INFLATION

1996 - 1997
Inflation may dash consumers' hopes

BY AUDREY D'ANGELO

Cape Town — Consumer confidence is high and most South Africans expect their financial position to improve in the coming year, according to the latest consumer and retail survey by the Stellenbosch Bureau for Economic Research released yesterday.

This confidence fueled higher credit spending in the fourth quarter of last year. But economist George Kershoff warned in his report that this confidence could be eroded by an expected rise in inflation. This could be countered by an increase in real wages related to an increase in productivity and tax relief for middle-income earners.

"Although consumers' willingness to buy remains high (as indicated by sustained high levels of consumer confidence), their ability to buy has improved little," he pointed out.

There had been negligible growth in employment and the personal tax burden was higher.

"Although women and unmarried persons received some tax relief in the March 1995 budget, it was to a large extent neutralised by fiscal drag (the phenomenon where after-tax income declines after a wage or salary increase because the taxpayer falls into a higher tax bracket)

"Increased credit spending is unsustainable if the financial position of households does not improve as expected. The present high debt-to-personal-income ratio, high real interest rates and small increases in real personal disposable income could dampen consumer spending," he said.

Kershoff said a survey among retailers, wholesalers and motor dealers was completed on November 27. It showed that confidence had improved significantly. Confidence was at a high level in Gauteng, the Free State, the Northern Province, Mpumalanga, North West and the Northern Cape.

Conditions were expected to improve in the first quarter of this year and "large increases in employment were reported in both the wholesale and retail sectors.

Employment

The rise in employment was due to a large increase in sales, which had grown more than expected. The increase was expected to continue at a lower rate this quarter.

"Sales increased in all provinces. The largest increase was registered in Gauteng, where more than 90 percent of retailers surveyed reported increased sales in the Western Cape and the Northern Cape. A net majority of close to 80 percent reported an increase in the volume of sales," Kershoff said.

He warned that the temporary increase in real personal disposable income in the last quarter of last year was related to the lower level of inflation.

"This increase in income is expected to be temporary as inflation is expected to accelerate in the second half of 1996. The increase in employment reported by retailers and wholesalers could also stimulate spending.

However, it is not clear whether this increase could be sustained," Kershoff said.

"It could reflect the employment of more temporary workers, which, again, is related to higher sales. If the higher sales are not sustained, these temporary jobs could be lost again.

Retail orders were expected to continue to increase in this quarter, which was "good news for manufacturers," he said.

Sales of used cars deteriorated in the fourth quarter of last year. Sales of spare parts improved less than in the third quarter and were expected to remain at the same level in this quarter. New vehicle sales were expected to increase in this quarter.

Dealers in both new and used vehicles considered stocks too high for expected demand. One reason for this was that dealers expected demand to slow down because the banks' prime lending rate was high in real terms.

Regarding inflation, Kershoff said retailers expected the rate of increase in prices to be the same in this quarter as in the last. But retailers expected their costs to be higher, indicating that they expected to absorb some of their cost increases.

Most wholesalers expected price increases to be lower in this quarter.

"Price expectations at the wholesale level are usually good indicators of producer price inflation," Kershoff said.
Producer inflation ticks up slightly

Greta Steyn

PRODUCER inflation ticked up to 8.3% in November from October’s 8.2%, with the strong rand keeping a lid on the increase

The rate of change in the producer price index (PPI) was at the low end of economists’ forecasts and augurs well for a cut in interest rates.

"All the news so far this year has been good," an analyst said Economists were surprised some food prices had fallen, and warned they could catch up in December and January.

Central Statistical Service figures released yesterday showed the PPI rose only 0.3% month on month. An increase in the local component of the index accounted for the rise, as there was no rise in the imported component. Standard Bank’s economics unit said the imported component had benefited from a stronger trade-weighted rand in November, compared with October.

A surprise was the 0.7% month-on-month decline in food prices at agricultural level. The main reason for the fall was an unexpected decline of almost 19% in fruit prices. Food at manufacturing level rose a hefty 1.5% between October and November.

Standard Bank noted the increase in food prices at manufactured level was led by meat, fish and grain products. "It appears as though producer inflation remains fairly subdued." However, seasonal factors and crop damage from storms could push up prices for December and January.

Economists expect producer inflation to average 9.5% for 1995. Expectations are that the current rise will be short-lived, and that producer inflation will follow a trend similar to consumer inflation in the first half of 1996, with an average for the year of 7.5%.
Disappointing CPI frightens investors

By CLAIRE GERHARDT

Johannesburg — Forecasts of a dip in consumer inflation were dashed yesterday as the Central Statistical Service (CSS) reported January’s consumer price index (CPI) unchanged from December at an annual 6.9 percent.

