today welcomed marginal cuts in home-bond rates but warned consumers the overall consumer cash squeeze caused by high interest rates was unlikely to be relaxed until inflation cooled down

They took their cue from the South African Reserve Bank, which stressed that the general pattern of interest could be reduced only when there was evidence of a sustained slide in the inflation rate

Deputy governor Dr D J Meijer told a press conference in Cape Town last night there was "little room for manouevre at the moment"

He kindled optimism of cuts later in the year as a result of encouraging signs that the underlying causes of inflation were being dealt with, including the significant drop in the Producer Price Index (PPI) in November last year

However, the continued high consumer price index was "extremely disappointing"

Speculation over the chances of a widescale drop in interest rates followed action by the First National Bank to cut its mortgage rate from 20 percent to 19,5 percent and by Standard Bank to make a bigger one percent cut in its rate from 20 percent to 19 percent

The United and Perm building societies were reviewing their own rates at meetings this morning

Econometrix director Dr Jammine Azar said homeowners would welcome even a marginal easing in the cash squeeze.

But a more general reduction in interest rates was unlikely until later in the year — if inflation started to fall

HOUSE PRICES

FM 7/2/92

Keeping up with inflation

153

Absa's *Quarterly Housing Review* (October-December) coincided with the announcement by some banks of a one-percentage-point drop in mortgage rates

The fall is welcomed by estate agents who feel it is likely to have a good effect on the market More important, believes Pam Golding Properties executive director Mike Bisset, is that the move is a "precursor of a downward trend in bond rates "

He argues "While the R76-a-month saving it means on a R100 000 bond is not that significant (it's not a quick fix and I don't expect estate agents to be inundated with buyers), what is important is the feeling of confidence and optimism this step engenders Investors who have been sitting tight will be more bullish about investing in property, capital plant and machinery and in starting new businesses "

Effects of the bond rate cut will be more clearly seen in Absa's next quarterly review but the latest report shows that house prices kept pace with inflation last year The average price of a medium-sized house is R119 400 — up 15% from 1990's figure, and last year wound up with an increase of 16% year-on-year in the fourth quarter

During the quarter small houses (80 m^2-140 m^2) sold for R106 000 on average, medium-sized ones (141 m^2-220 m^2) for more than R125 000, and larger houses (221 m^2-350 m^2) for about R170 000 In real terms, the annual change was 0,1% for small, -0,5% for medium, and -3,9% for large houses

Bisset says the real drop in the price of large houses reflects the lack of confidence in the residential market during the latter half of 1991 He notes "The residential market, especially at the top end, is driven by business and economic confidence The bond rate drop, with its hint of more to come, is bound to have an appreciable effect on this level of confidence and, as a result, on the prices to be attained in the market during 1992 "

Notwithstanding Absa's reported 19% year-on-year increase in the volume of transactions, Bisset expects this figure to be even greater during 1992 as the lowering of bond rates increases confidence and encourages home purchases

According to Absa, building costs increased by only 11% (year-on-year) in the fourth quarter, bringing the total increase for 1991 to 14,7% — just below the CPI rate of about 15,2% The rise in building costs to an average of R790/m^2 in the fourth quarter means that a new home is still 22% more expensive than a comparable existing house

A 6% rise in the price of medium-sized houses in the Durban-Pinetown area in the fourth quarter was recorded, 5% in the rest of Natal, 4% in the western Cape and on the East Rand, 3% on the West Rand, and 1% in Pretoria and the rest of the Transvaal In the

SEE HOW THEY RUN: WHAT YOUR HOME IS WORTH

House prices* in the fourth quarter 1991

	House size	Average building area	Average land area	Average price of older houses	Average price of new houses	Average price of all houses	Quarterly % change	Annual % change
	Small	113m^2	781m^2	R101 326	R128 757	R105 961	4	15
1 Republic of SA	Medium	179m^2	1 007m^2	R121 862	R179 400	R125 326	3	16
	Large	265m^2	1 302m^2	R163 618	R250 025	R170 355	3	13
	Small	111m^2	651m^2	R113 071	R153 872	R117 489	−2	3
2 Johannesburg	Medium	180m^2	822m^2	R151 848	R237 859	R160 716	2	15
	Large	268m^2	1 262m^2	R208 144	R310 296	R216 699	1	11
	Small	111m^2	822m^2	R104 032	R163 915	R124 608	4	19
3 West Rand	Medium	178m^2	1 049m^2	R124 367	R211 259	R129 616	3	16
	Large	255m^2	1 342m^2	R175 453	R292 525	R179 293	7	12
	Small	113m^2	889m^2	R86 982	R113 144	R93 149	6	18
4 East Rand	Medium	178m^2	1 015m^2	R106 592	R171 785	R107 974	4	13
	Large	262m^2	1 208m^2	R142 732	R235 809	R144 739	−1	10
	Small	111m^2	921m^2	R100 811	R114 614	R101 856	2	12
5 Pretoria	Medium	177m^2	1 110m^2	R123 901	R160 951	R127 098	1	10
	Large	265m^2	1 339m^2	R168 936	R238 178	R177 815	−1	12
	Small	124m^2	1 152m^2	R62 347	—	R64 256	3	11
6 Vaal Triangle	Medium	179m^2	1 117m^2	R75 890	—	R77 462	0	3
	Large	272m^2	1 372m^2	R118 167	—	R115 948	−1	3
	Small	121m^2	1 017m^2	R79 622	R112 653	R82 069	4	20
7 Rest of Transvaal	Medium	184m^2	1 270m^2	R86 760	R131 500	R87 789	1	3
	Large	275m^2	1 462m^2	R115 792	R170 074	R120 699	0	3
	Small	114m^2	1 215m^2	R111 282	R124 796	R116 303	1	25
8 Durban-Pinetown	Medium	179m^2	1 438m^2	R157 237	R201 293	R160 546	6	29
	Large	262m^2	1 627m^2	R205 738	R231 415	R204 315	4	21
	Small	121m^2	1 236m^2	R97 968	R80 050	R96 641	9	37
9 Rest of Natal	Medium	181m^2	1 266m^2	R108 703	R126 317	R109 763	5	22
	Large	261m^2	1 640m^2	R143 058	R202 995	R146 937	8	11
	Small	123m^2	1 005m^2	R68 232	R72 547	R68 284	6	−2
10 OFS and N Cape	Medium	182m^2	1 157m^2	R88 278	—	R84 744	−1	16
	Large	267m^2	1 383m^2	R117 483	R157 193	R116 928	−4	12
	Small	116m^2	700m^2	R84 884	R107 686	R85 999	2	14
11 Eastern Cape	Medium	180m^2	901m^2	R110 509	R162 521	R112 107	2	15
	Large	263m^2	1 165m^2	R172 187	R246 688	R179 290	2	32
	Small	114m^2	553m^2	R109 766	R130 277	R113 897	4	16
12 Western Cape	Medium	176m^2	743m^2	R145 086	R177 371	R152 659	4	21
	Large	263m^2	988m^2	R201 944	R263 794	R207 126	4	14

*House prices lower then R30 000 and higher than R400 000 have been excluded from the calculation

Source Absa

continue -P

P.T.O.

Bank stands firm on inflation

Stals holds out hope for dip in interest rates

B/Day 19/2/92 (153)

DECLINING inflation this year would allow for a slight reduction in interest rates, Reserve Bank Governor Chris Stals said yesterday.

Addressing the Frankel, Max Pollak, Vinderine investment conference in Johannesburg, Stals said the Reserve Bank would continue with its policy of pursuing financial stability at all times. This policy had begun to produce the desired results in 1991 and would, he hoped, also begin to reduce consumer price inflation in the course of this year.

"To the extent that the rate of inflation does decline, scope will be created for some relaxation in monetary policy," he said. "Nominal interest rates may therefore come down slightly from their present levels, although we cannot expect nominal interest rates in SA to decline to the same low levels that now prevail in many industrial countries where inflation rates are so much lower than what we still have here"

The Reserve Bank would continue its fight against inflation in 1992.

Stals said it was a tragedy that the path to financial stability had been strewn with so many obstructions. The Gulf war had intervened at a critical stage when the inflation rate had just begun to decline

The switch to VAT had created "unnecessary speculation about possible price effects of the switchover, and again prevented the psychological breakthrough we so desperately need in our struggle against inflation".

Stals warned that drought conditions threatened to obstruct the path to lower inflation

SHERIDAN CONNOLLY

Commenting on arguments that the Bank should relax monetary policy in order to kick-start the economy, Stals said that after almost 20 years of double-digit inflation, SA could not afford to revert to the "arcane policy of short-term cyclical demand management, and its inevitable results of a stop-go economy"

The Reserve Bank would therefore continue to pursue medium-term objectives and general financial stability.

Expectations for the balance of payments again to produce an overall surplus should enable the Bank to maintain a relatively stable exchange rate of the rand, Stals said.

A smaller current account balance would probably remain in excess of an expected modest net capital outflow.

The main objective of the Bank's monetary policy over the past three years had been to establish a relatively stable financial environment conducive to sustainable economic growth over the long term

Stals said the Bank's objectives of reducing the rate of growth in money supply and restricting the level of bank credit extended to the private sector, had necessitated the retention of interest rates at a positive real rate of return It was the Bank's duty to improve the quality of banking supervision and to encourage the development of financial markets in order to pursue targets for monetary policy

● Picture Page 3
● See Page 9

Anglo's Boyd backs tight monetary policy

STAR 19/2/92. (60) (153)

The Reserve Bank's tight monetary policy must be supported in an effort to reduce inflation and attract new investments, says Anglo American deputy chairman Lesley Boyd

He told the conference investments were the most effective way of achieving growth

However, he said, to encourage new investments there had to be a climate of certainty, lower real interest rates, lower company tax and tax incentives — in order to make South Africa world competitive in attracting investors

To achieve lower inflation, he said, there would have to be lower wage demands from unions and more resolve by employers to settle wage and salary increases at sub-inflation levels

With regard to taxation Mr Boyd stressed that many industrialised and even developing countries had tax rates significantly lower than South Africa's — Sapa

Prisoner releases: Flood to halt

153

CT 20/2/92

Political Staff

THE spate of prisoner releases last year was a once-off situation dictated by exceptional circumstances and the government had now reverted to normal parole policy, Correctional Services Minister Mr Adriaan Vlok announced yesterday.

The measures "were applied ad hoc and do not reflect the general practice or policy in the Department of Correctional Services", Mr Vlok told a mini-debate in the House of Delegates.

The special measures used last year had been designed to normalise politics and relieve overcrowding in prisons.

Mr Vlok pointed out that a significant percentage of prisoners released on parole in 1990 and 1991 had been successfully reintegrated into society.

In 1991 a total of 11,84% of the 47 349 prisoners released had not adhered to their parole conditions or had been arrested or were wanted in connection with other crimes. That meant 88,16% of paroled prisoners had been successfully reintegrated.

He also announced that the Release Advisory Board would soon be reconstituted as a National Advisory Board with additional members. An announcement was expected in April.

Anti-inflation policy praised

153

SIMON WILLSON

CONTINUATION of the Reserve Bank's anti-inflationary stance was central to SA's economic prospects and international financial credibility, Bank of England Governor Robin Leigh-Pemberton said last night.

Delivering the Gerhard de Kock Memorial Lecture at the Reserve Bank in Pretoria, Leigh-Pemberton acknowledged that the need to combat inflation had been a key factor in SA's recent economic history.

"The Reserve Bank has, sometimes courageously, operated a restrictive monetary stance in order to reduce inflation, despite the difficulties faced as a consequence of the recession," Leigh-Pemberton said

There were signs that conditions were in place for a moderate economic recovery in SA in 1992.

"But, over the medium term, continuation of the Reserve Bank's anti-inflationary stance will remain central to SA's economic prospects and international financial credibility."

Leigh-Pemberton said he wanted to stress to businessmen in the audience that he was not in favour of higher interest rates for their sake.

"I am a firm supporter of disciplined monetary policy precisely because I believe that the only means of guaranteeing lower interest rates in the long run is through reaping the rewards of lower inflation"

Less than a month before the presentation of the Budget, Leigh-Pemberton said it was imperative governments implemented fiscal policy without crowding out productive private sector investment.

"If private sector resources have to be devoted to financing excessive budget deficits, the growth potential of the economy will be undermined with longer-term social and economic goals becoming harder to attain"

Inflation at 18% for '92?

CT 22/2/92

MOST owner-managers of businesses in the Western Cape expect inflation to average 16,5% this year — with 32% of them forecasting 18% or over

They think the main reasons for this, in order of importance, are general political issues, wage increases, and monopolistic price adjustments

They forecast that the banks' prime lending rate will be down to 19,5% from 20,25% by the end of June

And 90% of them now think value added tax (VAT) is the best form of indirect tax

These are among facts emerging from the latest annual survey carried out by Andersen Consulting, Wesgro and the University of Cape Town Graduate School of Business

According to the survey, there has been a slight increase in the percentage of black and female managerial staff

The average owner-managed business now employs a total of 43 people compared with 45 a year ago

The percentage of white managerial staff has remained 66% The percentage of coloured managerial staff has fallen to 29% from 30% while that of black managerial staff has risen to 5% from 4%.

Inflation dashes hopes for early interest rates cut

ARG 25/2/92

(153)

Business Staff

THE prospects of an interest rate cut have been dashed yet again by South Africa's latest high inflation rate figures, which provide little cause for optimism about the country's future economic prospects.

With the drought set to keep the food inflation rate high enough for the overall inflation rate to reamin at 14 to 15 percent this year and speculation rife about a hike in the petrol price, which will certainly fuel inflation still further, the prospects of interest rate relief are becoming even more remote

Only last week, Reserve Bank senior deputy governor Dr Pierre Groenewald said the Reserve Bank believed avoidance in the short term costs associated with moves towards price stability would bring little comfort in the long run and it was therefore determined to persist with the stated mission of bringing about a greater degree of price stability in South Africa

But he warned that with a history of almost 20 years of double-digit inflation and firmly entrenched inflationary expectations, the transformation towards price stability in South Africa would not be painless

Central Statistical Services (CSS) reports that South Africa's inflation rate for January this year, as measured by the Consumer Price Index (CPI), remained at 16,2 percent — the same as the rate for December last year

Amalgamated Banks of South Africa (Absa) senior economist Mr Adam Jacobs said the latest inflation figures meant nobody could expect any cut to interest rates

The latest CPI figures again highlight the disparity between South Africa's production price index (PPI) and the CPI

Mr Jacobs said the disparity between the PPI and the CPI was getting bigger but it was difficult to explain why

The exchange rate of the rand was stable, wage increases for the country as a whole were currently not excessive and the country was not living beyond its means although the Government currently was, he said

Mr Jacobs questioned what was causing South Africa's high inflation rate, adding that it was not caused by excess demand inflation

He said possible reasons were insufficient competition and some cost pressures in the economy

"It is not excess demand because that is easy to combat through monetary policy

"It is on the cost-push side but where it exactly is, I don't know," he said

According to CSS, the monthly rate of increase — from December last year to January this year — was 1,1 percent After seasonal adjustment the increase was 1 percent.

This monthly increase was mainly due to rises in the price of cigarettes, cigars and tobacco (0,1 percentage points), housing (0,1 percentage points), household operation (0,1 percentage points), medical care and health expensses (0,5 percentage points) and all other items (0,3 percentage points)

The relatively small monthly rate of increase of 0,2 percent in the CPI for food was due to a decrease of 1 percent in meat prices which counteracted the relatively large increases in the price of fruit and nuts (3,1 percent) and vegetables (2,4 percent)

The VAT-excluded annual rate of increase in the CPI for all income groups was 14,9 percent

Relatively large monthly increases — from December last year to January this year — occurred in the price indices of non-alcoholic beverages (3 percent), alcoholic beverages (3,7 percent), cigarettes, cigars and tobacco (4,8 percent), household operation (2,6 percent), medical care and expenses (9,1 percent) as well as 'other products' (2,1 percent)

The largest annual increase in the CPI from January last year to January this year occurred in the Cape Peninsula at 17,2 percent with the smallest annual increase of 13,2 percent occurring in the Vaal Triangle area

Inflation high hopes (153) w/mail 28/2 - 5/3/92

THE annual rate of inflation, as measured by the consumer price index, stayed stuck at 16,2 percent in January However, that rate was due to tax and other technical reasons and, pushed down by recession, underlying inflation seems to be dropping. A drop in both inflation and interest rates might not be too far off

Lower inflation tipped for new government

153
ARCT 7/3/92

DAVID CANNING

DURBAN — The first government in a new South Africa is likely to inherit a significantly lower inflation rate, predicts Dr Jaap Meijer, deputy governor of the Reserve Bank.

Dr Meijer says whatever happens to inflation thereafter, the platform from which the new government starts would be healthier than at present

He remains relatively optimistic about prospects of a lower inflation rate by the year-end, in spite of setbacks official efforts have experienced in recent years

In spite of scepticism in business and labour circles, reflected in high long-term interest rates, he points to some private survey indications that (year-on-year) inflation could be down to 12,5 percent by the year-end

Dr Meijer says there have been some unlucky breaks in the fight against inflation — including the Gulf war, VAT and now the drought

However there are now some encouraging signs emerging — although he confesses to be mystified by the large differential in the relative levels of the Producer Price Index and Consumer Price Index. He says it is awaiting the outcome of the Board of Trade's inquiry into this issue with "great interest"

Dr Meijer says there are encouraging trends in the capital and current account of the balance of payments. In general, current account surpluses in the past seven years have amounted to R36 billion — obviously, though, at the cost of sacrificed growth.

Since 1990 there has been a better capital account picture as well That year the deficit was R2,9 billion, while the cumulative deficit for the first three quarters of 1991 was only R1,4 billion

The fourth quarter, in contrast, saw a very hefty outflow — for which figures have not been completed, but look to be in the region of R4,6 billion. This largely flows from an abnormal distorting factor — the change to preferrential rates on forward cover

The improvement in overseas sentiment toward South Africa also is encouraging This was reflected in the dip in the financial rand discount to 7 percent before its sudden widening recently because of the tax scare The narrowing, he says, indicated that the two-tier currency system was becoming less necessary.

The future of the financial rand is likely to be clarified next year when the Debt Standstill position comes up for review. The standstill could be replaced with more formal agreements, although nothing has been decided.

Foreign debt has fallen from more than R30 billion in 1985 to R19,4 billion in 1990 — of which about R6,6 billion was in the net

However Dr Meijer also cautions that the "new South Africa" need not automatically spell an end to the existence of the two-tier currency system The international community will have to have confidence in local policies for this to happen

Dr Meijer says he finds puzzling the degree to which South African share prices move in parallel with those on the American and British stockmarkets — in view of factors tending to isolate the the local market

Three factors help to explain this tandem move — the limited degree to which foreigners invest in South African stocks, the role of the US as world economic leader and psychological factors. However, these reasons, he says, remain insufficient and more research needs to be done.

Also interviewed at the Reserve Bank, Dr Ernie van der Merwe, head of its economics department, says South Africa is probably headed for growth of 1 percent this year — compared with minus 0,5 percent last year This year's growth will have been around 1,5 percent had it not been for the drought. He says GDP fell about 0,5 percent last year

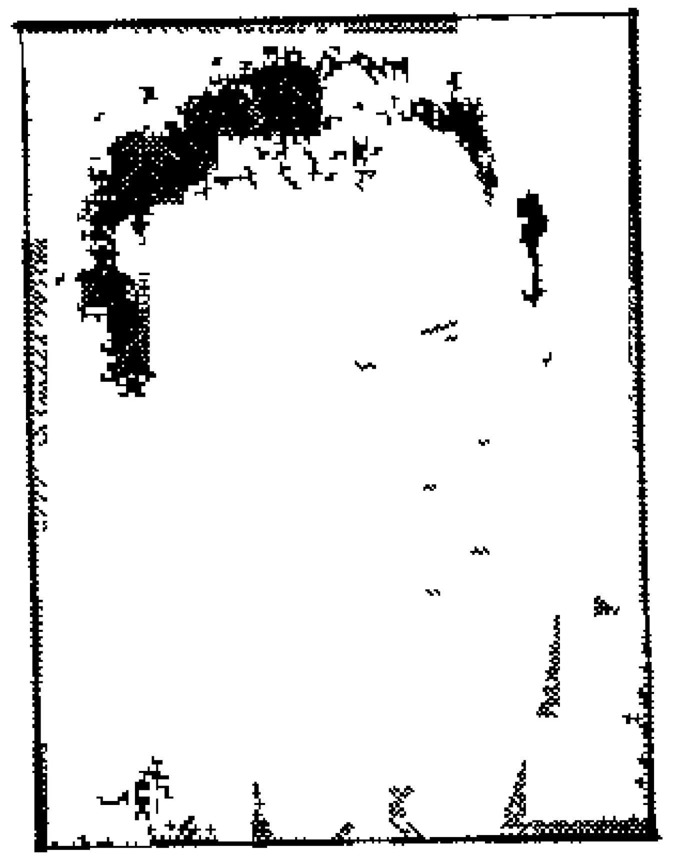
Dr van der Merwe points out that Government borrowing levels, as a percentage of GDP, should be determined in relation to a country's prospective growth rates.

The IMF lays down a guideline of 3 percent of GDP — but this could be too high or too low for a given country. Excess Government spending and lower than-budgeted revenue took the ratio in South Africa to beyond this figures in late 1991.

In South Africa's case, he feels a growth rate of 3 percent in the years ahead might be too optimistic.

Inflation outlook improving

STAR 9/3/92



Jaap Meijer optimistic

By David Canning (153)

The first government in a new South Africa is likely to inherit a significantly lower inflation rate, predicts Dr Jaap Meijer, deputy governor of the Reserve Bank

Dr Meijer says whatever happens to inflation thereafter, the platform from which the new government starts would be healthier than at present

He remains relatively optimistic about prospects of a lower inflation rate by year-end, despite setbacks which official efforts have experienced in recent years

In spite of scepticism in business and labour circles, reflected in high long-term interest rates, he points to some private survey indications that (year-on-year) inflation could be down to 12,5 percent by the year-end

Dr Meijer says there have been some unlucky breaks in the fight against inflation — including the Gulf war, VAT and now the drought

However, there are now some encouraging signs emerging — although he confesses to be mystified by the large differential in the relative levels of the Producer Price Index and Consumer Price Index He says the Bank is awaiting the outcome of the Board of Trade's inquiry into this issue with great interest.

Capital account

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The improvement in overseas sentiment towards SA is also encouraging This is reflected in the dip in the financial rand discount to seven percent before its sudden widening recently because of the tax scare The narrowing, he says, indicates that the two-tier currency system is becoming less necessary.

The future of the financial rand is likely to be clarified next year when the debt standstill position come up for review The standstill could be replaced with more formal agreements, although nothing has been decided.

SA's foreign debt declined from more than $30 billion in 1985 to $19,4 billion in 1990, of which $6,6 billion is in the net.

However, Dr Meijer cautions that the new South Africa need not automatically spell an end to existence of the two-tier currency system "The international community will have to have confidence in local policies for this to happen"

Also interviewed at the Reserve Bank, Dr Ernie van der Merwe, head of its economics department, says SA is probably headed for growth of one percent this year — compared with minus 0,5 percent last year

Government borrowing

This year's growth would have been around 1,5 percent had it not been for the drought He says GDP declined about 0,5 percent last year

Dr van der Merwe points out that government borrowing levels, as a percentage of GDP, should be determined in relation to a country's prospective growth rates

"The IMF lays down a guideline of three percent of GDP — but this could be too high or too low for a given country Excess government spending and lower-than-budgeted revenue took the ratio in SA to beyond this figures in late 1991"

In SA's case, he feels that a growth rate of three percent in the years ahead may be too optimistic

THE WEEK AHEAD by Simon Willson

FW unlikely to slip on PPI banana skin

BDay 16/3/92

(153)

GOOD news on inflation seems set to be published in SA and the UK this week — just before crucial tests of electoral opinion in each country.

In SA, the January rate of producer price inflation should be known before polling stations close at 9pm in tomorrow's referendum on political reform.

In the UK, the inflation rate for February will be published on Friday — the last of two highly voter-sensitive economic figures due before the British general election on April 9

There are many advantages to incumbent administrations in calling snap elections The NP and the UK's ruling Conservative Party have each been constitutionally able to time their requests for a fresh mandate to maximise their chances of success

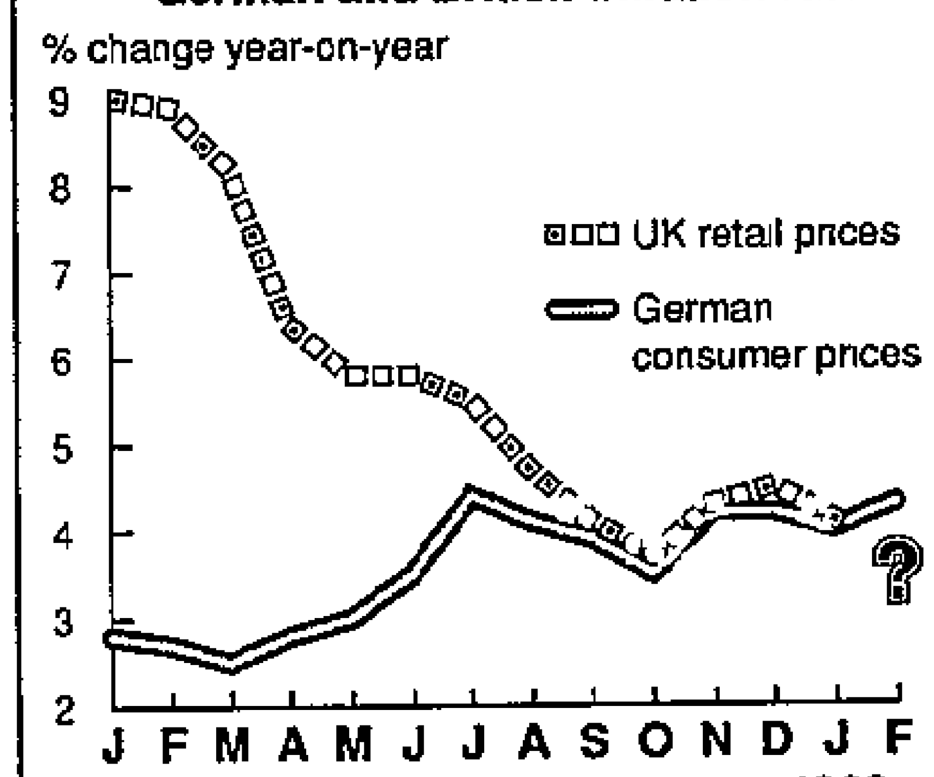
Both ruling parties have gone for quick, four-week campaigns called suddenly to try to catch their respective oppositions on the hop In knowing the poll dates before their rivals, the governing parties have been able to gear up their vote marshalling machines well in advance of the opposition

The other rationale behind a whirlwind campaign is that it cuts to a minimum the "banana skin" factor — that is, the possibility that a rogue economic statistic could emerge during the campaign and reflect badly on the incumbent administration, giving vote-generating fuel to the opposition

Since President F W de Klerk called the referendum on February 20, the regular economic releases have been broadly favourable January's money supply growth was higher and reserves were steady, but neither figure has a high public profile. Higher profile January inflation was unchanged, which was a bonus simply because the rate did not rise Indeed, voter sensitive food inflation actually slowed

Major's trump card

German and British inflation rates



Graphic FIONA KRISCH Source GOLDMAN SACHS

The last possible banana skin before the referendum is the increase in the producer price index (PPI) in the year to January, which should be published later today or tomorrow A sharp fall in the imported component of the PPI should keep the annual rate well within single digits — possibly lower than December's 8,6% — and herald a later fall in the rate of consumer price inflation Although the referendum is ostensibly a vote on political reform, management of the economy has repeatedly entered the campaign and the trend in inflation is undoubtedly a factor

The UK campaign definitely covers the economy, as it precedes a general election and not a single issue, "yes" or "no" poll This week the Conservatives face a probable slip on the campaign banana skin when the UK's February unemployment figures are published on Thursday, but they should quickly regain their balance when the February inflation rate is published on Friday

All the signs are that February will be the historic month in which the British inflation rate drops below Germany's for the first time since 1966 It is a heaven sent electioneering opportunity for John Major's administration, and one which must have encouraged government to go for April 9 The Conservatives will need to make the most of their inflation achievement, because Thursday's unemployment figures are likely to be grim A probable rise of 40 000 could push the jobless total to more than 2,6-million, or 9,2% Although it could be pointed out that unemployment is running at more than 10% in Spain, Italy, Denmark, Australia and Canada, the inflation figure due the next day will be the best antidote to the jobless data

The UK inflation rate should dip slightly from January's 4,1% to 4% in February, taking British inflation well below the Germany February outturn of 4,3% announced two weeks ago This 26-year milestone should offer the Major government a matchless propaganda weapon and could even prove decisive in what promises to be a close election

The US inflation rate for February is also due out this week US inflation has, however, been relatively low for so long now that it is not an issue in the presidential primaries campaign The February rate, out on Wednesday, is poised to stay below 3% for two successive months for the first time in five years following the January readout of 2,6%

Of more concern to both politician and voter in the US is the economy's growth performance, and tomorrow's housing starts for February should offer more clues as to the prospects for recovery Starts broke above the 1,1-million level in December for the first time in 13 months, and rose further in January to their highest level since May 1990 Housing starts, which lead general economic performance by around two calendar quarters, point unmistakeably to a US economic recovery later this year

The US January trade deficit is due on Thursday, but its impact will be absorbed by the quest for growth A deficit from rising imports is not a negative in a stagnant economy, as greater import demand signals spending and consumer confidence An import derived deficit around \$5bn after December's \$5,94bn should ultimately be dollar supportive

Pay rises lag inflation

152

ONLY 60 percent of the increases negotiated in the bargaining units surveyed by the Labour Research Service in the second half of 1991 beat inflation. W/Mail 20/3-26/3/92

The average weekly wage of the 128 bargaining units was R211,06.

The lowest grade workers received average increases of 18 percent. The commercial sector won the best increases at 22,2 percent on average.

Then came the paper and related products industry at 21,5 percent, general labourers with 21 percent and miners at 12 percent.

Such a drag for the taxpayers

STAR 21/3/92 (153)

DEREK TOMMEY

BECAUSE of fiscal drag and other tax increases, most South Africans will be paying more income tax this year and have about 1 percent less disposable income, says Dr Azar Jammine, an economist with the economic advisory company Econometrix.

Minister of Finance Barend du Plessis is budgeting for a 22,3 percent rise, amounting to about R6 billion, from income tax, he told a seminar yesterday

This sharp increase is to be achieved not by raising tax rates, but by letting inflation do the job by propelling salaries up South Africa's highly progressive tax curve

But for the slight increase in tax rebates and the reduction in the number of tax brackets to 10 from last year's 15 and the previous year's 19, the tax burden would have increased by 27,5 percent

Reducing

Changes made to the tax scales mean that the average tax rate of people in the R25 000 to R50 000 income bracket will increase slightly more slowly than it would otherwise have done The tax rate of married women in this bracket will even decline marginally

But on average, fiscal drag will still result in an increase in the average tax rate of individuals of between 0,5 percent and 1 percent, reducing disposable incomes commensurately.

When the rise in the fuel levy and excise duties is taken into account, the decline in disposable income as a result of higher taxes is likely to be around 1 percent

AZAR JAMMINE: Stimulatory effect negated.

MICHIEL BESTER: Prime rate may fall.

TONY TWINE: Consumers "buying down".

"This is bound to negate much of the stimulatory short-term effect which the high budgeted growth rate in Government spending is in part meant to achieve," Jammine said

Tony Twine, also a member of Econometrix, says that in spite of the increase in income taxes, discretionary spending is likely to be little changed from last year's figure, owing to a lower rate of indirect taxation.

The revenue from indirect taxes affecting individuals is budgeted to rise by only 12,3 percent, which is less than the apparently budgeted 14,5 percent inflation rate

The result is that the average amount of money people have for discretionary spending should remain in the vicinity of R4,50 for every R100 of income

However, Twine expects consumers to start "buying down" This is commonplace in the motor industry in difficult economic circumstances, and he believes it is happening elsewhere in the retail trade

Non-durable and semi-durable goods are expected to reflect downgrading in their product or brand mix

Obstacle

Another member of the Econometrix team, Michiel Bester, said the high rate of inflation was the only obstacle to a lower prime rate — the rate of interest banks charge their best customers.

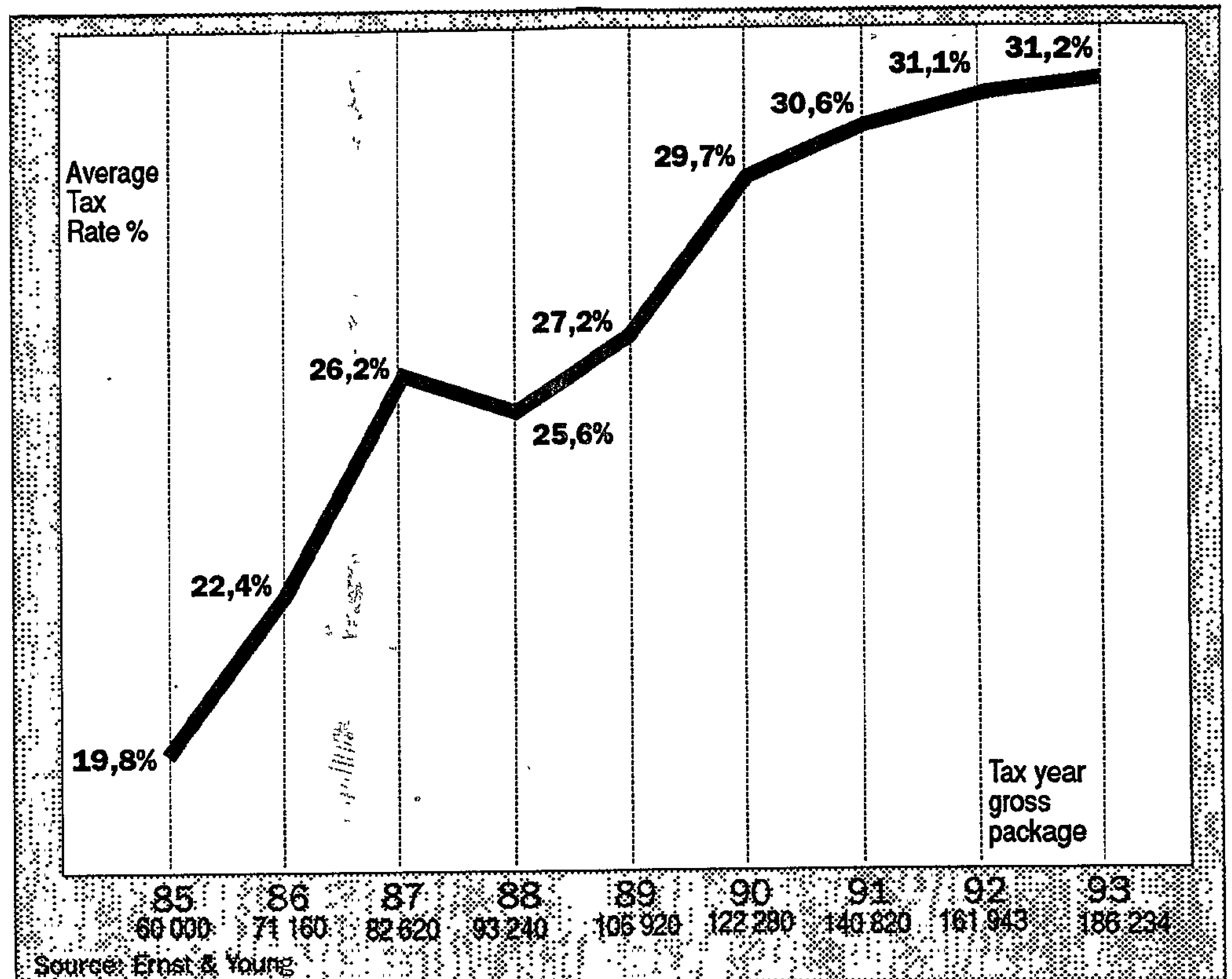
"Prime could decline next week if February's CPI inflation fell close to 15 percent, which is a possibility."

A further decline by the third or fourth quarter was also possible

Long rates were now benefiting from the re-entry of foreign investors into the gilt market after the referendum and expectations of a lower prime and inflation rate

The budget deficit as a percentage of GDP is slightly higher than last year, but the new funding requirement as a percentage of GDP is down to 3,7 percent, from 4,3 percent last year.

On balance, long rates will probably go lower in the short term, but are likely to be higher in a year's time, depending on the course of inflation.



WHAT FISCAL DRAG IS DOING TO YOU: From the tax year ending March 1985 to the end of the current tax year, the average tax rate of middle-income South Africa will have risen from 19,8 percent to 31,2 percent. The income a person in this bracket has left to spend after taxation has fallen from 80,2 percent to 68,8 percent — a 12 percent impoverishment.

MONEY MATTERS

MAGNUS *Heystek*

High labour costs boosting inflation, says Reserve Bank

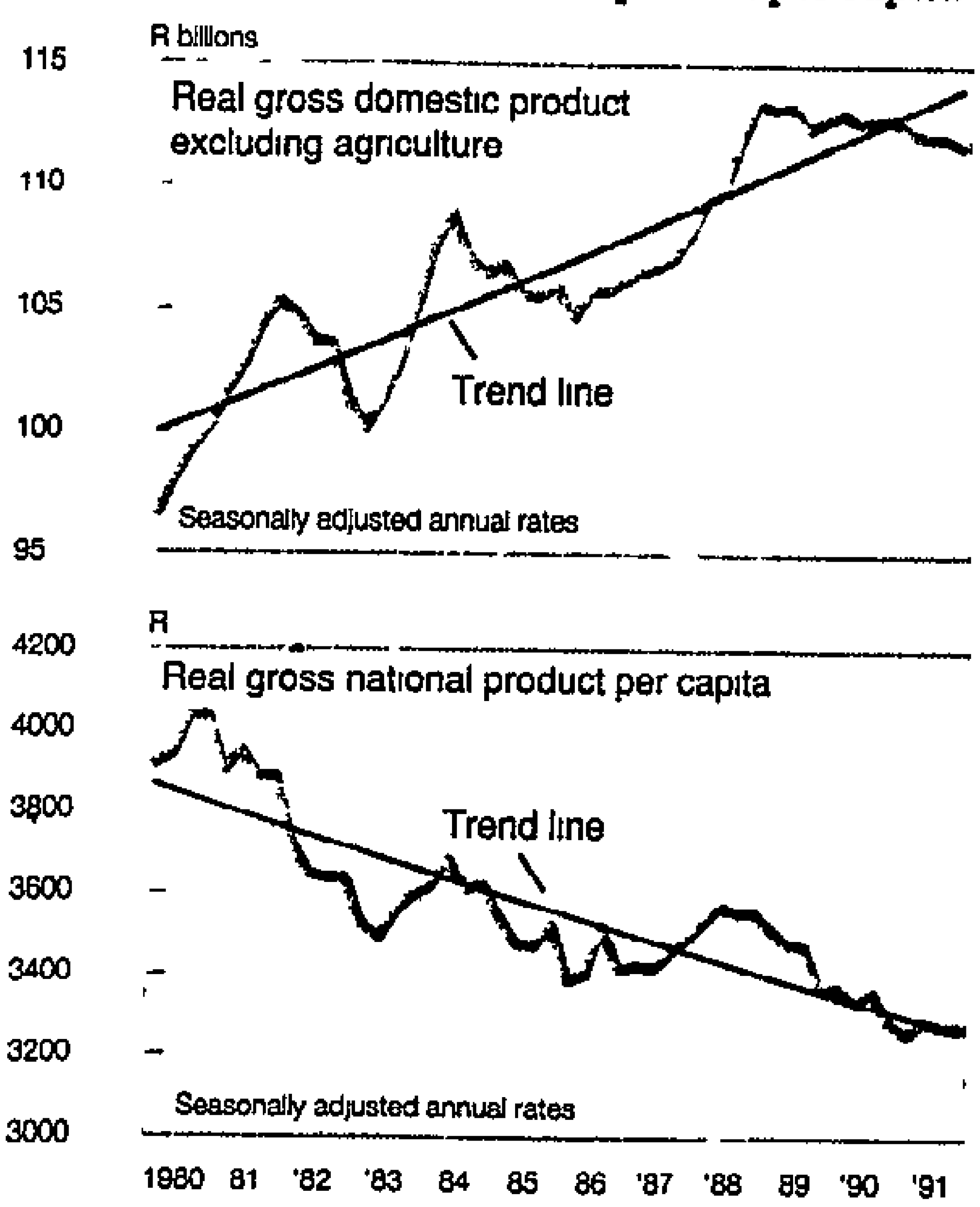
153

STAR 19/3/92

Nearly two million people in the past 10 years had to find employment outside the formal non-agricultural sectors, or become unemployed, says the SA Reserve Bank

In its quarterly bulletin released yesterday, the Bank saw the main problem of the South African economy as a slow growth in production combined with a rapid growth increase in population

Domestic product and national product per capita



Downturn

The Bank pointed out that in addition to the cyclical downturn that the country was currently experiencing, serious structural deficiencies existed in the economy.

The low rate of growth in domestic production too coincided with an increased capital intensity, with the result that non-agricultural employment grew by only 0,2 percent a year from 1981 to 1991, resulting in some two million job losses

In the past two years this structural deficiency was aggravated by the cyclical downturn, which led to a decrease in non-agricultural employment

Entrants

Not only did new entrants to the labour market have to be accommodated outside the formal non-agricultural economic sectors, but employed workers also became redundant

The Bank noted that despite the rise in the number of unemployed or underemployed persons in the country, nominal salaries and wages continued to rise at high rates which exceeded the inflation rate

As the reductions in the workforce took place at a more rapid rate than the decline in real output, labour productivity rose moderately from the second half of 1990

This rise, however, was at first too slow to prevent an increase in real unit labour costs

The Bank explained that the continued high rate of increase in labour costs was an important factor in keeping the rate of increase in consumer prices at high levels throughout 1991 and in January 1992.

If food prices are excluded, however, the rate of increase in other consumer prices declined from 15,4 percent in July 1991 to 13,9 percent in January 1992

In contrast to the virtually sideways movement in consumer price inflation, the rates of increase in producer prices edged downwards, the Bank says

Measured over a period of 12 months, the rate of increase in the production price index fell on balance from 14,6 percent in November 1990 to 8,6 percent in December 1991

The low level of economic activity was accompanied by a decrease in real gross domestic expenditure The decline in domestic expenditure in the fourth quarter of 1991 amounted to an annualised rate of 2,5 per cent.

This further decrease in domestic expenditure reflected continued sharp declines in expenditure on consumer goods and services and on fixed investment, the Bank said

Cutbacks in private consumption expenditure related to reductions in personal debt to avoid the prevailing high interest costs, were responsible for a rise in personal saving since the middle of 1990

Despite large dissaving by general government, the gross domestic savings ratio rose steadily from a low of 18 per cent in the first quarter of 1991 to 19,5 percent in the fourth quarter, the Bank said — Sapa.

'Recession will remain'

B/Day 23/3/92

LINDA ENSOR

CAPE TOWN — A drop in interest rates would not do anything to lift the economy out of recession, First National Bank chief economist Cees Bruggemans said at the weekend.

Speaking at a Deloitte Pim Goldby discussion on the Budget, Bruggemans said economic conditions and the containment in the growth of money supply justified a drop in interest rates by 1% even though the inflation rate was still high

But he nevertheless anticipated a further deterioration in economic conditions in the short term with the promise of medium-term recovery for mainly political reasons.

He believed that 1992 would be the third year of recession in a row but felt that the referendum result had broken a logjam which would lead to a better performance in the medium term as external constraints were lifted

Bruggemans said he would not be surprised by another cut in interest rates in September when Reserve Bank Governor Chris Stals presented his statement and when the inflation rate would have improved However, any such an increase was also unlikely to have much impact on the recession

(153)

Bruggemans said it was likely the range for the money supply target would be lowered when Stals released the money supply guidelines for 1992 shortly He believed a range of between either 6% and 10% or between 7% and 11% was likely, down from last year's target of between 8% to 12%

Finance Minister Barend du Plessis came under attack for seeming to have little grasp of the economic realities confronting the private sector and his forecast of an economic upturn in the second half of the year was described by Bruggemans as so much "hot air"

He said the growth rate forecast for the economy this year and the expectation of economic conditions stabilising before an upturn later in the year were nothing more than "a national statement of hope" which revealed a complete misreading of the state of the economy

"I feel the Budget overstated the case for optimism. I would place more emphasis on the announcements which seem to be coming after the Budget — I must say this is a remarkable way of conducting policy — and these seem to be coming from the Minister of Trade and Industry and Economic Co-ordination"

Big companies were still looking at cost cutting and further rationalisation and there were signs that fixed investment might still be decelerating

The Budget had failed to address the conditions of the recession which had over the last two years seen the number of formal sector jobs being cut by 8% or by about 400 000 people This cut in disposable income and the pressure brought to bear on wages and salaries from mid-1991 onwards had had severe effects on the economy

The Budget hit the consumer hard with an approximate 22% increase in personal tax, a 28% increase in the fuel levy and a 22% increase in excise duties

Critical time ahead as famine looms

153

Sowetan 24/3/92

By JOSHUA RABOROKO

THE financial position of consumers is critical, according to the chairman of the South African Consumer Union, Mrs Lillibeth Moolman.

Unemployment, inflation and rapidly increasing food prices create great problems and many consumers actually face famine. The belt can no longer be tightened because, for many consumers, the belt is already at its tightest

The fact that the VAT rate has remained unchanged is to be welcomed, she says It is, however, regrettable the the temporary relief on certain basic foods has been terminated.

She said that consumers had not only hoped that the exemptions would be made permanent, but that they would be extended to include all basic foods, medical services and medicine, water and electricity

It was a pity that the Minister of Finance, Mr Barend du Plessis, did not see his way clear to do this.

The fact that the Budget tried to help the agricultural sector in an effort to minimise the effects of the drought is of the utmost importance for consumers in order to prevent food shortages

Increase

The increase of 8c a litre in the fuel levy is regrettable It will provide the ideal peg to justify increased prices The escalating effect of the higher fuel price will hit consumers very hard

The increased amount available for the nutrition development programme is to be welcomed It is hoped that a system will be devised as soon as possible in order to ensure that the aid reaches the people who are really in need of it

According to Moolman, the highest priority now should be to stimulate the economy in order to create jobs and at the same time to control the money supply in order to fight inflation. It did not appear as if the Budget would meet these requirements to the required extent

Higher trade surplus is 'good news'

Hopes rise for recovery as inflation slows

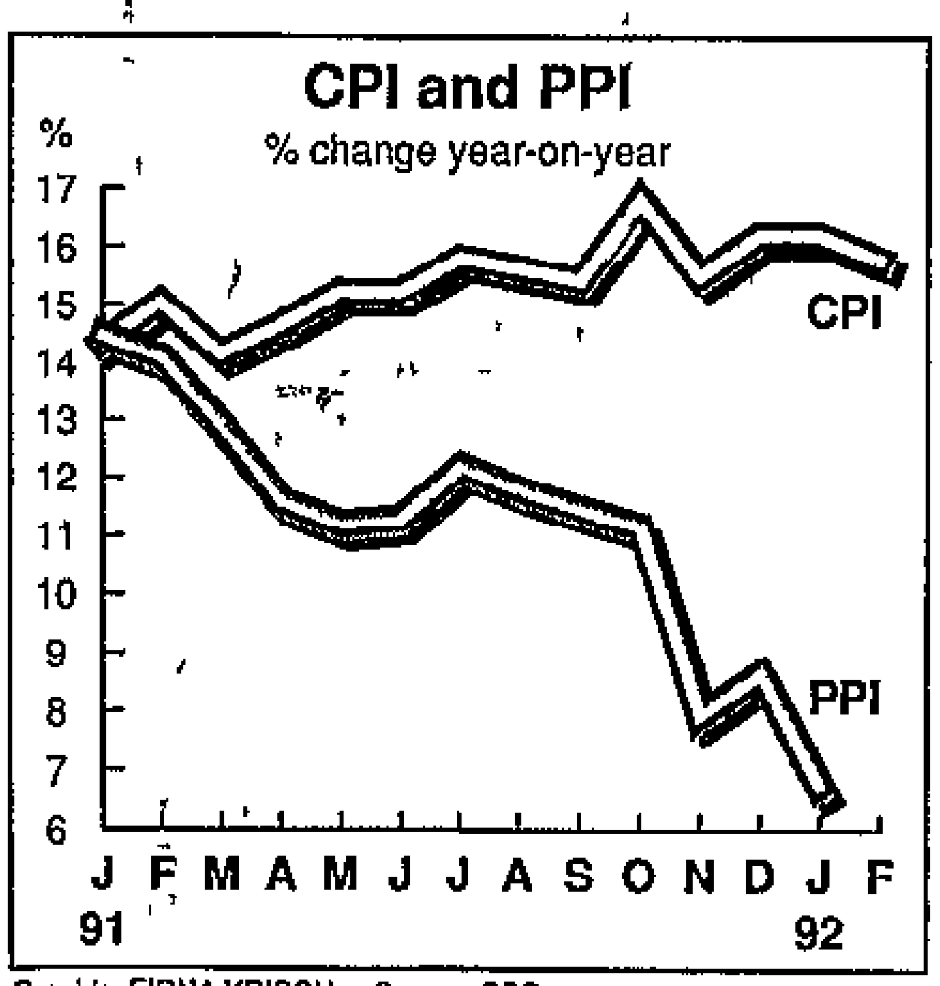
B/Day 25/3/92 (153)

INFLATION measured at both factory gate and shop shelf is slowing, according to official figures, and analysts say the combination of lower inflation and other favourable indicators leaves the economy poised to begin a strong upswing.