Economists said the “higher than expected” figure was the result of a continued upward trend in food prices as well as higher medical costs. Market expectations were for a 6.6 percent increase.

According to the CSS figures, the monthly CPI grew by 1.3 percent from December to January. Seasonally adjusted, the increase was 0.9 percent.

The figures resulted in foreign investors pulling out of the capital market, with the government’s R150 bond falling eight points to 14,489 percent from 14,400 percent.

The Eskom 168 stood at 14,450 percent, 7.5 points down from a previous 14,380 percent.

The rand also weakened on the inflation figures, touching R3,8050 before finishing more than a cent softer at R3,8325 from a previous R3,8210 close.

Reserve Bank figures — which showed that year-on-year M3 money supply grew 14.8 percent in January from a revised 15.15 percent in December, while private sector credit growth accelerated to 17.71 percent year-on-year from December’s 17.53 percent — were released too late to have an impact on the market.

Commenting on the inflation figures, Johan Rosanow, a Rymaneer Stals economist, said that food price increases were substantially lower at 4.1 percent compared with January’s 17.3 percent, they exceeded the 3.6 percent of December last year.

However, inflation was likely to move to 6.8 percent in February due to an expected drop in the rate of increase of the non-food component of the CPI to about 7.6 percent.

Analysts said flood damage to vegetable crops had contributed to higher food inflation.

The rand’s five percent devaluation against the dollar over the past two weeks would, however, not show up until March data was released. The currency’s move was predicted to have an impact on the imported-goods component of the producer price index, but this would take time to show up in the CPI.

The CPI was also coming off a high year-ago base which meant that, on technical considerations, a further fall in inflation was likely in coming months.

The fact that the government was said to be reconsidering a rise in the VAT rate would also contribute to a lower inflation rate, which could settle close to 6 percent by April/May.

Economists said the overall inflation rate for the year was expected to average under 8 percent.

Major sub-indices which contributed to the rise in the food price index in January were grain products (up 1.5 percent), meat (up 1.9 percent), fruit and nuts (up 5.7 percent) and vegetables (up 4.1 percent).

Medical care and health expenses contributed a further 0.3 percentage points to the overall 1.3 percent rise in the all-items consumer price index.
Lower food prices keep inflation rate below 6%\(^{27}/6/96\)
By Christo Volchenk

Cape Town — Consumer inflation ticked up to 5.9 percent last month from 5.5 percent in April, marking the beginning of what analysts saw as a rising trend — but the rise was smaller than expected.

The small rise surprised economists who were forecasting a jump to 6.3 percent. Nevertheless, they still expect inflation to continue upwards until early next year.

Economists have now started to lower their forecasts for the upper turning point of the new up-cycle after a few better-than-expected inflation figures. Until recently, some were expecting an upper turning point above 10 percent.

Rudolf Gouws, the chief economist at Rand Merchant Bank, now expects inflation to peak at "just over 8 percent at the year-end."

Last month food prices dropped for the second consecutive month and kept the inflation rate from breaking through 6 percent. The prices of meat, fruit, nuts and vegetables dropped.

A month-on-month increase in the consumer price index (CPI) of 0.7 percent resulted in the annual rate, also known as the official inflation rate, rising from 5.5 percent in April to 5.9 percent in April 29 accounted for 0.4 percentage points of the rise and the 14-cent increase in the petrol price accounted for another 0.2 percentage points, the Central Statistical Service said.

"The May figure came as a surprise," said Kevin Leipps, an economist at Nedcor. "The month-on-month rise in the CPI is almost half the 1.2 percent widely expected in the market. We expected the annual figure to clock in at 6.5 percent," said Kevin Leipps, an economist at Nedcor.

Despite the good news, the inflation rate is still expected to spike up this month when the second prime-rate increase and petrol price rise will be reflected.

Langs forecasts the inflation rate will jump to about 7 percent next month, while Gouws forecasts a figure of 6.5 percent.
Productivity rise checks inflation
Mungo Soggot

AN INCREASE in labour productivity neutralised a stiff rate of increase in salaries to help quell overall inflation last year, the Reserve Bank said in its latest quarterly bulletin.

The Bank said a fall in the rate of increase in labour costs per production unit was a crucial factor behind the overall decrease in inflation, which averaged 8.7% for the year, compared with 9.4% in 1994. Inflation had also been nipped by lower food price increases and actual food price decreases. However, the downside of the productivity gain was that it had come on the back of declining employment, particularly in the public sector where 35 000 jobs had been wiped out by provincial governments.

"The upturn in economic activity was accompanied by weak employment growth, largely due to efforts by producers to contain cost increases and raise efficiency," the Bank noted.

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Reserve Bank

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pages had also helped productivity.

It said the rate of increase in unit labour costs had sunk to 6.5% in the first half of last year, compared with 9.1% in 1994. "The slower growth, of course, contributed decisively to the waning of price inflation." The rate of increase in labour productivity in the economy excluding agriculture had been about 2.6% over the same six-month stretch, while real unit labour costs had been 2.1% lower than in the same period the previous year.

However, the Bank noted that in the first six months of last year, there had been an 11.1% increase in salaries and wages - just below the previous year's 15% increase. The Bank said the slight slowdown in wage and salary inflation was entirely due to a fall in the rate of increase of public-sector wages and salaries to 4.5% in the first half of last year, from 14.8% in 1994.

The public sector belt tightening was also the only factor behind the overall fall in employment in the first half of last year.

The Bank said employment in the economy excluding agriculture had declined at seasonally adjusted and annualised rates of 0.6% in the first two quarters of last year, in the last two quarters of 1994 employment had picked up, breaking an uninterrupted fall in employment for almost five years.

The Bank said the sharp decrease in public sector employment last year, particularly in provincial government, was the first time in the States since the end of the recession that the sector had witnessed substantial job cuts, after having increased its ranks steadily while the recession was in full swing.

It said non-agricultural private sector employment had increased between mid-1994 and mid-1995, at quarter-on-quarter seasonally adjusted and annualised rates of between 1% and 1.5%. Over the 12 months to June last year 40 000 employment opportunities had sprung up in the private sector. But over the same period there had been 350 000 newcomers to the ranks of SA's job seekers.
Inflation cools as food prices fall

Mungo Soggot

INFLATION cooled to 6.5% in February from 6.9% in January after a drop in food prices and a widespread slowdown in most other price increases, the Central Statistical Service (CSS) said yesterday.

The figure, lower than expected, sparked a buying spree on the capital market where long bond rates eased 15 points shortly after 11 o'clock.

The rate of government's benchmark R150 bond finished the day at 14.74% from a previous 14.82% after profit-taking.

Most analysts had expected the rate of change in the consumer price index (CPI) to stay at January’s 6.9%, but were caught out by the larger than expected drop in food prices which cut the food component of the CPI by 0.4% month on month.

Economists said the figure augured well for an interest rate cut, although Reserve Bank governor Chris Stals

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CPI (153)

would probably want to see a few more impressive indicators before moving.

BoE NatWest chief economist Nick Barnardt said the figure suggested inflation would soon sink below 6%. “At that level it is very difficult to justify the present level of interest rates”

Standard Bank’s economics unit said inflation could slow to 5.5% in April, before picking up to bring the year’s average to below 7%.

It said although the overall increase was limited by a decline in food prices, other inflation had been subdued. Core inflation—excluding food and housing—was 6.3%, from January’s 6.6%.

However, there were some technical, statistical reasons for the low figure February was a month in which few prices were surveyed and those which were had small weightings in the basket of prices making up the CPI.

Most of the price index showed either month-on-month declines or very small increases. The CSS said there had been month-on-month declines of 0.9% in the prices of both meat and vegetables and a 2.5% drop in the price of fruit and nuts. One economist said the mad cow disease scare would have a trifling effect on inflation, as imported meat accounted for only 11% of SA’s total meat consumption.

Economist economists said the rate of change in the CPI was the least important of four criteria the Reserve Bank was watching to determine its interest rate policy. The more important ones were the level of the forex reserves, foreign interest rates, and the rate of expansion of private sector credit and its effect on M3 “It does not do chances of a rate cut any harm, but it is not enough on its own”
Food prices combat producer inflation

Lukanyo Mnyanda

A DROP in food prices pushed producer inflation below market expectations to 6.3% in February — its lowest figure since April 1994 — compared to 7.2% in January, figures from the Central Statistical Service showed yesterday.

Economists welcomed the figure which they attributed mostly to a post-Christmas easing off in food prices. They said a drop in interest rates might be on the cards, provided that currency markets stabilised.

The figures had been compiled before the start of the rand's downward spiral in mid-February and the currency's stability until then had contributed to lower producer inflation figures.

Some believed that the currency collapse would start showing up in the March figure which they expected to be about 7%. Also adding to upward pressure in future would be recent petrol price hikes.