Data published yesterday by the Central Statistical Service (CSS) show a dip in the rate of consumer inflation — the average rate of price increases in the shops — to 15,8% in the year to February from 16,2% in the 12 months to January.

The increase in producer prices — those paid at the wholesale stage of the distribution chain — also declined, to 6,7% in the year to January from 8,6% in the 12 months to December. This means producer price inflation is at its lowest level since the 6,6% recorded in May 1984.

And statistics from the Customs and Ex-



Graphic FIONA KRISCH Source CSS

SIMON WILLSON and SHERIDAN CONNOLLY

cise Department showed a widening in the trade surplus — the margin by which exports exceed imports — to R1,89bn in February from R700,6m in January.

Allied to positive trends already visible in other variables such as money supply growth, balance of payments strength and the build-up in foreign reserves, the prices and trade data have left analysts confident about medium-term economic prospects

"Financial indicators are now collectively moving in a positive direction," Bankorp economist Nick Barnardt said yesterday. "This has important implications for an upswing in the business cycle and a resumption of economic growth In total, the process of financial improvement now under way gives a clear signal that the business cycle will move into a renewed upswing phase in the economy."

The inflation slowdown comes only days after Reserve Bank Governor Chris Stals's weekend statement warning that the cut in official interest rates effective on Monday could be justified only by lower inflation.

Stals said unless inflation declined during the course of 1992, the stance of monetary policy would have to be reconsidered

Nedbank chief economist Edward Osborn said he expected the rate of consumer inflation to fall rapidly to around 12% by the year-end, helped by the effect of VAT's introduction falling out of the consumer price index (CPI) in the fourth quarter.

The decline in the headline rate of consumer inflation masked a rebound in the rate of increase in food prices After drop-

☐ To Page 2

Recovery

B/Day 25/3/92 (153)

☐ From Page 1

ping for the first time in seven months to 26,2% in January, annual food price inflation accelerated to 27% in February

The CSS singled out vegetables, fish and oils as the main contributors to the higher rate of food inflation and alcoholic beverages, vehicles and clothing as the main offenders in the CPI as a whole

The chief factor behind the decline in producer price inflation was the cost of imported items, which fell by 1,9% in the year to January Cheaper imports helped set a single-digit rate of producer price inflation for the third successive month in February, for the first time since the three months to October 1984

Osborn said the low rate of producer inflation could be attributed to the relatively high base as a result of higher imported fuel prices this time last year He expected the February rate of producer inflation to remain around current levels

The higher surplus in the February trade figures arose from a rise in exports to R5,58bn from R4,82bn in January and from a fall in imports to R3,68bn from R4,12bn

Unclassified imports (mainly of crude oil) were higher in February at R371,1m from R369,4m in January and unclassified exports (mainly gold and armaments) were lower in February at R1,87bn from January's R2,08bn

Rand Merchant Bank chief economist Rudolf Gouws said the higher trade surplus was "very good news" Exports had recovered from their recent lows

Gouws said, however, in spite of the abolition of sanctions and the normalisation of trade relations, recessionary conditions in SA and the world economy would limit SA's export performance in 1992

The excellent results received from economic indicators in the past few days were very promising, he said

Food prices still play havoc with inflation

(153) B/Day. 26/3/92

SHERIDAN CONNOLLY

FOOD prices continued to play havoc with the rate of consumer inflation in February, inflation figures released by the Central Statistical Service show.

Food price inflation ticked up to 27% in the year to February from 26,2% in January and 28% in December. CSS ascribed the rebound in food prices in February to price increases in vegetables, fish and seafood, fats and oils, and "other" food products.

Inflation statistics showed vegetable prices increased by 44,2% in the year to February while the price of fruit and nuts was 56,5% higher and meat prices rose 33,9% over the same period. A deceleration in food price rises in January raised hopes of a slowdown in the rate of food inflation. It slowed to an annual rate of 26,2% and to 0,2% in month-on-month terms — the lowest monthly rate of increase since June last year.

Agricultural control boards, industry conglomerates, farmers, manufacturers and retailers have all been blamed for the rate of food inflation which consumer boards say is unacceptable. Although the introduction of VAT has also been blamed, organisations such as Cosatu have said "businessmen in the food industry exploited VAT to the full even before it was officially introduced".

The Board of Trade and Industry's investigation into price structures within the food chain will only be released towards the end of next month Housewives' League representative Sheila Lord said yesterday the board had not approached the league for comment

The CSS's calculation of food price inflation has also come under attack recently from Pick 'n Pay MD Hugh Herman, who said the rate as measured by CSS was "totally inaccurate". Herman said CSS based its price survey on small traders and gave inadequate weighting to large chains.

Furthermore, the mix of goods was not representative of average buying trends as it overemphasised the proportion of meat, Herman said.

CSS spokesman Johan Rosenstrauch said yesterday the food weighting of the consumer price index (CPI) reflected the ratio between food items determined by the actual expenditure of the average urban household.

In determining the CPI, the CSS surveyed 12 urban areas which covered all income groups and all population groups in different suburbs within the 12 areas, Rosenstrauch said. The weighting of items in the consumer basket had been determined by a survey conducted by the Human Sciences Research Council in October and the CPI was compiled on the basis of a 1990 weight structure.

Ravages of drought pushing food prices higher and higher

Peninsula's inflation rate highest in country

(153) ARG 28/3/92

MARC HASENFUSS
Weekend Argus Business Staff

THE Peninsula still shows the highest regional inflation rate and the trend is likely to continue as the drought ravaging farm land forces food prices skyward

At 16,8 percent for February — against a countrywide average of 15,8 — inflation in the region outstrips that of Johannesburg (16,6), Maritzburg (16,2), Durban/Pinetown (15,1) and Pretoria (14,1)

East London and Port Elizabeth show inflation rates of 16,1 and 14,2 percent repectively

The Cape Town area looks set to continue bearing the brunt of the drought-induced food price rises

Cape Chamber of Industries executive director Colin McCarthy said Cape Town's distance from the main food production centres was one of the key factors in the keeping the Peninsula's inflation above average

He said local food producers could not meet consumer demand in the region throughout the year and foodstuffs usually had to be "imported" from the north at greater cost

Mr McCarthy said this was especially true in the pricing of red meat and potatoes, two staple foods badly affected by the prolonged drought

The additional cost added to food prices by distance from the main production centres is borne out by comparative food inflation figures for the different regions

Bloemfontein, the Vaal Triangle and Klerksdorp show relatively low food inflation of 23.4, 20 and 20 percent respectively compared to Cape Town's 29 percent, East London's 27 percent and Durban/Pinetown's 26,6 percent

Port Elizabeth's food inflation rate is relatively low at 22,7 percent, partly due to its closeness to the farming areas of the Eastern Cape and Karoo

Worst-affected in this scenario are Cape Town's pensioners, who face a local inflation level of 16,7 percent — again the highest in the country

Inflation for pensioners will naturally be higher as most of their income is spent on food

Pensioner's inflation for the rest of the country ranges from 16,2 percent in Durban, 14,6 percent in Port Elizabeth and 12,2 percent for the Vaal Triangle.

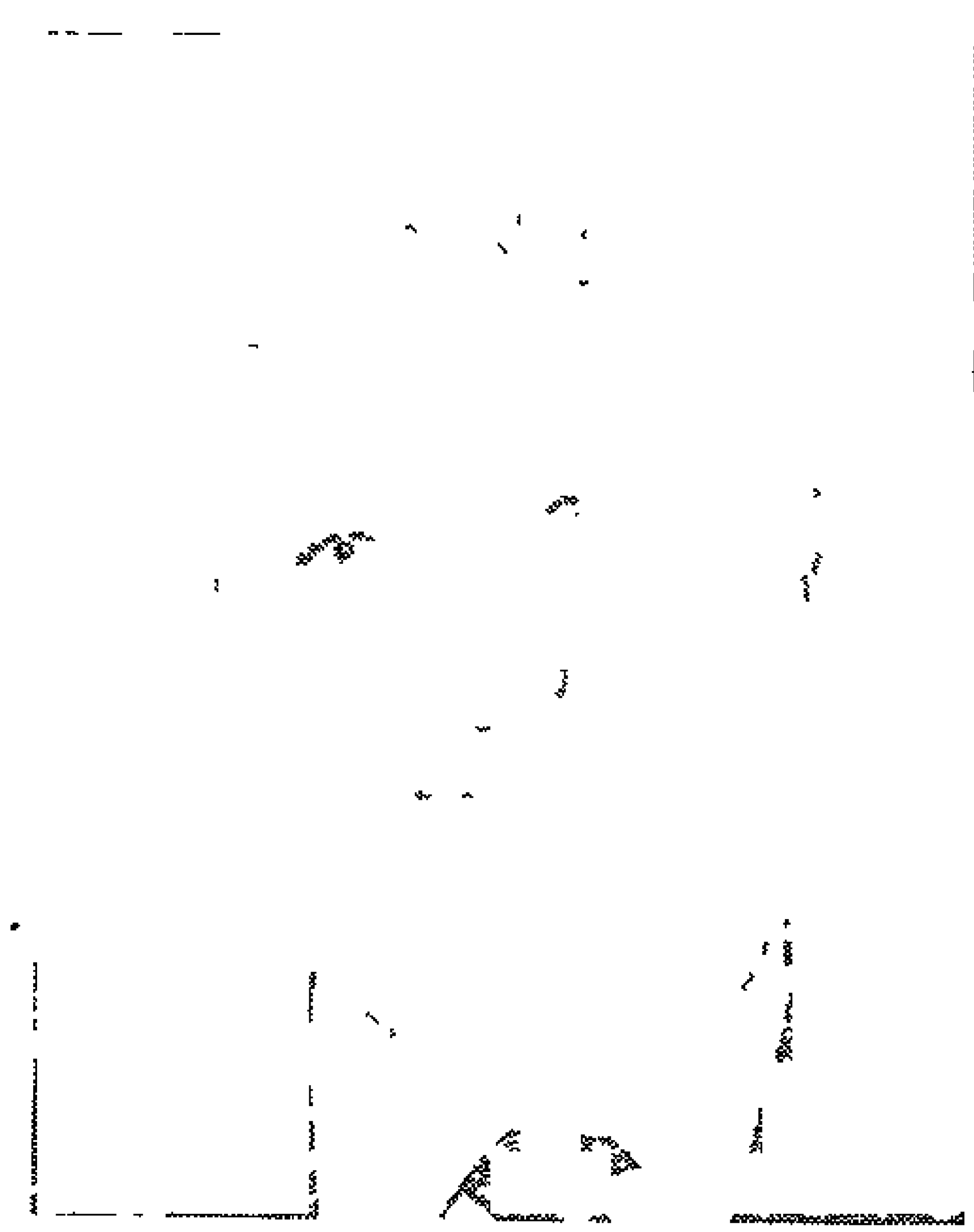
Some economists blame higher housing costs in the Peninsula for above average inflation This is based on the supposition that people are prepared to pay more for property and housing in order to stay in the Cape

Mr McCarthy also believes higher service charges on property could be a significant factor in buoying the inflation rate

But Cape Town's inflation rate is still the highest if the housing cost element is left out of the CPI's "basket of goods"

Bar housing costs, Cape Town tops the inflationary list with 19,8 percent, closely followed by East London (19,7) and Maritzburg (18,6)

Again, in this instance, the smaller areas like Bloemfontein, OFS goldfields and the Vaal Triangle show inflation levels of 15 percent and under



☐ **COLIN McCARTHY** 'Distance is one of the key factors in the keeping the Peninsula's inflation above average'

THE WEEK AHEAD by Simon Willson

Two inflation rates, many signals

BDay 23/3/92. 153

EVENTS have conspired to produce a week in which the rates of both producer and consumer price inflation will probably be released. Indeed, it is quite likely that only a few hours will separate the publication of the two rates, and it will therefore be important to distinguish between their different inflationary signals.

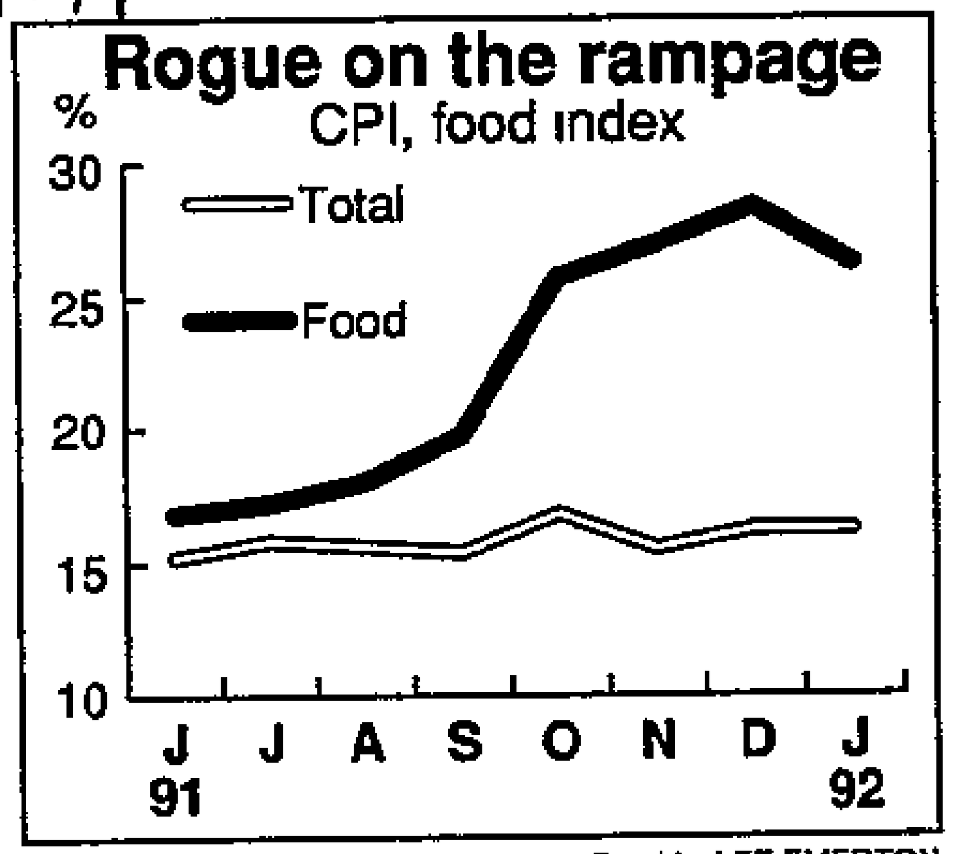
The latest data on the trade balance and on money supply growth are also due this week but, because these last two indicators are moving with relative consistency in the required direction, they will not command as much market attention as the prices data

Even though the Reserve Bank has acted to ease monetary policy, the Bank's stated resolve to "reconsider" its new credit stance if prices rises do not slow during the rest of the year means inflation in its various guises still holds centre-stage. Inflation as measured by the Central Statistical Service's (CSS) producer price index (PPI) is due first, either later today or tomorrow. The CSS's consumer price index (CPI) inflation rate should follow rapidly.

The first distinguishing feature between the two figures is the month under review. Although we move into April next week, the latest in a long series of delays in SA's data releases means we are still waiting for the January PPI. Put another way, we have yet to see a PPI figure for the calendar quarter we are about to leave

This week's CPI figure, by contrast, is for February. The direct comparability of the two measurements is therefore even more restricted than it would normally be

The usual lead-lag relationship between movements in the PPI and CPI has, due to fiscal tinkering and rigidities in retailing and distribution, been suspended. PPI inflation has almost halved over the past 12 months while the CPI rate has moved in



Graphic: LEE EMERTON

the opposite direction, making a nonsense of the general rule of thumb that PPI movements lead similar trends in the CPI by about one calendar quarter

The other distinction to draw between the PPI and CPI data is the different "rogue" elements in each. Perversely, they are also pulling in opposing directions. The CPI continues to be blighted by soaring food prices which have been rising at almost double the rate of overall prices. The PPI, however, has a benevolent rogue in the form of soft and, in some cases, falling import prices.

The startling chart shows the main impediment to the CPI following the PPI downward: rogue food prices. Even after a near-doubling of food price inflation in the second half of last year, overall headline inflation has been steady. Had food prices been more docile, therefore, headline inflation would have been considerably lower.

A Board of Trade and Industry investigation into food price inflation is dealing with the technicalities of the issue, market concern is with its effect on the overall inflation rate and, in turn, inflation's effect on the setting of monetary policy. What is clear enough from the chart is that, if food price rises could be moderated, their appreciable weighting of almost a fifth of the total CPI basket would quickly allow overall inflation to ease

Food price inflation did slow in the year to January for the first time in seven months, and may again slow in February before coming under upward pressure from the effects of the drought. This may allow a dip in headline inflation from January's 16,2% January PPI inflation, meanwhile, should stay well in single figures thanks to another contribution from possibly falling import prices

The announcement of the new guideline range for M3 for calendar 1992 means that the February money supply data, also due out later this week, will have to be seen in the context of the authorities' tighter M3 target. Growth in M3 from February 1991 to January 1992, at 10,8%, was comfortably in the middle of the old, 1991 guideline range of 8%-12%. But it is overshooting the authorities' new and narrower 7%-10% guideline range for 1992 and, in terms of the Reserve Bank's weekend statement, the January data say broad money supply is suddenly growing too quickly again

Internationally, Thursday's final revision to US fourth-quarter GDP is unlikely to show much change from the upward adjustment at its first revision three weeks ago. Then, quarter-on-quarter annualised growth for 1991's December quarter was adjusted up from a preliminary 0,3% to 0,8% on higher private consumption of non-durables, higher government spending and firmer total domestic demand

On Wednesday, a more up to date measure of US economic activity emerges with February durable goods orders. A big rebound in January to a 1,5% increase from December's 5,1% decline leaves the February figure needing to show continued recovery if current talk of a build-up is to have any substance

Last week's climactic unemployment and inflation figures in the election-feverish British markets leave this week quieter in the UK. The trade figures, which had a lot to do with Labour losing the 1970 election when a bad deficit was announced in the middle of the campaign, are less influential these days

Today's trade figures for February may show lower trade and current account deficits than the respective £1,1bn and £0,8bn in January without necessarily offering the Major government any solace from last week's diappointing jobs and prices outturns

Retail sales in Japan have looked a bit sickly this year, managing to rise only 1% and 1,4% in December and January after rising 3,3% and 4,5% in October and November. Even another figure of 1% or so in tomorrow's release of the February sales figures would probably not push the Bank of Japan any closer to a discount rate cut, as it has gone on the record this month to say it does not consider the present state of availability of funds or bank lending to be an obstacle to the economy

The fiercely independent Japanese Central Bank could still be swayed by Wednesday's release of the January leading indicator. The leading indicator cuts more ice with the bank than the performance of the stock market as a barometer of economic confidence because it is closer to the real economy. It was the indicator's crash from 46,2 last September to a horrendous 8,3 in October, as announced in December, that pushed the Bank into trimming a point off the discount rate to 4,5% on December 30

The indicator has staggered back to 27,3 in December — partly thanks to the last discount rate cut — but any further signs of wobbliness are likely to jog the Bank's rate-cutting arm more sharply than the Nikkei's testing of the 20 000 level

New prison to be built in city

153

A NEW prison is to be built in the northern suburbs of Cape Town to relieve overcrowding at Pollsmoor Prison and make up for the eventual closure of Robben Island as a jail

This was disclosed at a press briefing on Robben Island at the weekend by the Commissioner of Correctional Services, Lieutenant-General W H Willemse

The overcrowing in Western Cape prisons was "bad" and they were accommodating 17% to 20% above the norm, he said

The Minister of Correctional Services, Mr Adriaan Vlok, announced at the briefing that the new system of correctional supervision — where sentences were served in the community under strict supervision — would be introduced in the Western Cape from tomorrow

The system is aimed at keeping people, such as first offenders, out of prison and at easing the pressures on prisons

CT 30/6/92

For tourists

Mr Vlok said an inter-departmental committee was investigating the issue of the future of Robben Island and it had been decided that the National Parks Board would eventually manage the island, which would be preserved and a national cultural museum opened on it

The private sector would also be involved to make it a tourist attraction, but Mr Vlok said he did not think the government would accept a Sol Kerzner-type casino on the island

The ANC and PAC were also welcome to contribute to the discussions, he said

General Willemse said UWC had not been in touch with his committee about the possible housing of an apartheid museum on the island but "they are welcome to get in touch with us"

Growth 'likely to be lower than forecast'

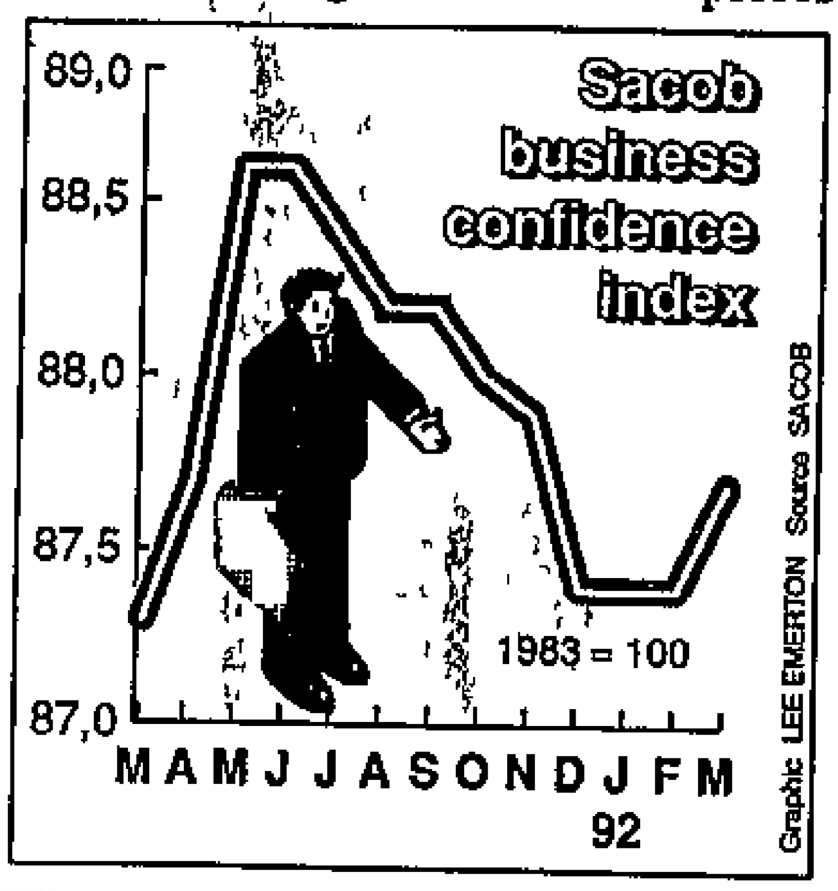
BDay 9/4/92 153

SHARON WOOD

THE end of the recession could be in sight but growth would probably be about 0,5% this year and not the 1% expected earlier, Sacob chief economist Ben van Rensburg said at the release of the business confidence index (BCI) in Johannesburg yesterday.

The BCI had ticked up by 0,3% in March to 88,7 from 88,4 This was the first time the index had risen since May last year, when cautious hope that the recession had ended was dampened by the subsequent decline in business confidence.

Slowing inflation, higher new car sales, a slight increase in retail sales and lower insolvencies had pushed the BCI up in March But the gold price had fallen, merchandise imports had declined during the month and the average level of share prices on the JSE was slightly lower.



Van Rensburg warned that the business mood would remain fragile until more conclusive evidence showed an imminent upturn.

The referendum results and the Budget would have an important impact on the levels of business confidence and the economic environment during the rest of 1992, he said The "landslide" referendum victory had buoyed the business mood but the Budget had been a disappointment because it had failed to address corporate tax rates and bracket creep

Van Rensburg said Sacob was worried about the monetary policy stance later in the year because inflation was coming down, but slowly "It is unlikely that there will be a significant futher easing of monetary policy during the remainder of the year."

The referendum results had failed to filter through to business confidence in the manufacturing sector, which declined again in March, economist Keith Lockwood said Manufacturers expected production and stock volumes to decline in March along with real capital expenditure and skilled employment.

An average decline of about 39% in unskilled employment and 20% in skilled employment was expected across the country in the next year.

Inflation figures slammed again

(153)

ARG 11/4/92

DAVID CANNING
Business Staff

DURBAN — Critics of South Africa's Consumer Price Index, the popular measure of the inflation rate, suggest inflation could be 2 or 3 percent lower than officially recorded.

If true, this could have dramatic consequences for key economic policies in South Africa, according to Mr John Winship, senior general manager of the Board of Executors.

But economists are divided on the issue And, as an official inquiry continues into reasons for the big difference between the producer and consumer inflation rates, Central Statistical Services (CSS) reportedly again dismissed latest allegations that its methods are inaccurate.

Ironically the country's official statisticians this time are defending their inflation figures against claims they are too high A year ago they were fending off assaults from critics such as mathemetician Dr Karl Posel, who said their official inflation figures were far too low

Critics say that while the big supermarkets account for a big share of the retail trade, CSS appears to place most emphasis in its surveys on small shops and corner cafes

Pick 'n Pay chief Mr Raymond Ackerman said on TV that the markup on some items in these shops was more than 100 percent

Others have claimed the replacement of GST with VAT has caused smaller shops to compensate with bigger than normal increases.

Mr Ackerman said the 28 percent year-on-year increase in food prices reported by CSS did not tally with its own figures. Neither did the weighting of meat — a big price increase item

CSS said meat prices constituted about 33 percent of the average shopping basket.

But Pick 'n Pay customers spent only 8 percent of their food bill on meat, poultry and processed meat.

Mr Ackerman said Pick 'n Pay was conducting an internal survey and would release its findings

CSS regularly surveys 3 500 store owners, measuring prices for 88 000 items It says its techniques are based on international norms and are adjusted when needed. Supermarkets are given a heavier weighting than corner stores

While it denies its figures are based on wrong weightings and samples included in its surveys, it will not disclose all the data.

Some details of the CSS techniques are so confidential, in terms of legislation, that CSS reportedly could not even hand them to the Board of Trade and Industry committee investigating reasons for the difference between producer and consumer prices. The CPI has been running at 15,8 percent, while the PPI has been less than 7 percent.

Meanwhile Mr Rene Lombard of Interfact, which has been conducting monthly grocery surveys for Vatwatch, said from Johannesburg that its results were very broadly in line with those of the CSS.

Interfact measures prices of 104 products in 100 retail outlets throughout the country The annualised increase for these products is running at 22 to 24 percent. But the "basket" contains some non-food items, such as washing powder, so it is not strictly comparable to the CSS's "basket".

In response to the point about small retailers "marking up" for VAT, Mr Lobard said the survey did show inordinately high increases just ahead of VAT's introduction last October.

This could bear out the view that some small retailers upped prices in expectation of losing the advantage of "pocketing" GST. But this is not conclusive

Meanwhile the results of the Board of Trade inquiry into food prices will only be known by the end of the month, at the earliest.

Mr Winship pointed out that the CPI was one of the key statistics watched by Reserve Bank Governor Mr Chris Stals in determining the country's interest rate level

Monetary policy has been kept tight because inflation is high

THE WEEK AHEAD by Simon Willson

Oil price effect fading from producer inflation

153

BDay 13/4/92

PRODUCER price index (PPI) figures for February, due today, may show that PPI inflation hit its low for the year in January and is heading back to levels nearer 10% by mid-year.

The PPI inflation rate for February is unlikely to match the eight-year low of 6,7% posted in January. Several factors are pushing the rate up again and signalling that 6,7% is unlikely to be bettered in 1992.

The first is the gradual decline in influence of the oil price effect that has recently done so much to restrain PPI inflation. The spike in the oil price at the time of the Desert Shield and Desert Storm campaigns in 1990-91 helped boost temporarily the import component of the PPI and gave the year-on-year percentage change in PPI a high base 12 months later.

This little phase is now over. Indeed, the PPI's import component fell in each of the three months to April 1991 so that, far from being high, the base for the year-on-year rate is going to be successively lower over the next few months.

The February data seem set to come out along much the same lines as December's. PPI inflation was down at 7,9% in November but the December figure had to accommodate a five-point fall in the imports index and an almost unchanged overall index in the PPI 12 months earlier.

The result: an uptick in the annual rate to 8,6% in December.

PPI inflation was down at 6,7% in January, but the February figure has to accommodate a three-point fall in the imports index and an almost unchanged overall index in the PPI 12 months earlier. Likely result: an uptick in the annual rate from January's 6,7%.

Retail

Internationally, the dollar's uncertain progress over the last two weeks shows that markets are not yet convinced that recent improved US economic data mean a sustained recovery is under way.

March retail sales, out tomorrow, will be a key gauge of the economy's performance. Retail sales amount to about half of all US consumer spending which, in turn, accounts for more than two-thirds of overall activity as measured by GNP.

US retail sales jumped above expectations by 1,3% in February, and the January outturn was revised strongly upward from 0,6% to 2,1%.

It was the first time since the third quarter of 1985 that retail sales had risen by more than 1% for two consecutive months.

Special factors such as post-Christmas price reductions, end-year wage bonuses and tax rebates and a flurry of mortgage refinancing may have had a lot to do with the year's good start.

The pace may be hard to keep up in March, but a corner does seem to have been turned in consumer spending patterns.

On Wednesday US industrial production and capacity utilisation levels for March are due for release. Here the trend has been a lot duller, with production lower in four of the last five months. Production rose — by 0,6% — in January for the first time since September last year, but car production accounted for half the increase, making it a patchy improvement.

Housing starts have been one of the best-performing US indicators for several months and March starts, published on Friday, should extend this indicator's bullish run. The 1,3-million starts recorded in February was the highest monthly total for two years and heralds higher durable goods orders when these new dwellings are inhabited by their proud owners.

In the two key international economies heading into, rather than out of, recession, German retail sales and Japanese revised industrial production — both for February — are the most diverting data on offer this week. Retail sales in Germany were down 1,3% on the year in January as consumer spending continued to drop after last year's tax increases.

Japanese industrial production fell 4% in the year to January, although part of the reason could have been delayed capital spending pending the interest rate cut that eventually came at the beginning of this month.

Stals to pursue 'neutral policy'

STAR 14/4/92

(153)

By Roy Cokayne

Chris Stals . . Difficult path ahead.

Reserve Bank governor Dr Chris Stals said at the weekend that the bank would persevere with a policy "that is neutral and only exerts gradual downward pressure on the level of the inflation rate."

He said at a Council for the Care of the Aged function in Pretoria that any over-hasty relaxation in monetary policy at this stage could only make the fight against inflation more difficult.

Disappointed

The bank was disappointed the inflation rate had been so sluggish in reacting to the restrictive monetary policy.

But it accepted that it was extremely difficult to bring the inflation rate down after it had been above 10 percent for almost 20 years.

There were many built-in practices and habits and psychological expectations opposing moves to lower the rate.

However, "there are already many encouraging signs that the total inflationary pressure is in the process of gradually dropping.

"The most important evidence of this is that the inflation rate as measured by the course of production prices has dropped considerably over the past year.

"But there lies a long and difficult path ahead in bringing South Africa's inflation rate down to the average level of that of the country's most important trading partners."

BUSINESS BAROMETER

wlmail 16/4 – 23/4/92

Producer price inflation falls...

INFLATION is slowly coming under control Statistics released by the Central Statistical Services (CSS) this week indicated producer price inflation is at a 20-year low, with the February figure remaining static at 6,7 percent compared to last year It also rose a minute 0,1 percent in comparison with the January figure Commodity prices rose by 8,5 percent in February as compared to a 8,7 percent rise in January (153)

CSS attributes the low 0,1 percent increase to the fact that relatively large increases in the prices of forestry products, tobacco products and footwear and electricity were counteracted by large decreases in the price of agricultural products, food products and fresh meat and mining products

However a slight increase in this figure is expected for March,

... but the recession drags on

THE 35-month-long recession continues to take its toll There were 37 000 debt judgments in January involving R189-million Furthermore, 96 businesses were liquidated that month (153)

And the the end is not yet in sight Syfrets' Quarterly Economic Review says the economic slump will continue for the next six months The delay in the upswing — which was expected in the first quarter of the year — is due mainly to the drought and political uncertainty

Recession puts brake on manufacturers

STAR 21/4/92

153

By Derek Tommey

The recession has sharply curtailed the output of the manufacturing sector, official figures show

Although inflation last year was running around 15 percent, the value of total manufacturing output in current prices rose only R12,6 billion (7,6 percent) to R178,6 billion.

The output figures show that the processing of food remains the country's biggest industry Last year it had an output worth R25,8 billion This was an increase of R2,4 billion or 10,2 percent on the previous year's figure.

The second biggest industry was what Central Statistical Service termed "other chemicals" which probably embraces the oil refining sector This industry had an output last year worth R24,4 billion, which was an increase of R2,6 billion or 12,0 percent on 1990

Third in size was the motor vehicles and parts industry It had an output last year of R16,5 billion It was followed by the iron and steel industry with an output worth (R13,5 billion), then the metals industry with output worth R10,3 billion and the industrial chemicals industry with output worth R9,3 billion.

Best growth rate last year was achieved by the transport equipment industry. This excludes the motor vehicle and parts sector Output of the transport industry sector grew by R353 million (or 25,6 percent) to 1,7 billion. This suggests an increase in sales of rail rolling stock and sea-going vessels.

Next best performance was put up by the "professional equipment" sector with a 21,4 percent growth in sales to R646 million This sector includes a wide range of products, but it seems likely that most of the growth came from growing sales of computers and other electronic equipment

Output of the tobacco industry grew by 15,9 percent to R1,98 billion and that of the printing and publishing industry by 14,4 percent to R3,9 billion

Sales by the beverages industry grew 13,8 percent to R8,2 billion and sales by the footwear industry 12,2 percent to R1,8 billion. Sales of "other chemicals" grew by 12,0 percent

Increases

Other significant sales increases (though well below the inflation rate) were achieved by the paper and paper products sector (11,4 percent), plastic products (10,7 percent), food (10,2 percent), clothing 10,0 percent), industrial chemicals (9,5 percent), wooden furniture (9,1 percent), glass products (8,1 percent), motor vehicles and parts (8,0 percent) and metal products (non-machinery (7,1 percent)

At the other end of the scale, the value of output of non-metallic minerals (mainly bricks and cement) rose by 3,4 percent, while the value of electric machinery produced grew by 1,8 percent, machinery by 1,2 percent and leather goods by 1,0 percent.

The iron and steel industry increased its sales by a meagre 0,26 percent or R35 million.

Negative sales growth were reported by the non-ferrous metal industry, the rubber products industry and the "other industries" (of which a large part probably comprises the armaments industry)

Sales by the "other industries" dropped by R216 million (10,9 percent) to R1,76 billion.

Top role for bonds linked to inflation (153)

SHERIDAN CONNOLLY

INFLATION-linked bonds could have an important role to play in SA because of the lack of good inflation hedges and an aversion to traditional long-term, fixed-interest bonds, says Martin & Company research head Richard Jesse.

"Big name issues" of inflation-linked securities in SA could be successful in view of the concern that top equities, considered to be the prime inflation hedge, were relatively expensive, Jesse said. With high inflationary expectations, there was a fear of fixed interest instruments. BIDAY 23/4/92

He said that since index-linked bonds would be issued as a specialised form of bond, they would fall outside the 65% prudential guideline requirement for equities, which was extremely useful in an inflationary environment.

Jesse said an index-linked bond with a starting coupon of, say 3%, could be very successful. He said these issues would go some way to solving the shortage of scrip.

He said it was striking that an increasing number of institutions today owned little or no traditional long-term gilts.

THE WEEK AHEAD by Simon Willson

Inflation rate will answer price claims

BDay 27/4/92 (153)

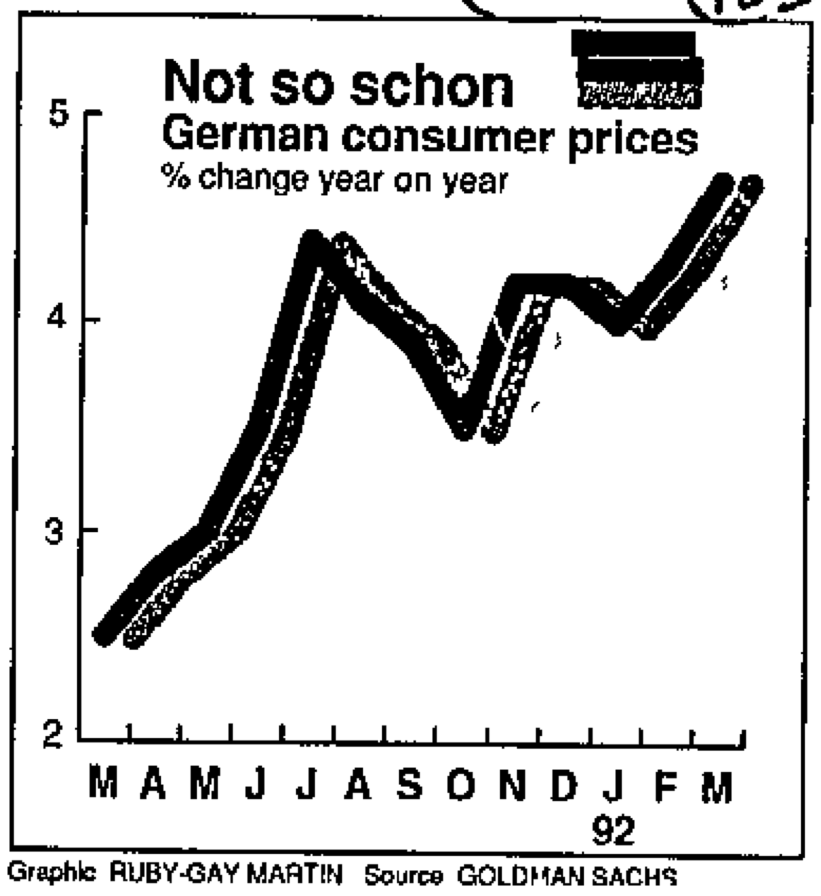
MARCH's inflation rate should be out early today, supplying the authorities' response to last week's claim that official statistics overstate food inflation Whether the March rate falls from February's 15,8% is almost incidental relative to the issue of who is right about food prices

If the Central Statistical Service (CSS) is to be believed, the 27% annual rate of increase in food prices is the main motor currently powering SA's seemingly unstoppable, double-digit inflation juggernaut If the grocery chain which last week published its own audit is right, food inflation is running at less than half the CSS rate and the economy is being suffocated by a needlessly tight credit squeeze

Internationally, this is a week packed with statistics from three of SA's four major trading partners One of the most interesting — and influential — is the German inflation rate for April, due by the end of the week (the Germans, like the South Africans, never say exactly when)

The increase in German consumer prices was running at a ten-year high of 4,7% in the year to March, but the pressures which have pushed German inflation above that of France and the UK for the first time in 19 and 25 years respectively should soon abate.

The sharp depreciation of the Deutschmark, from an average of DM1,53 to the dollar in the first quarter of 1991 to DM1,74 in the second, was a powerful boost to prices but the effect should now start to unwind In July the package of tax increases introduced in July last year to pay for



Graphic RUBY-GAY MARTIN Source GOLDMAN SACHS

reunification drops out of the prices index, and inflation could be headed for 3% later this year

Only hard evidence that 4,7% was the inflation peak in this cycle, together with moderate pay settlements this year, are likely to persuade the Bundesbank that nominal interest rates can be lowered This should allow sympathetic credit easings in other slowed-down economies such as the British and French, and may give the dollar impetus by trimming Deutschmark yields

The Japanese inflation rate for March is due out on Wednesday and, in contrast to the German rate, it has been steadily declining from a peak of 4% in January last year The rate will probably remain below 2% in the slowing economy, having been 1,8% in January and 1,9% in February The Japanese inflation rate is particularly influential at this time of year, as a large proportion of the national workforce enters the traditional "Shunto" — the springtime round of wage-bargaining

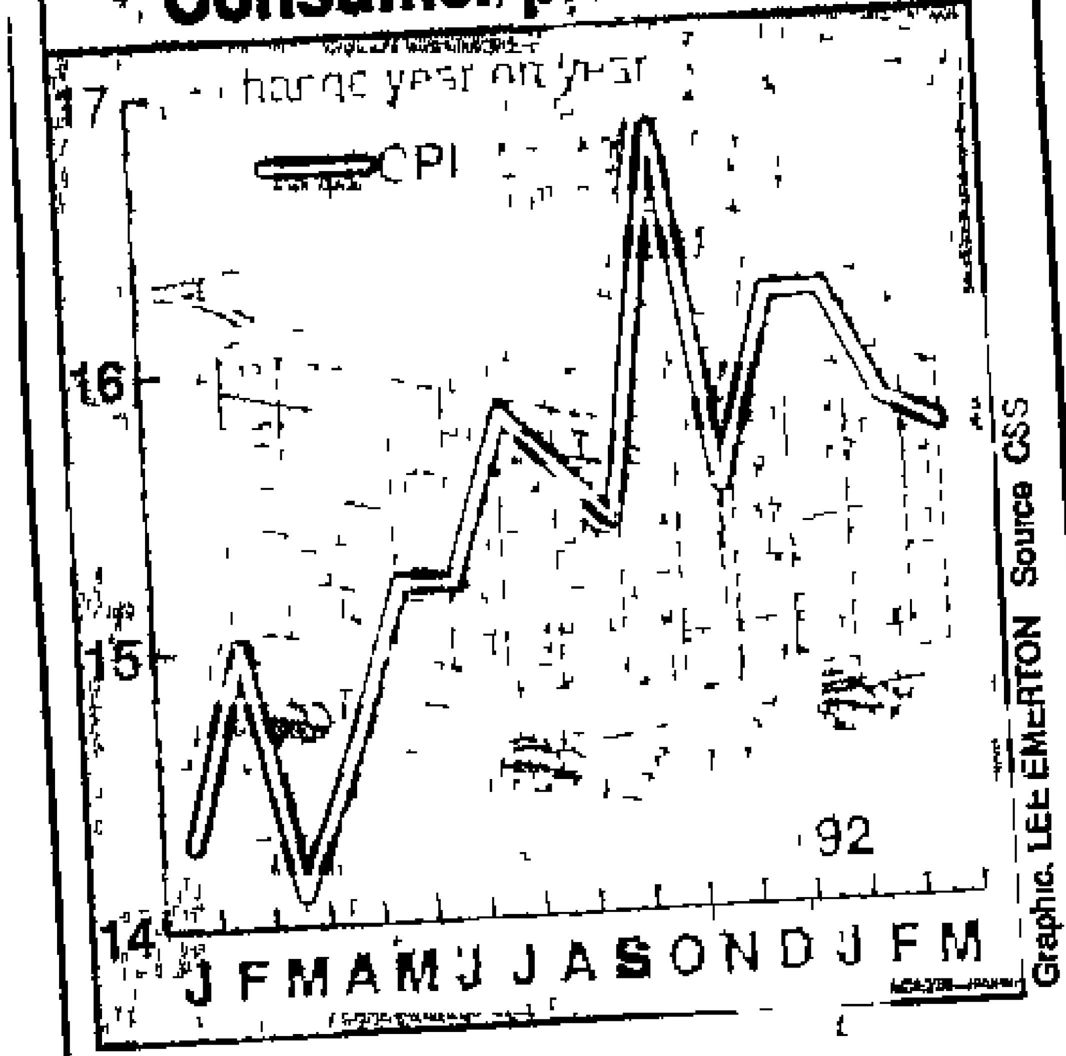
Japan's February leading indicator is scheduled for release tomorrow, and the portents are not good for a return above the 20 level — on an index where 50 is meant to be the watershed between economic expansion and contraction Even though the index's three-month moving average has been on a long-term downtrend since 1988, the bottom may not yet have been hit at the January level of 18,2

The key US figure out this week is the preliminary estimate of GDP performance in the first quarter, published tomorrow. After growth in quarters two and three last year ran at 1,4% and 1,8%, recovery seemed on the way, but a slump to 0,4% in the fourth quarter raised the spectre of the double-dip recession

All thoughts of a double-dip are likely finally to be dissipated by tomorrow's figure First-quarter activity has run strongly ahead, led by housing activity and consumer demand and supported by strengthening exports, and an annualised growth rate of 1,5%-2,5% is probably attainable after revisions to tomorrow's figure

On Thursday, the March level of US leading indicators is released and should be the third positive monthly outturn in succession This would also help to confirm recovery, since three of the last four monthly readouts in 1991 were negative The indicator was 0,8% up in February and a similar rise can be expected for March

Consumer price index



Food price inflation rises to 11-year high

SHERIDAN CONNOLLY

FOOD inflation climbed to an 11-year high of 28,9% in the year to March from 27% in February, Central Statistical Service (CSS) figuresreleased yesterday showed.

The rise was attributed to large increases in the prices of fruit, vegetables and grain products. B/Day 28/4/92

The overall rate of consumer inflation was 15,7% in March, 0,1 of a percentage point lower than February's 15,8%. Excluding the effects of VAT, the rate of consumer inflation was 14,5% in March

The annual rate of food inflation of 28,9% in March was the highest increase since 1981, when food prices climbed 29,5% in the year to March. Excluding food, the rate of consumer inflation in March was 12,5% against 13,0% in February.

Education costs rose sharply, according to the data, increasing 45,9% in the year to March as against 21,1% in the year to February. Notable monthly increases in the prices of food, education, clothing and footwear and personal care contributed to a 0,9% monthly rate of increase in the consumer price index in March, unchanged from February

Sanlam chief economist Johan Louw said although the inflation rate was more or less within expectations, the figures were "not good news" They showed food price inflation was still the main contributor to the overall inflation rate

He expected the rate of inflation to re-

☐ To Page 2

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Inflation B/Day 28/4/92

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☐ From Page 1

main above 15% for three to four months Technical factors should lead to a noticeable slowing down in the last quarter

Commenting on the 45,9% increase in the cost of education in the year to March, Louw said recent changes in the education system had definitely played a part in higher education costs

The food price component was "very worrying" because higher wheat prices in coming months as a result of drought conditions would put further upward pressure on food prices, Louw said

Old Mutual economist Rian le Roux said although the rate of food inflation was still cause for concern, the rate of consumer inflation excluding food was lower in March than in February. "We are making some progress," he said

● See Page 3

CT 28/4/92

Outlook for gold 'shockingly weak'

By AUDREY D'ANGELO
Business Editor

BARGAIN hunting and the weak financial rand caused top quality gold shares to edge up slightly on the JSE yesterday as gold fell in London to a six-year low of $335,70 an ounce

Portfolio managers and analysts held widely differing views on the outlook for the metal as investors waited to see if there would be a steep fall in gold futures when the New York Commodity Exchange opened.

Some forecast it would fall below a support level to reach $300 an ounce Others said it would fall no further than $330 at worst before bouncing back.

Matt Brenzel, head of research at Syfrets Managed Assets, said gold looked "shockingly weak."

There seemed no support factors, with supply good relative to demand But the weakness of the financial rand was making SA gold shares attractive to overseas buyers at present prices

The financial rand had fallen in spite of the Reserve Bank's announcement that it would act as a market maker to provide stability for the second-tier currency "Nobody wants the financial rand Obviously someone is selling it."

Rises of 2% in quality gold shares and 1% in rand hedge shares on the JSE were obviously currency-linked.

Paul Beachy Head, assistant GM (investment) at Southern Life, said it was lack of selling rather than strong support that held quality gold shares up "The financial rand has weakened more than the gold index There is no sign of (overseas) selling at these low prices"

A rise of 1,7% in mining financials was also financial-rand driven

Beachy Head did not foresee any improvement in the environment for gold and would not be surprised if it fell to the $300 level

He did not see the present prices as a buying opportunity 'Bargain hunting has been going on for a long time with speculators convinced gold is bottoming out.

"I am not saying it will fall to the $300 level but perhaps that is what we need to blow out all the ghosts There are speculators who need to be shaken out before the bear market is over"

Adrian Finch, gold analyst at Frankel, Max Pollak said he thought gold might go down to $330 but he did not believe it would fall to $300

"I think the whole gold sector is oversold Some of the quality gold shares are undervalued and I see them as buying opportunities I am fairly bullish in the longer term."

Rob Lee senior portfolio manager at the Board of Executors, said "Gold shares have fallen very sharply in the last three or four weeks and some are now up by about 1% from a very oversold position

"The gold price is pretty disappointing but the chances that gold will fall to $300 are very unlikely

"Physical demand for gold, from the jewellery trade, should be strong enough to support it at these lower levels and prevent it from falling further"

David Giese, gold analyst at Davis, Borkum, Hare said that although gold was on a downward trend he did not believe it would fall to $300 "Always buy on the down but I'd restrict myself to the better quality gold shares."

Giese said there was no oversupply of gold "If anything there is an under-supply Those who are still producing gold are slowing down This will result in a shortfall"

Wall Street

NEW YORK. — Sell programmes knocked Wall Street blue chips at the close for a second consecutive session yesterday

Weak bond prices added pressure in a cautious climate ahead of economic data and a quarterly refunding announcement later this week.

The Dow fell about 20 points or 0,6% to 3 305

"The market is just going to drift until we get an opportunity to look at the big announcement on Wednesday," a dealer said — Reuter

March inflation rate stubborn at 15,7%

CT 28/4/92 (153)

By AUDREY D'ANGELO
Business Editor

THE year on year inflation rate for March remained stubbornly high at 15,7%, slightly down from the 15,8% in February.

And food inflation climbed to an 11-year high of 28,9% (27%) in the year to March

But economists — pointing out that the effect of introducing VAT last October is still being reflected in the consumer price index (CPI) compared with a year ago — forecast a steep fall in inflation in the last quarter of this year to around 12%

Figures released yesterday by the Central Statistical Services show the month on month rise in the CPI between February and March was 0,9% Food rose month on month by 0,4% Education rose by the same amount and clothing and footwear by 0,1%

The cost of housing dropped by 0,3%, reflecting the 1% fall in mortgage bond rates

The drop in mortgage rates was one of the reasons that the CPI for the higher income group rose least, by 15,2% year on year

The CPI for the middle income group was up by 16,3% and for the lower income group by 16,7%

Rob Lee, economist and senior portfolio manager at the Board of Executors, commented "In the five months since VAT was introduced the CPI has risen at an annualised rate of less than 13% For the last three months it has been under 12%

"So the underlying inflation rate is 11% or 12% I think that's very positive and it's what the Reserve Bank is looking at in terms of inflation data

"When we have had another another month or two of such figures I think another cut in bank rate will be on the line.

"The CPI should be down to 12% or less by the end of the year and then we should get another bank rate cut."

Sanlam chief economist Johan Louw said said the CPI was "more or less in line with expectations.

"The worrying factor is that the food price index has gone up by 28,9% on an annual basis

"It is true that meat prices have come down a bit month on month — no doubt due to slaughtering because of the drought — but they have risen 33,6% year on year

"Prices of fruit and nuts are up by 57,1% year on year and vegetables by 57,4%, again no doubt because of the drought.

"Another big increase is in the cost of education, which has gone up year on year by 45,9%. This is a substantial amount.

"We foresee that the CPI for April, year on year, will be much the same as for this month It will stay on levels above 15% for the next two months

"The real decline will come in the last two months of the year, when the effect of VAT has come out of the system By the end of the year I think it will have fallen to 12,5% which means that the average for the year will be 14,7%"

Louw pointed out that the falling producer price index (PPI), and further cuts expected in interest rates, would help to bring the CPI down by the end of the year

Nils de Jaeger, an economist at the Stellenbosch Bureau for Economic Research (BER), said that the imposition of VAT on milk and other basic foods from April 1 must have helped to push up the food component of the CPI both month on month and year on year

But there were several factors that would help to push retail prices down towards the end of the year

They had started to rise in June last year in anticipation of VAT And some retailers had probably increased mark-ups to compensate for falling demand this year.

But this could not continue and the fact that consumers were short of money would put downward pressure on retail prices "They will have to come down to maintain sales"

Rand hedge shares feature

JOHANNESBURG — Rand hedge shares were the main feature on the quiet JSE yesterday as they posted sharp gains on the back of the weaker financial rand

The financial rand, which was quoted as low as 3,48/3,52 against the dollar during the day, closed at 3,47/3,49 on lack of lack of demand on the market, dealers said

Lifted by the gains in market leaders, the Overall Index closed 15 points higher at 3 386, while the Gold Index rose 11 points to 1017 Selective buying of index shares, helped lift the Industrial Index by nine points to 4 225.

Among rand hedge shares, or stocks deriving part of their income from offshore, Anglos jumped R1 to R111,75 and associate De Beers was 45c higher at R83,85 Minorco added 65c to R45,15 and Richemont firmed 30c to R33,10 Lonrho closed 15c up at R5,15

IMF readmits

From WILLIAM GILFILLAN
JOHANNESBURG —

the effects of inflation, ing favourably in the ever vices at short notice" their development

Fixed tariffs and inflation gobble profits

BDay 29/4/92 (153) ~~247~~ ~~248~~

CONTRARY to the popular belief that attorneys are unscrupulous profiteers milking clients for every cent, fixed tariffs, high overheads and inflation mean legal practitioners are not making the large profits people believe them to be

This is according to Peet Buys, who runs a legal management consultancy for the profession with partner Jane Mackenzie

Buys says because attorney's fees are fixed by legislation they do not keep up with inflation

The average firm faces an annual inflation increase in costs of around 20%

"To make profits attorneys must cut costs," says Buys, "but they can't because 85% of their expenses are fixed costs"

A large percentage of these would be labour costs and the rest made up of rentals, telephone and other expenses

Buys says that at a time when people cannot afford to pay more for legal services, increasing fees to meet a firm's costs is not the answer

He identifies four challenges facing legal practices in the 1990s

- ☐ Competitive differentiation — a firm must be different from its competitors,
- ☐ Quality of Service — what do clients expect and how do you measure this?

Produce

- ☐ Productivity — the ability to produce more with existing resources, and
- ☐ Communication with clients and staff

Legal firms, Buys says, will have to meet these four challenges if they are to survive in an increasingly competitive market

Sport generates a host of issues

BDay 29/4/92 ~~249~~ ~~248~~

SOUTH Africa's re-entry into international sport has created a demand for a whole range of legal services

According to Wend Wendland, an associate in Webber Wentzel's entertainment and sport consultancy unit, SA's re-admittance to the world sporting arena has created a complex competitive environment which requires legal input in a number of areas

Sponsorship

"Legal work is required in areas such as sponsorship contracts, the registration and licensing of logos and the acquisition of television rights

"It is an area of law which has grown enormously within the last year"

Wendland, who recently attended an international sports conference in New York, says Webber Wentzel's client base has increased substantially in this area

This has coincided with the growing recognition amongst Americans and others that the SA sports industry offers many opportunities

"The huge tax benefits introduced to encourage sponsorship of sporting events when SA was isolated have fallen away

"Sponsorship is now more costly and companies have to make the sporting event work from a marketing point of view"

Webber Wentzel acts for the National Olympic Committee of South Africa (Nocsa) and has been involved in the legal work associated with the Barcelona Olympics and the African Unity Games

Strategy mooted to beat inflation 'by mid-1993'

B17A1
29/4/92 SHERIDAN CONNOLLY (153)

IF THE Reserve Bank maintained zero growth in the monetary base, consumer inflation could reach zero by the middle of next year, Free Market Foundation chief economist Richard Grant said yesterday.

He told delegates at a conference at the Council for Scientific and Industrial Research in Pretoria the Bank was now following consistent, noninflationary policy. The growth rate of the monetary base (M0) had fallen from a high of more than 30% in the late '80s to about zero in the past two years

If the Bank maintained discipline on growth of the monetary base, "the CPI and M3 growth rates will both fall into single digits, as the PPI has already done If these conditions are maintained the inflation rate could reach zero by mid-1993, but I expect that the Bank, not being so ambitious, will ease up before then"

Provided economic freedom and monetary stability were embedded in a new constitution, inflation would fall faster than most economists predicted

Government had always had the power to stop inflation quickly. Rising wages, state spending and budget deficits were not necessarily inflationary, but government had used the Bank's money-creating facilities to finance the spending and debt.

He said belief that inflation was truly declining would be reflected in declining long-term interest rates and then in short-term rates. The rand could strengthen if the Bank succeeded in bringing the inflation rate below that of other currencies and political uncertainty diminished

Pressure to remove exchange controls would lead to end of the finrand

Mixed views on an end to recession

B/Day 29/4/92 (153)

LINDA ENSOR

CAPE TOWN — The economy was in the early stages of a modest "go-for-growth" phase, Southern Life chief economist Mike Daly said in the life assurer's latest Economic Comment

Adopting a relatively bullish stance, Daly said the economy should be on a renewed growth path by the second half of the year

But Board of Executors senior portfolio manager Rob Lee was a bit more restrained

Writing in the latest Investment Outlook, he said while the early stages of an economic upswing would appear in the second half, there were no signs as yet that the recession was over

Daly said export volume growth was expected to be stronger in the second half, coinciding with the accelerating economic growth rate overseas, and could reach about 3% for the year

However, pessimism was sounded on the possibility of private consumption expenditure (PCE)

"Consumers' inability and unwillingness to spend must continue to have an adverse impact on PCE," Daly said

He forecast an inflation rate of 13,3% by year-end, to give an average of 15,1% (15,3%), with the drought adding an approximate 0,5%

Lee expected the inflation rate would be 12% or lower by year-end, and said there was good evidence that the underlying inflation rate was 12% or less

Daly expected a further percentage point drop in Bank rate this year with perhaps another early in 1993, while Lee forecast two cuts of about a percentage point each this year — one in July/August and another towards the end of the year

'Zero inflation by '93'

(153)

CT 29/4/92

Own Correspondent

IF THE Reserve Bank maintained zero growth in the monetary base, consumer inflation could reach zero by the middle of next year, Free Market Foundation chief economist Richard Grant said yesterday

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If these conditions are maintained the inflation rate could reach zero by mid-1993, but I expect that the Bank, not being so ambitious, will ease up before then"

Provided economic freedom and monetary stability were embedded in a new constitution, inflation would fall faster than most economists predicted

Cape Town inflation higher than average

153 ARGT 29/4/92

WILLEM STEENKAMP
Staff Reporter

CAPE TOWN had one of the highest inflation rates in the country between March 1991 and last month — 1,2 percent above the national rate

According to Central Statistic Service figures, the cost of living in Cape Town in March was 16,9 percent higher than it was in March last year.

The consumer price index showed inflation to be highest in Cape Town (16,9) and Maritzburg (17,7) and lowest in the Vaal Triangle (13,2 percent).

The inflation rate for the whole of South Africa slowed by 0,1 percent to 15,7 percent in the year to March, compared with 15,8 percent in the year to February

Port Elizabeth-Uitenhage had an inflation rate of 14,6 percent in the year to March, East London 15,5, Pretoria 14,1, Durban 15, the Witwatersrand 16,3 and Bloemfontein 14,2 percent

Retired people in Cape Town faced an even higher cost of living increase between March 1991 and last month The inflation rate for pensioners in the Peninsula and Maritzburg stood at 17,3 percent, while the rate for pensioners in the Vaal Triangle was only 13 percent

A spokesman for CSS emphasised that the inflation rates in various urban areas were not comparable with one another, but indicated the rate in a specific area compared with the rate in the same area the previous year.

Earlier CSS figures showed that according to the Consumer Price Index, Cape Town was the most expensive city last year

Although the national inflation rate slowed last month, food inflation climbed to 28,9 percent, the highest rate in 10 years

The inflation rate for the lower, middle and higher income groups for the year to March was respectively 16,7, 16,3 and 15,2 percent

The monthly rate of increase — March compared with February — for all items was 0,9 percent.

According to CSS this was because of increases in the indices for food (0,4 percent) clothing and footwear (0,1), education (0,4) personal care (0,1) and all other items (0,2 percent)

...but money supply growth curbed

THE Reserve Bank revealed money

W/Mail 30/4-7/5/92 (153)

AROMETER

(153) W/Mail 30/4-7/5/92

supply growth as measured by M3 — the amount of money in circulation and in deposits in banks — fell to 10,5 percent, which is within the Bank's 1992 target range. This bodes well for the Reserve Bank's fight against inflation since curbing the growth in money supply is one of the Bank's ways of preventing the erosion of the rand's buying power Observers predicted the depressed demand for credit would push year-on-year M3 growth to single digits in the next few months

Planning must allow for inflation

STAR 30/4/92

By GARY CREESH
General Manager, Personal Financial Planning, Nedcor

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IfO3OInflation has to be an integral part of every investment decision and for most SA investors, learning to cope with inflation has been a difficult lesson to learn

When unit trusts were first introduced in SA in 1965, a large part of the sales propaganda surrounding them was that all investors needed some growth-orientated investments to cope with what they believed was horrendous inflation of about 2,5 percent

But it took the arrival of inflation rates of 20 percent in the 1980s before most investors really understood what it meant

For a long time, the government and other commentators believed the rising inflation rate was like the flu virus it would go away Commentators are now saying that inflation is structured into our economy and is not likely to go away

Inflation has an enormous effect on all capital accumulation, savings and investment plans If we wish to maintain our standard of living in retirement for example, we would need to have a growing income If it was part of our savings plan in 15 years' time to have sufficient cash to go to university, we need to estimate the cost 15 years from now.

The pernicious effect of inflation is further complicated by tax and when one tries to calculate how to get a real return on your money, with an inflation rate of 10 to 15 percent and a tax rate of between 40 and 45, the need for good planning becomes clear

Inflation: public enemy No 1

STAR 30/4/92

By GREG CULHANE
Assistant General Manager, Marketing, The Board of Executors

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That inflation has become the most important criterion when selecting investments is not really in question.

In an economy where inflation is insignificant and real rates of interest prevail, investors find themselves in the most invidious position of having the choice between pure income yielding, extremely low-risk investments or higher-risk growth investments, both offering a real return over time.

In SA, however, with inflation anywhere between 15 percent and 22 percent a year, there are no low-risk cash investments yielding an after-tax return in excess of inflation.

Even the high-yielding mortgage participation bond paying between 17 percent and 18 percent a year quarterly in advance doesn't come close to offering a real rate of return after tax — unless the investor in cash investments, even when all interest is reinvested, reduces his wealth by between three and seven percent a year.

It therefore becomes reasonably apparent that investing in pure interest-bearing deposits should only be contemplated where income from the investment is required to supplement other income, or where the capital is required for some transactions motive and consequently cannot be tied up for a lengthy period of time.

To exacerbate the problem of Third World inflation, investors are further subjected to an extremely turbulent and uncertain future due to profound political change.

I believe that by following a number of basic rules, inflation can be beaten while still maintaining complete peace of mind.

Rule No 1
A knee-jerk reaction to an uncertain future is to take a wait-and-see approach.

Investors who have placed themselves on hold over the last 12 months have missed a growth of more than 30 percent on the stock market.

Rule No 2
Breaking rule No 2 often results in breaking rule No 1. Any capital growth investment requires a long-term commitment (minimum three years).

Because the future is so unpredictable, to concern yourself over what may or may not happen over the next three or six months is futile.

In the longer term, troughs and peaks even out and result in a smoothed upward trend often substantially ahead of inflation.

Rule No 3
One of the greatest risks you take is investing in a product which offers an exceptionally high return with little or no risk.

In reality these products do not exist. No matter how safe the investment appears, discuss all aspects of risk with your advisor.

As the projected return on your investment increases, there can be no question that the risks involved are also increasing.

Rule No 4
It is a fallacy to assume that in order to beat inflation, you need to dabble in the unknown. Always be open minded to new ideas but never involve yourself in an investment you do not fully understand.

On the high risk side, you can purchase shares on a hunch or a tip. Lower down on the risk scale, you can use the expertise of a portfolio manager to buy and manage shares on your behalf.

Risk is further reduced by purchasing unit trusts, which spread your investment over a wide range of shares.

A Secured Growth Plan, currently offered by The Board of Executors, reduces risk even further by allowing for growth on the stock market without the risk of capital loss.

Rule No 5
This relates particularly to property investments, where the income yield from the property is sufficient to repay the interest and capital of the loan facility.

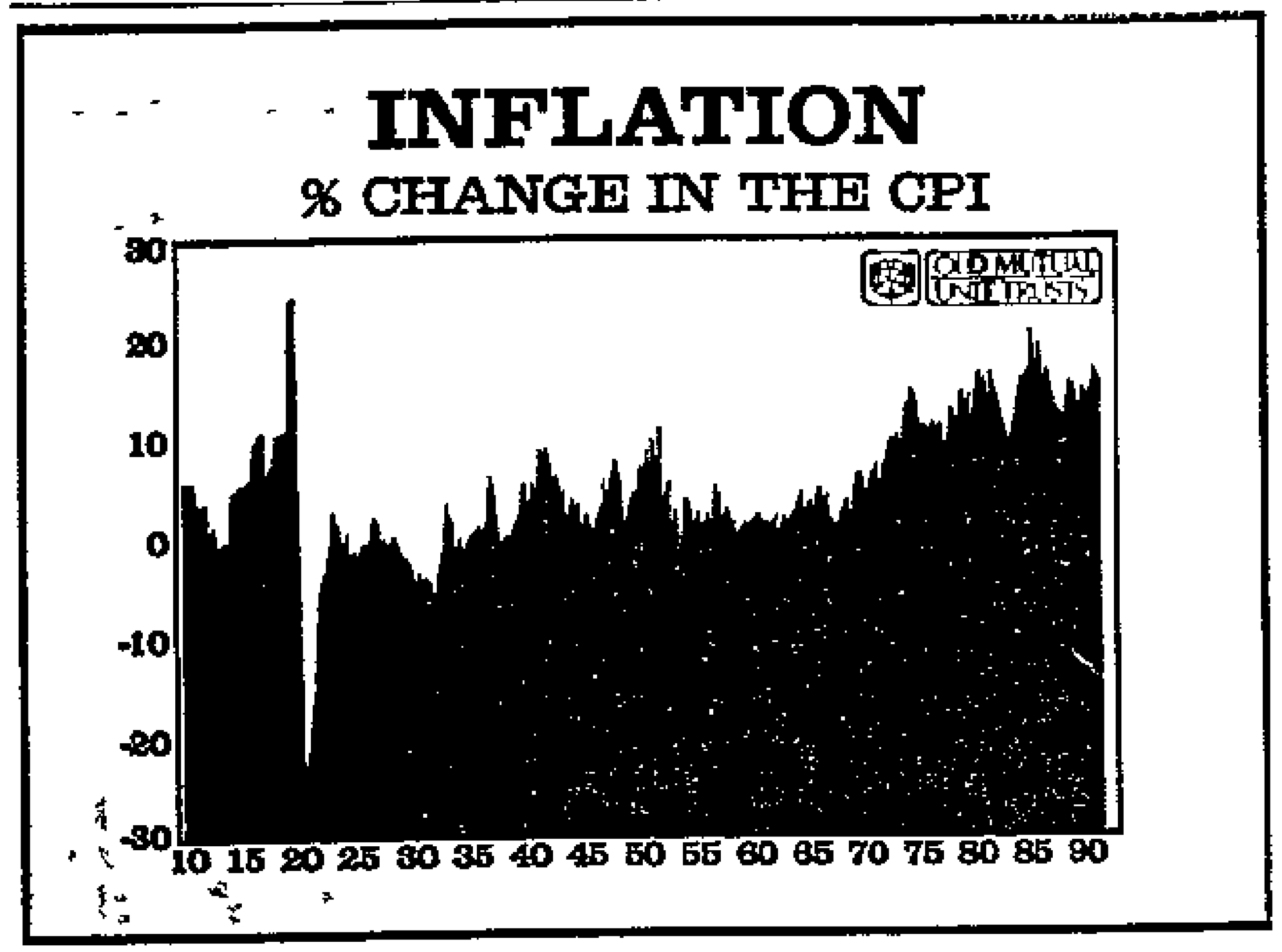
Gearing works, provided the cost of borrowing is lower than the projected return on your investment. If this is the case, you are in effect borrowing someone else's money to provide an additional return on your investment.

This is facilitated by the fact that interest on your loan can be deducted for tax purposes from income received, while the capital growth of the investment remains tax free.

Rule No 6
If income is required, look for investments which provide a return not necessarily interest related. When you are reliant on income from your investment, nothing can be more disturbing than interest rates falling while inflation is rising.

The obvious alternative is an investment in property.

Rule No 7
Following rules one to six will result in the seventh rule — to sleep well at night — being kept. Ask questions, continuously discuss alternatives and, most importantly, deal only with companies and finance houses which are beyond reproach.



The negative trend of inflation

STAR 30/4/92 153

This graph, compiled by Old Mutual, illustrates just how severely inflation has impacted on the living standards of South Africans during the past two-and-a-half decades.

Going back to 1910, the graph traces the year-on-year inflation rate, showing how it soared during World War I and then went substantially negative when hostilities ceased.

Inflation went negative again during the 1929-30 Depression and remained at relatively low levels right up until 1965, when the upsurge in government spending began pushing the figure towards the double-digit range that has been a negative feature of the South African economy.

How to combat inflation

STAR 30/4/92 (153)

By Chris F Visser, Metropolitan Life Economist

Inflation has been labelled enemy No 1 by policy-makers in this and other countries

To beat the enemy thou should know thou enemy

So what is inflation?

A formal definition would read like this "Inflation is the consistent devaluation of a currency or the continued rising of the general price level"

This definition does not tell us much, except that we are dealing with a phenomenon much more complex than the simple rising of prices It concerns the value of money rather the prices of goods It is in this respect that economists disagree whether inflation is a monetary or real phenomenon.

When realising this, it becomes clear why monetary and fiscal policies in SA have largely been unsuccessful in dealing with the problem

There is another argument about how we measure inflation

The Consumer Price Index and the Producer Price Index vary considerably and have little bearing on the buying power of the rand overseas The exchange rate, therefore, should also be taken into account

The matter gets more complicated if one takes into account that we have a dual exchange rate system and differentiated taxes

To simplify things, one should simply consider the change in the CPI as inflation for consumers and the change in the PPI as the inflation for business

The fact is: We know that inflation exists, but how do we cope with it?

Inflation is the systematic change in the relation between money and goods — yet another definition, and how does this help us? In this definition is the essence of the problem and therefore, perhaps, a solution

If you have nothing inflation will have no impact on you. The more wealth you have, the more impact inflation will have on you

In the inflationary years of the '70s, the advantage holders of goods had was distinct Those who had borrowed heavily to purchase real assets, goods, stocking up at ever inceasing prices, did beat inflation hands down Inflation ate up their debt and increased their income by appreciation of assets Beating inflation in the '70s was easy

By 1984 things changed Tight monetary policy forced up interest rates steeply Borrowing became more difficult.

The result was that consumption and investment dropped.

What can you do to combat inflation?

The poor private individual can do only three things with his income

He can:

- Spend it.
- Save it.
- Invest it

Spending is trying to avoid the problem and will ultimately only cause further inflation.

That leaves investing or saving What's the difference? For our purpose, we say that saving is putting money into an account that earns some interest, fixed or flexible Investing is exchanging funds for some asset that will hopefully appreciate

For this stage in our economic cycle, investment of some sort seems to be the best choice to beat inflation.

Saving in a savings account or fixed investment looks unattractive, as the interest rates on savings are only marginally above the inflation rate — and falling

The opportunity for investment in stocks and bonds is good for the same reason that the opportunities for saving are bad Short-term interest rates are coming down This is the best time to invest in equities, although earnings and dividends are currently low

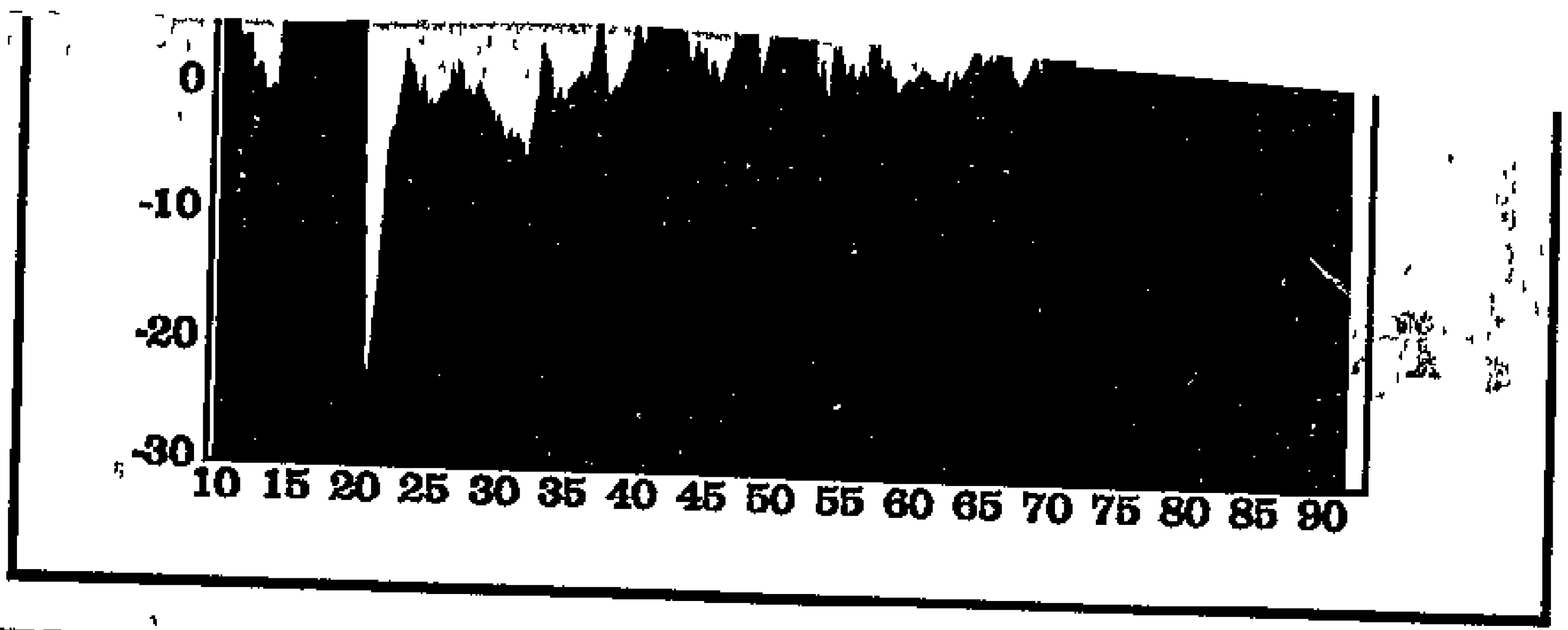
Dividend income of individuals is not taxed and capital appreciation (for the moment at least) in most cases is tax free as well

Here I stress that this does not mean that there is no risk The equity market is historically expensive and there is a real risk of a correction

Inflation by its nature will always favour those that have real assets and discriminate against those with cash

The interest rate and the economic cycle can upset this basic philosophy, as in the late '80s, when cash became king

If you can't beat them, join them You join inflation if you make it work for you — that is, make sure that you have lots of real assets and little or no current assets



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Unisa expects mid-year rates cut

Retail prices 'will outstrip inflation'

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BDay 4/5/92

GERALD REILLY

PRETORIA — Retail price increases will far outstrip the inflation rate and consumers will have less disposable income this year, Unisa's Bureau for Market Research has predicted.

The biggest single item increase would be food, which would go up by 22,3%, according to the bureau's retail forecast for 1992 released today

The Unisa survey comes hard on the heels of rises in maize and sugar prices which economists predicted would have a ripple effect on other food prices.

The industry price of sugar will go up 14,5% from next month, while the Maize Board increased its selling prices to the trade on Friday by 14,2% for white maize and 13,4% for yellow maize

The Bureau for Market Research expects there will be a further reduction in interest rates at about mid-year, which could keep the housing cost increase down by two percentage points This will exert further downward pressure on the inflation rate.

Inflation was expected to run at 14,6% this year, falling to 12,7% by December.

The expectations were based mainly on two assumptions — a one percentage point drop in the Bank Rate by mid-year and a return to normal agricultural conditions by the year-end.

VAT, levied from September last year, would be a major cause of the expected sharp increase in food prices.

The rise in the prices of other items would be due to increases in customs and excise duties from March 18 this year.

The bureau pointed out that VAT on foodstuffs would strengthen the informal retail sector's position because few formal businesses had annual turnovers of less than R150 000 — the level at which vendors had to register for VAT. Very few informal sector businesses were registered vendors.

It was expected that food sales would rise by 2% during the year. Informal food retailing, however, would expand its market share by 4% The bureau also said retail spending by blacks would almost equal that of whites this year.

Of an expected retail sales volume of R82,25bn, the bureau believes whites will account for R38,6bn or 43,3%, blacks R35,3bn or 42,9%; coloureds R7,57bn or 9,2% and Asians R3,78bn or 4,6%

The "non-white" groups have a more than 50% share of the market for 11 of the 19 merchandise groups — including food, non-edible groceries, alcoholic and non-alcoholic beverages, cigarettes, footwear, clothing, furniture and TV and radio sets

The bureau estimated an average price increase in total retail sales of 16,6% — some two percentage points higher than the expected inflation rate.

However, retail sales represent only about 41% of total consumption expenditure. The price of non-retail items would probably not rise by more than 13,2%

Personal disposable income (after tax) was expected to be 1% lower than 1991 and private consumption expenditure 0,5% lower, in real terms

However, marginal benefits should come from the Bank rate falling to 15% by the year-end and mortgage rates two percentage points lower

Anti-inflation planning 'vital'

SHERIDAN CONNOLLY

INFLATION was a horrific enemy of savings and financial planning was vital in the current inflationary environment, Fedlife MD Morris Bernstein said yesterday BDay 7/5/92

Addressing a seminar in Johannesburg, Bernstein said planning for financial security was important because, with inflation around the 15% level, the value of money would have dropped 50% in five years' time

"SA has been battling against double-digit inflation since the '70s — the future government of SA will need a lot more money for social spending on health, housing, and education and it will be very difficult to get inflation lower in the new SA

"Because of the prevailing inflation climate, prosperity today is financial destitution 10 years down the road," Bernstein said

Bernstein said it was only "more mature economies" which had been successful in their fight against inflation Most of SA's main trading partners had been able to bring their rate of inflation below 10% 153

Financial institutions provided investment instruments for clients' short- and long-term needs The industry had moved away from mass products and had developed products specifically suited to individuals

Women's role in business had changed dramatically as a result of the shortage of skilled manpower and skilled management Consequently there was a new market for financial insurance aimed specifically at women, he said

NEWS IN BRIEF

Help for AIDS victims

THE Cabinet had decided to contribute R100 000 to an AIDS victims' fund and to match, rand for rand, subsequent contributions to the fund, Minister of National Health Rina Venter said in Cape Town yesterday.

She said the idea of financial assistance to people who had contracted AIDS after receiving infected blood, before the introduction of tests, was strongly supported. BDay 8/5/92

Her department had therefore set up a fund which would be administered by the SA Haemophilia Foundation and other parties.

Violence a barrier

THERE was room for increased bilateral economic relations between France and SA, Christian Graeff, leader of a 30-member Confederation of French Industries and Services delegation, said in Johannesburg yesterday But violence discouraged investment.

Visit by Quayle's wife

THE wife of US Vice-President Dan Quayle is expected to pay a humanitarian visit to drought-stricken areas of SA before the end of the month. Foreign Affairs will be talking to the US government about the visit today

Shorter air route

LUFTHANSA has cut its flying time between Johannesburg and Frankfurt by up to 30 minutes —The airline obtained permission to overfly Chad, giving its aircraft a more direct route between Germany and SA.

REPORTS Sapa Business Day Reporter

Better business mood last month

BDay 8/5/92 153

SHARON WOOD

TENTATIVE signs of better economic conditions were reflected in a slightly higher level of business confidence in April.

Sacob's monthly Business Confidence Index (BCI) released yesterday showed an increase in the index for the second consecutive month to 88 in April from 87,7 the previous month.

But Sacob economist Ben van Rensburg cautioned against expecting an economic recovery too soon. "The improvement in the BCI probably reflected the hope of better things to come, rather than current economic realities," he said.

Clearer signs of an economic revival would probably emerge in the fourth quarter this year and the upswing would only take place in 1993, when Sacob forecast 3% growth.

During April a stronger finrand, higher imports, retail sales and manufacturing production and a marginally slower rise in consumer inflation contributed towards the slight increase in the index

Negative influences on the index were the gold price, commercial rand, share prices, insolvencies and business plans passed.

Van Rensburg said a measure of the present vulnerability and fragility of business sentiment was that the index responded to volatile factors

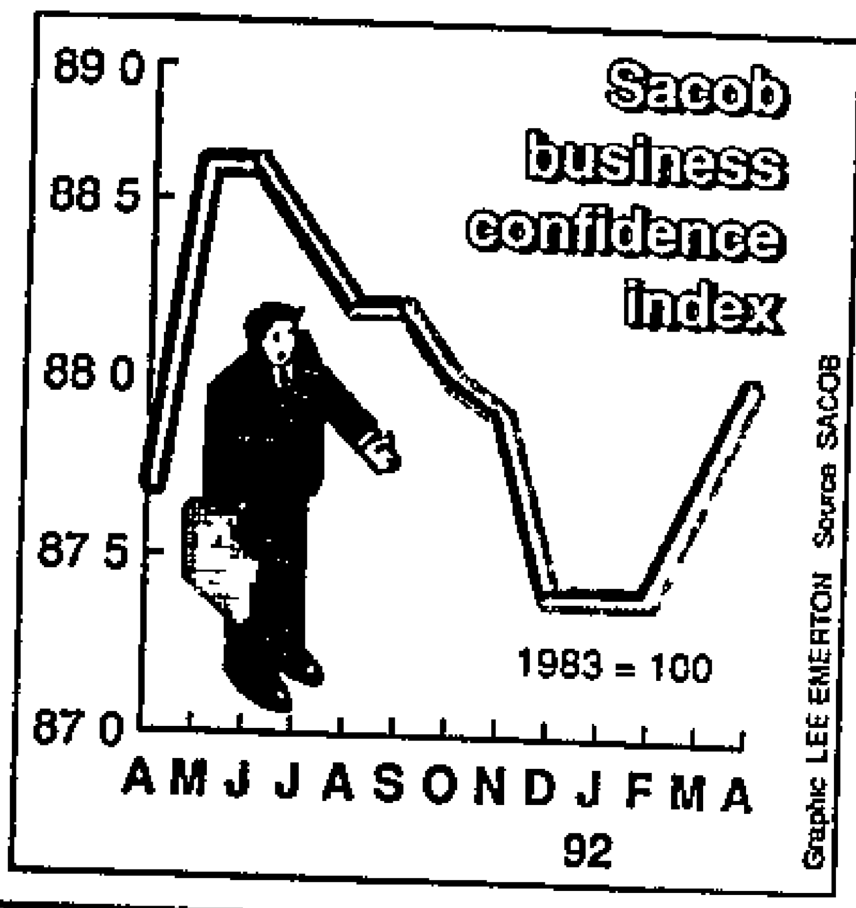
He said that if positive elements that recently helped bolster the business mood were sustained, the foundations for a more sustained recovery in business confidence and the next economic upswing would have been laid

The timing and extent of the recovery would hinge on the impact of the drought, increased activity in major industrial economies, the ability of the political process to underpin business confidence and the impact this had on investment plans

Sacob urged the Board of Trade and Industry to release its food price survey as soon as possible for debate, because delays would erode confidence in economic management

Consumer inflation would probably follow the direction of producer price inflation fairly rapidly in the second half of the year. "If this happens, interest rates may decline by another two percentage points by the end of the year," van Rensburg said

The divergence between producer and consumer inflation was a worldwide phenomenon, but SA's differential was much larger then the rest of the world's. This could be a result of higher inflation, he said



St Georges Mall traders are 'being forced to quit'

By JESSICA BEZUIDENHOUT

S Times 10/5/92 (153) [Cape Metro]

CAPE TOWN'S St Georges Mall is in danger of losing some of its appeal with hawkers increasingly being forced to stop trading there

Confusion exists about the applicability of a law, embodied in the Businesses Act, which came into effect in January

When it was first introduced, the Businesses Act was heralded as a major breakthrough because it scrapped the need for a multitude of smaller businesses to get licences

However, street vending would be prohibited in certain areas identified by the Administrator, said advocate Mr Johan Naude of the Small Businesses Development Corporation (SBDC) this week. He said the confusion "needs to be tested in court"

According to Mr Naude the council is stringently enforcing the local by-laws — which declare prohibited areas and require hawkers to have a permit from the traffic department to trade

Although hawkers trading in wares other than foodstuffs no longer need licences, the premises from which their businesses are conducted must still comply with certain town planning requirements

Impound

Despite the fact that St Georges Mall is still considered a "street", it is not clear which provisions of the Businesses Act are being contravened by hawkers in the Mall, Mr Naude said

The Act also makes it a criminal offence for street hawkers to carry on business in such a manner as to "obstruct the free thoroughfare of pedestrian and vehicular traffic on a public road, obstruct free access to any fire hydrant, local authority service or local authority service works or to constitute a traffic hazard"

Provision is also made for the removal and "impounding" of goods from a prohibited area if the owner refuses to remove his wares.

Some of the hawkers who have applied for permits said they have to wait too long As winter is approaching, they will soon be unable to do business

One hawker who is still trading in the Mall said she would soon be forced to stop trading because of continuous harassment by traffic policemen

The woman, who did not want to disclose her name, said she would rather give up than face having her goods confiscated by "threatening" traffic policemen and also having to pay a R30 fine

Meanwhile hawkers have to wait patiently for the legislation to be reviewed later this year

Mr Allen Dolby, of the City Administrator's department, said the new legislation would not come into effect until after June. It would allow hawkers more "freedom" as to where they could trade, but they would still be subject to "certain restrictions" as the city council did not want to "create another flea market in St Georges Mall"

THE WEEK AHEAD by Simon Willson

SA recession has not yet run its course

BDay 11/5/92 153

THE return to strong economic growth next year that has been so confidently predicted recently is likely to appear a hazy and distant prospect later this week when the latest quarterly economic growth rate is published

Release of the data showing the change in inflation-adjusted GDP for the first quarter of 1992 is due in the next few days The figures will probably be a reminder that the economy's longest — but, as the chart shows, not its deepest — post-war recession still has some way to run

Eight of the last nine calendar quarters posted a contraction in the economy, hauling down the country's national income per head by about 5% over the past two years Few pundits expect the rigorous shake-out of the economy that this represents to be over until the second half of this year

Forecasts

Real, quarter-on-quarter annualised GDP shrank again by 0,6% in the fourth quarter of last year, after peeping above the parapet and registering the first positive outturn for two years at 0,5% in the third quarter.

Succeeding data look set to reinforce the perception of that third-quarter positive readout as a false dawn

Various forecasts published last week estimated that first quarter GDP would fall by between 0,5% and 1%, temporarily deepening the recession again

A contraction within such a range would be the biggest slowdown in economic activity since the 1,5% posted in the first quarter of 1991, and an abrupt reversal of the tentative bottoming-out in the recession in the latter part of last year

Personal spending has collapsed in real terms, finally giving way to the pressure of the rising individual tax burden, freezes or cuts in real earnings and short-time and retrenchments in industry

Real investment has also slumped, reflecting high real interest rates and a general lack of confidence

The sluggish performances of these key areas of the economy, together with other constraints such as the slow pick up of demand in recession-hit trading partners and the effects of the drought, seem to signal futher successive quarterly declines in the GDP in the first half of this year, to be succeeded by positive outturns in the second half

Internationally, the level of US interest rates is likely to be the main topic of interest in the markets this week. The Bundesbank, Germany's central bank, left its official rates unchanged at last week's meeting of its policy-making council, this week it is the turn of the US central bank, the Federal Reserve, to think about its credit stance.

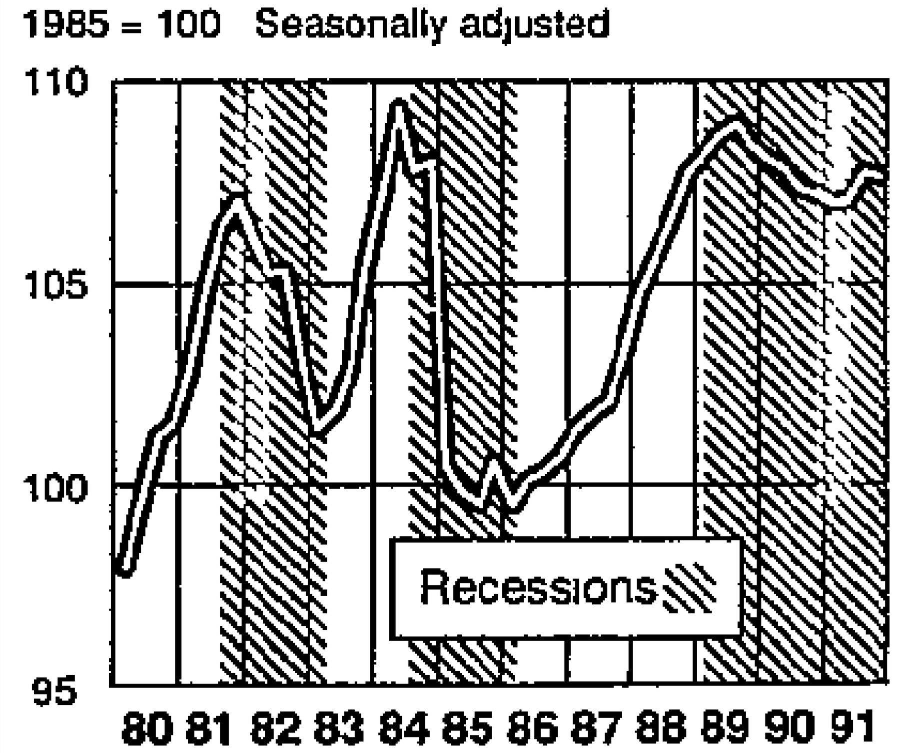
Tomorrow the Federal Open Market Committee meets, ahead of a clutch of US figures detailing activity in industry and among consumers

After a disappointing money supply

The recession: long, not deep

Real GDP

1985 = 100 Seasonally adjusted



Graphic FIONA KRISCH Source SA RESERVE BANK

figure last week, this week's US indicators will need to show strength if another cut in US rates is to be forestalled

On Wednesday, US retail sales for April are released The figure showed a surprise monthly drop in March — the first decline since last October — although the weakness was concentrated in non-durables Because the dip was patchy and not across the board, and was partly a retracement of a first-quarter surge based on post-Christmas discounting, the uptrend could be resumed in Wednesday's figure

US industrial production and capacity utilisation data for April are due for release on Friday, and should extend a series of solidly positive recent outturns

The 0,2% rise in industrial production in March, following the 0,5% February increase, comprised the first pair of successive monthly increases in this indicator since June and July last year. Capacity use, meanwhile, edged up to 78,1% in March from February's 78%, and should advance further in sympathy with the strength of the purchasing managers' index, which often leads capacity take-up.

Two key inflation figures are due for publication this week

The annual rise in US consumer prices for April is scheduled for release on Wednesday and is unlikely to vary much from the 3,2% posted for March As the economy hesitates on its recovery path, this relatively low inflation rate is the last thing US economic policymakers have to worry about

Buffer

Friday sees the emergence of the UK's April inflation rate, which is expected to tick up from its March level of 4%, but for largely technical reasons The general confidence of the British authorities about the outlook for UK inflation was evident in last week's half-point base rate cut, and an inflation rate of up to 4,4% on Friday would hardly rock the boat

With German inflation at 4,7% and last week's inflationary pay settlement in the German public sector still to filter through to the price index, sterling has a buffer against the Deutschmark — unless and until the Bundesbank hits back at the pay deals by raising rates

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Tomorrow the Federal Open Market Committee meets, ahead of a clutch of US figures detailing activity in industry and among consumers

After a disappointing money supply figure last week, this week's US indicators will need to show strength if another cut in US rates is to be forestalled

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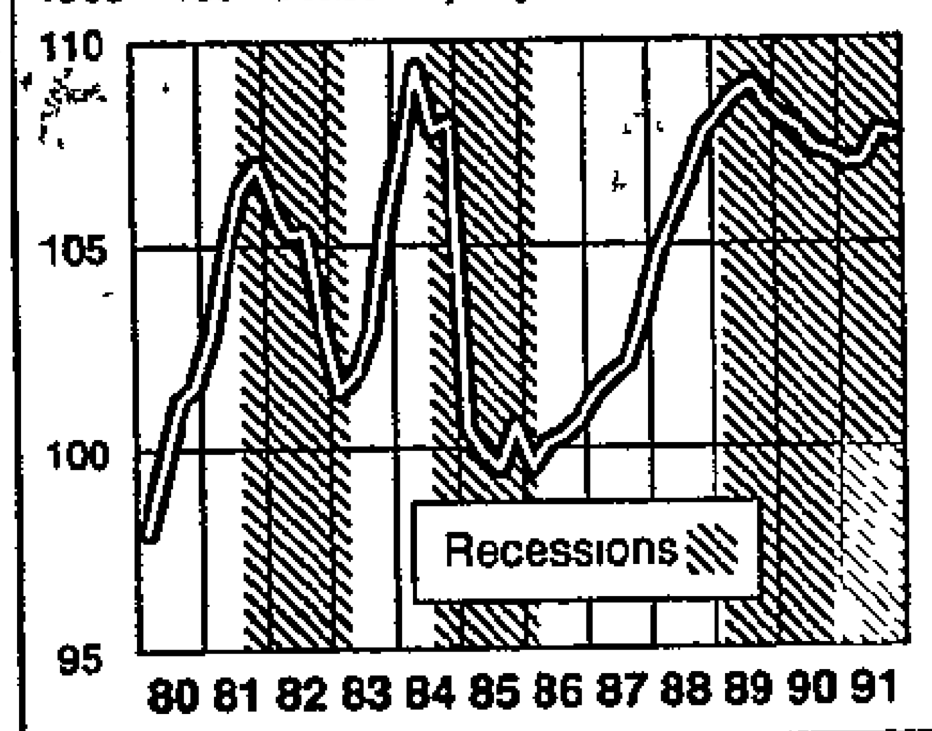
The recession: long, not deep



Graphic: FIONA KRISCH Source SA RESERVE BANK

Wage increase pacts exceed inflation rate

B/Day 11/5/92 (153)

DIRK HARTFORD

PAY increases exceeded the inflation rate in three wage settlements in the past week

Wage increases of between 18% and 28% for contract cleaners were agreed upon in negotiations between the Transport and General Workers' Union (T & GWU) and the National Contract Cleaners' Association for Natal

This brings the minimum wage for contract cleaners to R610 a month

The agreement follows five months of negotiations after a five-week strike by 8 000 cleaners last September.

Also agreed upon was transport for night workers, guaranteed maternity leave, various shop steward rights and a commitment to literacy training.

This agreement will be gazetted in an industrial council for the industry in Natal, which the parties have agreed to establish in July

The NUM and Anglo American Property Services (Ampros) reached agreement on increases ranging from 14% to 17%, bringing the national minimum wage for Ampros workers to R1 000 a month

The increases, which will be implemented in June, are retrospective to April

The third significant wage settlement followed the Pep Stores strike in Port Elizabeth. The SA Clothing and Textile Workers' Union settled for a 17% wage increase

□ Meanwhile, 12 000 cleaning workers outside Natal are in dispute after employers reversed a decision to form a national industrial council

Output fall keeps SA in recession

BDay 15/5/92 (153)

SHERIDAN CONNOLLY

SA remains firmly in the grip of recession, with latest figures showing one of the largest quarterly declines in national output in more than two years of steady economic contraction.

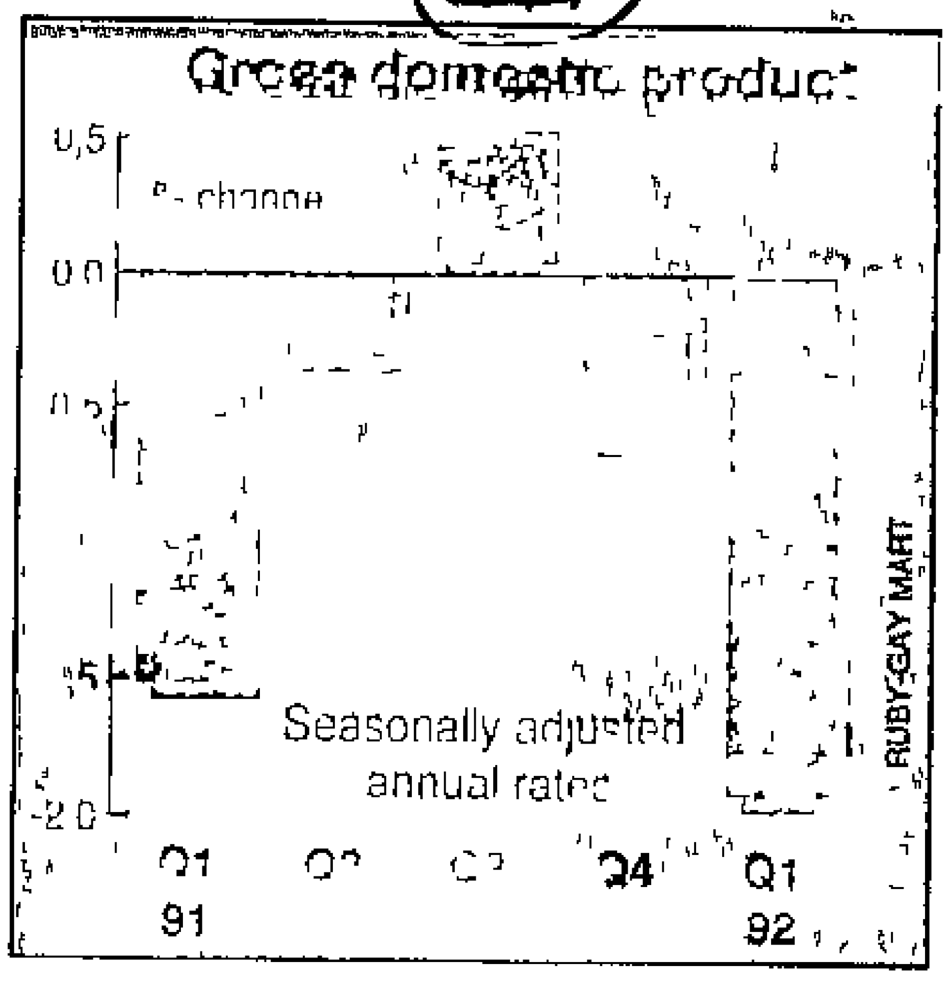
A considerable fall in agricultural production was the main force behind the March quarter decline, preliminary GDP estimates released yesterday showed

Central Statistical Service (CSS) figures showed national output, as measured by the inflation-adjusted change in GDP, declined 1,9% in the three months to March in seasonally adjusted terms from a decline of 0,6% in the fourth quarter of 1991, and growth of 0,5% in the third quarter

The CSS said the fall in GDP in the first quarter of this year was the largest quarterly decline recorded since the three-month period to December 1989 when GDP fell 2,0%

The negative growth rate in the first quarter was attributed to a 15,8% drop in agricultural production, which had increased 4,9% in the previous quarter

Real GDP declined for the fifth successive quarter, decreasing at a seasonally adjusted rate of 0,9% in the latest quarter



Negative real growth rates were recorded due to decreases in the seasonally adjusted production levels of manufacturing, construction and trade.

In real terms, manufacturing production declined 3,2%, construction was 8,2% lower, and trade dropped 3,2% Mining production showed a 1,9% increase.

☐ To Page 2

Output drop

BDay 15/5/92

From Page 1

Except for the positive growth rate of 0,5% recorded in the third quarter of last year, the economy has been contracting for the past nine quarters in nominal terms The generally accepted formal definition of recession is two consecutive quarters of economic contraction

Nedbank chief economist Edward Osborn said growth prospects had been dominated by the negative effects of agricultural production The sector's poor performance reflected the severity of the drought and also the collapse of maize production

The maize harvest had declined substantially and prospects for a good wheat crop were bleak. Some agricultural sectors, such as deciduous fruit production, had, however, recorded relatively good production levels

Osborn said lower growth in most sectors of the economy showed the recession was "still very much with us" A small degree of recovery with regard to the volume of gold production had contributed to some growth in the mining sector

The positive rate of economic growth recorded in the third quarter of last year was, ironically, attributed to a good agricultural crop, Osborn said Implications for economic growth for the remainder of this year had been affected by the drought, and the overall growth rate for 1992 should be zero or even show a decline

Osborn said the only chance for economic growth this year was in SA's export potential, but improvement would be limited by recovery rates in the international economy Any benefits from a recovery in the world economy would be felt only in the fourth quarter of this year

Higher levels of government spending would be inadequate in boosting domestic demand and would not encourage any positive movement in fixed capital formation

A return to a "normal" agricultural harvest would make some positive contribution to economic growth

● Comment: Page 10

Economy is slipping deeper into recession

By Sven Lünsche STAR 15/5/92. 153

Official statistics released yesterday confirm what recent company results and anecdotal evidence had been suggesting for some time: the economy has sunk deeper into recession over the past few months.

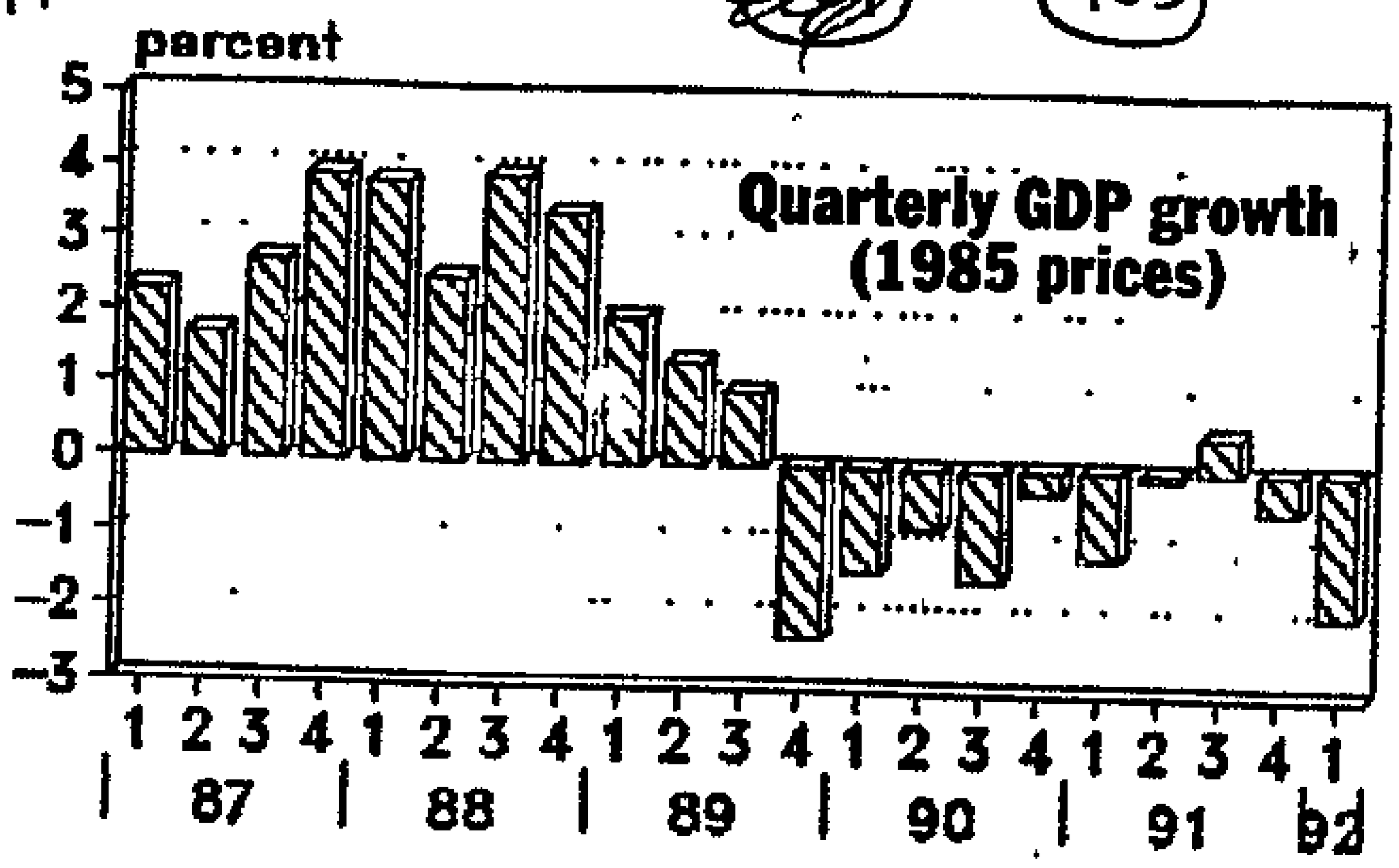
The Central Statistical Service (CSS) reportedthat economic growth, as measured by changes in the Gross Domestic Product (GDP), fell by almost two percent in the first quarter this year

With the exception of a brief statistical hiccup in the third quarter last year this is the 10th consecutive quarter in which the economy has contracted, making it the longest downturn in the post war years.

The current decline is also matching the very deep recession of 1985/86 in terms of severity — the 1,9 percent GDP decline in the first quarter is the largest quarterly drop recorded in two years.

It was widely expected last year that the economy would start picking up over the first few months of 1992

Instead it seems that consumer spending, which accounts for over half of the GDP measure, again retreated sharply in the first quarter. This was in evidence in the financial results released recently by the country's leading retailers



The drought is obviously having a severe impact on the country's overall economic performance. the GDP of the agricultural sector plunged by 15,8 percent in the first quarter after an increase of 4,5 percent in the December 1991 quarter

Drought

Undoubtedly the unprecedented severity of the drought has had a marked impact on many sectors of the economy, mainly because of its inflationary implications, but also because of its great social costs

However, stripping out the agricultural component, still left GDP showing a 0,9 percent decline during the three months as most other sectors in the economy suffered further setbacks.

Real production of the manufacturing sector fell by 3,2 percent, construction by 8,2 percent and trade by 3,2 percent Of the key sectors only mining bucked the trend with a 1,9 percent growth rate

Analysing the trends in the economy Standard Bank said recently "The primary reason for the recession dragging on is not so much due to political uncertainty — business confidence is in fact fair following the March 17 referendum

"Rather, the problem has been the absence of meaningful stimulatory factors to kick-start a recovery

"The sluggishness in the world economy, the poor gold price and an uncompromising anti-inflationary stance by the monetary authorities are holding back recovery dynamics," Standard Bank commented

The tight monetary stance has undoubtedly had a severe impact on private consumer spending, which last year accounted for over 57 percent of expenditure on the GDP

Standard Bank explains that towards the end of last year consumers found it difficult to service their considerable debts which were accumulated in previous years.

As consumer capacity to service debts had been undermined by the long period of high interest rates they had to consolidate their positions by cutting back spending on all but the essentials

This, coupled with the impact of the drought, is set impact further on economic growth in the months ahead

The economist at the Board of Executors, Rob Lee, expects a reduction in real GDP in the second quarter on the back of the drought, rising unemployment and the weak retail sector

However, in line with most other economists he forecasts that the recession will peter out towards mid-year and that "the second half of the year will prove to be the early stages of an economic upswing"

FM 15/5/92

INTEREST RATES (153)

Facing reality

The recent easing of interest rates by some of SA's major trading partners can be interpreted as a breathing space for the monetary authorities, allowing them to lower domestic rates But there are good reasons why SA cannot follow suit

Firstly, SA's real interest rate, currently at 3,55%, based on the most recent CPI of 15,7% and a prime overdraft rate of 19,25%, remains lower than the rates of our major trading partners, apart from the US (see graph)

Secondly, developed countries with free

FM 15/5/92 (153)

ECONOMY & FINANCE

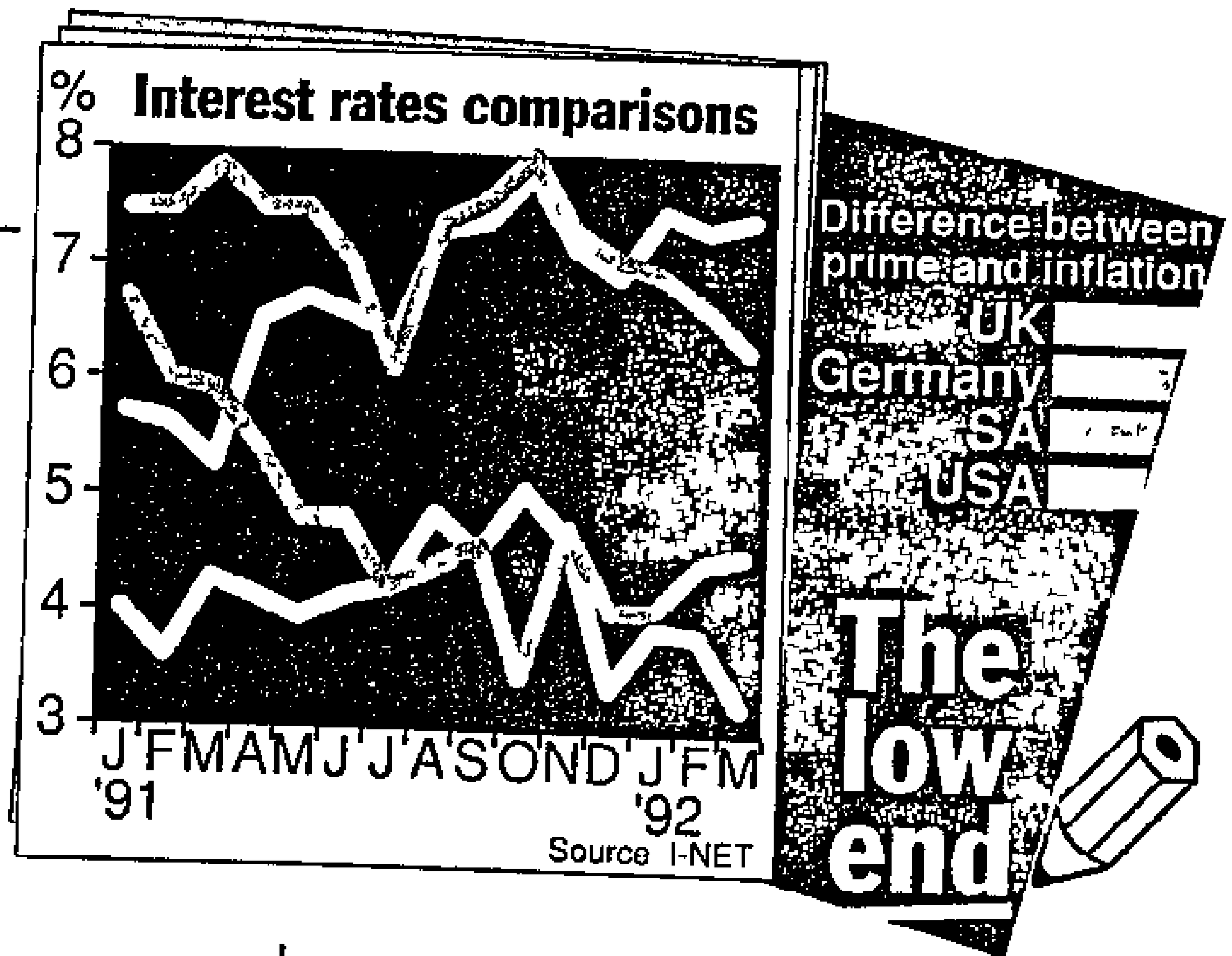
capital flows are better able to respond to interest changes in other developed countries Thus, says Absa chief economist Hans Falkena, countries such as France and Britain have been able to respond to the recent weakness in the German mark He adds that most developed countries have managed to curb inflation for some time, giving them room to stimulate their economies now "France, for instance, has the lowest inflation, at 3,2%, in the European community"

Another restraint in SA, says Falkena, is expansionary fiscal policy According to Absa's *Economic Spotlight* for May, key problem areas such as government dissaving — borrowing to fund consumption spending — and State expenditure will be inflationary

The deceleration of the money supply growth, the improvement in the reserves and the low level of PPI — at 6,7% creating a real interest rate for producers of 12,55% — may be cited as reasons for easing rates But Econometrix's Tony Twine says the Reserve Bank looks at consumer inflation when determining inflation control

"Our studies show that a PPI significantly lower than CPI is not unusual in many economies," says Twine

Nedbank chief economist Edward Osborn argues that "high real interest rates may not be relevant at this juncture High real interest rates are usually used as a tool to reduce



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ECONOMY & FINANCE

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private consumption In SA, however, consumer and investment demand are low as a result of a combination of recession, retrenchment, high interest rates and low investor confidence Therefore, a low or even negative real interest rate can, it may be argued, be necessary for recovery"

But, Osborn says, the monetary authorities are restricted by the need to retain the surplus on the balance of payments "to deal with foreign debt obligations The Bank doesn't want to spur growth in imports, particularly while we have to import large amounts of maize

"Therefore, a drop in interest rates is only possible once there is a prospect of a certain underpinning of the balance of payments position through international recovery While inflation is high, the Reserve Bank Governor has reasons to keep rates high This will naturally fall away as inflation drops in the last quarter of the year, by which time the balance of payments position should look healthier" ■

BUS

Recession bites at starting salaries

(153)

S/Times (Cape Metro)

THE recession has adversely affected the starting salaries offered to new employees, says the latest salary report of Kelly Personnel, the largest general office staff placement service in South Africa, with 40 branches nationwide

Starting salaries for the survey period July 1991 to January 1992 showed only a small increase compared with the period January 1991 to June 1991

The increase — an average of four percent for the six-month period projected to an average of eight percent for the year — is only half the 5,5% and 5,4% respectively

17/5/92

Receptionists also showed the largest category increase in the previous survey period, supporting the view that as they are being required to take on more tasks, they are being paid accordingly

- The salary range for a receptionist/switchboard operator who may help with copy typing, clerical duties and filing is Cape Town, R1 100 to R2 000, Johannesburg, R1 200 to R2 500, Durban, R1 000 to R1 900, Port Elizabeth and East London, R1 200 to R2 000
- Secretary Cape Town, R1 500 to R2 600, Johannesburg, R1 800 to R3 400, Durban, R1 500 to R2 600, Port Elizabeth and East London, R1 450 to R2 200
- Executive secretary responsible for confidential matters and with top skills including use of word processor and compiling own correspondence Cape Town, R1 800 to R3 000, Johannesburg, R2 800 to R5 500, Durban, R1 800 to R2 800, Port Elizabeth and East London, R2 000 to R2 500
- Accounts clerks Cape Town, R1 500 to R2 100, Johannesburg, R1 300 to R3 000, Durban, R1 200 to R2 200, Port Elizabeth and East London, R1 300 to R2 500

Mopeli blames recession

Sowetan 18/5/92

The economic recession is the biggest cause of violence, QwaQwa chief minister Dr T K Mopeli said at a rally in Senekal yesterday.

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"The necessities of life become scarcer by the day and the increased wave of unemployment aggravates the violent situation," he said.

"It is time to give deeper consideration to purposeful socio-economic reconstruction."

This could be done if the current economic sanctions were lifted.

Dr Mopeli said the immediate institution of an interim government might improve conditions

Mass prisoner releases are 'smokescreen'

ARG 19/5/92

153

JOHANNESBURG. — Mass prisoner releases by the government are intended to blur the distinction between criminal and political prisoners, and to sweep the political prisoner issue under the carpet, the Human Rights Commission says.

"However, the issue is very far from having been laid to rest

"More than a year after the agreed deadline for the release of all political prisoners, the issue is still very much alive, with calls being made at Codesa 2 for the release of some hundreds still being held

"Attention is being drawn to the serious consequences of the mass release or parole of criminal prisoners, which many believe was a smokescreen raised to try to dispose of the political prisoners issue"

The HRC still has on its records the names of 400 prisoners judged to be political on the basis of trial reports, and who, according to HRC information, are still being held

Of these, 169 were jointly 'audited" by the HRC and the Department of Correctional Services (DCS) as being candidates for release under the Pretoria Minute.

"Unfortunately the audit process was unilaterally and summarily suspended by DCS last year when still incomplete and all efforts by us to resume the exercise have been rejected."

The HRC accepted some of the 400 names would have been released — "perhaps under the mass amnesties as criminals' — without the HRC having been informed, and that some at the end of the day would not qualify as political in terms of the agreed criteria.

"Nevertheless, the number remaining is substantial and in stark contrast to the government's outrageous claim that all political prisoners have long been released."

The HRC said it was willing to submit its list to the DCS and resume discussions anytime.

The group claimed confirmation of the linkage between the criminal prisoners amnesties — in which more than 60 000 prisoners, or three-quarters of the convicted prisoner population on any one day, were released — and the political prisoners issue was revealed in a statement by Justice Minister Kobie Coetsee during the recent Justice debate in parliament

"He was reported as having said that the large-scale amnesties had caused him 'much pain' and had brought about great tension in the legal community. However, they had been done for the greater cause, for the good of South Africa.

"They had been necessary to meet American conditions for the lifting of Comprehensive Anti-apartheid Act Sanctions (CAAA)

"Whilst this is patently untrue since the CAAA refers only to the release of political prisoners, nevertheless this statement gives us insight into government thinking and confirms our long-held view that the mass criminal prisoner releases were intended to blur the distinction between criminal and political prisoners," the HRC said — Sapa.

Continuing recession now hurts larger firms

B/Day 25/5/92 180 153

RECESSION is regarded as an excellent mechanism for sorting out the weak companies from the strong

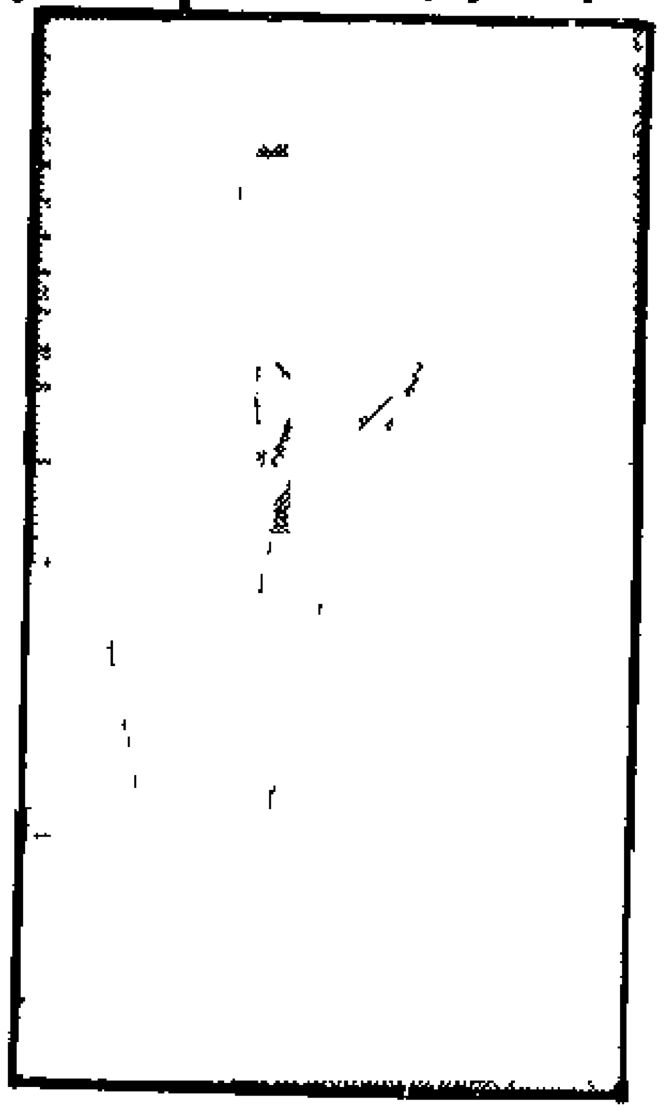
However, both the depth and length of the current recession is causing casualties amongst even the strongest firms

Kreditinform MD Ivor Jones says company and closed corporation liquidations are up dramatically and expects 1 500 to 1 700 companies and closed corporations to fold this year

Mismanaged

He says in the early stages of a recession all the mismanaged, undercapitalised businesses, particularly the smaller companies, get knocked out very quickly, leaving the sound, well managed firms

Says Jones "However, if the recession continues for a long period there may be fewer but larger liquidations



IVOR JONES

"As interest rates remain high, unless the company has the ability to change its gearing — destock quickly, get its book in and cut down on overheads in direct proportion to the loss of sales — the company is left with a financing problem and falling sales

"What usually happens is that the company has taken corrective action too late It is then a matter of time before the company fails The longer the interest rates remain high the more companies get into this position If rates were to drop a couple of percent it would change their position materially

"They would have less of a burden, their repayments would drop slightly, all their overheads would drop if their plant and equipment are leased

"I would like to see interest rates come down to just around 15% to see the insolvency curve peak and then drop dramatically"

There has been a real increase in consumer judgments

Information Trust Corporation's David Rosin notes the number of summons against individuals have not increased dramatically, but the rand value of those summonses against both businesses and individuals has increased substantially

"There is no doubt inflation is playing a part in the increase Another factor is changing buying patterns Twenty years ago we did not have television or video recorders, now all these items exist, and have added to the actual debt burden In addition, high interest rates have contributed substantially," says Rosin

Increase

There is a large increase in the number of summonses being issued to businesses, but comparatively few judgments flowing from those summonses

"Businesses will do anything to avoid a judgment against them Letting the debt go through to the summons stage is yet another way of drawing out the period before repayment," says Rosin

THE WEEK AHEAD by Simon Willson

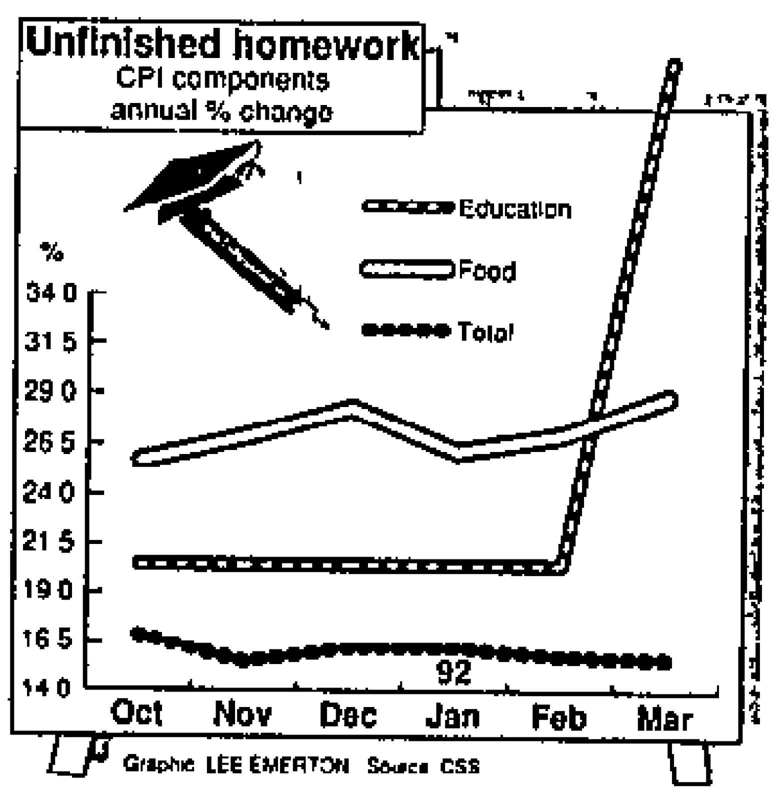
Slim expectations of lower inflation

BDay 25/5/92. (153)

GROWING unease about the officially measured rate of food inflation will greet the release, scheduled for early this morning, of the April inflation rate The overall rate is likely to be seen as almost incidental compared to the increasingly volatile behaviour of some of the components of the consumer price index (CPI)

Expectations of an appreciable dip from the 15,7% inflation rate posted for March are small, since April bore the brunt of the hike in one of the administered prices whose adjustments have such rapid and far-reaching ripple effects through the rest of the economy· the fuel price

The increase, of 8c/l on petrol and 6c/l on diesel, was announced in the March Budget and was effective from March 21 It will show up mainly in the transport section of the CPI breakdown in today's data for April.



Graphic LEE EMERTON Source CSS

The Board of Trade and Industry's officially commissioned report on food prices is due out any day now but, pending its release, some extremely high-powered institutions have been doing a bit of homework of their own on food prices One in particular is more than a little concerned about what it thinks it may have found

This institution has assembled a figure that aggregates consumers' total nominal cash spending on food over a given period, and has deflated it by Central Statistical Service's official food price index The result is a putative figure for consumers' real spending on food

But it shows real spending on food to be falling For a swiftly growing population that is, moreover, also urbanising and therefore buying a rising proportion of its food in the formal sector, falling real food sales are not realistic

While the error could be in the nominal food spending aggregate, the institution concerned is less inclined to query the spending aggregate than it is to blame an over-zealous deflator In other words, if a more modest rise in the food price index was applied to the nominal aggregate of food spending, real spending on food would not be shown heading down

Another CPI component to watch in the April release is education As the chart shows, the measured rise in education costs has been steady for months but suddenly took off in March as parents coughed up their Model C fees Higher tuition costs elsewhere in the education sector probably mean that the upsurge in this CPI component is not over yet and could even leave food in the shade

April's money supply figures are due out later today The year-on-year rate of growth in the broad M3 aggregate, which stood at a preliminary 10,5% in March, is of less consequence than the fixed-base increase relative to the Reserve Bank's M3 growth guideline range for 1992

At 7%-10% the range is the lowest and narrowest yet set by the Bank, but fixed-base M3 growth entered the range for the first time in March at 9,8% The dismal 1,9% fall in overall economic output during the first quarter should have ensured a quiescent April for the monetary aggregates

Internationally, the pay awards straddling the 5,5% level which followed the recent strikes in Germany will be exposed as inflationary when Germany's May inflation rate is published this week Inflation stood at 4,5% in April and is set to average nearly 4% this year, which would be a 10-year high if achieved

Release of the Japanese inflation rate for April is timetabled for Friday, and could tick up from the 2% posted for March Inflation in the Tokyo area alone bounded unexpectedly from 2,1% in March to 2,9% in April, and the prices trend in the capital often leads that of the rest of the country Japanese services costs are rising rapidly, aggravated by sectoral labour shortages

Japan's manufacturing sector, by contrast, is in a deep slump — as seen in the 5,3% drop in industrial production measured in March. The April figure comes out on Wednesday and looks headed for another drop as the economy continues to slow. Indeed, industrial output is toying with a third consecutive quarterly decline for the first time since 1986, when the Japanese economy grew by a meagre 2,5% — its lowest growth rate since 1974 Weak industrial performance is a leading reason for expectations of only 1% growth in Japan this year

The US economic recovery is in need of greater momentum after last week's biggest fall in housing starts in eight years US consumer confidence for May is scheduled for release tomorrow (even though the calendar month still has a week to run) and should rise for the third successive month following its collapse to a 17-year low of 46,3 in February

Consumer confidence in April rose to 64,8 — its best level since last September but still a historically low reading for this variable It continues to signal a slow and hesitant recovery

US durable goods orders for April emerge on Wednesday, and follow a 1,6% rise in March This indicator has been proving highly susceptible to revision this year, and its potency as a market-mover has been eroded accordingly

Results of the first revision to first-quarter US GDP are released on Friday, but are unlikely to deviate much from the 2% growth shown in the preliminary figure which came out a month ago If the US economy is still seen to have grown by about 2% — the fastest rate in two years — after the revision, it should be enough to consolidate confidence about the recovery

SA's recession 'is still deepening'

BDay 28/5/92 (153)

LINDA ENSOR

CAPE TOWN — The recession is still deepening and will reach a cyclical low only in the second half of the year, Sanlam chief economist Johan Louw says in the latest Economic Survey.

His prediction poured cold water on the widespread belief of an economic turnaround in the second half of 1992.

The delay in reaching the bottoming out phase would result in a real economic growth rate of about 0,5% this year, with growth expected to accelerate to more than 3% in 1993.

Factors impeding the upturn included continued political uncertainty; the severe effect of violence on domestic and foreign investor confidence, rising unemployment, drought; commodity prices' poor performance; relatively strict monetary and fiscal policies, and consumers' poor financial position.

However, Louw said the index of physical production and capacity utilisation in manufacturing were levelling out at a low base after showing sharp declines. Investigations showed that the production of semidurable and nondurable goods had declined strongly since the third quarter of 1991 when percentage utilisation of the manufacturing industry's production capacity dropped to an 80,4% low.

An inflation rate of 14,7% was forecast for 1992 compared with last year's 15,3%. It was expected to remain at about 15% for the next few months but reach 12,5% by December. Stubbornly high inflation, attributed mainly to food price increases, would make the Reserve Bank reluctant to lower the Bank rate

Sustained downward pressure on money market interest rates was expected. This would make possible a lowering of the Bank's prime overdraft rate and bond rates However, the high inflation rate would ensure that the decline in long-term interest rates in line with short-term interest rates would be limited and brief.

The US dollar was expected to remain firm, making unlikely a strong rise in the gold price.

Louw predicted a considerable shrinking of the current account surplus in 1993 and 1994, with deficits possible because of the effect of the drought, a high import bill and poor prospects for the gold price

"However, we believe the smaller surpluses will be adequate to finance the net capital outflow, which is expected to become more moderate. This should contribute to a continued improvement in our foreign reserves. It therefore appears that the balance of payments will not pose a serious problem to economic growth."

1992

Little to smile about ahead of inflation stats

JOHANNESBURG — Crucial April inflation figures due for release from today onwards are set to give interest rate bulls little to smile about, analysts say

Soaring food prices and an increase in petrol prices and excise duties in April are seen stifling what many believed was an underlying downward trend in inflation — the Reserve (central) Bank's major enemy

Inflation, as measured by the annual change in the consumer price index (CPI), was 15,7% in March against February's 15,8% and April 1991's 14,1%.

Stubbornly high consumer price inflation defies progress made in reducing close to single digits the annual increases in producer prices and money supply, and is seen as the major obstacle to a cut in the Reserve Bank's discount rate from its current 16%

"If Stals continues linking a change in rates to the CPI we won't have a cut until August. Inflation should fall below 15% when July's figures are released in August, but 15% is still high by any standards," Edward Osborn, chief economist at banking group Nedcor said.

Osborn sees little change in April's inflation rate, with a possible marginal easing from its current levels. "We will not have any significant downward movement until July," he said.

Mike Daly, economist at prominent assurer Southern Life, sees inflation falling slightly in April, possibly to as low as 15,5%.

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However, Daly says, "There is not much downside until the third quarter"

CT 27/5/92

One of the major factors in continued high inflation is food inflation, which was running at an annual rate of 28,8% in March

In the April figures, it was likely to continue to be a problem along with the 5% increase in petrol prices

Nick Barnardt, Absa senior economist, said food was likely to be the wild card again but the petrol price increase in March would prevent any real decline in inflation.

"If quarterly inflation is low, we could have a (bank rate) cut in two months," he said

Short term market rates have already discounted a 2% cut in official rates, largely on the back of high liquidity and diving overnight call rates.

Banks last week began cutting mortgage rates by one percentage point, raising speculation that the discount rate would have to follow suit, or that the banks could pre-empt the central bank with prime rate cuts

Stals, however, said at the last discount rate cut in March that the traditional link between prime and discount rates need no longer apply and banks were free to follow their own policies — Reuter

France boosts local links

JOHANNESBURG — France and South Africa have signed

Strong support for JSE bull run

By AUDREY D'ANGELO

Forget quotas, opt for Human growth

The sky's the limit, say happy hawkers at big bus terminus

153 ARCt 27/5/92

EAST LONDON — They own their cars, they send their children to schools and universities and when they talk about business prospects they say "The sky's the limit"

Yuppies?

Not really They are hawkers at the Mdantsane Highway Terminus in the Ciskei

They've spurned mainstream jobs and remained on the streets — one of them for more than 30 years

The results have been worthwhile As Mrs Ladylock Skeyi explained "Hawking has been seen as a job for uneducated people, but I'm sitting here with my matric certificate"

Mrs Skeyi, a mother of eight, started hawking in 1960 She never worked at anything else and resisted her husband's attempts to persuade her to look for "better jobs".

Her first selling stand consisted of three empty cupboard containers turned upside-down for the fruit and vetkoek she sold to schoolchildren

"Those were really trying times," she said. Besides not receiving any moral support from her husband, who felt she could do better with her qualifications, she would often be outside the whole day without getting any business

But "vukunzenzela" (the will to wake up and do something for yourself) kept Mrs Skeyi on her feet

In 1964 she identified the Mdantsane Highway Terminus, the biggest bus and taxi station in the Ciskei, as a good place for hawking

She was later nicknamed "Masekeseke" — the name she gave to the chicken she sold And then she was joined by her husband after persuading him to leave a company where he earned very little

Even his death in 1981 never prompted her to "look for greener pastures" elsewhere

The decision paid off Mrs Skeyi, now the president of the Ciskei Hawkers' Association, owns a car and a van and was able to send her eight children to school

All matriculated, except one who is now in standard nine, and one is taking first-year courses at the University of Cape Town

Another hawker, Mrs Hilda Nqayi, joined this "informal business" in 1970 Like Mrs Skeyi, her beginnings were also very humble she initially had to display her wares on empty samp bags

A former factory worker, Mrs Nqayi became dissatisfied with her job and decided to work for herself and the family

So she took to the streets, at first selling cow shins at 60 c each and later vegetables and live chickens

An organiser of the Ciskei Hawkers' Association, Mrs Nqayi also speaks of a very successful life

She has three children, all of whom she sent to school One of them obtained his matric and the two others went as far as their junior certificates

She also bought herself a van which she now uses for shopping at East London's municipal market

"We are going forward and the sky is the limit," she said

But hawking does not involve selling only vegetables and chickens The trade accommodates all who share the idea of "vukuzenzela"

Mrs Priscilla Mamati, who left Cape Town in 1972 to work as a nurse at Mdantsane's Cecilia Makhiwane Hospital, resigned in 1986 after discovering she had a talent for sewing

Like other beginners in the hawking trade, she had no experience in business At first she tried to sell vegetables, but "I used to cry literally if I spent one day without gain", said Mrs Mamati

And then she decided to concentrate on sewing from home This was so successful that she could afford school fees for her son, who is now studying part-time for a university degree

Mrs Mamati also drives her own car and is involved in the Ciskei Hawkers' Association.

Victims of the high rate of unemployment in the region and unresolved labour disputes have also found their place in this "underground economy"

Mr Fuzile Dunywa, new to the hawking business, had been out of work since 1987

But he has already budgeted for 10 tuck shops at the terminus — Ecna

'Stals prolonging pain of recession'

Bday 29/5/92 (153)

LINDA ENSOR

CAPE TOWN — Reserve Bank Governor Chris Stals was unduly prolonging the agony of a damaging recession by refusing to cut the Bank rate, the Board of Executors (BoE) said in its latest Investment Outlook

BoE senior portfolio manager Rob Lee said: "Dr Stals may hang on for another month or two but another 1% cut is inevitable in the near future with at least one more before year-end."

Lee said an immediate cut in the Bank rate would not undermine the integrity of monetary policy

He questioned whether the increase in the "real" underlying inflation rate over the past 12 months was as high as 15,7% as producer price inflation was 8% in the year to end-March, underlying money supply growth had been about 10% for more than 12 months and the exchange rate had been stable to rising in real terms for more than two years.

"The economy is extremely weak and the average level of wage settlements is probably closer to 10% than 15%. Taking all these factors together it seems very clear that the underlying inflation rate is probably not more than 12% and is falling," Lee said.

"With the prime overdraft rate at 19,25% this is a "real" prime rate of more than 7% — very high for an economy at the latter stages of a long and increasingly damaging recession"

Prime rate was expected to be 2% lower by year-end with a further reduction likely early in 1993.

Lee said business and consumer confidence had been knocked by the breakdown of Codesa II negotiations, violence and threats of mass action, but this would not act as a brake on short-term economic recovery

He said increased confidence was not a prerequisite for recovery as the level of economic activity was considerably lower than its potential, especially considering the lifting of trade sanctions and foreign debt repayment constraints.

"Our view that the second half of this year will see the gradual beginning of an economic upswing is based upon expectations of rising government spending, higher exports, a reduced pace of inventory depletion and lower inflation and interest rates," he said

"Reduced confidence and continued drought will not prevent these factors from having an increasingly positive influence."

Lee said a growth rate of 3% to 4% in 1993 was "quite feasible".

GDP growth might not reach the 1% forecast for 1992, but should still be on a rising trend by year-end, he said

In 1993 stimulatory factors such as large capital investment projects and an eventual inventory build up would be sufficient to achieve a significant cyclical recovery.

Recession impacts on regional basis

By Derek Tommey STAR 29/5/92 153

The recession has been described as mild by monetary authorities, and at first sight this would seem to be a reasonably accurate assessment.

Figures produced by the Central Statistical Services show that retail sales in January and February amounted to R12,7 billion — an increase of 13,6 percent on a year ago

If one accepts inflation of 15 percent, sales in real terms were down a modest 1,4 percent, which business should be able to live with

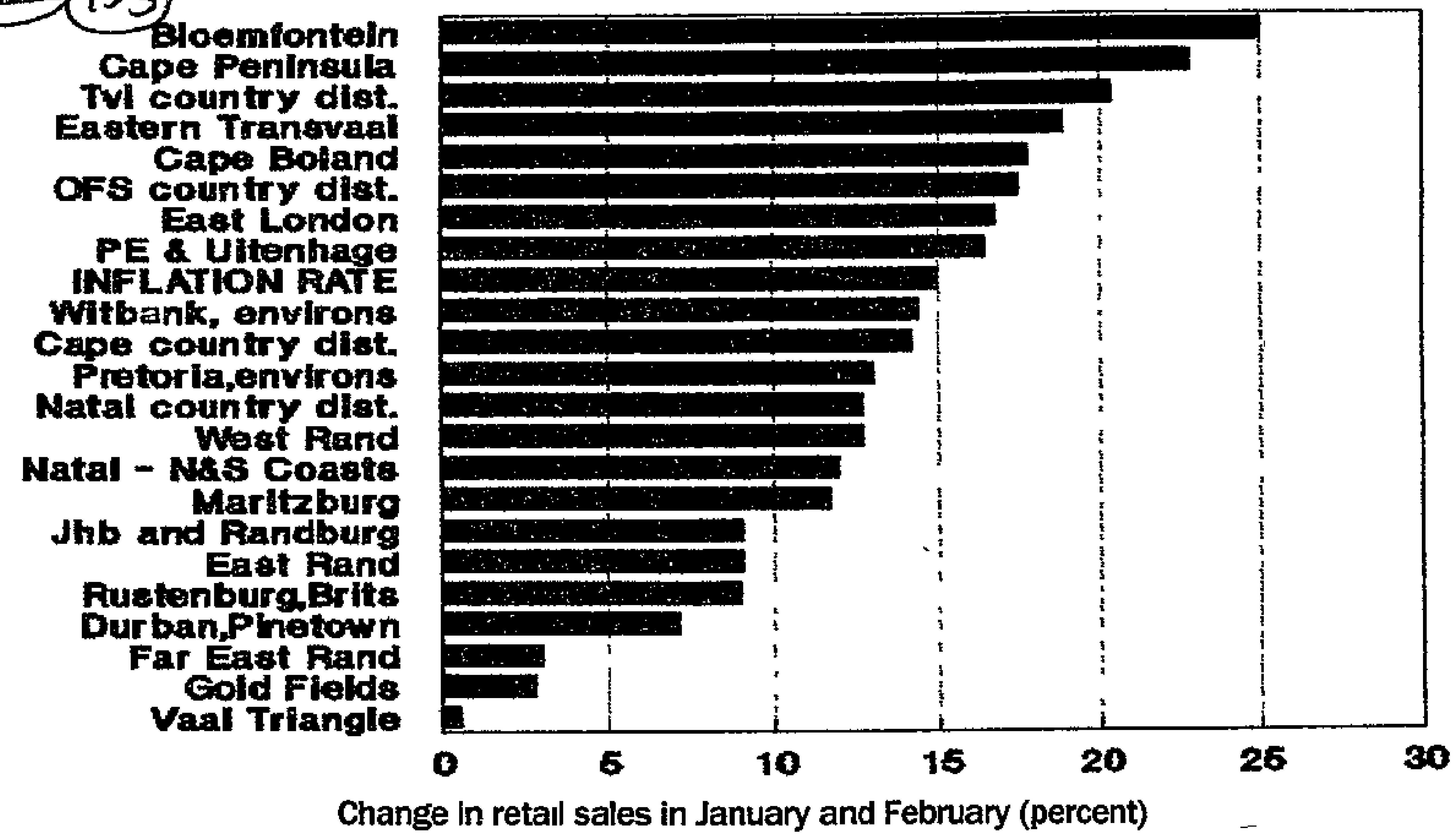
But a closer examination of the figures shows major variations in sales, with some areas experiencing real growth, and others facing serious recession

Greatest increase in retail sales growth was achieved in Bloemfontein This seems a little surprising, but probably reflects increased spending on the Lesotho Water Scheme.

Next best performance was put up by the Cape Peninsula with a 22,8 percent gain. This reflects growth in tourism, in export industries and a rise in harbour traffic

Increased food production for the export markets and increased timber production probably account for the 20,3 percent growth in retail sales in the Transvaal country districts (mainly the northern Transvaal), and in the Eastern Transvaal (18,8) Higher food production probably accounts for the 17,7 percent rise in sales in the Boland

The 17,4 percent growth in sales in the OFS country districts would seem also to be linked to the Lesotho Water Scheme, while the 16,7 percent increase at East London and the 16,4 perent increase at Port Elizabeth and Uitenhage could reflect greater export activity



Inflation still up on 15%

(153)

CT 30/5/92

Business Editor

FOOD prices and the effect of VAT are helping to keep the inflation rate still above 15%, figures released yesterday by the Central Statistical Services show

The inflation rate for April, as measured by the consumer price index, was almost unchanged at 15,6%, only 0,1% below the March figure

But the food index rose by 1,8% in March and April This was due mostly to rises of 11,3% in the price of vegetables, 7,8% in the price of dairy products, 5,5% in the price of fruit and nuts and 3,1% in the price of fish and seafood products

The price of meat came down by 3,7%

● Inflation stalls bank rate — Page 5

HOPE FOR SA ECONOMY

See PAGE 5

Pik's plea to OAU on Codesa

DAKAR — In a surprise move the government has asked the next head of the OAU, Senegal's President Abdou Diouf, to help end the Codesa deadlock.

The move comes as an about-turn from the government which has until now strenuously resisted any direct role by the international community in negotiations

Mr Diouf will take the presidency of the Organisation of African Unity (OAU) when Nigerian President Ibrahim Babangida's term expires in July

The government has been prepared to allow foreign observers to attend Codesa proceedings but has resisted demands, particularly from the PAC, for a more interventionist role

Foreign Minister Mr Pik Botha returned from the Ivory Coast and Senegal yesterday.

'Unblock negotiations'

The visit was seen in diplomatic circles as boosting the prospects of South Africa being invited to the next OAU summit, albeit only as an observer.

"President Diouf could personally intervene to help unblock the Codesa negotiations," Mr Botha told Senegalese Radio this week.

It appears likely that South Africa could soon establish some formal diplomatic ties with Senegal, but a foreign affairs spokesman refused to comment on this yesterday.

He said the visit — which included a stopover in Abidjan for a meeting with Ivory Coast Foreign Minister Mr Amara Essy — was "highly successful". — Political Staff, Sapa

Govt held back report

CT 30/5/92

By ANTHONY JOHNSON
Political Correspondent

THE government delayed the release of the Goldstone report on violence for almost a month in an apparently cynical attempt to serve its own interests and embarrass the ANC

The report — which blamed ANC-Inkatha rivalry as a chief source of violence and ruled out a "third force" — was released this week as the ANC began its policy conference and President F W de Klerk prepared to leave on an extended overseas tour.

However, the report — which has become the subject of a furious row between the government and the ANC — was completed on April 29 and sent immediately to Mr De Klerk.

A well-placed source said yesterday that the delay was suspicious because in the past the government had released the commission's reports within 48 hours.

Democratic Party leader Dr Zach de Beer said last night that if the report had indeed been delayed for almost a month, such an action would be "quite reprehensible, especially in the circumstances of ongoing violence".

He pointed to the eight-month delay in releasing the Pickard report on corruption in the public service said it "seems this government regards it as its prerogative to time these releases to suit itself"

Dr De Beer said the government's action strengthened his "long-held conviction that the National Party will always put its own political advantage above all other political considerations"

Mr De Klerk could not be reached for comment last night.

Mr Justice Richard Goldstone, who heads the commission of inquiry into violence and intimidation, yesterday declined to be drawn into the row between the government and the ANC over who was to blame for the violence, saying. "It is not our policy to respond and have a public debate."

Yesterday law and order spokesman Captain Craig Kotze said: "The Goldstone Commission was appointed after considerable pressure from the ANC itself. Now that they don't like the findings which the judicial investigation has come up with they reject it This is totally incomprehensible"

● Judge: How to end violence — Page 2

● ANC slams govt for 'manipulating' Goldstone findings — Page 2

BUSINESS BRIEF

Stubborn inflation will stall bank rate cut

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CT 30/5/92

By AUDREY D'ANGELO
Business Editor

THE inflation rate as measured by the consumer price index (CPI) remained stubbornly high in April, reducing hopes of an early cut in interest rates. It was 15,6% year on year — only 0,1% down from the March annual inflation rate.

The month on month rise was 1,3% compared with 0,9% in March.

The food only index rose by 1,8% between March and April compared with 2,2% between February and March

Economists pointed out that the CPI was kept up mainly by the continuing rise in food prices, which were now reflecting the effects of the drought, and the introduction of VAT last October

They said that if these two factors were stripped out the underlying trend was downwards

Most said they were concerned by the effect of continuing high interest rates on the real economy.

Old Mutual chief economist David Mohr, among these, said he did not now expect a cut in interest rates before August unless Reserve Bank Governor Chris Stals changed his opinion.

Amalgamated Banks of SA (Absa) economist Adam Jacobs said he was growing increasingly worried about the state of the real economy and disappointed about the slow decline in inflation

The continuing erosion of the spending power of the average person meant lower profit growth and a continuing rise in unemployment "This feeds the downward process"

But Jacobs said the Reserve Bank could not stimulate the economy artificially by cutting interest rates unless the world economy improved so that SA exports rose and the balance of payments (Bop) surplus could be maintained

"The only thing we can do is sweat it out and improve productivity," said Jacobs

David Mohr said the rise in food prices was "the classic drought combination of meat prices coming down and fruit and vegetable prices going up"

The month on month increase in the all-items index of 1,3% was "not too disturbing" because it reflected the rise in administered prices, the petrol price increase late in March and the ending of VAT zero-rating in some basic foods

"Stals said the last cut in interest rates was in anticipation of a fall in the inflation rate. Technically we won't see that before the end of the year so we cannot expect a cut in interest rates before August."

But, Mohr said, the costs to the real economy of bringing inflation down through continued high interest rates "are becoming very high now

"We have got to view interest rates against the background of the whole economy

Boland Bank chief economist Louis Fourie said "We are still moving in the right direction, to get an inflation rate of 12,5% by the year-end I still expect it to be 13% next year, unless the drought pushes it up

"But the rate of food price inflation is still very high and we can see the effects of the drought in that"

● Figures released by the Central Statistical Service yesterday showed that inflation was highest for the lower and middle income groups

The year on year index for the lower income group was 15,8% compared with 16,7% in March It was 16,2% for the middle income group compared with 16,3% in March. The figure for the higher income group was unchanged between March and April at 15,2%

The year on year food only index was 28,4% compared with 28,8% in March and 16,5 in April last year

Reserve Bank gets blame on inflation

(153)

S Times (Buss) 31/5/92

By CIARAN RYAN

THE consumer price index dropped a mere 0,1 percentage point in April, leading economists to question whether the Reserve Bank is capable of bringing the figure to under 10% after two decades of double-digit inflation

The April figure — released on Friday by Central Statistical Services — shows the index standing at 15,6%

This is considerably lower than some forecasts, which put it at more than 16%, but far short of Reserve Bank targets

The CPI drop nevertheless increases pressure on Reserve Bank Governor Chris Stals to lower bank rate and ease the economy out of one of its most prolonged recessions.

Supply

Dr Stals, however, remains unimpressed by the marginal decline in inflation "We are taking a medium- to long-term view of the economy."

The bank was criticised for its handling of the economy after failing to follow through on last week's drop in mortgage rates

Money-supply growth remains a relatively high 10% at a time when the economy is contracting This points to money creation in the commercial banking sector as a major cause of inflation

Several economists call for more radical action to kick-start the economy after years of sluggish growth The compound annual growth in the economy in the 1970s was 3,5%, falling to 1,5% in the 1980s

In Barend du Plessis' tenure as finance minister from 1984 to 1992, annual growth slowed to 0,8%

Reserve Bank policies are being challenged on several counts that positive real interest rates are justified in deep recession, that the link between inflation and money-supply growth is as close as some people believe and that the official CPI figures are correct or appropriate as a measure of inflation

Board of Executors senior portfolio manager Rob Lee disputes the official inflation figures "There is some evidence that the CPI is not the appropriate measure of inflation.

"The producer price index, which is just as valid a measure of inflation, is only 8% "

If the CPI is wrong, Dr Stals may be delaying economic recovery based on false information Taking October 1991 — when VAT was introduced — as a base, inflation is running at 12%, says Mr Lee. The CPI figures are weighted in favour of pre-October 1991 trends

Dr Stals counters that other estimates of inflation place the figure well above 15,6%

Nedbank chief economist Edward Osborn says negative real interest rates are justified in recession

"We need to get capital formation going to stimulate economic growth The Reserve Bank could reduce its interest rates without fuelling inflation"

Mr Osborn questions the traditional monetarist argument that an increase in money supply produces an automatic rise in prices

Tony Twine of Econometrix says expansionary government spending is largely responsible for the stubborn inflation rate.

Boards

"High spending increases the Government's claim on the tax base But the spending is even more than the Government takes in taxes, so it has to borrow.

"Another cause of inflation is the high degree of regulation in the economy, such as control boards and import tariffs, and the concentration of control in the 60% of the economy the State does not own"

A year of dry bread, water

IF YOU feel you've just been managing to keep your head above water these past few years, get set to hold your breath, advises Derek Tommey.

Inflation the winner [redacted] in pay rise race 153 [redacted]

STAR 20/6/92

FOR years most South Africans have worked hard at their jobs but ended up with little to show in the way of additional wealth. The slump in the savings rate to what is probably its lowest level is proof of this.

South Africans, in fact, have been on a vicious treadmill where salary and wage increases have been quickly eaten up by higher prices and higher taxes.

Nonetheless, Reserve Bank figures suggest that between 1988 and 1991 most people in the formal sector were just able to keep their heads above water In these years, salary and wage increases, overall, were slightly above the inflation rate.

Demands

But this, it seems, is no longer the case. This year, for the first time since 1987, wage increases generally are falling behind inflation This primarily is the result of the poor state of the economy

In the past, employers did not fight too hard against demands for pay rises as they believed they could recover the cost simply by raising prices But the world recession and the Reserve Bank's tough measures against inflation are making life difficult these days for companies which charge more for their products. In most cases it leads to lower turnover, lower profits and production cutbacks

This is making employers resist demands for wage increases, particularly if they appear to be excessive As a result, there have been many wage agreements where the increase is well below the accepted inflation rate of 15 percent.

The recent Post Office settlement gave workers on the minimum wage a 19,8 percent increase, but gave all other workers an increase of between 10 and 11,6 percent.

In its negotiations with the National Union of Metalworkers, the Steel and Engineering Industries Federation has raised its initial offer of 6,4 percent — but only to 8 percent.

Some large retail chains are not giving any raises at all this year The Government is also trying to keep pay raises in single figures.

The gold mining industry limited pay increases last year to about 5 percent, though several mines sweetened the pill by offering incentive schemes. It is not easy to see the industry giving a better increase this year, especially as the gold price in real and nominal terms has plunged again.

Trade unions have not let employers off easily They have been putting up a tough fight against below-inflation pay rises.

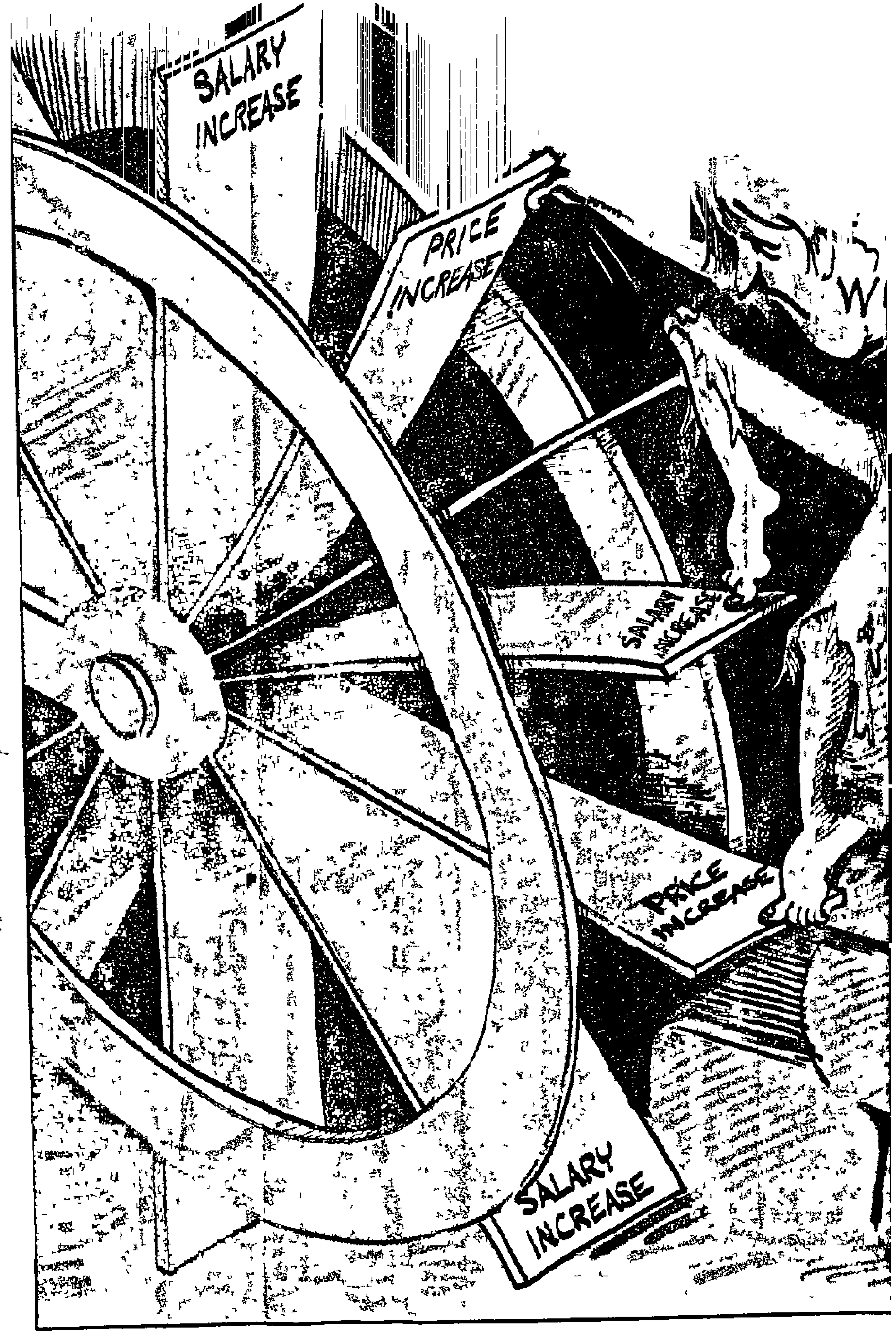
But labour advisers report that many unions are showing realism and responsibility, especially where an industry appears to be in difficulties In these instances the union's first priority is not seeking pay rises, but keeping their members' jobs

Overall, it seems this will be a hard year for a great many people, with belts being tightened, especially as income tax rates were increased in the Budget But in between eating their dry bread and drinking their water, they might like to reflect that the present situation should lead to a much better future than the recent past.

Destroyed

The high level of inflation has done tremendous harm. It has been a major deterrent to new investment, has kept the rand weak, has destroyed savings, has enabled the Government to increase income tax without appearing to do so, and — overall — it has helped to keep people poor

In a future where inflation is negligible, people should be able to say, as a South African who recently moved to the low-inflation United States said when he reported on the differences in working in the two countries: "When you get a pay rise in the States it really means something"



MONEY MARKETS by Sheridan Connolly

Inflation dashes hope of interest cuts

BDay 1/6/92

(153)

AN ALMOST unchanged consumer inflation rate in April dashed any remaining hope of lower official interest rates in the short-term, and also did not have much impact on the downtrend in money market rates

The official inflation rate (CPI) rose 1,3% in April after rising 0,9% in March. The year on year rise was 15,6% compared with 15,7% to March Early last week, Reserve Bank governor Chris Stals went on record as saying a lower rate of consumer inflation would be a pre-requisite to lower interest rates The market, however, seems reluctant to accept a downtrend in market rates will not be followed by one in official rates in the near-term, and has discounted for a cut in the region of 2%

Last week's money supply figures provided Stals with some support for maintaining official rates until necessary indicators are in line

Thus far, Stals's monetary policy stance has seen success with money supply growth, producer inflation, the level of reserves, and also the balance of payments Consumer inflation, on the other hand, has proved to be the Bank's toughest problem

Mortgage bond rates were reduced last week with most major institutions cutting home loan rates to 18% These rates were last cut in February and, one month later, the Bank rate was lowered to 16% from 17%

Liquidity conditions and solid investor demand for short-term paper continued to put downward pressure on rates last week Speculation in the market is that leading institutions could go ahead and lower prime rates before a Bank rate cut appears

The three-month BA rate held steady last week By the end of the week it was in a slightly narrower range between 14,50% and 14,55%

Call rates were trading between 13,75% and 14,50%

The three-month Treasury bill (TB) rate ticked up in the Bank's weekly TB tender The rate came in at 13,97% (13,93%) while the six-month rate was at 13,57% (13,50%) and the nine-month rate was 13,10% (13,03%)

The Bank received R602,7m in bids for the R100m on offer on the three-month tender Bids for the six-month R100m tender totalled R330m

RSA stock purchase payments sent the market shortage higher last week, and at the end of the week the Bank quoted the market shortage at R2,74bn from a previous R2,20bn

Capital market rates were steady towards the end of the week in quiet trade as a result of the long weekend Towards the end of trade on Friday, the Eskom 168 was at levels of around 15,72% from 15,71% and the RSA 150 was at 15,92% from 15,91%

CT 3/6/92 153

Prisoners sleeping on lice-infested beds

Supreme Court Reporter

AWAITING trial prisoners are being held in cramped, overcrowded cells and sleep in lice-infested blankets, the Supreme Court heard yesterday during a murder trial

This was the conclusion of the report compiled by two judicially appointed "agents" — investigating complaints by two murder accused held at Pollsmoor prison — at the request of Mr Justice A J Lategan

Authors Mrs Jill Jones and Mr Anton Katz are the pro Deo counsel in the trial of Mr Alawn Matthews, 25, and Mr John Kiley, 53, who have both pleaded not guilty to murdering Argus advertising representative Mr George Haupt.

The cell in which Mr Matthews was held measured 6m by 9m. A correctional services spokesman said it was designed for 16 prisoners but held 26 although prisoners say between 32 and 38 are housed to each cell, Mrs Jones said.

Up to eight men appeared to share a thin and worn communal mattress. There were no pillows or sheets and the blankets were filthy, lice-ridden and smelt foul, Mrs Jones said.

She said several prisoners had shown bite marks allegedly caused by lice. Prisoners said that unless they were attending court, all meals were taken in the cell seated on the floor.

Although they had been shown a "well balanced" prisoner meal, several prisoners complained that meals were served on dirty plates.

Department of Correctional Services spokesman Major Dave Smith said the complaints would be investigated

However, the "elimination of such plagues (lice)" was hampered by the high turnover of people awaiting trial, he said.

...club, an association of diamond dealers. Picture: ROBERT BOTHA

Documents not stamped

Move to get water to parched areas

DURBAN — The water shortage in some areas of southern Natal is so severe people are digging for water in dry river beds and drinking polluted water treated with bleach, says Southern Natal Joint Services Board chairman Prof Khabi Mngoma.

Mngoma said most of the main supply rivers for rural southern Natal had dried up. Many springs had also run dry, and boreholes were delivering mostly sandy water.

Acute water shortages were being experienced from about 10km from the coast into the hinterland

Mngoma said it had been decided, at an emergency meeting on Tuesday to discuss the drought in the region, that joint services boards would tackle the problem of the water shortage there This would involve urgent measures to transport water to critical areas

B Day 4/6/92

A statement after the meeting said it had been accepted that although dams in the area were on average about 70% full, rural areas were totally parched and a concerted effort was needed to obtain funds and resources to get water to the areas.

In the Vulamehlo district near Scottburgh, for instance, women stood for hours at night waiting to draw water from a spring — Sapa

Business cycle 'not at lowest point yet'

B Day 4/6/92

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Business Day Reporter

THE lower turning point of the SA economy's business cycle has not yet been reached and no upturn is expected before the last quarter of the year, says First National Bank's personal asset management arm.

In its latest investment review, First National Trust says the upturn in the economy is expected to be slow and hesitant in the early stages and primarily based on higher government spending, increases in export earnings and a slowdown in the destocking cycle

"Fixed investment will remain depressed this year against the background of high interest rates, shrinking profits and political uncertainty. Improving financial and political conditions are required before this will improve"

The prime overdraft rate could average about 19% in 1992 and about 17% in 1993, the review predicted. A further cut in the Bank rate was not expected until the third quarter

The review says the main reason for the diverging rates of consumer and producer inflation is very high food prices and the fact that VAT is reflected in the consumer price index (CPI) but not in the producer price index (PPI).

"What is encouraging, however, is that the increasing CPI cannot be attributed to excess monetary demand. In addition, the prices of imported goods are making no contribution to inflation at present.

"The favourable trend of the PPI, the absence of excess monetary demand, together with factors such as lower increases in wages should start to impact positively on the CPI. The CPI inflation rate is expected to fall below 13% by year end"

The contraction of investment expenditure is disturbing because a reasonable rate of investment is the basis for long term growth.

"The challenge which lies ahead for the authorities is to implement policies which allow and encourage domestic savings and foreign investment. The finance necessary for a rate of investment expenditure which will sustain long term growth will then be in place."

Group acquired about 70% of the ... share capital for R916 000 (3,5c a share).

Andrew Mining asked Judge Solomon for a provisional sentence on the acknowl-

the washing plant only ... properly in August last year

Judgment was reserved

Factory refuses to reopen for violent workers

BDay 5/6/92.

Own Correspondent

DURBAN — There would have to be "considerable" negotiation between Mooi River Textiles and trade union representatives before the factory could be reopened, said MooiTex chairman David Royston.

He said the factory had held talks with Inkatha officials on Wednesday and would meet Sactwu representatives today

Royston said the Inkatha-affiliated Uwusa and the ANC-affiliated Sactwu had to "exercise better control over their members".

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Disruptions and refusals to accept instructions and work through established dispute channels could not be tolerated

He said there had been violence and murders in the factory

A curate's egg view on Africa

Weekly Mail Reporter (153)

THE worldwide recession is abating and the world may see growth in excess of one percent this year, according to the International Monetary Fund's latest *World Economic Outlook*. W Mail 5/6-11/6/92

Coming at the same time as predictions of an upturn in the South African economy later this year, the report bodes well for South African exporters whose sales abroad have been depressed by the two-and-a-half-year slump.

However, many African nations are unlikely to see much growth. While the continent will benefit from the increase in commodity prices as the recovery picks up in industrialised countries, drought will stifle the effect of this in southern Africa.

The report says the success of other African regions hinges on the structural adjustment programmes being undertaken there. Noting that growth in developing countries with high and fluctuating rates of inflation has been much lower than those with low inflation, the publication also cautions against a lack of fiscal and monetary control in developing countries which, it says, is the primary reason for the rise in deficits.

Kenya and Nigeria are singled out as countries where free market oriented structural reforms are failing because the governments have failed to address market rigidities and large price distortions caused by this past excessive control.

But the report expresses faith in the IMF-sponsored structural adjustment programmes which, it says, should be strengthened as they have improved the creditworthiness of various countries.

Insofar as the former Soviet Union states are concerned, the report argues that as harsh as economic reform may be, it is best to be bold and implement market reform from the very beginning.

Key elements of assistance given to this region thus far include technical assistance, financial assistance to build up foreign reserves and finance essential investments; and the opening of markets to products from these states.

Economic restructure must begin right now

STAR 6/6/92. 153

IN AN open letter to Finance Minister Derek Keys, former chief economist at Barclays Bank (now First National Bank) JOHAN CLOETE offers some suggestions on how to combat inflation and enable the economy to mount a vigorous recovery.

THERE is a great deal of discussion now about the need to restructure the South African economy in order to place it on a satisfactory growth path

Such restructuring, however, will be very difficult — if not impossible — to achieve while double-digit inflation continues and while the Reserve Bank continues to combat inflation by keeping demand depressed.

There is only one way to ensure that there will be both a substantial fall in the inflation rate to 10 percent or less and the commencement of a worthwhile and sustained economic recovery in the year ahead, which will be necessary to allow the needed restructuring of the economy to begin

Big business and Government, which are mainly responsible for the wage/price spiral and also the main beneficiaries of inflation, must themselves act to reduce the inflation rate.

This must be done in accordance with the inflation rate which the Reserve Bank is prepared to finance in terms of its money supply growth guideline of 7 percent to 10 percent for 1992

Maximum

Big business and Government certainly have it within their power to reduce the inflation rate to 10 percent or less by next May by refusing to grant any further wage increases in excess of 10 percent for the year ahead and, at the same time, limiting their price increases

Government needs to limit increases in the prices it administers to a maximum of 10 percent.

The Government appears to have already embarked on action in

First step is to curb rate of inflation

this direction, seemingly standing firm on a civil servants' salary and wage increase of less than 9 percent for the year ahead

What is now required is that the large business groups in the private sector follow the Government's example.

By firmly linking and keeping their wage and price increases to the Reserve Bank's money supply growth guideline, big business and Government can free the Reserve Bank from having to continue to exert downward pressure on inflation by keeping the economy in recession.

The Bank can then allow the surpluses that are being realised on the balance of payments to exercise their normal stimulatory effect on the domestic economy, and the economic recovery South Africa so urgently needs can get underway.

It seems that the new Minister of Finance, Derek Keys (being from big business himself), is in an ideal position — and also has the responsibility — to enlist the help and support of the leaders of the country's large business groups to decisively reduce the wage/price spiral in the months immediately ahead so as to enable the economy to emerge from the mire of stagnation at least during the course of 1993.

Large suppliers of food, transport, medicines and other necessities, in particular, have an important role to play in breaking the wage/price spiral

They must be persuaded that to continue to use the price inelasticity of demand for their products and services to victimise the consuming public and, indeed, growth and employment in the entire economy, must eventually rebound on themselves.

Consumer organisations have an equally important part to play in breaking the wage/price spiral by monitoring prices of essentials and, if necessary, organising consumer boycotts of stores, products or services with prices which are rising out of line with the Reserve Bank's money supply growth guideline

Persist

The Government must forthwith desist from increasing the fuel levy whenever it requires additional funds.

Organised labour must be convinced that wage increases cannot catch up with price increases, and that excessive inflation will persist and real wages continue to fall as long as workers insist on annual nominal wage increases materially in excess of annual increases in labour productivity

Big business, for its part, must firmly link the annual wage increases it grants to annual increases in labour productivity to finally expunge from the economy inflation and its debilitating effects on growth and employment

For the Reserve Bank to reduce the inflation rate to as little as 10 percent with restrictive interest rate policy alone would probably take until the end of 1993, and would probably mean the suppression of economic growth for at least another year.

This is simply unacceptable — if not highly dangerous — in the prevailing circumstances

Keys can make no greater contribution to the country's well-being than to persuade our business leaders and the Government to take immediate and decisive action against inflation, enabling the economy to mount an early and vigorous recovery and to allow a start to be made with meaningful economic restructuring.

Both are of vital importance at this crucial point in the nation's political and economic life.

Reserve Bank tightens its monetary screws

STAR 8/6/92.

(153)

By Sven Lunsche

Reserve Bank Governor Dr Chris Stals has again moved to tighten monetary policy by announcing a three-point plan to drain excessive liquidity from the money market

The plan involves increasing commercial banks' cash requirements, raising the limit of their off-shore foreign exchange holdings and issuing additional Reserve Bank bills

Economists said over the weekend that by soaking off excess liquidity Dr Stals was intending to put upward pressure on money market interest rates so as to reduce pressure on the Bank to cut its key Bank rate

"Dr Stals hopes to keep the Bank rate above the inflation rate at all times in his avowed attempt to break the back of inflation, partly by ensuring a firm rand with high interest rates," said Econometrix director Dr Azar Jammine

"Maintenance of high interest rates is also seen by the Bank as a counter to excessive state spending by serving a warning to the Government of the inflationary and ultimately recessionary consequences of high levels of state expenditure," he added

Announcing the plan on Friday, Dr Stals said net purchases of gold and foreign exchange to the tune of R2,5 billion in the first five months of this year had significantly raised the level of liquidity in the money market.

The overall market situation was also aggravated by a further decline in the demand for funds from the private sector

"Projections indicate that there could be a further substantial addition of liquidity to the money market from now until the end of August

"After that, when government revenue should hopefully catch up again with expenditure, the situation may be reversed," Dr Stals said

Until then, however, there was a danger that short-term interest rates could fall to levels that would not be sustainable, for example to below the current rate of inflation

"Banks are at this stage only making limited use of Reserve Bank accommodation, but are seeking additional investment outlets for very short-term surplus cash

"After consultation with Finance Minister Derek Keys, it was therefore decided to provide additional facilities to financial insitutions for the investment of surplus short-term funds," Dr Stals said

The three-point plan consists of

- An offer of special Reserve Bank bills with a maturity of nine months to the market on tender, on the same basis that Treasury bills are now being issued

The bills will only be rediscountable if they have a remaining outstanding maturity of 91 days or less, but will qualify as liquid assets and will be accepted as collateral for overnight loans extended by the Reserve Bank

- A doubling of the limit banks are allowed to hold in the form of off-shore foreign exchange holdings to $632 million. The previous limit was fixed in 1983, but recently there has been rising demand by the banks for forward foreign exchange.
- An increase of the banks' compulsory minimum cash reserve from four to five percent of their total short-term liabilities to the public

The additional one percent will be held in a special deposit account with the Reserve Bank

Dr Stals also re-affirmed an announcement earlier last week that normal sales of government stock and Treasury bills in the current fiscal year would not be limited to the figure of R18 billion

"Additional sales over and above this figure will be made as deemed necessary in the light of Treasury needs and general market liquidity conditions," he said

Wage increases fail to keep up with inflation

HILARY GUSH (153)

1840

WAGE increases agreed to so far this year were falling behind inflation and were expected to slow even further by year-end, labour analysts said.

Industrial relations consultant Gavin Brown said wage settlements had averaged 13% this year and were likely to fall even lower as tougher employer-union negotiations got under way

Reviewing the benchmark settlements achieved in key sectors since the beginning of the year, Brown predicted a "dramatic" fall in wage growth rates. Unions were likely to settle lower, he said, as the wage round passed its mid-point. This was particularly true in the retail sector where year-on-year wage increases currently averaged 15,2%.

Seven major settlements in the chemical industry had shown rises in wages of 13%. Average settlement in the food sector was 14,7%, while parastatal workers' wages increased by 9,6%. BDay 15/6/92

Research by industrial relations consultants Andrew Levy and Associates indicated an easing in the national settlement rate to 15,86% in the year to May from 15,98% in the 12 months to April.

Levy and Associates predicted an average 13% to 14% wage settlement for 1992.

The Bureau of Economic Research (BER) at the University of Stellenbosch forecast a 13,6% year-on-year change in employees' remuneration by the third quarter of this year and projected a rise to 14,1% by the fourth quarter.

In my view . . .

A daily commentary on current economic affairs by writers of The Star.

Ain't necessarily so

STAR 15/6/92 153

By John Spira

Very few economists, businessmen and expert observers believe that inflation in South Africa can be licked.

The overwhelming majority view is that it is built into the system; that the inflation psychosis is endemic; that the nation's prospective new government will spend as recklessly (if not more so) than the existing administration; that monopoly pricing is here to stay; and that wage demands running ahead of productivity growth will continue to characterise the domestic economic arena.

I don't subscribe to so pessimistic a scenario.

Sure, the supporting arguments have much merit, since it isn't difficult to argue a case based on an extension of the status quo.

Hopefully, however, there's scope in the debate for contrary opinion — a view which considers a fresh and imaginative approach to a problem that has been successfully tackled in many other countries, where the same sceptics as we have here expressed the same strong reservations.

Our former Finance Minister frequently used the threadbare First World/Third World argument to highlight the futility of achieving a solution.

It's an excuse that has lost all credibility in the wake of the enormous successes achieved in countries like Mexico, Argentina and Brazil — all economies which have amalgams of First and Third World features similar to those which characterise the South African situation.

Nor are these the only role models — models which, many contend, differ from this country in many respects.

So what about New Zealand and Australia? The former, in spite of the strength of its trade union movement, is recording zero inflation, with the latter not far behind.

Yes, it was painful; but we in

South Africa have also suffered much pain — without the sought-after results.

The answer — palpably obvious if we're to study the lessons learned elsewhere — is that we haven't pursued the correct strategies

Yes, we've followed a restrictive monetary policy. But it hasn't worked because it wasn't supported by a fiscal policy that slashed the size of the government sector, while simultaneously encouraging fixed investment and improved productivity in the private sector

Nor have we gone all out to reduce individual tax rates (as every winning economy has done)

Instead, the Government, in its "we know better than they" wisdom, has piled on the tax agony, spending the proceeds as wastefully as governments the world over are wont to do.

It's time our policymakers got off their butts and emulated the goals sought and achieved by others.

Such formulae aren't patented; transplanting them here costs nothing

We've come a long way along the road to political reform For how long must economic reform be treated like a poor relation?

Inflation, high costs erode export position

BDay 18/6/92 (153)

JONO WATERS

LARGE cost increases and rising inflation were eroding SA's competitive position in export markets, Randcoal CE Allen Cook said at the recent Australian Coal Conference

Cook told the conference the position was made worse by the current recession, and fiercely competitive pricing, which induced low prices, knocked profits and deterred further investment in the country's coal industry

"Current contract price levels are barely adequate to provide a return on existing investments and are certainly not attractive in considering new investments," he said

Spot prices for coal on export markets had tended to be lower than contract prices in recent years

This had led to producers having to decide whether they should accept lower prices or lose market share and cut production

With the lifting of sanctions, large potential markets had opened up — particularly in Japan, Korea, Denmark, France, Holland, UK and the US Western Europe had regained its position as the major market for SA coal.

Since coal pits in Poland and the CIS had started to reflect their true operation costs, Cook said SA coal was price competitive in Europe now.

He expected demand to increase in Western Europe and, in the long term, eastern Europe

The main potential competitor in volume terms was the US, but if SA remained price competitive, Cook believed it could hold on to its market share in the near future.

Spoornet had agreed to peg rail cost increases on the Richards Bay line to about half of current inflation rate levels over the next two years, Cook said

SA recession is its worst ever

(99) SHARON WOOD (153)

THE current recession was the worst on record because there had been nine consecutive quarters of real GDP decline, Credit Guarantee Insurance economist Luke Doig said yesterday.

In the 1974 to 1977 downswing, previously the most severe, real GDP had only fallen for six consecutive quarters B/Day

The recession's bottoming out in the second half would amount to a downward phase of the business cycle longer than 40 months.

Doig said the possibility of further quarterly GDP declines could not be excluded. 18/6/92

Reported unemployment rates of 30% or more in some industries were a major obstacle to an economic turnaround

Job creation programmes and the encouragement of a work ethic aimed at real increases in productivity were an urgent national priority, Doig said

THE WEEK AHEAD by Simon Willson

VAT a tantalising clue in inflation riddle

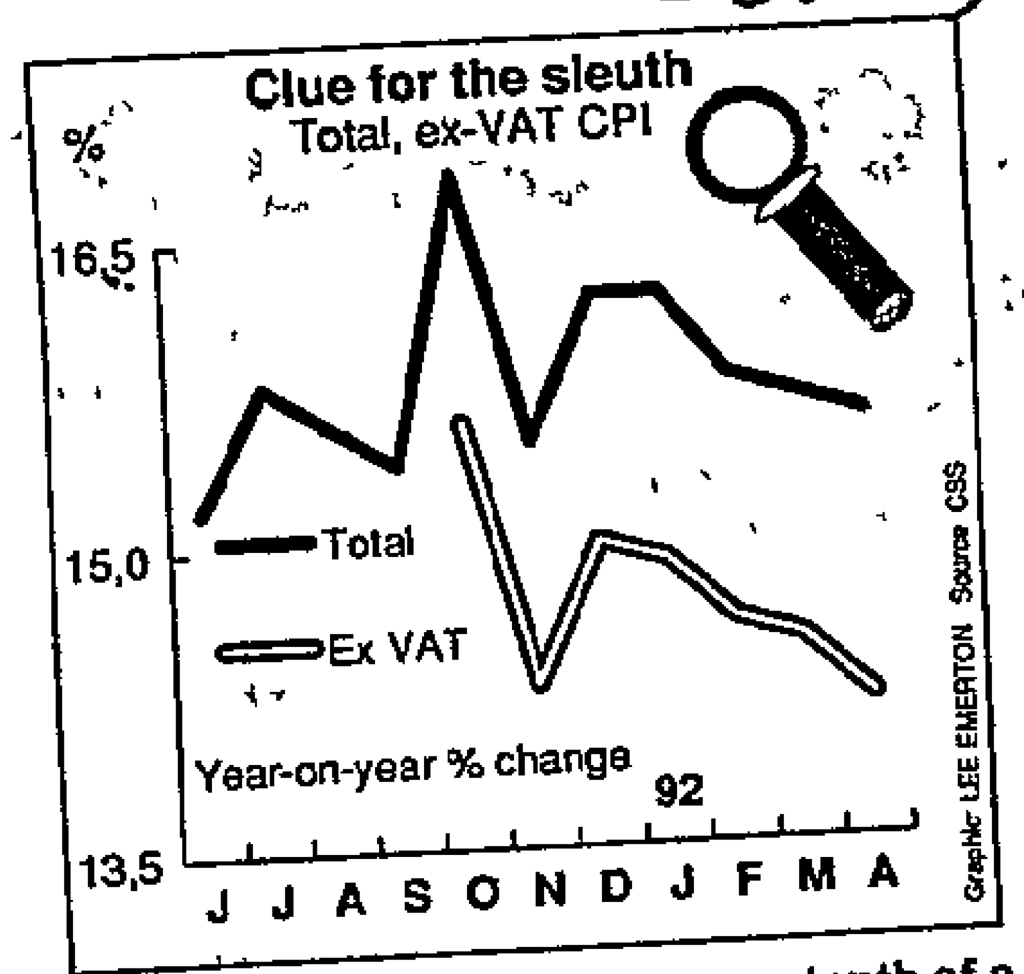
B/Day 22/6/92. 153

LIKE the plot of a Christie whodunnit, the next teasing clues in the increasingly intractable inflation riddle are due to unravel a little further later this week when the May consumer price index (CPI) is released But the identity of the inflation-fuelling offender in this mystery is likely to be as obscure by Friday as it is today

In April the inflation rate edged down to 15,6% from March's 15,7% — its third consecutive monthly dip from the 16,2% posted for January But there was still a smoking gun in the April CPI data the seventh successive month in which food inflation as measured by the Central Statistical Service (CSS) topped 25%.

The participants in the high inflation mystery were, to extend the Christie metaphor, assembled in the country house library last week to hear the verdict of the ace detective But the sleuth, in the form of the Board on Tariffs and Trade (BTT) report on food inflation, did little more than say there were a number of identifiable fingerprints on the murder weapon Each of those whose prints were identified had an alibi, so no arrests were made

But the longer this particular crime remains unsolved, the more the clues left by its perpetrators proliferate The chart shows one a pert little trend developing in one of the many inflation rates now published by the CSS The direction in the CPI excluding VAT has now been downward for four straight months, and has been sliding by more than just the one-tenth of a percentage point increments by which the total inflation rate has been dipping since February



As such, it indicates that VAT is beginning to play an increasingly prominent role in inflation's stubborn clinging to levels above 15% Without VAT, underlying inflation has slowed by one and a half percentage points from October (the first full month in which VAT was levied)

VAT did not feature as an inflationary offender in the preliminary BTT report released last week but, on the showing of the chart — and especially if ex-VAT inflation falls again in May — it must rate a mention in the BTT's final report

As for the prospective rate of inflation in May, the outlook is none too encouraging Postage costs, including stamps, money orders and box rentals, rose by an average 33% effective May 1 while the ripple effect of the excise duty hikes in the Budget could still be influencing the price indices The Budget's 8c/l on petrol and 6c/l on diesel, for example, have just showed up in a 7% rise in monthly fuel costs in the April producer price index (PPI)

Also due this week are May's trade balance and money supply figures The trade data should come first, earlier in the week, and the main point of concern is that exports recover their R700m fall in April and hit something like R6bn for the month Given the recession-hit domestic economy, imports should be restrained enough to push the surplus back over the R1bn mark.

Growth in M3 — the targeted, broad money measure — jumped out of its 7%-10% guideline range in April, and the Reserve Bank last week let slip a certain lack of confidence that M3 would stay in the range this year. Deputy Governor Jaap Meijer told a London audience that M3's chances of hitting 7%-10% looked better in 1993 than this year The depressed state of the domestic economy and the liquidity-boosting fall in credit extension may yet bring it into line

Internationally, US durable goods orders for May are due on Wednesday and follow strong rises of 2,3% in March and 1,4% in April The non-defence component of April's orders rose for a fourth consecutive month, and that has not happened since July 1987, so markets are generally confident that this indicator will continue positive even if its increases slow slightly

US first-quarter GDP has its final revision on Thursday, but the significant change to this figure came at its first revision a month ago, when it was amended to 2,4% from a preliminary 2% The final figure is unlikely to shift much from the first revision

The UK trade figures for May are due out later this morning, and will be causing some apprehension in London The UK's April trade deficit jumped to a 19-month high of £1,36bn and the April current account deficit widened to a 15-month peak of £1,06bn The UK trade gap widened after a surge in imports to a new monthly record of £10,2bn, and some analysts said this cast doubt on the sustainability of any UK economic recovery

Imminent British economic recovery is itself in enough doubt already after the release a month ago of preliminary UK first-quarter GDP, which was down by 0,6% The first revision to UK GDP in the March quarter comes up on Wednesday, but is unlikely to show much change from -0,6% Like SA, Britain is experiencing its longest postwar recession and, like SA, the fall in first-quarter output means some downward revisions to 1992 growth projections Both the SA and UK economies face a close-run contest to register any growth at all this year as the start of their respective upswings are repeatedly deferred

490 held on Robben Island

APG 24/6/97 (153)

ONLY 490 prisoners were being held on Robben Island at the last count, according to the Minister of Correctional Services, Mr Adriaan Vlok

He said in a written reply to a question by Mr Dave Dalling (Ind Sandton) that the total, correct on June 9, was made up of minimum and medium security prisoners.

Since August 20 last year no maximum security prison had been in operation on the Island

A total of 33 825 of the 92 351 prisoners released by Correctional Services in the nine months up to March 31 this year were freed on parole, Mr Vlok said.

He told Mr Tony Leon (DP Houghton) that of those released prisoners who had been sentenced to 24 months' jail and longer, 39,37 percent had served half their sentence or less — Sapa.

In my view . . .

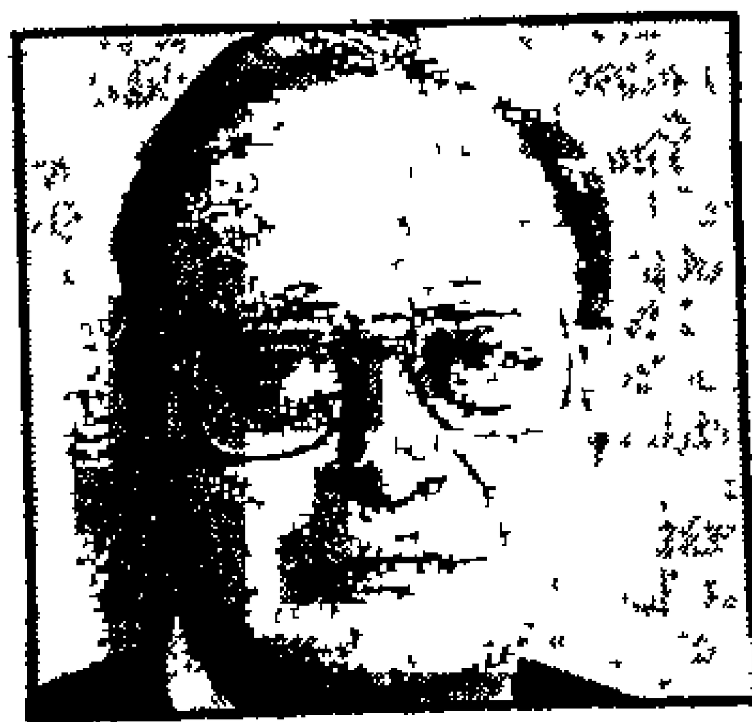
A daily commentary on current economic affairs by writers of The Star.

Capital gains tax difficult to justify

153

STAR 24/6/92

By Derek Tommey



From time to time people of leftist persuasion, possibly dazzled by unit-trust claims about how they have generated untold wealth for unit-holders, advocate a capital gains tax on share market investments.

The question that has to be asked about any new tax is whether it will generate sufficient revenue to make it worth while — whether the income will justify the additional cost and the public resentment.

With this in mind, I did a few rough calculations to find out just how large have been the capital gains made by investors in JSE shares in recent years.

The result is rather staggering for it shows that over the past eight years there have been no real capital gains. In fact, investors have actually suffered fairly substantial losses.

It is true that shares listed on the JSE have in nominal terms risen sharply in recent years. In fact, according to Reserve Bank figures, the prices of commercial shares on average have doubled in the past eight years and the prices of industrial shares have trebled.

As the consumer price index virtually doubled in this period, it is clear that the value of an investment in shares generally has to keep abreast and even ahead of inflation.

But the rate of inflation is not the only thing to be taken into account when determining whether a capital gain has been made.

A factor that tends to be overlooked, but which is most important in determining capital gains, is that every year most companies reinvest a large sum of money in their businesses.

This is equal to a half to three-quarters of their taxed profits and belongs to the shareholders.

If this annual injection of capital adjusted for inflation is taken into account, a completely different picture emerges.

It shows that without any internal growth, prices of commerical shares should not be double but treble their 1983 levels and that prices of industrial shares should be almost four times higher than in 1983.

What this means is that if industrial and commercial shares fully reflected the capital investment, they would be 61 percent higher today than they actually are.

If one were to add in a 2,5 percent annual increase in productivity — which is what company chiefs are supposed to achieve in order to justify their big salaries, prices of industrial and commercial prices should be almost double what they are today.

These calculations, admittedly, are not precise, but they are accurate enough to show what the real situation is.

This is that in the past eight years SA commercial and industrial companies have dreadfully underperformed so that capital gains have been non-existent, which is understandable, given the poor performance of the economy.

However, there is a silver lining in the dark cloud.

Once the resources amassed by commerce and industry in the past eight years are fully utilised, one should be able to expect industrial performance, profits and share prices to soar.

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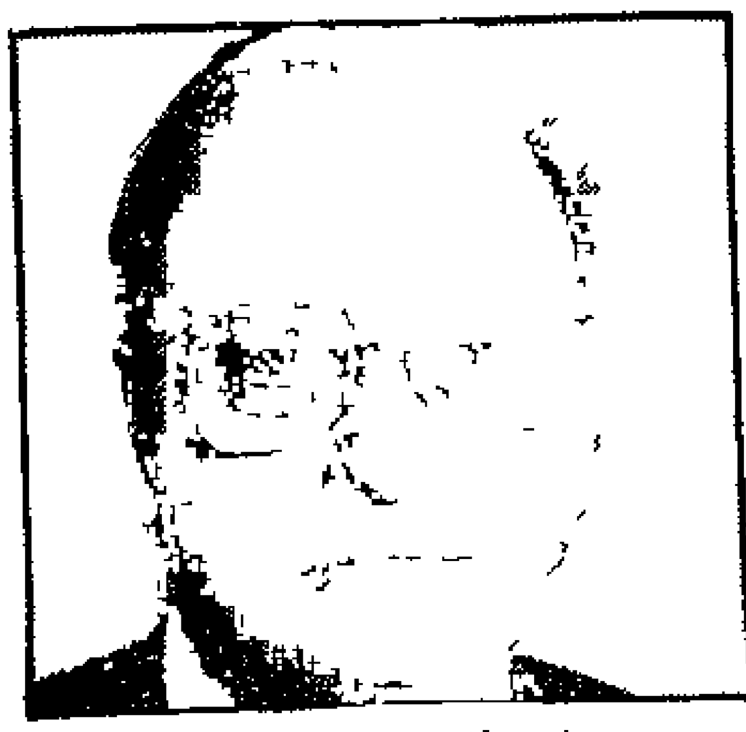

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ANC protest at Pollsmoor

Staff Reporter 153

MORE than 60 ANC supporters braved cold weather last night to protest outside Pollsmoor Prison against the continued imprisonment of political prisoners

The hour-long demonstration, by members of the Kraaifontein branch of the ANC Youth League, started about 6.45pm CT 25/6/92

Police kept a low profile, with about four officers monitoring the protest.

Miss Doris Neewat, chairman of the ANC's Kraaifontein branch, told the crowd that when the ANC assumed power it would free all the prisoners who had been forced to commit crimes under the apartheid government

Recession 'is about to end'

153

Own Correspondent

DURBAN — The recession was about to end and SA was on the verge of what was potentially its strongest and most sustained economic recovery in many years, Board of Executors executive director John Dickson told yesterday's Fedhasa regional congress

And the consumer price inflation rate would drop to about 12% by the end of the year and "somewhat lower" thereafter BIDay 26/6/92

He said because the recovery would be driven by rising exports and higher investment, it would be more sustainable and soundly based than the "boom/bust" consumer driven recoveries experienced in the late '80s

But Dickson warned that this exciting prospect was threatened by violence and crime which could reduce business and domestic confidence, and a drastic deterioration in the quality of economic management under a new government. This was unlikely because "any foolish economic policies would be instantly exposed and punished by world markets"

Durban had recorded its lowest crime figures on the beachfront since 1986, Fedhasa chairman Alan Gooderson told the congress. And the city's crime statistics were lower than any other major SA city.

Inflation analysis spots the difference

B/Day 26/6/97

Business Day Reporter

ACCELERATING increases in the price of services had contributed to the recent tendency of consumer inflation consistently outpacing producer inflation, the Reserve Bank quarterly bulletin said. (153)

Explaining the divergence between increases in the consumer price index (CPI) and producer price index (PPI) over the last 12 months, the Bank said services costs were a significant factor There had been a sharp acceleration in the prices of services, which were included in the CPI but were not part of the PPI

Another explanation for the divergence was faster increases in the labour costs of retailing than in manufacturing. The direct effect of lower price rises on imported goods was also more pronounced on producer prices than on consumer prices.

labour

Recession, inflation and drought hobbles unions

27/6 - 1/7/92

TRADE UNION leaders are describing 1992 as the worst year since unions were legalised in South Africa

Amid recession, huge retrenchment, rising prices and a devastating drought, trade unions have been severely hampered in their ability to effectively challenge employers

Wages have remained at an all-time low while increments have declined compared to the early days of legal trade union activity

Labour consultant Mr Andrew Levy says the downward trend is likely to continue this year since wage hike limits for 1991 will be the base of negotiations this year

Levy attributes the downward trend to determination by employers to "break the wage spiral" and to their reluctance to agree to inflation-linked hikes without corresponding rises in productivity

Unions have also been threatened with retrenchments while negotiations take place. Says Cosatu information officer Mr Keith Madonsela "It is clear that employers want to impede progress in negotiations"

In mining, employers are constantly threatening to close shafts which they describe as producing marginal profits Cosatu says it is examining this threat which will "inevitably result" in a setback when "battalions of unionised workers become unemployed".

Cosatu spokesperson Mr Neil Coleman says the federation demands a moratorium on retrenchments and wants an agreement to this effect to be signed by affiliated unions and employers.

In sectors like mining and metal, Cosatu wants employers to retrain workers so that when they are retrenched they have skills to offer on the job market.

Job losses in mining continue to rise According to National Union of Mineworkers (NUM) information officer, Mr Jerry Majatladi, the industry had 750 000 employers in 1987 Today 495 000

A tough battle could lie ahead in the mining industry as wage negotiations continue NUM's wage demands range from a 20 to 100 percent increase for different employers and includes a 20 percent minimum increase on gold mines and 55 percent on collieries

In a show of strength the union marched through Johannesburg on Monday to the offices of SEIFSA, the National Industrial Council for the Motor Industry and the Department of Manpower

Negotiations have been in the balance after Numsa rejected employers' offer of a 6,4 percent across the board wage hike

Strike ballots are due to start in July if the deadlock is not resolved.

In the public sector, however, a settlement has been reached after three months of negotiations between Cosatu affiliate Post and Telecommunications Workers Association (Potwa) and management boards of the South African Postal Service. Potwa pushed the minimum wage beyond R1 000 with a 19,5 percentage increase

Despite the economic recession, statistics indicate increasing preparedness for mass action.

According to Levy there has been an increase from 21 percent to 29,4 percent in the use of mass action as a means of exerting pressure on employers to concede to workers' demands

Figures for work stoppages reflect an increase of nine to 12 percent in the past year, while the number of illegal strikes in the past 12 months was 18 percent above last year

MBULELO SOMPETHA

South 27/6 - 1/7/92

TAKING IT TO THE STREET: Part of the 15 000 clothing workers who participated in Sactwu's march in Cape Town last Thursday. One of their demands was a R30 a week wage increase

(153)

Job losses in recession total 160 000 — report

Bday 29/6/92 SHARON WOOD 153

ALMOST 160 000 people had lost their jobs since the beginning of the downswing, despite a slowdown in wages during the same period, the Reserve Bank said in its latest quarterly bulletin

Labour costs eased during 1991, with growth in average nominal wages and salaries per worker slowing to 15,4% from 16,9% the previous year.

However, the Bank described this as only a marginal slowdown. It said these high rates of increase probably contributed to the rising unemployment.

Many employers were forced to retrench employees to contain rising labour costs and remain competitive in a weak domestic market

In many cases, this was also due to an international market characterised by falling commodity prices and lower rates of increase in the production costs of many competitors, the Bank said.

The bulletin said total nominal wages dropped sharply from 19% in the second quarter of 1990 to 13% in the second quarter of 1991, but then accelerated to 15,8% and 15,3% in the next two quarters.

As a result of the slower increases in nominal wages, real wages per worker remained virtually unchanged last year from 2,2% in 1990.

Private sector nominal wage and salary increases, which averaged 14,9%, were lower during 1991 than those in total nominal wages

Wages and salaries of public authorities rose by 15,7%, sharply down from 1989's 21,9% increase.

"For the third year in a row, the increases in the average remuneration of workers employed by the public authorities were nevertheless higher than those of workers in the private sector," the Bank said.

The decrease in formal employment took place mainly in the private sector, it said, with employment contracting by 3,6% during 1991 Public sector employment rose by 1,6% last year The Bank attributed this to staff increases in the police force, black education and the correctional services.

THE WEEK AHEAD by Simon Willson

Inflation breakdown to offer most illumination

B/Day 29/6/92

(153)

RELEASE of the May inflation rate early this week is almost certain to coincide with the near-total solar eclipse visible on these shores. Searchers for omens from this rare coincidence may have a field day, but headline May inflation is unlikely to be radically changed from April's 15,6%.

As in previous months, the breakdown will offer the most illumination about inflation's probable short-term direction. Analysts will be looking most closely at the rate of food inflation — 28,4% in April — and the rate of inflation excluding VAT, which was 14,2% in April after its fourth consecutive monthly fall.

Publication of the May consumer price index (CPI) is going to be pushed to beat the end of the month. Among the many other trends in the CPI data, one that stands out is the growing delay in its release.

In the first half of last year, CPI figures never emerged later than the 25th of the following month. The May data due this week will be the third successive CPI release to be published on or after the 27th of the following month.

Last year's average release date — which includes a very late August figure due to rebasing of the index, which only happens every five years — was the 24th. This year, assuming the May CPI makes it before the end of June, the average is already the 27th.

Omen seekers and bone throwers waiting for the eclipse of the sun and the May CPI (what if they arrive simultaneously?) could read much into that.

Internationally, last week's dollar slump on more gloomy economic tidings from the US has pinned even more importance on this week's releases of US economic fundamentals. Periods of unremitting bad news for one economy, as last week was for the US and its currency, are quite rare.

Adverse fundamentals

In quick succession May durable goods, weekly jobless claims and weekly money supply all came out negative for US economic recovery and growth.

Just for good measure, statements on firm monetary policy came out of several European centres just as US interest rates looked set to ease. The surprise upward revision of first-quarter US GDP to 2,7%, as the second quarter was ending, referred to a period too long gone to be of help.

The dollar's immediate slide on these adverse fundamentals has effectively raised the profile of this week's US data releases. Is there any respite in prospect for the downcast dollar?

A look at the figures timetabled for release suggests that this week's US numbers will look a great deal better than last week's. But whether and how far any improved fundamentals feed through to exchange rates is a different question. Recently the dollar has reacted with greater alacrity to worse US figures than to better ones.

This week's US releases are concertinaed into the front end of the week by Friday's Independence Day holiday. The June employment report, usually out on a Friday, is timetabled for Thursday instead and is probably the week's most important US release. There are reasons for expecting an improvement in these jobs figures.

As the chart shows, the key non-farm payrolls component of the monthly US employment report has responded quite sympathetically recently to movements in the purchasing managers' index. Non-farm payrolls measure additions to or subtractions from total recruitment outside the US agricultural sector.

The National Association of Purchasing Management (NAPM) publishes a monthly index which measures activity in the US manufacturing sector.

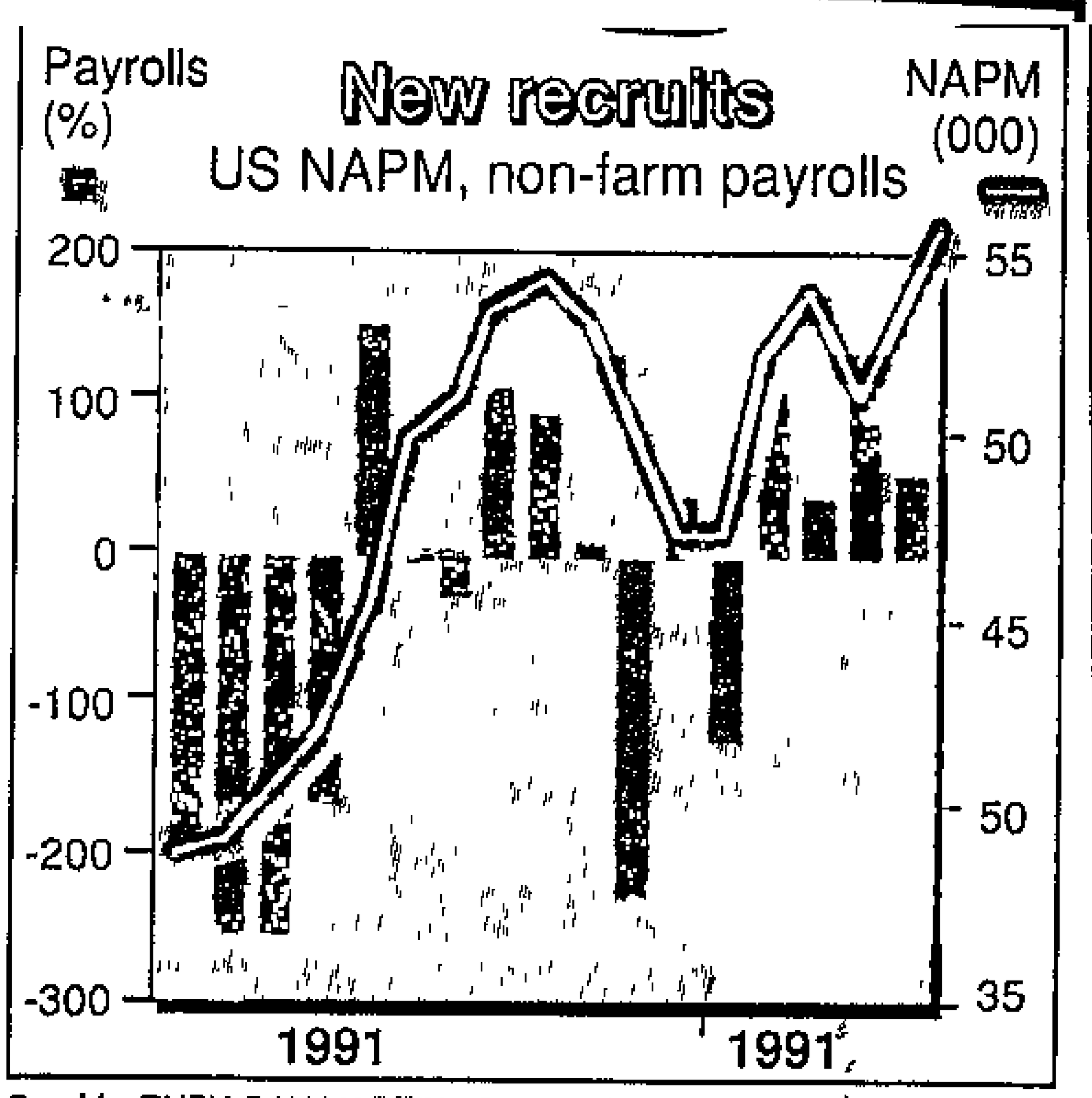
The May NAPM outturn was the strongest upward movement in the index for three years, rising to 56,3% from April's 51,3%, and it implied recovery across a wide front of the economy and a busy rebuilding of inventories. Payrolls growth for the same month was a modest 68 000, and the chart suggests that payrolls still have to reflect fully May's NAPM surge.

There is another reason to expect good June US employment figures on Thursday.

Headline May unemployment jumped to an eight-year high of 7,5%, but the breakdown showed the average manufacturing workweek soaring in May to 41,3 hours — its highest level in 26 years.

This, together with US workers posting in May the highest amount of overtime in 19 years, indicates that factories have been in serious need of extra workers. Their existing work forces have simply had no more time to do the shifts required to meet output commitments.

A June NAPM that stays above 55% when it is released on Wednesday should increase the chances of a six-digit, positive payrolls readout the next day.



Graphic RUBY-GAY MARTIN Source BARCLAYS BANK

That may not help the dollar over the long weekend, but it should help to sweeten sentiment towards the beleaguered US currency.

Elsewhere, the policymaking council of the Bundesbank, Germany's central bank, meets on Thursday to assess its credit stance. Because the German authorities were among those in Europe pronouncing last week on the need for tight monetary policy, there will be little solace for the dollar from the meeting.

Neither will the Japanese current account figures for May, due at the end of the week, be of any consolation to dollar holders.

The April surplus, at $10bn, was 22% up on a year earlier and extended the trend of rising Japanese external surpluses which is so concerning trading partners. The G-7's preferred solution to the problem, a stronger yen, is naturally not exactly dollar-positive.

Commercial and industrial property

Recession drags market further into doldrums

BIDay 29/6/93 153

THE commercial and industrial market seems to be sliding further into the doldrums as the much talked about end to the economic recession fails to materialise

Economists and senior property players initially predicted the recession would bottom out in mid-1992, but these projections have been revised and extend to between mid-1993 and the first quarter of 1994

All of this does not bode well for an industry already faced with huge areas of oversupply, reduced demand and static to weaker rental levels

The huge vote of support for President F W de Klerk and his reform initiatives given by the white electorate in the March referendum was taken by many in the industry as a godsend

Failed

It was expected to result in renewed local activity and to spur offshore investors and companies to return in droves, thereby rapidly mopping up the glut of space, pushing rental levels to new highs and creating new demand

Sadly this has failed to materialise

Foreign investors and companies are adopting a "wait and see" attitude as local violence continues unabated and political discussions become sidelined by rhetoric and accusations

Foreign investment, if and when it does materialise, will alleviate many of the woes currently being felt However, there has to be a sustained reduction in violence and probably an interim government in place for this to happen

Token gestures have taken place but have had little effect on the property market Local economic conditions are unlikely to improve for at least another year as that market lags the economic recovery by nine to 12 months

In reality, rental levels are generally showing no real growth and only sought-after decentralised areas with low vacancies and little further development potential are showing any sort of rental growth

Vacancy levels are static to increased almost across the board, with development also only really starting to taper off now

In a positive move, the industry is also starting to call for less development and urging members to exercise caution

However, this call probably comes too late as most of the major landlords find themselves with vast amounts of space to let and few propective tenants

This has resulted in tenants becoming more demanding and aggressive, and landlords being forced to become more accommodating

Rent free periods of up to a year seem to have become the norm, and a variety of other incentives like relocation contributions and actual moving costs are increasingly being borne by hard-pressed landlords

Existing tenants are also examining the market and canvassing other landlords and agents for better deals which are then being presented to their present landlords

Quality

While the days of speculative developments are all but gone, huge institutional cashflows and property quotas that need to be filled are seeing those players continuing to seek quality, well-tenanted buildings that offer sound returns

Competition for these properties is, however, fierce as private investors and syndication schemes stalk the market for similar developments

Therefore the market is most likely in for another tough year and a considerable "tightening of belts" will be required

The economy is expected to start its recovery towards the end of the year and if violence can be contained and political negotiations move forward, foreign investors and companies will move into the market, thereby boosting its recovery

3LE MARCH 1993

In my view . . .

A daily commentary on current economic affairs by writers of The Star.

Time at hand to declare all-out war on inflation

STAR 29/6/92 (153)

By John Spira

There's a curious misconception about inflation — one which isn't all that surprising given the heat generated by a force which has a direct impact on everyone's back pocket

It's a myth which contends that, once the inflation rate comes down (if ever it does), prices will fall The expectations flowing from this misguided belief are so frightening that the truth must be told.

In fact, any decline in the rate of inflation won't mean lower prices but an amelioration in the rate at which prices have been rising.

Teaching granny to suck eggs? Maybe; but you'd be amazed at just how many inflation-battered consumers view inflation in this light. Wishful thinking on their part? No doubt — and who can blame them.

The frustration of it all is the helplessness that goes with not knowing what to do about it. Most of the problems we face are capable of at least theoretical solution.

Although we might not pull the rabbit out of the hat, at least we know it can (somehow) be done.

Inflation is a lot more nebulous. We hit out at this bogey that affects our everyday lives — and find ourselves flailing at thin air.

We grasp at straws and when we come away empty-handed, our vexation knows no bounds — in much the same way that a clumsy boxer is angered by his inability to nail a fleet-footed opponent.

Sure, the well-meaning consumer councils tell us to shop around and not to buy if goods are too expensive.

Sure, the Reserve Bank tells us that the medicine it is dispensing will eventually produce a cure.

Yet we have no option but to eat, clothe ourselves and maintain a roof over our heads And our credulity is being stretched to breaking point by Reserve Bank promises which stubbornly fail to come to fruition

Small wonder that the man in the street throws up his hands in desperation.

Tell him what to do and he'll do it — provided he's given the visual aid to see the outcome that lies beyond the near horizon.

The upshot of the whole sorry saga is that the time has arrived to get the inflation rate down to well below current levels.

How it's done is the task of government, which (hypothetically, at least) is the custodian of public interest. If inflation is enemy number one (and if it isn't, it has to be pretty close), then Pretoria must marshall its crack forces and go to war No more half measures After all, the best form of defence is an all-out attack.

Inflation rate falls below 15 pc

STAR 30/6/92

By Sven Lunsche (152)

The inflation rate in May fell below the 15 percent level for the first time in a year — from 15,6 percent in April to 14,8 percent last month

However, food prices continue to prevent further large declines in the overall rate as the Central Statistical Service indicates that the introduction of VAT has had a major impact on the soaring cost of food products

The CSS reported todaythat food price inflation in May was 27,8 percent, compared with 28,4 percent in April and a record level of 28,9 percent in March

On a monthly basis, however, there was a noticeable improvement as food rose by "only" 1,2 percent from April to May

In the previous month food costs had risen by 1,8 percent, driven by large increases in the cost of products hardest hit by the drought.

Nevertheless, vegetables still rose by six percent from April to May but fruit fell by 1,3 percent and fats and oils by 1,8 percent Grain products rose by 1,6 percent.

Food prices contributed 0,2 percentage points to the overall 0,8 percent rise in the monthly Consumer Price Index

Commenting on food prices the CSS says the lifting of the VAT exemption on milk and rice at the beginning of May had the effect of taxing 93 percent of all food products

As a result of the changes in the tax base food inflation rose by 6,8 percentage points from 21,6 percent in April last year, when only 41,2 percent of food was subject to GST, to 28,4 percent in April 1992

"The increase in the food price index, only due to the inclusion of milk and rice into the VAT net, was 0,6 percent, which means that the change of 1,8 percent in the CPI between March and April this year would have been only 1,2 percent had the tax base not changed," the CSS says

Long haul ahead before economy starts to pick up

(153)

Finance Staff STAR 1/7/92

Sustained lower inflation is unlikely in the current economic cycle as long as structural problems like administered prices, control boards and monopoly practices continue, says Syfrets economist Elmien de Kock.

In Syfrets' latest Quarterly Economic Review Ms de Kock says that while it is possible for inflation to reach much lower levels of around 12,5 percent by year-end, a sustained and meaningful reduction is impossible because of these entrenched structural problems

Inflation has been one of the major reasons for eroding nominal income and preventing a much needed decline in interest rates.

"The man in the street is worse off now than last year, not only because of job losses, but also high real interest rates and negative real salary and wage increases."

Also weighing on the consumer is a heavy tax burden which is forecast to rise still further.

"Considering the fact that there is little room for any tax relief, given redistribution priorities,

Elmien de Kock . worse off now

and that it is forecast that personal tax contributions will rise by 22 percent this fiscal year, it is clear that the consumer's net financial position has deteriorated

"Given the sombre prospects for fixed investment — set to decline by three percent — and consumer spending, it is difficult to see any immediate possibility for recovery."

On the upside, this should be put in perspective and the recovery in world economies will eventually benefit commodity prices as well as those of South African exports.

Personal disposable income would then recover in response to increased activity, lower interest rates and slightly reduced inflation.

In a separate economic report Board of Executors (BoE) chief economist Rob Lee calls on the Government to reduce drastically its consumption spending as an essential ingredient in any long-term package to promote economic growth

In BoE's latest Investment Outlook Mr Lee says average and marginal tax rates in South Africa are "extraordinarily high in relation to what is delivered in terms of services and benefits from government"

A large Budget deficit is justified at this stage of the economic cycle, but there is no justification for public sector borrowings being used to finance consumption rather than capital spending

"The Minister of Finance has committed himself to promoting economic growth, specifically driven by high investment.

"If he fails to alter drastically the composition of state spending towards investment, this commitment will prove to be hollow indeed," Mr Lee says.

THE WEEK AHEAD by Simon Willson

Bright spots may shore up falling business confidence

BI Day 6/7/92 (153)

AN EARLY casualty of any sudden deterioration in the economic or political outlook is the economy's intangible but influential underpinning: business confidence. Its fragility may be apparent tomorrow when Sacob releases its business confidence index for June.

A two-month upturn in the index came to an end in May, when the index dipped to 90,7 from 92,4 in April. That fall was before the June 16 stayaway, before Boipatong and before the stall in constitutional talks, and factored in a 1992 economic growth projection of zero.

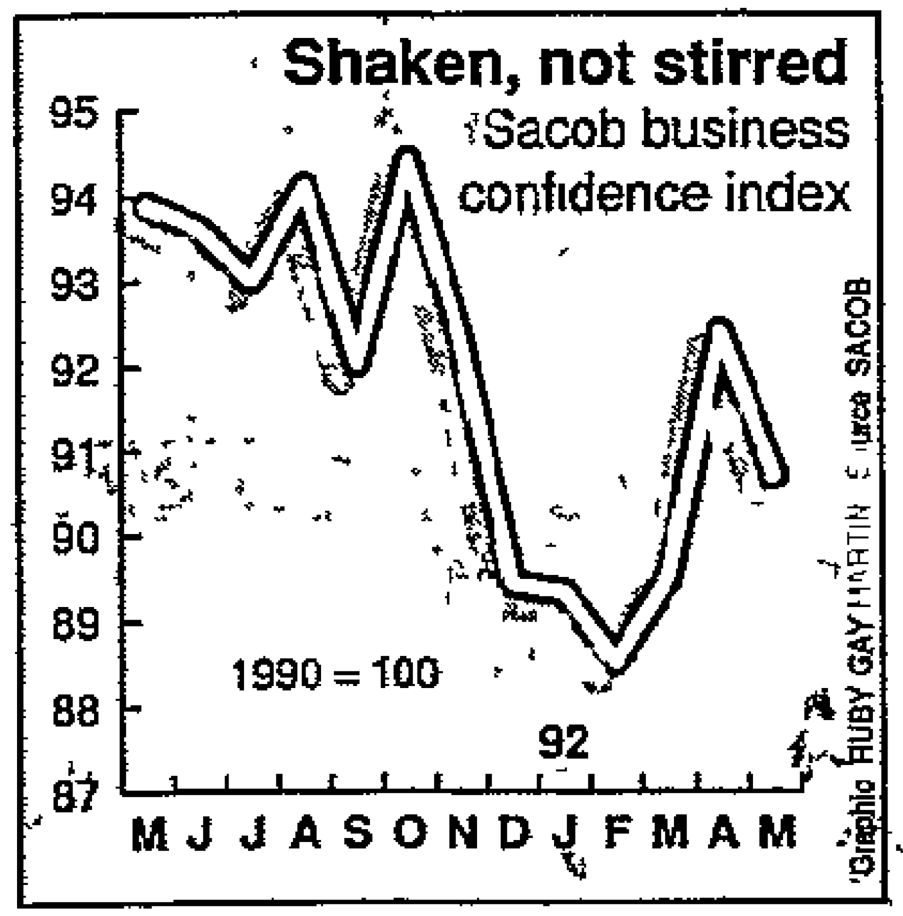
Since then the political outlook has darkened, and economic prospects have also taken a turn for the worse. The Reserve Bank and an increasing number of private-sector forecasters now predict a fall in national output this year. Even world economic trends have turned down, a trend exemplified by the weekend's further cut in US interest rates.

A look down the 13 sub-indices that comprise the Sacob index does, however, show a few bright spots in this gathering gloom. These positive components may have done enough over the past few weeks to restrain any overall fall in confidence to relatively small proportions.

The commercial rand has strengthened to six-month dollar highs, inflation has dipped to a 13-month low; interest rates have come down; gold and other precious metals prices are up sharply. However pronounced the anecdotal evidence of falling confidence might be, in statistical terms any decline looks far less clear cut.

Also due early this week is the level of gold and foreign exchange reserves for June. The gold price's recovery to around $345 has, as often happens, been accompanied by a rally in the commercial rand to about R2,75 to the dollar. This may effectively stall the rand gold price and leave physical holdings as the key variable on the bullion side.

Meanwhile, the Reserve Bank has apparently been a modest dollar buyer in the foreign exchange market since the commercial rand bounded through the R2,80 level against the dollar. The intention seems to have been to maintain a steady trade-weighted rand, but the intervention also indicates a probable net contribution to forex reserves.



Emulation of May's monster R764m jump in total reserves may be almost out of the question, since there are all these agricultural imports to be financed. But the R10bn level has been reached and will not now be easily relinquished.

Internationally, the main event of the week is the annual economic summit, which starts today in Munich and ends with a communique on Wednesday. The long weekend caused by the July 4 Independence Day holiday in the US, combined with further reluctance to take positions ahead of the summit communiqué, probably means a quiet start to the week on international foreign exchange markets.

But on Wednesday one of the key issues at the summit, the increasing size of Japan's external surpluses, will be brought into sharp focus by publication of the Japanese current account balance for May only hours ahead of the communiqué. The markets are braced for another big surplus of at least $8bn after April's revised $9,3bn. A figure in this ballpark will add to the impetus of existing moves to strengthen the yen, and thereby head off growth in the surpluses and the protectionist pressure from the US that generally follows.

The week's other significant data release is Friday's publication of the UK's June inflation rate. The rate was unchanged at 4,3% in the year to May but that very figure showed that underlying inflationary pressures in Britain are again abating.

Inflation ticked up to 4,3% in April from March's 4% mainly because of excise duty increases in the March UK budget. It was feared that the rate would rise again in May as mortgage rate cuts a year earlier dropped out of the retail price index, but slowing price rises elsewhere offset this technical effect.

British producer inflation was running at only 3,6% in May — a five-year low — and, together with a similar slackening in core inflation (excluding mortgage interest payment) to a four-year trough of 5,3% in May, points to a further dip in headline inflation in June to perhaps 4%.

The US Federal Reserve's confidence at the weekend that another cut in official interest rates held no inflationary dangers is partly based on the relatively low rate of US inflation. Consumer prices are rising at about 3% a year and the rate of producer inflation was consistently below 1% in the eight months to April. It perked up to 1,1% in May, and June's figure is out on Friday.

Inflation eases to 13-month low

153

CT 1/7/92

By ARI JACOBSON

Small [illegible] increases in transport costs and clothing and footwear prices contributed to inflation hitting a 13-month low of 14,8% in the year to May from 15,6% in April, Central Statistical Service (CSS) figures released yesterday showed

The [illegible] increase in the consumer price index (CPI) is the lowest since April last year when inflation was 14,8%.

Food price inflation continued near record levels at 27,8% in May, marginally lower than the 28,4% posted the previous month Excluding food, the rate of consumer inflation eased to 11,5% [illegible] with 12,4% in April

Yesterday's CPI figures [illegible] released hot on the heels of the Bank rate cut to 15% and was described by those canvassed as "surprisingly [illegible]".

Old [illegible] economist Johann Els commented that a decline in the year-on-year figure for May was anticipated, "but [illegible] 15% increase"

And Nedcor's Ted Osborn said "splendid figures to dip under 15% — this must have triggered the Bank rate cut".

Els said that food prices which had been slowly brought under control had risen month-on-month by 1,2% in May and 27,8% for the year Compare this with the (VAT influenced) 5,6% monthly rise in October 1991, he said

And better news is that the VAT effect should finally be whittled out of the CPI in October and further in April 1993 — to compensate for the inclusion of milk and rice as taxable items

Information released by the Central Statistical Services (CSS) shows that VAT has a hefty 6,8% yearly influence on food price inflation

"Even with the influence of the drought — food inflation could fall further — but there's a long path ahead before its finally under control"

Els pointed out that without food inflation the CPI year-on-year for May rose a mere 11,5%

Els predicted that the CPI could fall into single digits midway through 1993 — but that the longer term pressures, with the new SA in view, would force the inflation rate upwards again

Boland Bank economist François Jansen mentioned that food inflation had been driven higher in the year to May by increases in meat at 27,6%, fruit and nuts 41% and vegetables 7,4%.

The month-on-month rise of 0,8% was helped by vegetables up 6%, fish and seafoods 3,5%, dairy products 1,7% and grain products 1,6%

Decreases were recorded in the price of fats and oils (1,8%) and fruit and nuts (1,3%)

Old Mutual and Boland Bank anticipate an inflation rate of about 12,5% by December, while Nedcor forecasts a slighty lower 12,2%

Further rate cut likely

ECONOMISTS predict another one percent drop in interest rates by year's end.

Leading banks moved yesterday to cut their prime overdraft rate to 18,25% from July, following the 1% cut in Bank rate.

Standard Bank was the first to move, effective from next Monday. Absa, FNB and Nedbank were quick to follow suit.

FNB is to drop its rate before the other banks, on Saturday

The prime overdraft rate is the interest rate charged to top customers and is linked to products such as basic overdraft facilities, cheque accounts and credit cards The mortgage rate, which is linked to home loans, has already been cut to 18% from July

First National Bank's (FNB) senior GM Niel Swart pointed out that "the cut in the Bank rate came earlier then expected so now there is a good chance that a further cut could come about later this year".

Amalgamated Banks of SA (Absa) executive director Mike de Blanche said that should inflation continue to decline there would be an additional cut before the year end

Nedcor's CEO Richard Laubscher added. "If the welcome news on consumer price inflation continues and the money supply growth remains in the target range a rate cut may well be possible".

Standard Bank Investment Corporation's (Stanbic) GM home loans Duncan Reekie, focusing on the home loan market, said that a further cut — from the 18% level — could be anticipated before the year end

Toyota stands firm on firing of 6 000

AAG 9/7/92

SHARON SOROUR
Labour Reporter

TOYOTA SA has not given in on its "no work, no pay" policy and the sacking of 6 000, but has indicated the situation could be resolved if unionists changed their approach.

Commenting on this week's mass dismissal — criticised in some quarters — managing director of manufacturing Mr Ralph Broadley said the company could not accede to worker demands to be paid while on strike as it would set unacceptable precedents for future labour relations

The repercussions would "ripple through the entire economy"

But Mr Broadley said the company hoped the National Union of Metalworkers of SA (Numsa) would reconsider its position as many of the dismissed workers had had long service with the company

"It is our sincere hope that Numsa will reconsider its position. Providing a reasonable stance is adopted by the union the current situation can be resolved," he added

Workers had refused to accept the dismissals and had vowed to "carry on striking", a union spokesman said

The prolonged, illegal and unprocedural strike action had cost the company R680 million in lost turnover and 45 lost production days at the Prospecton plant near Durban.

Toyota had dismissed the workers with "deep regret and a great deal of reluctance", but after two months of lost production, amounting to 270 000 man days, the company had little option but to exercise a legal right to bring facilites back on line

"At the core of the stayaway action that precipitated the dismissals is a union demand for payment for no work during the strike. Toyota remains firm on its stance that in no circumstances will the company consider payment for no work," he said

"To violate the principle of "no work, no pay" would give a totally wrong signal to workers countrywide and create a whole new set of problems. It would also be "grossly unfair" to salaried staff.

He said Toyota had had to consider the impact of the strike on suppliers, dealers, customers and the community.

"Aside from the losses to the company we cannot distance ourselves from a situation where losses to the community continue to build at the rate of R1 million a day," Mr Broadley said.

Mr Broadley said salaried staff had stepped in to maintain plant maintenance and limited production.

● The union could not be reached for comment

Unit trusts once again beat inflation

STAR 11/7/92

LEIGH HASSAL

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SOUTH Africans are still pouring their money into the unit trust industry despite the current economic and political uncertainties Unit trusts have proved to be a reliable hedge against capital inflation erosion for the personal investor

Over the past five years the average total return of the general equity funds is an inflation-busting 16,7 percent.

Statistics released by the Association of Unit Trusts (AUT) yesterday show the 12-month average return (to June) on general equity funds has once again beaten the latest inflation rate of 14,8 percent and the JSE all-share index increase of 14,1 percent

In the last year 280 000 more South Africans entrusted their money to their trust fund managers with a record net cash inflow of R600 million in the quarter to end-June Rand sales of units topped the 1 billion mark (54 percent up on the same quarter last year) while repurchases of R534 million increased 88 percent over the same period

AUT chairman Clive Turner notes there has been a marked swing to the high-income trusts (those trust funds invested in the money and capital markets) He attributes this trend to the current uncertainty in the equity market felt by many investors

The fund managers are also feeling more cautious about the uncertainties facing South Africa, as reflected by the increasing liquidity of their funds

Cautious approach

This caution shown by the fund managers should not alarm the personal investor Turner reminds investors that unit trusts are medium and long-term investments and the uncertainties which currently surround South Africa and the economy dictate a more cautious approach in the months ahead

The JSE industrials index bears a close relationship to the Dow Jones Many analysts believe the Dow Jones is overrated and is heading for a downwards correction in the very near future

Andy Paterson, analyst at E W Balderson, says "The value of the unit trust funds will fall more slowly than the market because of their lower risk profile due to their spread of investments"

He advises unit-holders not to sell their units and to remain in close contact with their fund manager

"The more sophisticated investor could switch into the high-income unit trusts, which are expected to outperform the general equity trusts in the next three to six months," he adds

In a bearish market, the holding of put-traded options provides a hedge against the declining value of a portfolio However, the derivatives market is a complex one and should be entered with care as it requires a sophisticated investor

In the near future the unit trust funds themselves will be allowed to trade in the derivatives market and so provide a hedge for their unit-holders

THE WEEK AHEAD by Simon Willson

Rising producer inflation set to hit double digits

BDAY 13/7/92 (153)

FURTHER signs that producer inflation has passed its low for the year are in prospect this week when the May producer price index (PPI) is published

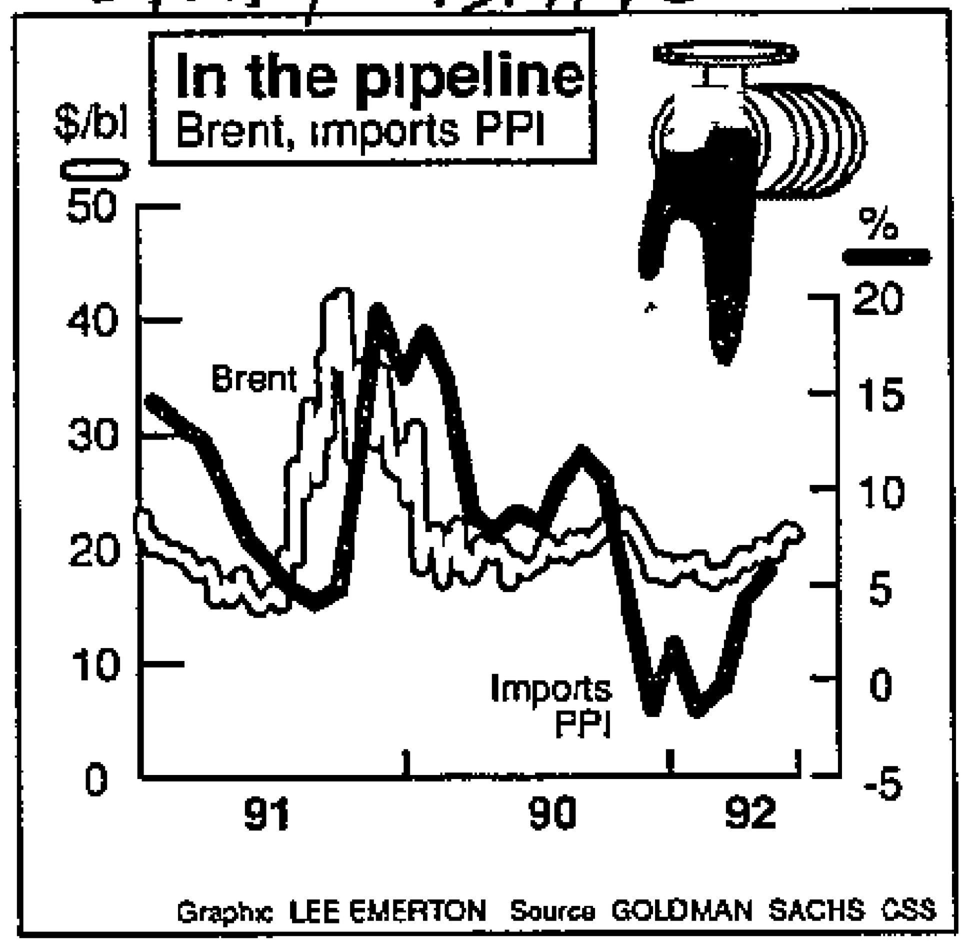
PPI inflation jumped nearly a point in April, to 8,8% from March's 8%, and the May figure is unlikely to alter the overall trend of gradually rising PPI inflation during 1992

From its 20-year low of 6,7% in both January and February, producer inflation now looks set to climb back to double digits by around mid-year and then to stabilise. A likely simultaneous easing in the rate of consumer inflation in the second half of the year should narrow the recent divergence between the two measures of price rises

The chart helps to show why it is possible to be moderately confident that PPI inflation's first-quarter lows are, for now, a thing of the past. Producer inflation is back on an overall upward trend mainly due to an unwinding of the special effects that took it down to those lows in the first place

Oil has been the biggest single influence on the PPI through the volatility in its price over the past year-and-a-half The effect of the 1991-92 jump in the price of Brent crude, the oil market's most traded blend, arising from the lead-up to the Gulf war is still a good guide as to the PPI's short-term behaviour.

As the chart shows, there is a close



Graphic LEE EMERTON Source GOLDMAN SACHS CSS

match-up between the Brent price and the change in imported component of the PPI, reflecting the prominence of oil among the imported product prices measured by the imports PPI The abrupt rise in Brent at the end of 1991, as Desert Shield inexorably became Desert Storm, briefly boosted the change in the imports PPI into the 15%-20% zone Through the 20% weighting of importsin the PPI, this fed into a jump in overall producer inflation to 14,6% in November 1990

A bit of deft origami on the chart, with a fold through mid-1991, would show the line traced by the imports PPI either side of December 1990 making an inverse mirror image of itself either side of December 1991 the "M" becomes a "W" This is caused by the sudden rise in the imports PPI cancelling itself out 12 months later as it gives an abnormally high base for the year-on-year PPI calculation.

The chart seems to be telling us that, at levels between 5% and 10%, the imports PPI will have shaken off the Brent effect This suggests another uptick in the imported inflation component in this week's May figure — and in subsequent months' releases — from April's 5,4% which, in the absence of offsetting declines in the domestic PPI component, should feed through to overall PPI via imports' 20% weighting

Internationally, it is a big week for US economic indicators but good outturns in some of the data due are likely to be neutralised by poor readouts from others It will, of course, be too soon after the July 2 cut in discount rate to a 29-year low of 3% to see any spinoff from cheaper credit in the figures

June retail sales are out tomorrow, but may be unspectacular as May's 0,2% rise was below expectations and the April figure was revised down

Industrial production and capacity utilisation for June are due on Wednesday, but have constantly looked good of late even while credit, consumption and employment data have been faltering. Production rose for the fourth consecutive month in May and capacity uptake for the month was at a 17-month high of 79%. Neither has yet helped curb unemployment, though, so more good outturns will mean little

May US housing starts roared ahead by 11%, but part of this was a reversal of a 17% plunge in April Volatility of this sort reduces the figure's influence on the market, and Thursday's June starts will be treated circumspectly

On the same day the June US monetary aggregates are published, and will probably be another tale of woe for US recovery hopes The US's targeted money measure, M2, fell below its 2,5%-6,5% target range in May, and growth in the aggregates is actually slower now than it was before the Fed's previous cut in US rates back in April

Of less concern to the markets will be the latest US inflation rate and trade balance. The June rise in consumer prices is released tomorrow but inflation, at 3% in May, is hardly an issue except that, with discount rate now also at 3%, any rise in inflation will give the US negative real interest rates Another fall in exports in Friday's May trade figures, after April's $800m decline, will only make a cheaper dollar all the more welcome to the US as it tries to export its way to sustained recovery Exports, rather than the level of the deficit after April's $7bn shortfall, are likely to attract the limelight

The drop in UK inflation announced last Friday, to 3,9% in June from 4,3% in May, restores the possibility of a British base rate cut June's UK unemployment rate, out on Thursday, should also have a bearing on British rates May's 25th consecutive rise in UK jobless pushed the total to 2,7-million, or 9,6% of the workforce — Britain's highest unemployment rate for five years. Another significant jump on Thursday would put the pressure on the Treasury for easier credit conditions

Slight fall in rate of producer inflation

BIDAY 16/7/92

(153)

HILARY GUSH

SINGLE-digit producer inflation continued in the year to May with a slight fall in the rate to 8,7% from the 8,8% posted in April, Central Statistical Service figures released yesterday showed

The price index for locally produced commodities was up 9,4% in the 12 months to May against the 9,5% rise in the year to April, despite a marked acceleration in food inflation at wholesale level.

The annual rate of increase in prices of imported commodities was 5,9% in May, against the corresponding 5,4% in April, although the index showed a 0,3% monthly decrease from April

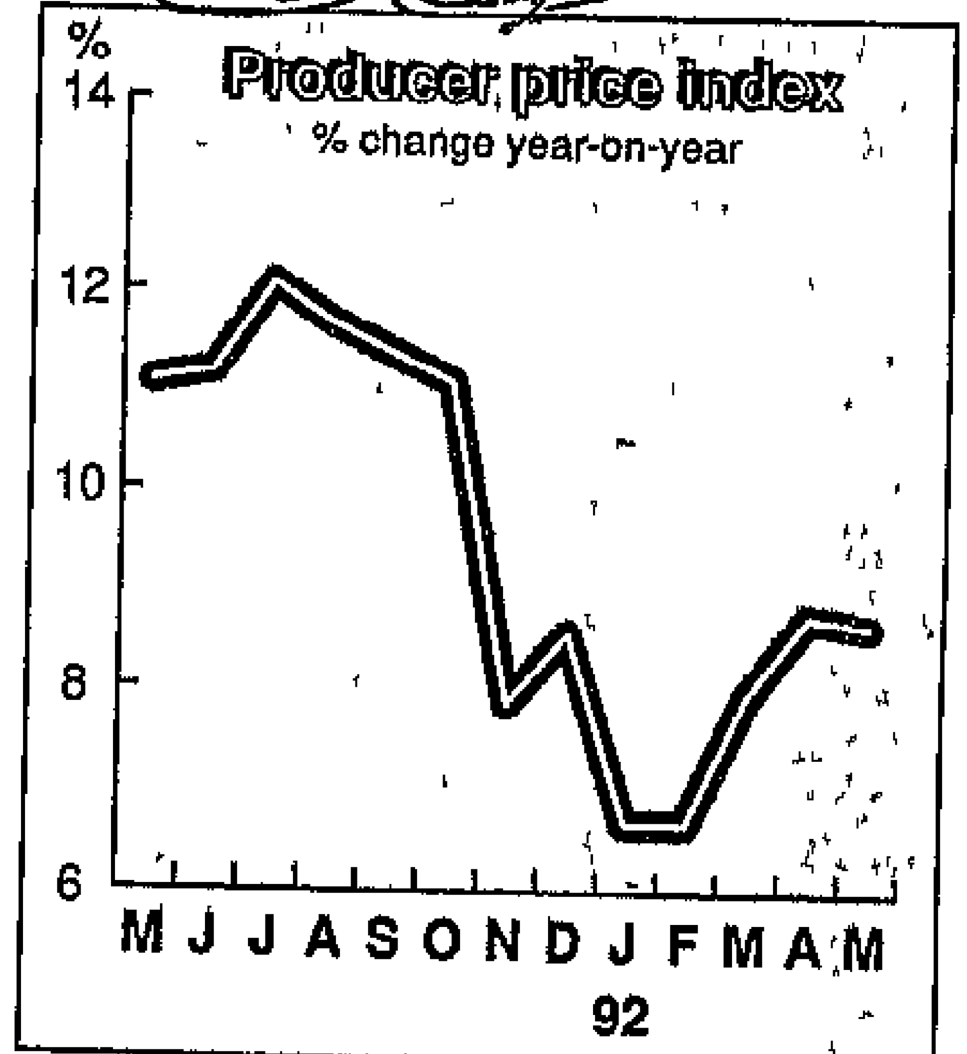
Old Mutual chief economist David Mohr said the figure was encouraging in the light of wide expectations that producer inflation would reach about 10% in May. He attributed the lower figure to a fall in import prices in recent months.

The manufacturing food price increase eased from an annual 10% in April to 9% in May This reflected a slowing in the price increase of fresh meat to 10,4% in the year to May, compared with 12,5% for April

Price increases for agricultural food products, however, reached 19,9% in the year to May from 13,6% in April

Southern Life chief economist Mike Daly said May food price rises had been dramatic "The extremely large gap between consumer and producer food inflation is narrowing, due unfortunately to rising producer food inflation and not to a falling consumer inflation figure."

He said the lagged effects of lower producer inflation, together with the downward trend in underlying consumer inflation, would help bring consumer inflation down by the last quarter of this year



Graphic LEE EMERTON Source CSS

Inflation and tax eat away at savings returns

Business Staff

ARGUS 18/11/92

HIGH inflation and income tax are eating away at returns on savings After a brief period of relatively high interest rates, savers are once again losing money on their investments — in some cases as much as 8 percent a year

With interest rates dropping and inflation running at 15 percent, people relying on bank or building society deposits will be able to buy 30 to 35 percent less with their income this July than last July. Participation mortgage bond and gilt investors have been less hard hit but their purchasing power is still down 20 percent to 25 percent over the year.

During the past 20 years or so savers have not had a fair deal from the monetary authorities. In only two years since 1971 have the average returns on traditional savings instruments been positive

And when the effects of income tax are taken into account, the situation is even worse. Since 1971 savers have lost on average 5 percent a year.

For someone with R100 000 looking for an investment today the highest rate of return on a 12 months deposit is just over 14 percent.

With the first R2 000 in interest tax-free, tax will be payable on the other R12 000. Asasuming an average marginal rate of income tax of 30 percent, R4 000 will be heading towards the Receiver.

This reduces the net return to 10 percent, almost 6 percent below the inflation rate. And the higher the person's marginal tax rate, the bigger the negative return.

A taxpayer on the top marginal rate of 43 percent will find his or her money losing value by at least 8 percent a year.

The negative rates of return earned by savers on traditional savings instruments have, a large extent, contributed to the surge in money flowing into life insurance and unit trusts.

This has caused some animosity between banks on one hand and the life industry on the other. Banks claim that the two are playing on an uneven field, while the life industry claims that its higher long-term returns are the result of inflation-beating investments on the stock market and better marketing efforts

But while the large financial groupings snipe at each other a whole generation of poverty-stricken pensioners, in particular, have to make do with less year after year as inflation and taxation erode their spending power.

Control boards 'stop inflation's decline'

LINDA ENSOR (153)

CAPE TOWN — The entrenched structural problems of administered prices, control boards and monopolistic practices would prevent a sustained lower inflation rate in the current economic cycle, Syfrets economist Elmien de Kock said

In the latest Syfrets Quarterly Economic Review, she said it was possible the consumer price index would reach about 12,5% by year-end

She did not foresee immediate economic recovery. Fixed investment was set to decline 3% this year and consumer spending would be squeezed by deterioration in consumer's financial position through high interest rates, heavy taxes, negative real salary and wage increases and widespread retrenchments.

However, De Kock added that the recovery in world economies would eventually benefit commodity prices as well as those of SA exports Personal disposable income would then recover in response to the increased activity, lower interest rates and slightly reduced inflation

Syfrets investment manager Rob Nichol advised caution on the JSE, which he said was now fully priced.

He said the stock market was technically overbought, with market ratings at historic highs

He said a continued conservative approach towards the equity market was warranted.

Nichol said the equity market, which moved ahead in anticipation of economic recovery, was likely to pause because the recovery had been postponed even further.

This was because of the absence of a political settlement, a strict monetary policy and a slower than forecast US recovery

He added, however, that the delayed economic recovery, together with falling short-term interest rates, had positive implications for the capital market

He said the strong performance of fixed-interest portfolios over the past three quarters should continue

Syfrets mining analyst Peter Major said the low sulphur content and clean burning properties of SA coal made it likely to escape costly environmental legislation in other countries

A carbon tax was being mooted in European circles as a way of cutting down on environmental pollution

Major said demand for low cost steam coal from the US, Australia and SA should grow well over 2-3%, as most European production was highly economic.

ADVERTISING EXPENDITURE FM 24/7/92

An aura of gloom

153

Those dependent on advertising expenditure for their livelihoods (media and ad agencies) are bracing themselves for a very tough six months Continued economic recession, political uncertainty and industrial unrest have combined to turn what was expected to have been the beginning of a recovery phase into a prolongation of the downturn

"There is a general aura of gloom," says Lindsay Smithers MD John Sinclair "People are very pessimistic Unless there is a major turnaround in the mood of the country I can see the second half of the year being disastrous

"The major cause is economic, but other factors worsen public nervousness Retail business is just not happening People are spending less There have been no major cuts by advertisers but people have not increased their budgets They are spending at best up to last year's levels, and in many cases below I think it will get worse I am not in despair, but I am not far off it There has been a total turnaround from the mood at the time of the referendum "

Media Shop media director John Barham has noticed a severe contraction in the past couple of months "You have only got to pick up a magazine and you can feel the weight of advertising has dropped I can't see it turning around until the Christmas boom, and the recovery may not be until 1993 " One result is an emphasis on short-term thinking, with advertisers reluctant to commit for longer periods

One bright spot, says Barham, is that advertisers are reinvesting the money they previously paid in value-added tax "So automatically you should see at least 20% growth purely because of that "

There has been "an enormous downturn" in branded advertising, says Graham King, GM of *The Star*. "Retail has not been as badly hit In classified advertising there has been a continued weakening in staff vacancies, but on the other hand motor advertising in the classifieds has picked up " King expects no improvement until next year

There is, in addition, very little new business coming into the market, which explains the high level of interest in the Virgin Atlantic Airlines account Another new advertiser is Guinness, which will be brewed and marketed locally by SA Breweries Ogilvy & Mather Rightford has been appointed to do the media planning and buying, but the creative work will be done by Guinness's international agency, MAP

"Everybody is waiting to hear about Virgin," says Mike Wellsford, MD of O&M Transvaal He says the agency has had no client cutbacks or cancellations "but there is an enormous amount of anxiety about the next three months May and June were very poor sales months for most of our clients If July is the same they might want to make cuts "

The threatened general strike will only make things worse Wellsford is concerned, too, about the SABC labour dispute, which could affect TV and radio advertising "Some 50%-70% of our business is placed through the SABC No company can afford to lose 50%-70% of its August sales "

There has also been very little movement of existing business "It has been the quietest year for major changes in years," says Bernstein Loxton Golding & Klein MD Arlene Klein "Clients don't see the need for change No-one wants to change an agency just for the sake of it "

That said, BLGK was the beneficiary of one of the year's biggest changes when it picked up Southern Sun All the group hotels (which include Holiday Inn and Formule 1) are now housed with one agency

Bryan Gabriel, whose independent buying agency, Media Business, has had a record year, also attributes this to gaining business "We won Morkels and other clients, and we are very busy," he says

BSB Bates MD Dave Kelly reports that "a lot of money is being channelled into below-the-line advertising for instant response At this stage we are still hitting our budgets but certain categories are going through very difficult times They include durables, non-essentials and cars " ■

FM 24/7/92 (153)

PRODUCER INFLATION (153)
FM 24/7/92

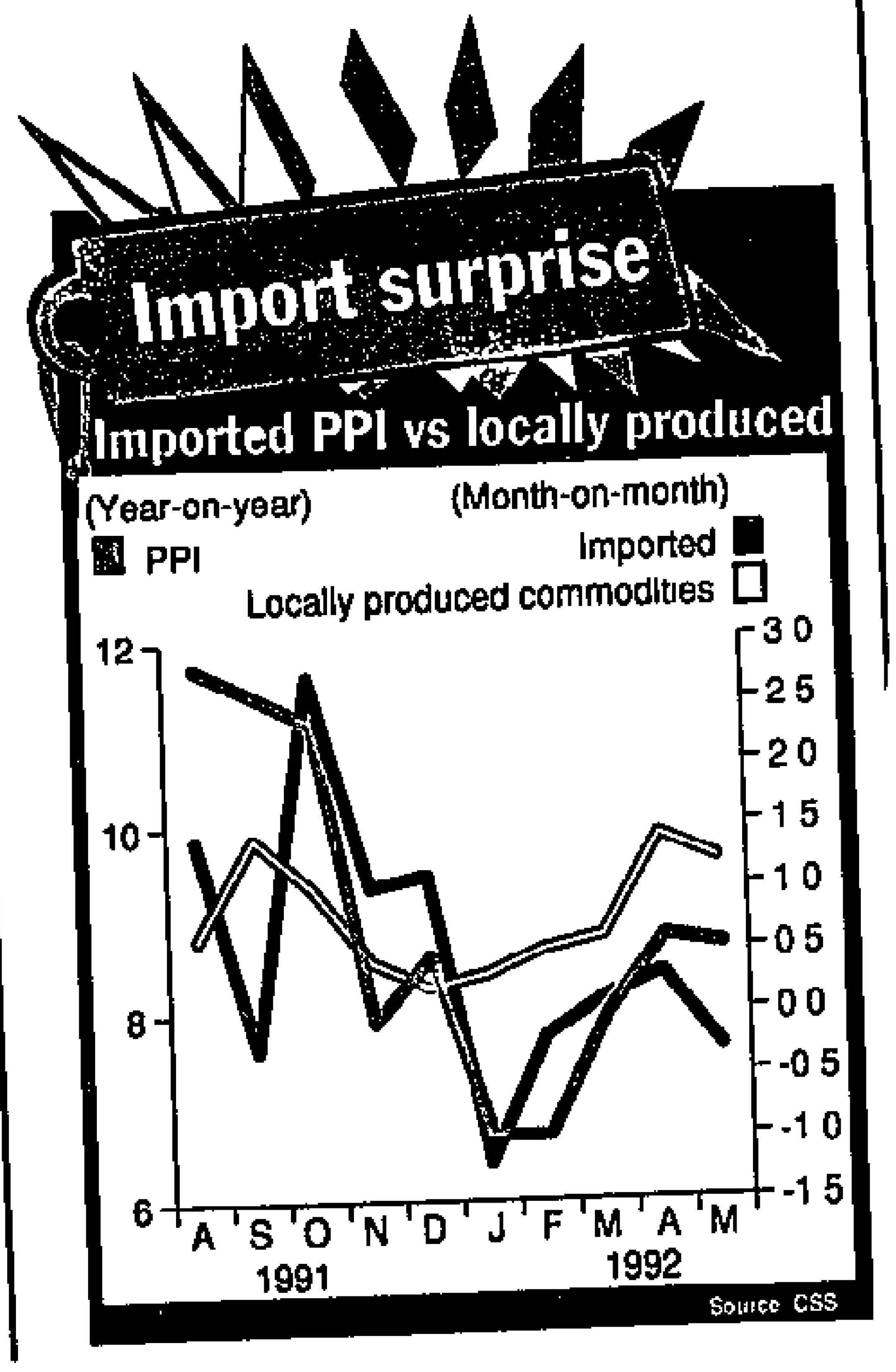
Incremental gains

May's producer price index (PPI) increased less than expected to a 12-month 8,7%, compared with 8,8% in April The month-on-month May rise was 0,8% (1,3% in April)

Expectations had been that with international oil prices firming, the imported component — which had kept prices down in previous months — would begin to rise, pushing up PPI. North Sea Brent Crude spot prices, the international benchmark, have risen steadily from US$17,30 in early March to $19,82 in early May.

But the index for imported commodities, with a weighting of 19,5% in the overall index, fell 0,3% in May And the fall occurred in the category "other" mining and quarrying — it includes oil — which declined 1,4% in the month

However, lags do occur in the purchase of oil from international markets, so May's index could reflect previous price movements Overall, the imported component rose 5,9% year-on-year compared with 5,4% in April



Downward pressure came from food (manufacturing) with its weighting of 12,91% in the index, which fell 0,3% This was thanks to a decline of 1,3% in the producer price of fresh meat in the month Electricity, gas and water fell 2,1%

Inflationary tendencies are still strong in the economy, as seen in the 1,2% rise in locally produced commodities (9,4% year-on-year) The monthly rise is below April's 1,4% but still above any other month since September Sharp rises occurred in agricultural food products (7,9%), nonferrous metals (5,4%), metal products (3,6%) and motor vehicles, parts and accessories (2,3%) ■

W/mail 24/7-30/7/92

Rates on the slide

MUCH lower money supply growth and encouragingly low production price inflation of 8,7 percent in May, year-on-year, presages lower consumer price inflation

Rand Merchant Bank chief economist Rudolf Gouws says that inflation could plumb a low of 10 percent next year

Anticipating this, rates in the capital market have plunged The yields on long-term interest-bearing instruments like long-dated Eskom stock have dropped as investors rush into the market pushed by the opportunity cost of not being there as inflation and short-term interest rates fall The Eskom 11 percent 2008 which traded as high as 16,56 percent this year dropped below 15 percent midweek (in a market where percentage point falls cause raised eyebrows)

Gouws believes lower inflation this year and next (which Reserve Bank governor Chris Stals must take into account) will lead to gradually declining interest rates Also, demand for credit is low and there is a healthy surplus on the current account of the balance of payments Expect one or two further bank rate cuts this year, he says Interest rates won't be increased until the economy has recovered. 153

THE WEEK AHEAD by Simon Willson

The factors chipping away at inflation

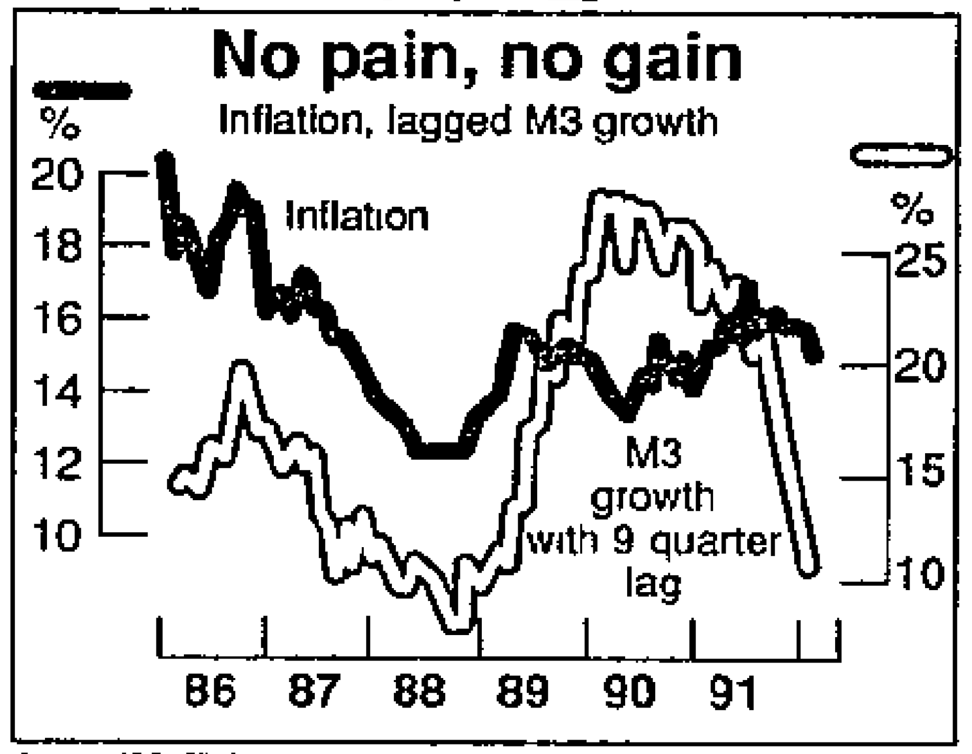
B/DAY 27/7/92 153

JUNE's inflation rate, which should be released early this week, may not yet obviously portend the widely expected tumble to around 12% by the end of the year But the breakdown of the June consumer price index (CPI) should show that the essentials that can drag the inflation rate below the teens are assembling in their appointed places

The slide in May inflation to 14,8% from April's 15,6% was helped by the movement in the CPI 12 months previously In May 1991 the index number bounded up by 1,7 points, giving the year-on-year rate of change in the CPI to May 1992 a high base and therefore a low outcome In June 1991 the index moved up by a more conventional 1,2 points, which offers little in the way of a high base for the rate of change in the index to June 1992

But other factors are chipping away at the inflation rate Inflation excluding food eased to 11,5% in May, its slowest pace in 14 months Inflation excluding VAT dipped to 13,4% in May, the most modest rate since the tax was introduced last September These sectoral slowdowns in the CPI are narrowing down the field of inflationary villains to a small and very identifiable group, led by food prices and the effect of the consumption tax

Some remarkably brave — foolhardy, even — forecasts last week by an intrepid university meteorologist predicted a season of good rains later this year, which should slacken the rate of food inflation Just as the interior's rainy season starts, the VAT effect drops out of the CPI, which should also lend downward impetus to the inflation rate



Graphic LEE EMERTON Source BER STANDARD BANK

The chart shows yet another disinflationary drive that should be kicking in to the CPI compilation in the next few months

One of the main reasons for Germany's controversial discount rate hike in mid-July was the bulge in the country's broad money supply growth It has been established that the trend in German M3 leads inflation by about nine calendar quarters

As the chart indicates, there has been a similar match-up since the mid-'80s between SA inflation and M3 lagged by nine quarters Indeed, the chart suggests that SA has got away lightly in 1989/90 with relatively modest inflationary consequences arising from the 1987/88 ballooning in M3.

The really encouraging bit, however, is the steep fall-off in M3 two years ago If the internationally tried and tested nine-quarter lag between M3 and the CPI is to hold good, a similar drop in inflation is imminent The pain of a monetarist recession has to be followed by disinflationary gain to be worthwhile

Internationally, it is another crunch week for US economic statistics On Thursday the advance readout of second-quarter GDP is due out After two upward revisions, first-quarter GDP grew at an annual rate of 2,7% — its best rate for three years The second quarter is unlikely to emulate this growth pace, partly because recent monthly figures have been so lacklustre and partly because of the US stock cycle

The increase in US unemployment, the dip in M2 growth and reversals in housing starts, the purchasing managers' index and in factory orders over the past few months have sown enough doubt about recovery to raise fears of a "triple dip" US recession

In addition, the stock cycle turned in the March quarter, when busy rebuilding of corporate inventories accounted for most of the upward revisions to first-quarter GDP from an advance 2% to final 2,7% Stock accumulation in the first quarter will, however, probably have been at the expense of second-quarter activity, and accounts for lowered expectations in the market of a second-quarter advance figure of less than 2%

Also due from the US this week are July consumer confidence, tomorrow, and June factory orders on Friday Consumer confidence dipped in June, for the first time since February, as concern about job prospects and a three-way presidential election unsettled private spending The Perot withdrawal has done little to improve matters, and evidence elsewhere in the economy indicates another fall in confidence this month Factory orders for June can do little but reflect the shortening, in figures already released, of both the non-farm and manufacturing workweeks in the same month May orders were down 0,8%, and prospects for Friday's figure look similar

As European markets begin their summer break, the week's other potentially market-moving figures come from Japan

The Japanese inflation rate for June is due on Friday, but little change can be expected from the pattern of recent months Three of the five monthly inflation rates for 1992 have been at 2% on the nose and, given the subdued economy and its shrinking asset values, together with a stable oil price, the June figure looks little different

Japan's merchandise trade balance for June is also scheduled for release on Friday and the surplus, $10,1bn in May, is likely to do its usual dance around the $10bn level as trading partners froth at the mouth about the country's non-tariff barriers to imports

SPOT DESK

Antipodean smirks at the Bureau de Change

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BDAY 29/7/92

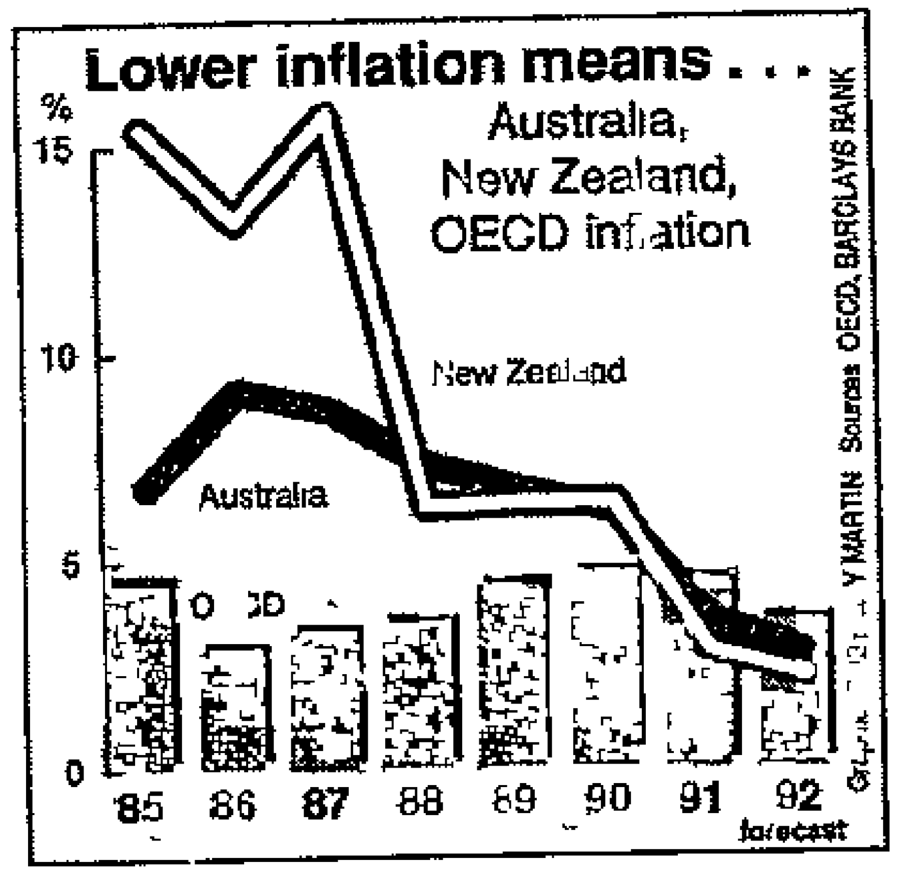
SIMON WILLSON

EARLY today yet another excellent Australian inflation figure will have been released New Zealand's inflation rate is already the lowest in the industrialised world and Australia's will, by now, be close behind

This conjunction of events is particularly galling for South Africans For it comes just as squads of insufferably self-satisfied Antipodean rugby players are arriving on these shores These musclebound *arrivistes* can now not only smirk about being World Cup rugby champions (Australia) and Cup semifinalists (New Zealand), but they also have impossibly rosy economic prospects at home

What is more, the currencies of these two Australasian extremities are about to reap the benefits of their home countries' discipline and abstemiousness From being slightly comical and vaguely exotic high-yield tokens good for a quick punt five years ago, the Australian and New Zealand dollars are poised to become respectable members of the foreign exchange market's wide and influential yen bloc. This membership carries with it numerous *ex officio* benefits based on the substantial investment flows out of Japan and into decent and promising ventures all around the Pacific Rim And all because the Aussies and the Kiwis learned to tame inflation.

The contrast with the SA experience could hardly be greater. Like SA, Australia and New Zealand have gone through rigorous and cathartic recessions in an attempt to beat inflation Like SA, these two resource-dependent economies have had to accept historic peaks in unemployment as a means to head off over-ambitious wage demands and thus reduce inflationary expectations Unlike SA, Australia and New Zealand have succeeded

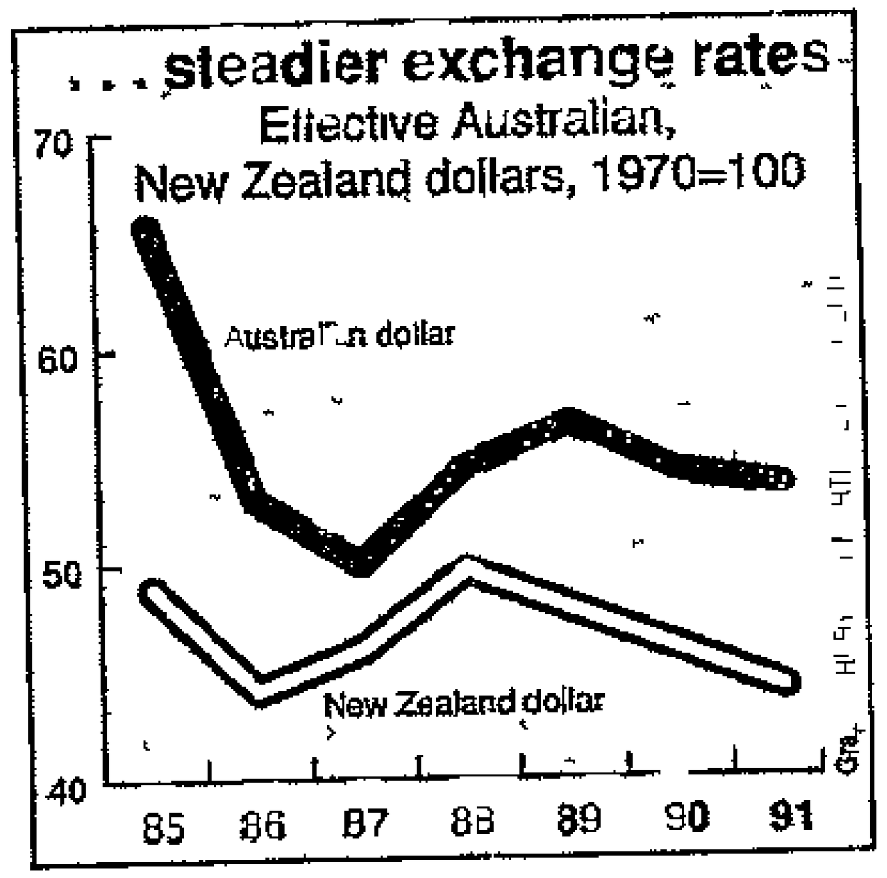


As the first chart shows, after being the private jokes of the industrialised West only seven years ago with their basketball-score inflation rates, the nations for whom the All Blacks and Wallabies are roving ambassadors have stilled the sniggering The two countries' inflation records are now substantially better than the average achieved by the OECD, which groups together the 24 richest countries on earth

This morning's release of the Australian inflation rate for the second quarter is likely, at worst, to have registered zero — that is, no increase in average consumer prices at all from the end of March to the end of June At best, the quarter-on-quarter inflation readout could have been negative — prices could have fallen over the 90-day period This quarterly inflation rate puts Australian year-on-year inflation at 1,3%-1,5%

New Zealand's record is even better Notwithstanding the fact that the Kiwis have a smaller economy and have endured a longer recession since the end of the '80s, New Zealand officially had the OECD's lowest inflation rate in the year to March at 0,8%, and will probably hold on to the title when all the second-quarter figures are in

The benefits to the ordinary Antipodean citizen of this exemplary inflation performance are not so much in the more stable shop shelf prices, although this undoubtedly helps The real, longer-term spin-offs are visible in the effect restrained inflation has on the currency that these Australasians carry in their pockets



As the second chart shows, the steep falls of the mid-'80s in the effective values of the Australian and New Zealand dollars have been arrested The two currencies no longer need to depreciate hand over fist to maintain the competitiveness of their countries' exports Indeed, the inflation rate in each country is now below Japan's 2%, and the yen is the Deutschmark of the Pacific Rim — the key currency against which all others in the region are measured

This means the effective Australian and New Zealand dollars can be expected to flatten out and then even appreciate against those notoriously assertive 'Little Dragon" currencies of the Pacific Rim If a currency can hold its purchasing power against the likes of the yen, the Taiwanese and Hong Kong dollars and the South Korean won, then it is sitting pretty in today's foreign exchange market

A currency at home in the Pacific Rim is certainly a force in sub-Saharan Africa That explains the confident expressions on the faces of those Antipodean rugby teams arriving at Jan Smuts Airport the players are heading across the arrivals hall to the Bureau de Change to buy rands Lots of them

LETTERS

Inflation at 15,1% as food prices soar

(153) CT 29/7/92

By AUDREY D'ANGELO
Business Editor

INFLATION — boosted by a steep rise in food prices — rose to 15,1% in the year to June, compared with 14,8% in May.

The food price index was 29,3% year on year And economists warned that food prices were likely to continue to rise at the same rate for the rest of this year, as a result of the drought.

They expect inflation, as measured by the consumer price index (CPI), to fall to around 12% by the end of the year. But they point out that this will be due mainly to the effect of VAT — imposed last October — working through the system and to lower interest and bond rates.

Figures released by the Central Statistical Service yesterday showed that the CPI rose by 0,3% year on year and 1,5% month on month after seasonal adjustment

Pensioners were hardest hit during the month with their annualised inflation rate running at 16%. Inflation for the lower income group was 15,3%, for the middle income group 15,6% and for the higher income group 14,6%

The largest single contributor to the rise was food The food price index rose 0,2% month on month

Prices of grain products rose by 2,4%, vegetables 4,3% and sugar 4,7% But the price of fruit and nuts dropped by 3,7%.

The indices for housing, furniture and equipment, medical care and health expenses, transport, recreation and entertainment each rose by 0,1% month on month

Commenting on these figures, Boland Bank chief economist Louis Fourie and Sanlam chief economist Johan Louw said they were higher than expected

But Fourie, pointing out that the CPI excluding food was 11,5%, said "The underlying trend of inflation is still downwards

"The increase in food prices pushed the CPI for June to a higher level than we expected But the figures are still in line with an inflation rate of 12,5% by year end, and an average rate of 14,5% for 1992"

Fourie said the continuing drought would make it difficult for the rate of food price inflation to be reversed "We expect it to continue to rise at the same rate until the end of the year

"But other prices will continue their downward trend."

Fourie said he thought inflation likely to remain in the 12% to 13% band throughout 1993

Louw said he had expected the CPI for June to be 14,9% year on year "Food prices are the big culprit. They have gone up by the same rate as in May

"The drought means we can't expect much of a fall in food price inflation.

"Excluding the effect of VAT, the CPI in the year to June went up by 13,7% compared with 13,4% in May and that is not very good news"

Louw said he expected inflation to be 12% by year end and to average 14,3% for the year. "But that is mainly because we shall be clear of the effects of VAT and interest rates will be lower."

● Meanwhile, Sapa reports that the Consumer Council has repeated the call for an urgent probe into food prices following the release of Central Statistical Service figures indicating the food price index for last month stood at 29,3%.

Consumer Council executive director Jan Cronje said the food price index for June was nearly double that of all consumer prices.

"South African consumers' real expendable income has shrunk considerably Moreover, millions of people are jobless Food therefore constitutes an ever-increasing slice of consumer spending," he said.

NEWS IN BRIEF

BIDAY 31/7/92

SABC strike settled

THE dispute at the SABC with the Media Workers' Association of SA had been resolved, the SABC said in a statement in Johannesburg yesterday.

The SABC agreed to a minimum wage of R1 300 a month with effect from October 1991 and a 15% across-the-board increase effective from June 1

News focus for CCV

CCV TV is to launch a news focus programme, Newsline, which kicks off on Sunday night with an interview with ANC president Nelson Mandela and a look at mass action.

Executive producer Phekwane Mashiloane said it would replace the Scoop programme on certain nights of the week.

ET persona non grata

THE Namibian cabinet had declared AWB leader Eugene Terre'Blanche persona non grata in that country, the information ministry said in Windhoek yesterday

Terre'Blanche offended the government last week by saying in a NAMBC TV interview that parts of SA and Namibia should be set aside exclusively for whites.

Tent town jail

BIDAY 31/7/92

AN ACCOMMODATION shortage may lead to prisoners occupying tents on Robben Island This was announced in Cape Town yesterday by the deputy commissioner of operational services for the Department of Correctional Services, Maj-Gen Henk Bruyn

Inflation 'set for substantial fall'

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BIDAY 31/7/92

HILARY GUSH

ECONOMIC growth this year will be the worst of the current recession, but further cuts in interest rates and a substantial fall in inflation can be expected, says Old Mutual chief economist Dave Mohr

Speaking in Johannesburg yesterday, Mohr said he expected SA's gross domestic product to fall by at least 1,5% this year, and there was a real risk that the recession would spill over into nest year

"The greatest risk is that consumer and business confidence may be further jeopardised by the combination of political uncertainty, lingering violence and industrial unrest

"Consumers may use any increase in disposable income to redeem debt rather than raise spending Companies may further trim their workforces and curtail investment to an even larger extent than currently envisaged," Mohr said

The possibility of some external shock — a sharp fall in the gold price, sluggish world economic recovery and accelerating capital outflow — could not be ruled out

However, Mohr remained "cautiously optimistic" that a mild cyclical recovery would take hold next year Although the Budget had not contained any net tax relief for individuals, greater willingness by government to finance the Budget deficit through borrowing, not through increased taxes, would support the economy, he said

As the world economic recovery picked up, domestic exports would benefit in terms of volume and price. A slower rate of destocking and an easing in inflation would also have a positive effect on local cyclical recovery

Mohr said hard-pressed consumers could look forward to additional interest rate cuts over the next 18 months. "Low money supply growth will probably continue during the rest of the year, leaving room for a further lowering of interest rates"

The Reserve Bank's policy of maintaining positive real interest rates would, however, prevent rates falling below the prevailing inflation rate Prospects for a continued fall in inflation were encouraging, although sharp increases in food prices remained a major obstacle. Mohr cited last year's introduction of VAT as the most important reason for an acceleration in food inflation

Examining the effect of drought on food prices, Mohr said the price of meat had dropped 5% since the beginning of the year, while fruit and vegetable prices had risen sharply As meat had a larger weight in the index, the effect of the higher fruit and vegetable prices had been almost entirely neutralised by the decline in the price of meat

Masterbond inquiry invites evidence

Inflation down

YEAR-on-year inflation, as measured by the official consumer price index, dipped marginally in May to 14,8 percent compared to April's figure of 15,6 percent

The monthly increase from April to May of 0,8 percent was largely due to an increase in food prices Food prices rose 1,2 percent from April to May with vegetables up six percent followed by fish and seafoods (3,5 percent), dairy products (1,7 percent) and grain products (1,6 percent)

Decreases were recorded in the price of fats and oils (1,8 percent) and fruit and nuts (1,3 percent)

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Global recession can be used to tackle inflation

BDAY 7/8/92. **TONY DE CASTRO** (153)

THE world economy has entered a broad and lengthy period of disinflation and economic restructuring Once fully established, this phenomenon will have a profound impact on the behaviour of markets, individuals and companies not seen for many decades.

Increasingly, there are fears that the present tenuous world economic recovery is faltering, and the world is heading for another recession Over time these changes will, if handled correctly by governments and understood by economic participants, result in considerable long-term benefits to the world economy

For the past 30 years the world economy has lived with relatively high inflation There were many reasons for high inflation, including excessive government and private expenditure, external commodity price shocks and extremely high levels of monetary growth.

In periods of inflation, economies, individuals, companies and governments behave in a manner suitable to inflationary conditions Borrowing is favoured above savings because the expected rise in the future income stream is normally adequate to meet debt repayments Some inventory build-up is attractive to companies because the future price of goods is likely to exceed production and carrying costs

Moreover, individuals' perceptions of their own wealth (wealth effects) are constantly rising, thereby deceptively influencing consumer buying and investment patterns Property and equities are favoured in inflationary times, while fixed interest instruments and cash are avoided because they fail to protect against the ravages of inflation.

Furthermore, inflation allows for production and labour inefficiencies that are paid for by those that command the least power to influence the terms of trade in their favour

During the '80s, financial legislation was substantially liberalised in developed countries The result was an explosion of financial engineering that allowed for massive economic restructuring and borrowing

In the US the advent of junk bonds and similar hybrid financial instruments, appended to inflation-driven credit demand by individuals and companies, permitted record size leveraged buyouts, takeovers, mergers and property deals that were not always financially sound. The financial crack appeared when issuers of high-yielding junk bonds lived up to their name under the massive strain of big and costly debt repayment.

The most effective method of reducing inflation is through economic recessions The world economy went through a period of weak economic growth in the late '80s and early '90s which is still evident in many OECD economies This economic decline is partly a reflection of tight monetary policies intent on reducing inflation and the very big fall in world residential and commercial property prices particularly in Japan, Canada, the UK and the US.

The fall in property prices adversely influenced the wealth perceptions of individuals and undermined the soundness of many financial institutions

In the US, many Savings and Loans associations went bankrupt and the government had to bail out depositors. Many banks exposed to the property market cut back on loans to the private sector, increased margins in a successful attempt to improve profitability, and made loans to risk-free government Many individuals faced by costly long-term interest rates, towering debts incurred in the previous decade of easy money and a poor economic outlook orientated their finance towards debt repayment.

Thus the fears of another recession. Japan is faced by a weakening economy, mammoth reductions in private investment spending, and sharply declining wealth effects stemming from record falls in the Nikkei index and property values.

Britain faces falling property prices, high interest rates and a weak economy. Germany is strained under the burden of high interest rates and taxes, and costly economic unification. Most of the rest of Europe is also experiencing weak economic growth.

The greatest concern is with the US because that country is expected to be the locomotive for world economic growth. There is a mounting concern that the rate of US economic recovery is slow compared to the eight previous economic upswings Official economic statistics in that country point to disappointing, weaker than expected numbers in employment and demand for new housing — traditionally the driving forces of the economic upswing.

But the world economy will continue to grow, albeit gradually The contradictory and confusing US figures merely reflect a broadly changed economic scenario of disinflation and structural correction.

Firstly, most of the released US economic statistics show much better numbers than those of a year ago. Secondly, the US economy has done remarkably well so far if the magnitude of structural corrections is understood — the Savings and Loans crisis is almost resolved, the banking sector is showing good health, the financial system and the economy has weathered well the excesses of the '80s, the Gulf crisis was successfully handled, and so on

Thirdly, unemployment has increased because the defence industry is experiencing massive cuts due to the end of the Cold War, and increases in demand for goods are currently being met by productive gains and overtime. It is only when these options run out that labour will be absorbed in greater quantities

Housing is still expensive despite short-term rate cuts Mortgage rates have not fallen as fast as short-term rates, and wages are not growing at the same pace as previously because of disinflation, thereby falsely dampening consumer perceptions.

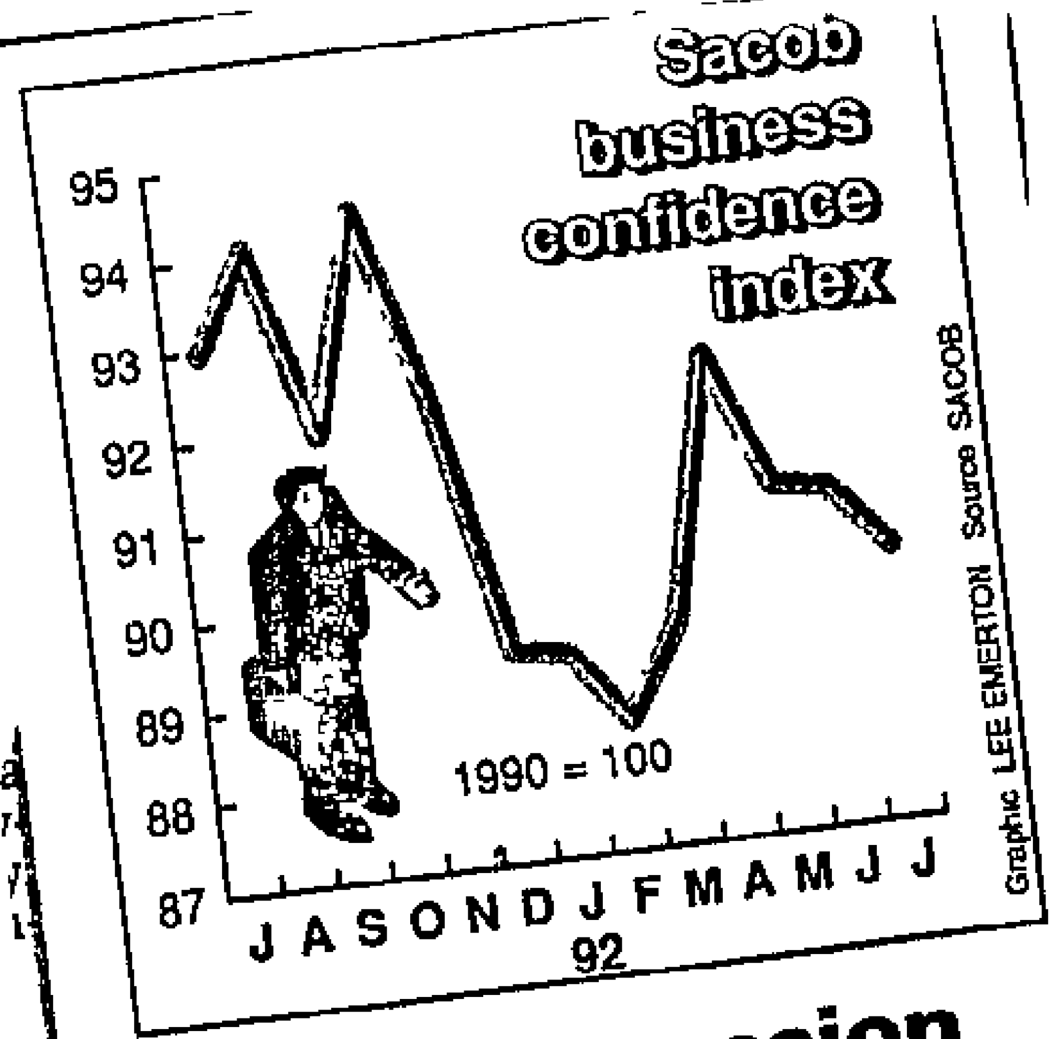
Fourthly, and most importantly, in an era of disinflation economic recoveries take longer to establish Faced by falling prices, companies are understandably reluctant to hold many inventories, which is the starting point of economic upswings Borrowers also find that the cost of money cannot cheaply be financed by inflated future income streams (both profits and wages), and therefore opt to repay debt and hold back on expenditure.

The prospects for the world economy are good. With the exception of eastern Europe and some countries in Africa, most governments have adopted sensible economic policies and tackled many of their structural problems US prospects are particularly attractive given low inflation, increasing productivity and reduced debt to name a few.

However, there are dangers After many years of inflation, combined with current structural economic adjustments, disinflation may initially be misunderstood by producers and consumers resulting in the wrong price signals that could cause economic recessions

If the disinflationary process is not properly understood by governments, business and consumers, the wrong measures may be applied — stunting the return to long-term growth.

☐ **De Castro is an economist at Securities Portfolio Managers.**



Strike, recession knock confidence

(153)

HILARY GUSH

THE political logjam continued to erode business confidence in July, the SA Chamber of Business (Sacob) said yesterday.

The business confidence index (BCI) — a short-term barometer of business confidence — dropped 0,7 of a percentage point in July to 90,1 on the back of deterioration in eight of its 13 sub-indices.

Sacob chief economist Ben van Rensburg said the already fragile business mood was "hammered again" by the events leading up to the mass stayaway and by further evidence of a deepening recession.

BDAY 7/8/92.

He cautioned that if the economy contin-

☐ To Page 2

Confidence

BDAY 7/8/92

From Page 1

(153)

ued to be used as a political battleground, irreparable damage would be done to its growth potential.

Fixed investment spending — already at its lowest level in 21 years — would continue to decline unless there was clear political progress coupled with sound economic policies.

Van Rensburg said mass action could further erode SA's job creation capacity and spur moves to capital-intensive production, exacerbating already chronic unemployment.

Insufficient consumer spending power prevented an economic upswing based on enhanced domestic demand. He said the upturn would have to be led by exports, but the prospects of this were "hampered by the ambivalence of the signals" emanating from the world's major economies.

"A lack of political progress remains the most important obstacle to renewed economic growth . . . against the backdrop of political and economic uncertainty, the single biggest boost to business confidence will come as soon as the major political parties return to the path of reconciliation and negotiation."

● Picture: Page 3

- typically to provide deferred compensation or keyman protection — are not affected by the proposals ■

FM 7/8/92

ECONOMIC OUTLOOK

Signs of sanity

Since the breakdown in political negotiations, attention has been focused on renewed violence, threats of mass action, a nationwide stayaway — and the deepening recession as investor and consumer confidence slumped further In the gloom, a number of positive developments have passed almost unnoticed

There is a spirit of increasing realism abroad This was evident in an agreement reached, in principle, between the Chamber of Mines gold mining members and the

continued

National Union of Mineworkers (NUM) last month. It provided for a 5% increase in workers' wages, plus the proceeds of profit-sharing schemes which are being negotiated

If the deal is struck, it will build on progress made last year when the level of increases to mineworkers was linked in part to productivity and the gold price By establishing an important link between profit and pay, this type of agreement ensures workers can share in the good times and it allows wages to fall, in real terms, in the bad times — an important antidote to inflation

Spicer

In that environment, restrictive monetary policy can operate more effectively Over the past few years, the Reserve Bank has been obliged to apply what many believed was undue force to rein in inflation. This was because structural flaws were drawing out the usual cyclical lags — and important among these was that upward pressure was coming from wages when output was falling So stringent monetary policy was effective in cutting back money supply growth but far less so in reducing inflation

At last, in past months, inflation has been subsiding — though reluctantly and not consistently And there is evidence that immediate pressure will not be coming from wages. Says Pat Stone of Andrew Levy & Associates· "The trend of recent settlements has been below 15% and, by the end of the year, the national average may be about 12%" — levels which are below the present and expected inflation rate

If inflationary pressures are being contained, there is more room for real growth in the economy — and, therefore, in incomes

So progress has been made on a number of fronts, despite the recent political upheavals And even these have had their good points

The attempts of Saccola and Cosatu to reach an agreement on the stayaway may have foundered but they were not fruitless Though talks broke down on a number of issues, they generated agreement on many others Says Anglo's Michael Spicer. "There is a determination to take forward new initiatives, to press on with concrete programmes for upliftment and to get politicians back to the negotiating table "

Also encouraging were the attempts made to minimise the damage caused by the stayaway Says labour analyst Duncan Innes "I know of companies where managements, shop stewards and union officials worked out arrangements to allow the stayaway to occur with minimum disruption to the production process "

He points out that, on the gold and platinum mines, "workers did not participate significantly in the stayaway because of the critical situation faced by those industries This starkly highlighted that both workers and employers have a joint interest in keeping those industries alive and avoiding further closures "

Clothing is another troubled industry — the size of the labour force in the four major urban areas has shrunk from 120 000 last July to 100 000 — where special arrangements were made to minimise damage

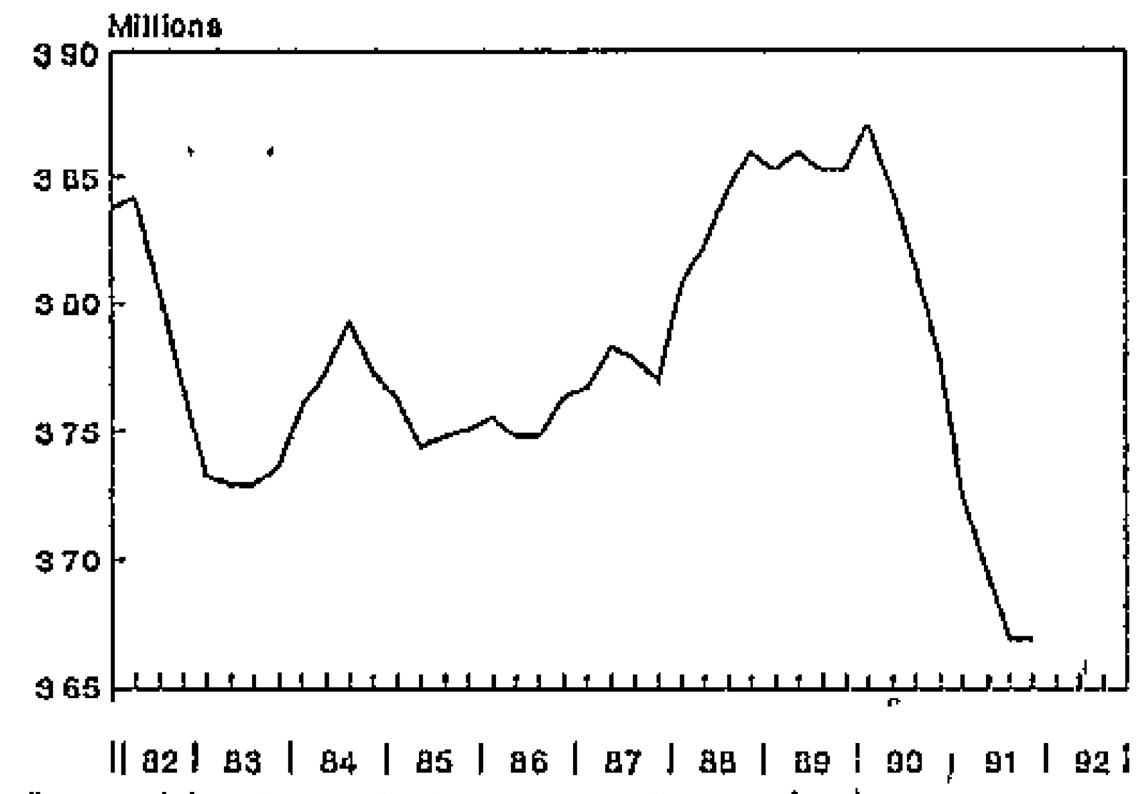
Says Seardel's group industrial relations executive Johann Baard. "In the two major areas, though there was no agreement on factory closures, employers undertook no work, no pay and no discipline and the union was prepared to be flexible in special circumstances, as, for instance, when there were pressing delivery deadlines and a late delivery could result in cancellation of an order In the western Cape, the biggest region, attendance on both days exceeded 75% "

The signs are that, in seeking a solution to the political impasse, people are gaining valuable insights into underlying economic realities This allows the protagonists to evaluate their own interests more accurately and plan their strategies more effectively After all, there is no point in painting an opponent into a corner if you have to share it with him ■

BUSINESS BAROMETER

w/Mail 7/8 - 13/8/92

PRIVATE SECTOR EMPLOYMENT



A graphic view of what recession has meant for jobs

Source: Old Mutual

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Mohr pessimism on next year

OLD MUTUAL chief economist Dave Mohr believes there is a real risk the present recession might spill over into 1993

Writing in Old Mutual's Economic Review, he also said that if the economy does move into a recovery phase next year the upswing will probably be sluggish at first

Mohr forecast real growth in gross domestic product of -1,5 percent for this year, a budget deficit of five percent or more of gross domestic product, a year-on-year consumer price inflation rate falling below 13 percent by December this year and further falls in interest rates.

w/Mail 7/8 - 13/8/92

... and a gloomy view of this year

THE already high rate of business liquidations and closures, and retrenchments and unemployment would probably rise further in the coming months, Afrikaanse Handelsinstituut chief economist Nick Barnardt forecast this week in Cape Town Barnardt expected the downswing in the business cycle to continue for at least the rest of the year and possibly into the first few months of next year

He predicted the number of unemployed, having already probably risen by more than a million in the past three years is set to swell by close on half a million people within the next 12 months.

Little hope of tax relief

Any recovery looks likely to be sluggish

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STAR 8/8/92

ALTHOUGH economists expect the inflation rate to drop, it will not help the swelling ranks of the unemployed. Our FINANCE STAFF reports.

LONG-suffering consumers are being squeezed between higher taxes and rising prices — and there is not much relief in store.

Most economists predict that inflation will drop from 15,1 percent to about 10 percent some time next year But by then many more people will be out of jobs.

Economists warn that the recovery, when it comes, is likely to be sluggish Old Mutual economist David Mohr says private-sector employment last year dropped 2,9 percent By the end of the year more than 203 000 people had been retrenched — one in every 20 from the private sector

The trend has probably accelerated this year

Problems

Higher taxes have shrunk disposable income, as has inflation, fuelled by rocketing food prices The result is a decline in real spending

Consumer Council executive director Jan Cronje warns that further food price rises could cause enormous socio-economic problems

In its latest survey of black consumer attitudes, the Stellenbosch Bureau for Economic Research confirms that consumer confidence is dropping, particularly among the lowest-income groups

Only 55 percent of consumers surveyed in the second quarter of the year expect South Africa's general economic position to improve in the next year

Consumer confidence will probably drop further in the third quarter, it says. Continuing lay-offs, labour market instability and mass action will further shrink consumer spending, delaying an economic upswing

Mohr says the next round of salary increases is unlikely to be much greater than the last No increase in employment can be expected until a recovery has gathered momentum

Upwards pressure on government spending will probably leave no scope for tax relief to individuals, making any increase in private consumption expenditure largely dependent on declining inflation and interest rates

Real private consumer spending dropped 3,5 percent between the beginning of 1991 and the end of the first quarter of 1992 "Given a population growth rate of approximately 2,5 percent per annum, this implies a drop in living standards per capita of 6 percent"

At the beginning of the year most economists were expecting 1992 to be a year of renewed growth now, partly because of the drought, it looks as if real gross domestic product will drop 1,5 percent.

Any upswing in 1993 is likely to be slow and could be jeopardised by political factors

Board of Executors economist Rob Lee says resumption of political negotiations and action to end violence are essential for sustained economic growth If the economy is structurally adjusted, there are prospects for a "reasonable" recovery in 1993 and 1994, he says.

Rebuilding

The world economy is likely to pick up next year, meteorological data show rainfall patterns likely to recover, foreign exchange reserves are rising, and lower inflation and interest rates will bring some relief to consumers and business.

The rebuilding of company inventories will stimulate growth, fiscal policy will remain expansionary and even if general business confidence does not improve markedly, several big investment projects, such as those of Columbus and Alusaf, will probably still go ahead, Lee says affirmative action

Recession puts on brakes for blacks

SOUTH 8/8 – 12/8/92

(153)

In the run-up to a Cape Town Chamber of Commerce symposium on affirmative action this month, SOUTH financial journalist **Lynda Loxton** concludes a three-part series on the debate:

COMPANIES might be more aware of the need for black advancement following recent political changes but, in many cases, find the recession prevents them from making substantial progress

"We should have started much earlier, when the economy was more buoyant," says Old Mutual's assistant general manager, Mr Theo Hartwig

However, that was about six to seven years ago, when today's political climate was undreamt of. Black advancement was not something many managers worried about then.

Because of a tight labour market and the demographics of the Western Cape, Old Mutual did at that time employ more coloured people, mainly as office staff. As a result, about 25 percent of clerical and lower management staff today are coloured, with a few at mid-management level

Over the last few years attention has swung to the recruitment of African staff, with an emphasis on skilled and competent people who have the potential to rise to middle management rather than merely swell the number of blacks in lower clerical grades

No specific programme for affirmative action countrywide has been worked out or implemented

The four main divisions — individual life, employee benefits, investments and services — have each worked out their own approach to the issue. In the services division, for example, no non-African person may be appointed without top management permission

Black people appointed are encouraged to use training and other development opportunities provided by Old Mutual

But this does not mean blacks are being appointed left, right and centre Because of the recession and the need to be more cost-efficient, Old Mutual is trying to reduce staff numbers through natural attrition Departments have been scaled down and there is a pool of about 50 people awaiting redeployment in other divisions — Old Mutual prefers to avoid retrenchments if possible

Against this background and the general weakness of the job market, few people are resigning. As a result, appointments are few — and when there are vacancies, it is often difficult to identify a black person with the skills needed

Old Mutual has therefore made a point of tapping several sources to get skilled blacks who can be slotted in when and where needed. This means liaising with training institutions and associations to keep track of skilled people

Should the economy improve to the extent that Old Mutual can once again start expanding staff levels, black advancement will be much more rapid

"Economic growth is vital to black advancement," said Hartwig

He does not believe any system of compulsory quotas for black advancement will work. It will sap business confidence and lead to more window-dressing than real and meaningful black advancement.

But he recognises the need to allay fears and misconceptions about black advancement among white staff and managers, mainly by making them aware that it is vital to the economy to train and upgrade more black people — and by ensuring all appointments take into consideration merit and not skin colour or gender

On promoting women to top positions, Hartwig said no specific programme had been introduced here either, but that several (white) women were now occupying middle and senior management positions Through its outside contacts, Old Mutual has built up a "hot list" of highly qualified black women who could be appointed — if there were the jobs for them

- The Cape Town Chamber of Commerce symposium is on August 12 Further details can be obtained from Leigh James Tel 23-2323

Businessmen criticised for fostering recession

STAR 11/8/92 153

By Derek Tommey

Businessmen blame the prolonged recession on the Reserve Bank's tight money policy, on political action resulting in a loss of confidence and on the decline in mineral prices

But Cees Bruggemans, chief economist at First National Bank, says there is another important factor — the behaviour of businessmen themselves

South African businessmen have become so accustomed to benefiting from windfalls that they haven't the ability — common to most overseas businessmen — to generate new business by their own efforts

All they are able to do when times are tough is to try and overcome problems by cutting costs, "de-peopling" and destocking, claims Dr Bruggemans

This ignores the fact that one man's cost-cutting becomes another man's lost sale, production and income — resulting in the economy being pushed deeper into recession

Dr Bruggemans believes that since early 1990 this process has cost SA 300 000 to 400 000 formal jobs, with only a quarter to a third of these losses attributable to the mining industry

Cees Bruggemans . . by their own bootstraps

He says that the past two decades have seen five upswings — each marked by fairly impressive windfall events.

South Africans have always been alive to the meaning and opportunities of such windfalls, very much on the principle of Pavlovian conditioning, he says

Most managers can recognise the "easy" signs that herald a recovery and position themselves for it

But they have never learned as a group to "pick themselves up by their own bootstraps", he says.

"In other countries, less favoured by external windfalls, managements have learned to be far more self-reliant and specifically to be more world market-oriented"

There was great consternation in mid-1990 when company profit growth started to slip, interest rates were high in nominal terms, labour demands were rising, the political outlook was at best uncertain — and there was absolutely no evidence of windfalls anywhere in the horizon, he says

Although these conditions encouraged a shift towards more exporting, the overwhelming management response was not outward but inward

Companies right across the board decided to improve their earnings outlook by cutting costs

"This set in motion a vicious downward spiral which remains with us in 1992 because few of the conditions that gave rise to this adjustment in mid-1990 are much different today"

The collective cost-cutting has improved the international competitiveness of many businesses

But the downside is a protracted recession that seemingly wants only to deepen further

"The irony is that expansionary forces have been operating within the economy for some time," says Dr Bruggemans

Both exports and government spending have been expansionary for some time

Unfortunately, these have been overshadowed by the effects of cost-cutting This will not be so indefinitely, however, and it is a matter of time before the tide turns

Another irony is that there is one major potential windfall on the horizon, which many are ignoring because it is not a traditional windfall, and rests on promises few people are willing to believe

"This potential windfall is based on the premise of a successful political transition and the fact that the country is under-borrowed

"This would allow it to gain access to substantial foreign capital resources, provided the right domestic conditions come into being," says Dr Bruggemans.

Double digit inflation here to stay

CT 12/8/92 (153)

By AUDREY D'ANGELO
Business Editor

THE inflation rate is unlikely to come down to single figures and will probably rise again next year and remain between 12% and 18% "for the foreseeable future," Leon Campher, MD of Syfrets Managed Assets (SMA), told investors at a presentation in Claremont yesterday

He said the US recession was "definitely over." This meant industrial demand would grow and commodity prices — which he thought had bottomed — would improve, leading the recovery of the SA economy

But Campher warned that the Johannesburg Stock Exchange, which had started a correction, and other world stock markets were vulnerable.

In the long term no-one could afford to stay out of the stock market because it gave the best hope of beating inflation. He expected "quite a strong market in 1993, continuing into 1994."

But the market was expensive now. SMA had high liquidity in its portfolios "and we are not rushing to buy now"

It would be wisest at present to invest gradually in a unit trust through regular monthly payments, rather than a lump sum.

In terms of structuring a portfolio, more attention should be paid now to the better quality mining shares.

SMA had done this earlier "and mining is starting to come through"

Pointing out that there was a 90% correlation between the JSE and the Dow Jones index of top industrial shares on the New York stock exchange, Campher said SMA had analysed market movements before and after US elections.

This had shown that, with the single exception of the Reagan election in 1984, the US market had moved up before the election and fallen soon afterwards.

"So we are worried about international markets."

Discussing the political outlook for SA, Campher said: "What is happening now is political power-play. We have said all along that they will be back at the negotiating table by the end of August.

"There will be power-play People will throw tantrums and walk away."

But there was a strong relationship between State President F W de Klerk and Mandela and between Cyril Ramaphosa and Roelf Meyer

The PAC had realised it would be a mistake to be left out "and I think we shall see the CP there

"The power struggle is a myth and they realise it is a myth There is going to have to be negotiation."

SMA thought that in the next three months political events would have "a neutral to negative effect" on the market

"I advise caution. As an investor I wouldn't rush in and buy now I would take my time"

The establishment of a transitional government would be good news and the market would move higher

Campher stressed that there would be no help from the International Monetary Fund or World Bank until violence had been stopped It had taken on a life of its own and would not be stopped until all parties accepted responsibility and an executive council was in place

He said there were only "guesstimates" about how much support the differing parties had

SMA's estimate, based on information from political commentators, differed from that of the Human Sciences Research Council (HSRC).

The HSRC estimated that the ANC had the support of between 40% and 45% of the electorate, the National Party 25%, the Inkatha Freedom Party 10% and others 20%.

SMA estimated that the ANC's support was 54%, the NP 28%, the IFP 5% and others 13%.

Recessionary fangs sinking ever deeper

STAR 14/8/92

(153)

By Sven Lunsche

The economy suffered its most serious blow yet in the recession when gross domestic product (GDP) fell by 2,6 percent on an annualised basis in the second quarter

The fall confirmed the further spread of recessionary conditions that first took hold in the second half of 1989, but only deepened significantly last year

GDP (at constant 1985 prices) fell by 0,6 percent in the fourth quarter last year

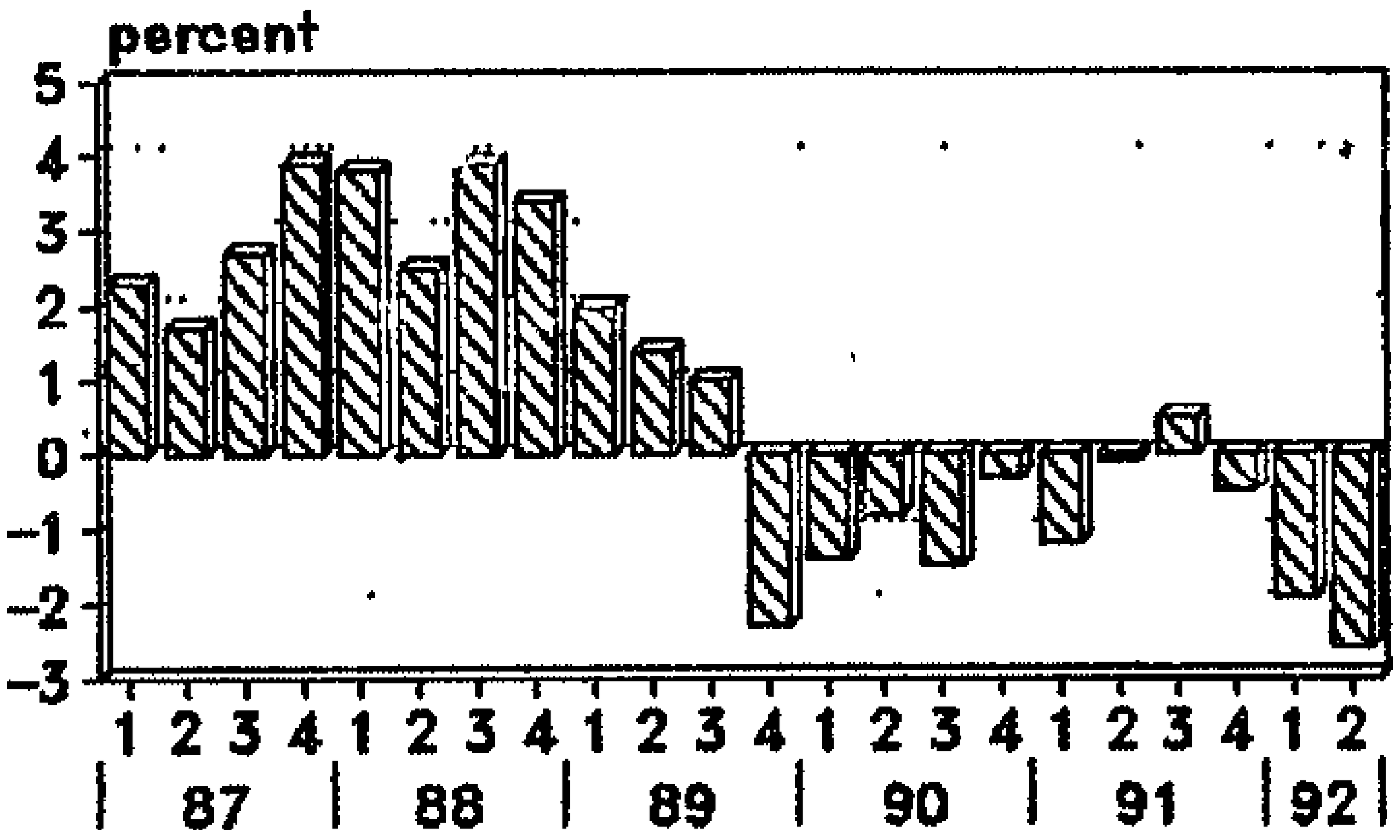
Since then, however, the decline accelerated to two percent in the first quarter of this year and to 2,6 percent in the second quarter

The sharp fall in activity could speed up the decision by the Reserve Bank to cut Bank rate by a further percentage point, provided inflation continues to decline

The quarterly decline does not bode well for growth for the year as a whole, with analysts predicting the economy could shrink by well over one percent, compared with negative growth of 0,6 percent in both 1990 and 1991

The Central Statistical Service, which released the GDP figures yesterday, says the quarterly fall was largely caused by declines in agricultural production stemming from the drought

Quarterly GDP growth
(1985 prices)



"As in the case of the first quarter, when real agricultural production fell by 17 percent, the relatively sharp second-quarter decrease can once again be ascribed to declining agricultural production, this time by 28 percent," the CSS says

However, even if the agricultural sector is excluded from the calculations, GDP would have shown negative growth of 0,7 percent in the second quarter, unchanged from the preceding three months

With the exception of mining, which grew by 1,3 percent, production in most major economic sectors showed negative growth

Real production in manufacturing fell by 1,8 percent, in electricity by 1,9 percent, in construction by nine percent and in commerce by 2,3 percent

Economists believe personal consumption expenditure (PCE), which fell by 2,1 percent and 3,3 percent in the fourth quarter of 1991 and first quarter 1992, once again dipped sharply in the June quarter

This was confirmed yesterday by durable goods retail sales figures prepared by the Retail Liaison Committee and released by the executive director of the Furniture Traders' Association, Frans Jordaan

Mr Jordaan said sales of furniture, appliances, TV and audio equipment had increased by a nominal 4,3 percent in the second quarter, compared with the same quarter last year

However, taking average inflation of 15 percent into account, this means that in real terms sales of these goods have fallen by over 10 percent

Breaking down the figures, Mr Jordaan said nominal growth in furniture sales was 3,7 percent, in appliances 9,3 percent and in audio equipment 11,9 percent. Sales of TV and video equipment plunged 6,6 percent

"Until just over a year ago, sales to black consumers were fairly buoyant, but political instability, unemployment and stayaways have ended this upward trend"

Looking ahead, Mr Jordaan was slightly more optimistic. "The latest drop in interest rates means that a reduction in finance charges will follow soon

"Although this does not have a dramatic impact on monthly instalments, it should boost consumer confidence"

Recession lasts longer than Great Depression

ST Times (Bus) 16/8/92

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By ZILLA EFRAT

THE recession has persisted six months longer than the Great Depression, but has drawn less blood.

Mortgage foreclosures and food hand-outs may be growing, but economists insist that SA is nowhere near the depths of the early 1930s.

Econometrix director Azar Jammine says SA's gross domestic product has fallen by about 4% since the downturn began in 1989.

Unlike the early 1930s, also a time of drought, companies are still producing goods and selling them.

SA's economic slump has entered its 41st month — outstripping the Great Depression, which lasted almost three years — and looks set to continue into 1993.

But economists differ widely as to whether SA is in a depression or in the throes of a severe and prolonged recession, possibly because no precise definition of a depression exists.

Many say distinguishing a recession from a depression is like trying to differentiate between a cold and flu. One adage they quote is: "A recession is when your neighbour loses his job, a depression is when you lose yours."

A professor says: "After the Great Depression, it was thought it would not happen again. So nobody bothered to define one."

When it comes to a recession, most SA economists accept the US definition: two consecutive quarters of declining GDP.

On this basis, Handels-Institut economist Nick Barnhardt says a depression could be two consecutive years of falling GDP.

This would mean SA is in a depression, given that the Reserve Bank predicts that 1992 will be the third consecutive year of falling output.

Break

Mr Barnhardt says depressions may come in degrees of severity.

"That is why the early 1930s are called the Great Depression".

Deputy head of the Reserve Bank economic department Bernie de Jager defines a depression as poor economic conditions that lead to a clear break with the past.

The Great Depression, he says, resulted in a change from laissez-faire policies, which allowed the free play of market forces to regulate the economy, to interventionist or Keynesian policies.

Because worldwide attempts to stabilise business cycles have failed in the past 60 years, there has been an move away from interventionism to more market-oriented policies.

Mr De Jager believes governments are now less concerned about cyclical movements and concentrate on growth in the medium to long term.

Industrialised countries made the switch in the early 1980s after the second oil crisis and resulting recession. SA is making the change now.

The Pocket Economist defines a depression as a long-lasting recession in economic activity. "Companies close, demand falls, dole queues lengthen, people get poor People will always spend their last cent on a newspaper to find out why."

Dr Jammine says the first three years of the current slump were purely cyclical. Conditions, however, have been worsened by the drought and political impasse.

He says not all sectors of the economy have been in recession since 1989. The retail sector began declining in early 1991.

Economists are quick to point out that the recessions that hit SA in the 1980s were shorter but sharper than the current one The present downturn is also not the longest this century. The slump after the SA War lasted from 1904 to 1908.

Economists generally do not expect any recovery before next year.

Dr Jammine does not believe SA is in a depression. But if the politicians do not get their act together, conditions could approach those of the Great Depression.

THE WEEK AHEAD by Simon Willson

Food prices isolated as inflation's last hurdle

BDAY 17/8/92

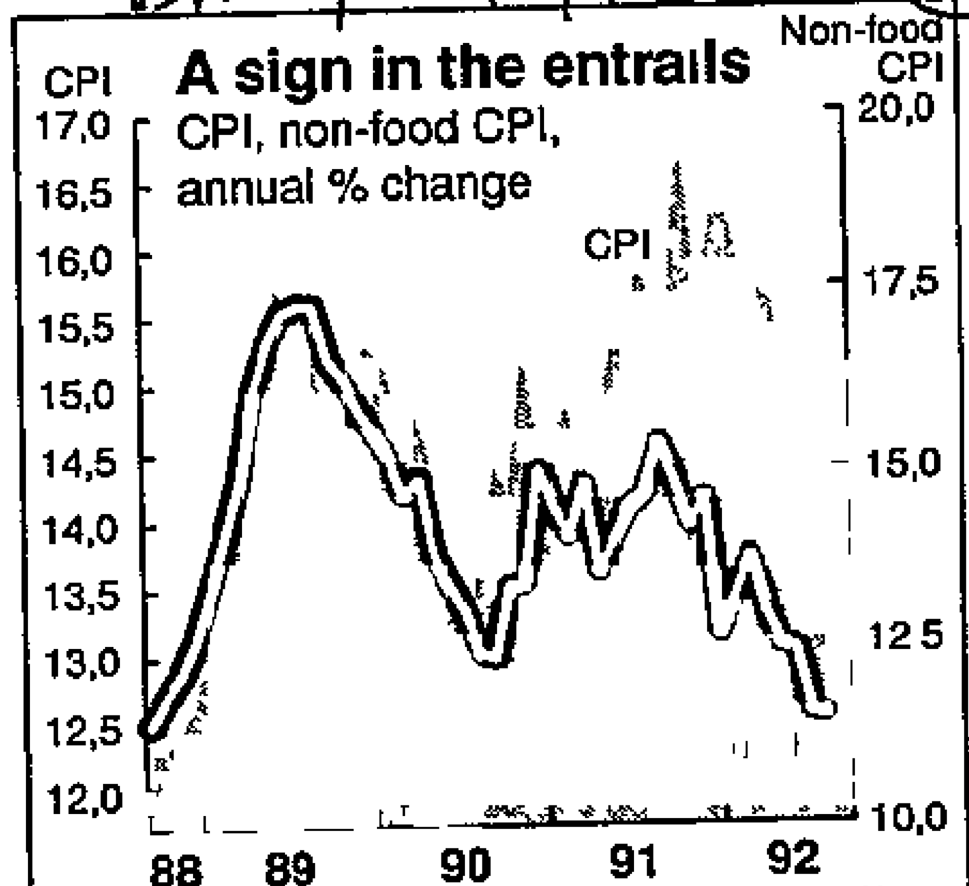
DISSECTION is a gruesome and painstaking process, but it offers probably the most enlightening way to preview the July inflation data which could be published at the end of the week

Inflation edged up in June to 15,1% from 14,8% in the year to May, but this apparently endless straddling of the 15% level need not yet cause a rending of garments in government or business circles

Although inflation stood at an almost identical 14,9% in the month, nearly three years ago, when interest rates were raised to their last cyclical peak (Bank rate to 18%, prime to 21%) specifically to bring inflation down, there are disinflationary forces at work now that were dormant then

The uptick in inflation in June was prompted by a fresh 11-year peak in food inflation Food prices surged 29,3% in the 12 months to June and are now, more than ever, the country's main inflationary problem But therein lies cause for hope. Non-food inflation is slowing

It is only by dissecting the consumer price index (CPI) data that underlying trends such as the sustained dip in non-food inflation can be exposed The relevant parts of the CPI's entrails are revealed in full, gory detail in the chart, and the story they tell is quite encouraging



Graphic RUBY GAY MARTIN Sources I NET SANLAM

Non-food inflation is at a four-year low It steadied at this low of 11,5% in June, and should ease again in the July data as the mortgage rate cuts effective from July 1 are reflected in the housing component of the CPI

Food is therefore left even more isolated in the CPI as the last inflationary obstacle But food price increases are stubbornly high for cost-push reasons, not demand-pull ones Three years of deflation have successfully coshed nearly all the demand out of the nation's consumers, to the point at which food sales volumes themselves are falling — a sign of national distress if ever there was one

But no amount of credit squeezing will rein in food inflation Only a return of rain over the interior in the coming growing season, and the VAT effect falling out of the CPI in the fourth quarter, or giving food a VAT zero-rating as recommended last week by the Food Logistics Forum, will do that In the meantime, all the consumer can do is wait while inflation straddles 15% for a couple more months

Internationally, President George Bush could do with some favourable US economic statistics as he sits out the Republican Party's national convention, which starts in Houston today He can expect better housing starts tomorrow and a smaller trade deficit on Wednesday, but not much else

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July housing starts are published tomorrow, and should rebound from a 3,2% fall to 1,2-million units in June Starts should by now be responding to the numerous mortgage rate cuts of the past year The US trade deficit jumped to a 18-month high of \$7,38bn in May from April's \$7,06bn, mainly on a fall in exports and a rise in the oil deficit Crude prices eased in the second half of June, which means the oil factor is probably neutral in the June trade balance Better agricultural exports should help to narrow the deficit

UK second-quarter GDP is due out on Wednesday, and looks unlikely to herald an end to Britain's longest postwar recession Earlier this year the Conservative election victory looked set to spark a recovery in confidence and, subsequently, growth too But UK private consumption is unlikely to have broken out of its seven-quarter falling trend in the three months to June, and another quarterly GDP drop looks in prospect — although a small one.

UK July retail sales are also published on Wednesday, but Britain's high streets are barely ticking over Sales are basically flat, and have been for 18 months, while falling consumer credit shows a reluctance to change the trend June sales were down 0,2% and July's look static

In Japan the markets will be awaiting the latest instalment in a lengthening horror story the vanishing of the country's money supply growth The Japanese M2 aggregates for July are released on Friday and look poised to set another new record low at a growth rate even smaller than the 0,9% posted in June The June low marked the first time annual M2 growth had dipped below 1%, and was the third consecutive record low in as many months

As the Japanese economy slows, applications for credit to the major banks are more than a fifth down on a year ago The banks are less amenable to credit extension anyway, since the Tokyo stock market slide has eroded their capital bases Expectations for Friday's figure are centring on 0,5%, with many analysts resigned to seeing the rate go negative before the end of the year

R500m plan for small businesses

ARG 18/8/92

MICHAEL CHESTER

JOHANNESBURG — More than R500 million in bank loans might be ploughed into the cash-starved small business sector over the next three years in a new master plan that aims to bring more black entrepreneurs into the economic mainstream.

Thousands of small and medium-size enterprises are expected to benefit from the scheme, which provides special safety-nets for loans and promises to break chronic congestion in applications for business finance.

The R500 million loan bonanza was announced today by the Small Business Development Corporation, which forecast an end to the frustrations of many budding entrepreneurs who had until now been denied loans because they were considered too high an investment risk

Head of the SBDC business finance division Kees de Haan, said First National, Standard, Nedbank, Boland and African Banks had all agreed to channel special loans into the scheme

All five banks had alerted managers of a combined total of more than 1 000 branches to be on standby to offer their business financing expertise and guidance to loan applicants

Loans of up to R400 000 would be considered, with repayments over five years. Bank fees would be held at 0,75 percent a year and interest rates set at no higher than 4 percent above the prime overdraft rate

The magic key that had unlocked loan funds was the provision of guarantee finance to safeguard the banks from the risk of bad debts

The SBDC said the Department of Finance, through the Department of Trade and Industry, had already provided an initial R20 million to underwrite the first flow of loans from the banks

Banks lend to only 9% of informal sector

THEO RAWANA

ONLY 9% of informal sector entrepreneurs were able to obtain loans from banks, while 70% depended on family and friends for finance, a survey conducted for a business development organisation, the Get Ahead Foundation, has found

The survey, conducted by Vista University in Kwazakhele, Port Elizabeth, and Mamelodi, Pretoria, found a further 9% relied on local development organisations

It also reported that the informal sector, whose job creation rate was rising by 23,9% every year, was drawing more people because they found they earned more there than in the formal sector

The majority of informal sector operators were in retail and services, with only 19% in manufacturing

In any given family, the survey found that often more than one member was involved in informal sector activities

18/8/92

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Investec chief slams controls

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ANDREW KRUMM

RECENT research shows that countries with an independent central bank have a lower and more stable inflation rate, says Investec Holdings chairman Ian Kantor in his chairman's review for the year ended March 1992. B/DAY 19/8/92.

"Furthermore, central bank credit to government and government budget deficits are lower"

Kantor said as politics followed economics, economics was the single most important issue which would determine the future of SA.

He noted that exchange controls were inefficient and distorted capital allocation which was harmful to the country's economy

Capital was becoming increasingly relevant. This was because of stepped-up requirements of authorities worldwide — including SA — as well as changes in the country in terms of financial conglomeration and concentration of capital

"Investec cannot ignore this while itself becoming of a size where capital, volume and cost control become key themes in areas of the bank"

Kantor said although capital growth was increasing in importance, Investec's objective was to emphasise earnings per share rather than size

However, "as the majority of shares in the Investec group are held by Investec Bank management and staff — together with Fedsure — the appropriateness of diluting their interest will continue to be very carefully assessed," he said

Recession and the woes of lost jobs

STAR 22/8/92 (153)

LEIGH HASSALL

THE "longest recession since World War 2" has hit the employment of black males more than twice as hard as their white counterparts.

The Omnichek division of Research Surveys (Pty) Ltd recently surveyed 500 white and 500 black males representative from a broad spread of the population

The results show that 7 percent of the white men and 18 percent of the black men interviewed had lost their jobs in the three months up to June and May respectively

The major cause of job losses was retrenchment following the curtailment of company operations, with the employers' business closing down coming second

The PWV and eastern Cape/Bloemfontein were the hardest-hit areas for white employment while Durban and East London had the highest incidence of black unemployment.

Cape Town and Durban are the safest places for white men to be in terms of holding on to their jobs and Port Elizabeth is the safest for black men

The youngest age group (18-24), presumably the least skilled workers, bore the brunt of white unemployment

Supported

Surprisingly, this was not the case in the black survey as 24 percent of the unemployed were from the 35-39 age bracket.

In both population groups the lowest income earners, the ones who could least afford it, were the hardest hit

Encouragingly, though, in most instances of black unemployment the family was supported by other members of the family who were employed Still, the research shows that one in three of the unemployed black families had no other means of support.

The problems of these families were worsened by the higher incidence of unemployment in black females Research Surveys posed the same questions to a spread of 500 black women and found that 17 percent had lost their jobs in the three months up to May

When asked to consider their prospects for next year as a breadwinner of the family, the white men were decidedly more pessimistic than both the black men and women

Some 40 percent of the white men expected the outlook to worsen, while only 14 percent of the black women and 19 percent of the black men thought so

Reflecting the uncertainty of our time, almost a third of the black women were unable to predict their circumstances for the next year, while 27 percent of the black men and 11 percent of the white men could not do so

WD's

Rand under pressure

STAR 24/8/92.

By Derek Tommey

A number of businessmen, seeking ways to "kick-start" the economy, which is now entering its fourth year of stagnation, have been calling for the devaluation of the rand against all the major currencies.

But they have not been doing their homework

The devaluation they are calling for has already happened — and some of the expected benefits, such as increased exports and, if foreigners can be assured that it is safe to come here, a big jump in tourism should soon be upon us

The fact is that in the past 12 months the rand has been heavily devalued against many of the world's most important currencies — and by an amount equal to the inflation rate

Since last August the rand has dropped by 12 to 14 percent against the Belgian, Danish, German, French, Italian, Dutch, Austrian, and Swedish currencies

It has fallen more than 11 percent against the Norwegian, Spanish and Swiss currencies, by 9,8 percent against the British pound, and by 4,2 percent against the Japanese yen.

But there have been some gains

It has risen 3,7 percent against the US dollar, 8,9 percent against the Canadian dollar and 12,3 percent against the Australian dollar

However, these gains are probably only temporary

A win by President George Bush in the November election could see the US and Canadian dollars rise sharply

Any gains made by the rand against these currencies could be wiped out overnight

A recovery in the world economy would help the Asutralian dollar

Admittedly, depending on the political situation in SA, it could also help the rand

But then the economy should again be moving and perhaps South Africa could be able to live with a firmer currency

World economy 'to grow in 1993'

B/DAY 24/8/92 (153)

LINDA ENSOR

CAPE TOWN — The world economy had consolidated this year and a marked acceleration in the rate of its expansion could be expected for 1993, Sanlam chief economist Johan Louw said in the group's Economic Survey.

Louw said in line with this anticipated growth there should be some improvement in the demand for and prices of commodities

International economic expansion would also enhance the growth prospects of the SA economy

Other factors which would contribute to a domestic recovery, according to Louw, included the continued crumbling of sanctions, a more normal agricultural year, a firmer gold price, the rebuilding of low inventories, accelerated government spending, lower inflation and further reductions in interest rates

But he warned that economic recovery could be delayed unless political peace and stability were quickly achieved, as these were crucial for fixed investment to occur

Without this the predicted growth rate of 2% to 3% next year might not be attainable.

Louw predicted a surplus of about R5bn on the current account of the balance of payments this year compared with the R7,4bn of 1991.

Inflation should drop to about 12% by December and the 14% average for the year should move to lower levels in 1993

One more cut in Bank rate was also likely this year while the prime overdraft rate should fall to 17,25% from 18,25%

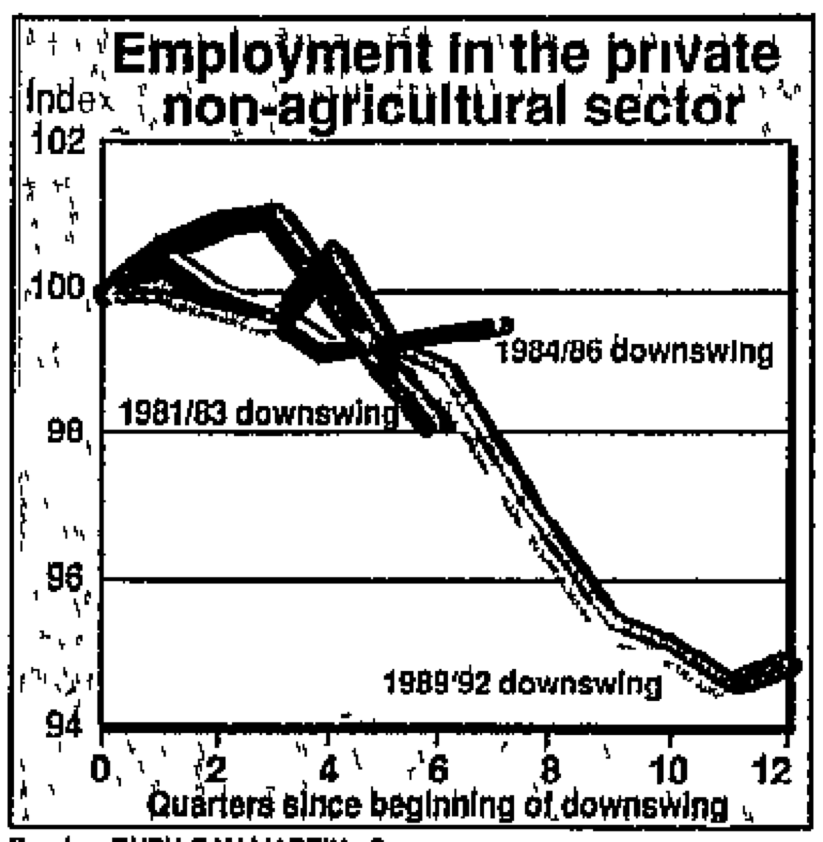
Louw pointed out that employment in the current downturn had fallen far more sharply than in previous downturns with over 1-million people being unable to find work in the non-agricultural formal sector during the past three years.

He said the economy had also undergone a structural change in its capacity to absorb labour as a result of capital intensification

The labour absorption capacity of the economy had declined from 72% in the 1970s to 22% in the 1980s and had now reach a point where only about one in 10 entrants into the labour market could currently be accommodated in the formal sector

"It is clear that appropriate measures will have to be taken to promote labour intensive industries with a view to increasing the labour absorption capability of the formal sector of the economy

"These would include maintaining positive real interest rates, responsible action on the part of trade unions and encouraging greater productivity," Louw said



Graphic RUBY-GAY MARTIN Source

THE WEEK AHEAD by Simon Willson

Bank needs good inflation rate to fend off detractors

BDAY 24/8/92 (153)

UNDER attack from a growing number of interest groups for its running of monetary and exchange rate policy, the Reserve Bank needs good news from this week's July inflation and money supply figures to help repel its critics The chances are that the data will swing the Bank's way or, at least, will not embarrass it

Tomorrow the Bank faces its stockholders at its annual meeting in Pretoria amid a growing clamour for a weaker rand and lower interest rates The monetary authorities could do with some hard statistical evidence of success from nearly three years of tighter credit conditions

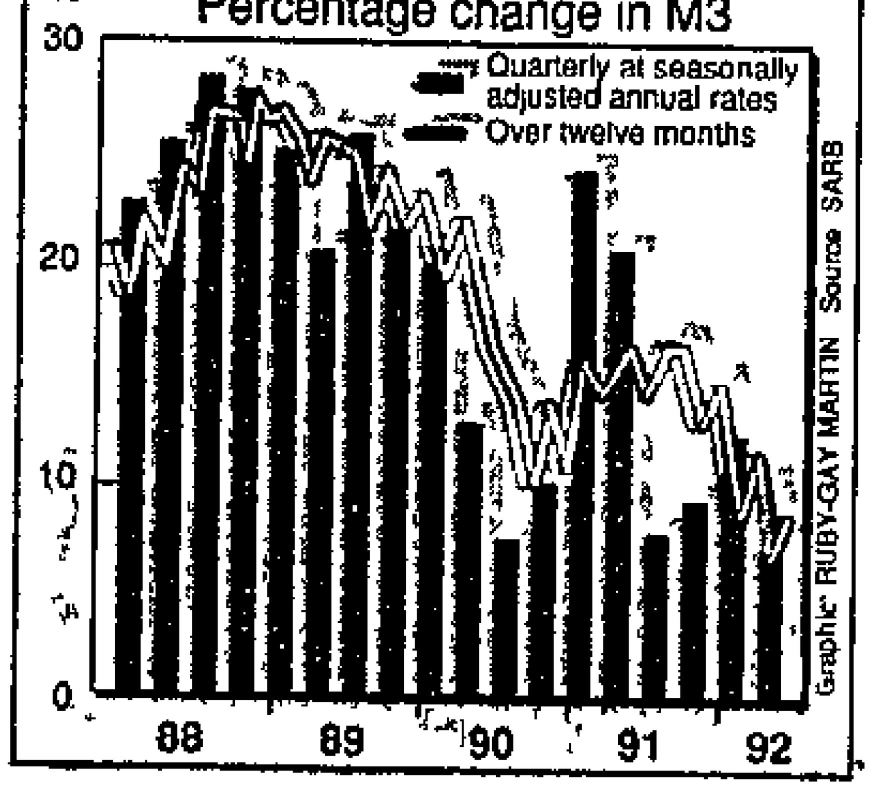
If the level of inflation, as former British chancellor Nigel Lawson once said, is "judge and jury" of overall economic policy, then the Bank and the Finance Ministry are in the dock with a strong prosecution case against them. Inflation in June, at 15,1%, is little different from the 14,9% it stood at when the credit squeeze was at its tightest in October 1989

On the face of it, the authorities do not have a lot to show for the stiff deflation inflicted on the economy; in mitigation, the Bank has said all along that its outlook is medium term. Like 18th century French revolutionaries, Bank officials are fond of quoting a three-word mantra which is said to guide policy "stabilisation, liberalisation, stimulation"

The economy has yet to complete the first stage of this process However raucous the howls of impatience from interest groups, the stimulation part is still a little way off

The recent tendency of inflation to straddle 15% should continue in the July

Inmate of the padded cell
Percentage change in M3



readout, this time, it may be the favourable side of 15% Non-food inflation should ease again from its four-year June low of 11,5%, leaving the fickle food element to sway the headline rate by rising or falling from its June 11-year high of 29,3%

The July monetary aggregates are also due out this week and, if those calling for monetary policy relaxations are to be believed, then activity is so low in the real economy that indicators like M3 should be subdued. Year-on-year M3 growth ran at 8,4% in June, and was 9,1% from the base of the guideline year — well inside the Bank's 7%-10% guideline range The latest Bank annual economic report, published today, says credit extension to the private sector remains low, and this should be reflected in the July M3 data

As the chart shows, M3 has stopped struggling against the straitjacket slipped on it by the Bank in 1989 The only question now is whether the padded cell is the best place for the restrained patient to recover, or whether it is worth loosening the straps and even risking a period of parole to accelerate rehabilitation

Internationally, the August index of US consumer confidence is published tomorrow The index plunged to a four-month low of 61 in July which, for the Bush administration, is uncomfortably close to the 59,4 posted at the height of the US consumer's anxiety and uncertainty during the climax of the Gulf war

The outlook for US durable goods orders in July, out on Wednesday, is a little brighter in view of the relative buoyancy of the average US workweek Resilience in the number of hours worked means that, irrespective of rising US unemployment, more is being asked of those still in jobs, and the change in orders should stay positive after June's 2,3% rise

On Thursday the first revision to US second-quarter GDP is released, and the volatility of the first quarter's revisions make this one tough to call US real growth in the first quarter started at a preliminary 2% and was revised successively to 2,4%, 2,7% and 2,9% — meaning the preliminary was a mere 45% wide of the mark The second-quarter preliminary was a modest 1,4%

Weekly new claims for unemployment insurance jumped to a 16-month high last week at 474 000, indicating a fresh downturn in the weak jobs market The figure for the week to August 15 emerges on Thursday, and a further rise towards 500 000 would be an alarm signal

UK trade and current account balances for July are released this morning, with interest likely to be concentrated on the state of British consumer demand In rising to £922m in June the trade deficit showed a 2,5% drop in imports over the month, offset by a 3,5% fall in export earnings UK retail sales fell again in July, so still lower imports may prevent a widening of the July trade deficit.

Sometime this week the German inflation rate for August should be published It fell to 3,3% in July from June's 4,3%, but this was probably a technical easing that could be partially reversed this month The rate still looks headed back towards 4% by year-end

The Japanese July inflation rate should also emerge later this week At 2% in June, inflation is hardly high enough to obstruct another Japanese discount rate cut to stem the fall in the Nikkei and the M2 money supply, which hit a new record low of 0,2% year-on-year growth in July

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On a limb

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A recent issue of *The Economist* provides ample ammunition for Reserve Bank Governor Chris Stals who, at the Bank's annual meeting this week, spoke of the adverse effect of inflation on the international competitiveness of SA producers

The Economist reports that the average inflation rate in the seven big industrial economies is back to its Sixties level of 3% and that some of these countries are committed to zero inflation The influential magazine predicts that, in the Nineties, inflation in the industrial economies is likely to fall to its lowest level for three decades In SA, where single digit inflation is regarded as a barely attainable objective, producers will clearly be at a great disadvantage

"It is a fallacy to believe that more inflation can stimulate the economy," says Stals, "or that a strong economy needs inflation as a crutch to lean on, or that SA is different from other countries and must, therefore, be more tolerant of this cancerous phenomenon, particularly in a global environment, where so many other countries succeeded in reducing their rates of inflation to relatively low levels An economy beset by inflation and a fear of future inflation cannot function well"

In this context, realistic interest rates are essential "In SA, interest rates have been allowed to remain artificially low for long periods under the protection of an extensive system of exchange controls, through the subsidisation of foreign borrowings and by

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permitting excessive increases in the money supply"

Stals says artificially low rates reduce savings, discourage the inflow of capital from abroad, lead to misallocation of available investment funds and make the cost of capital unduly low relative to the cost of other production factors such as labour

"To try to avoid the unpleasant consequences of high interest rates without curing the basic causes of the upward pressure on the rates will only lead to a delay in the basic adjustments that are unavoidable Any attempt to depress interest rates by adding more newly created money to the system will be a fraudulent act intended to cover up the real problems of the economy" ■

Inflation first — Stals

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By CIARAN RYAN and ZILLA EFRAT

A LARGE drop in consumer price inflation is needed before interest rates can be cut, says Reserve Bank Governor Chris Stals

He was commenting on the M3 money-supply data released on Friday. They showed an increase of a percentage point to 10,16% between June and July.

Consumer price index figures are due in a few days. They will have to decline from 15,1% to below 14% before the Reserve Bank will contemplate a drop in bank rate.

Growth in M3 — the broadest definition of money supply in the economy — is at the top end of the Reserve Bank's 7% to 10% target.

Dr Stals says he is happy that the increase "is still within the target range".

"There is bound to be some variation in money-supply growth within the target range. That is acceptable."

He says current bank rate of 15% is appropriate and cannot be considered restrictive because it is slightly below the June CPI of 15,1%.

"The fact that the daily balance on our lending book to the commercial banks is between R2-billion and R5-billion (the so-called money-market shortage) indicates that they are happy to lend at this rate."

A few months ago, when the rate was 16%, the money-market shortage was about R1-billion.

Dr Stals brushes off suggestions that Reserve Bank monetary policy is unnecessarily restrictive because of the severity of the recession

He says the rand appreciated by a real 1,6% against a basket of currencies in the 19 months to July, notwithstanding inflation rate differentials between SA and its major trading partners. In nominal terms the rand depreciated by 7,9% against a basket of currencies.

Frankel Max Pollak Vinderine economist Mike Brown says the view coming from the bank is that the figures show a statistical aberration, not a strong resurgence in credit demand. However, the drought may have caused extra demand for credit

THE WEEK AHEAD by Simon Willson

Late inflation data frustrate markets

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Bday 31/8/92

SEPTEMBER begins at midnight tonight, but players in the increasingly frustrated financial markets are still waiting for July's inflation data

Until some exemplary prosecutions are handed out for late submissions to the Central Statistical Service (CSS), it seems haphazard releases of key figures will continue to vex the financial community

The behaviour of the consumer price index (CPI) in August is now of more relevance to rates and prices in the markets than the essentially old-hat July readout which, apparently, may emerge later today Then again, it may not

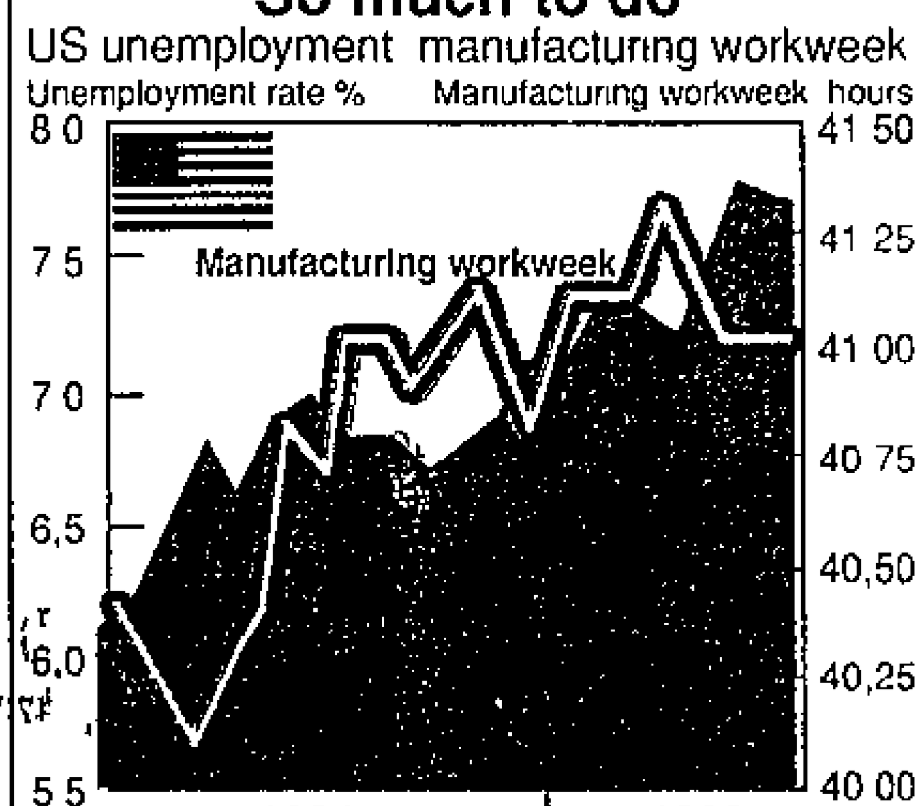
Consumer inflation should have dipped in July from the 15,1% posted in the year to June Non-food inflation was already at a four-year low of 11,5% in June and, with the help of lower mortgage rates in July, should ease further Food inflation, at 29,3% in June was, however, at a fresh 11-year high and, since the drought did not exactly break during July, looks unlikely to slacken

However, housing accounts for 20,5% of the weighting in the 1990-based consumer goods basket, outweighing food's 18,6%, and this should be enough to rein in the rise in the July CPI With the 1985 basket, used in the CPI until August last year, this assumption could not have been made as food, at 22,7%, outweighed housing's 21,2%.

Internationally, a few US economic preliminaries precede the week's major economic release the August US employment report Throughout the double dip US recession, it has been the monthly jobs figures that have finally swayed the Federal Reserve into adjusting rates, and this has raised the profile of the data to its current market bellwether status

First, though, the August index of the National Association of Purchasing Management (NAPM) comes out tomorrow In July the index rose to 54,2% — its fifth consecutive month above the watershed 50 level that marks the transition between a contracting and an expanding manufacturing sector The close match between the NAPM and industrial output makes prospects for tomorrow's figures rather dim. Last week's July durable goods outturn was so dismal at -3,4% that the NAPM seems also set to drop for the same month

The same goes for July US factory orders, out on Wednesday Manufacturing output seems to have gone through a dull phase in July, and June's 2,3% rise in factory orders looks unrepeatable for the following month



Graphic RUBY GAY MARTIN Source BARCLAYS BANK

The August jobs data is published on Friday The chart illustrates a paradox developing in the US employment data that unemployment and the length of the average manufacturing workweek have been rising in tandem since early last year

In other words, it is not necessarily a slump in demand or orders that has maintained the rate of lay-offs from the factories, as those still with jobs are beavering away for almost an hour longer now than they were 16 months ago

Working an average of 41 hours a week, the shopfloor American is hardly short of something to do — indeed, the average manufacturing workweek was often at 41 hours while the US economy was growing at 4,5% in 1988, when unemployment was below 5,5%

So the rise in the workweek back to its full-tilt level around 41 hours means the manufacturing sector will soon have to meet orders by recruiting more workers, and not by coaxing any more production out of the existing payroll

The chart suggests that may start happening this month, which means August US unemployment should ease from July's 7,7% and non-farm payrolls should show another six-digit rise That, in turn, should help shore up the dollar