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The local component of the PPI also rose 0.4% to bring the annual rate of change to 6.7%.

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Food

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following a 3.5% drop in January

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Nedcor chief economist Dennis Dykes said the rand’s collapse would come into the equation during the next few months, but its effects would be offset by the phasing out of tariff reform.
Rand's plunge poised to put squeeze on inflation

Weaker local currency means more revenue from gold and other exports, but this is likely to be outweighed by price hikes

By Miranda Whitfield

Pockets of hope created by the plummeting rand—including higher prices for metals and better business for exporters—are likely to be short-lived, as our flailing currency puts the squeeze on inflation.

It seems to be a case of what you win on the swings you lose on the roundabout, as any gain is set to be neutralised by rising costs that feed through to production.

Gold, long SA's economic mainstay, will earn more rands per kilogram, but a much-needed shot-in-the-arm for the gold industry is unlikely to be forthcoming.

"The current situation is good news for gold receipts, but comes hand in hand with inflationary consequences which one does not welcome," said Kelvin Williams, marketing director of Anglo America's gold and uranium division.

"Prices are going to increase because our currency has collapsed.

Williams said that while a powerful dollar would change equations at mine level, so many of Anglo's shafts were near the end of their reserves that any boost as far as the creation of new jobs was concerned was unlikely.

The rand recovered slightly to touch R4.200 yesterday after hitting a record low of R4.25 on Monday. But SA Chamber of Business chief economist Dr Ben van Rensburg said the rand was likely to settle "much lower than it is now".

"There will be some benefits for exporters and local manufacturers, but whether protection will be long term remains to be seen.

"There will be inflationary pressures which will result from the higher price of the dollar. And we are not just talking about the one-off price of imported items, but to what extent business will pass on cost increases to the consumer."

And South African tourists, already reeling from the puny payouts when changing rands to foreign currencies and the hikes in ticket prices, will have to fork out about 20% more for a package tour.

On top of that, tour operators add a couple of percentage points to currency rates. Thompsons Tours, for example, was yesterday selling tours based on a rate of R4.40 to the dollar and R6.65 to the pound.

"Rates change from day to day and each tour operator will have their own rates," said Thompsons financial director Andre Kruger.
Inflation seen at about 8.5%\(^{153}\)

Adriene Gillié

THE rand’s fall from grace could lift consumer price inflation two percentage points to around 8.5% by the end of the year, Old Mutual and Nedcor warned yesterday.

Old Mutual chief economist Dave Mohr said the rand’s fall would restrain spending growth, as prices of some key imported goods would inevitably rise. “This will effectively cut the real spending power of the average pay packet.”

Nedcor’s monthly economic review said most of the rand’s depreciation would be felt in the short term.

Import prices, and hence inflationary expectations, will rise quickly, which, combined with falling reserves, will reduce the chances of any easing in monetary policy.

Nedcor expected the rand to level out at R4.16/dollar in the third and fourth quarters of the year, but to depreciate to R4.24 and R4.28 during the first two quarters of next year.

“Of critical importance is that the country remains dependent on large capital inflows to help fund necessary economic restructuring over the next few years.

“It is therefore crucial that foreign confidence is restored quickly,” the review said.

Mohr said a cut in interest rates would only be possible once the rand stabilised in a trading range and inflation did not become uncontrollable.

“As long as credit demand continues to grow rapidly, the budget deficit remains large, and the rand remains under pressure, the Reserve Bank will probably have to postpone its plans for a first Bank rate cut.”

But a hike in rates was unlikely, provided inflation was kept under control and because certain sectors in the economy were already slowing down.

Nedcor said it expected the prime rate to remain at 18.5% throughout the year, with a rate cut in the first quarter of next year to 17.5%.

It saw the inflation rate at 9% in 1997, while the long-bond rate would stabilise around 13.5%.
Dispute over drop in producer inflation

Lukano Mnyanda

20/11/96

A S.HARP fall in imported crude oil prices helped push producer inflation well below market expectations to 5.0% in March compared with 6.3% in February, figures from the Central Statistical Service showed yesterday.

Some economists — who expected a figure closer to 7% — welcomed the drop, while Transnet’s Mike Schussler questioned its validity and warned that policy decisions could be based on inaccurate figures.

Statistics for March showed the import component of the producer price index (PPI) fell 0.5% to an annual rate of change of 3.5% in April 1994, against 4.6% in January. The CS&S attributed the fall mainly to a 9.9% month-on-month decrease in the price of crude petroleum.

Schussler disputed these figures, saying the rand price of crude oil had

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PPI

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increased 19% between February and March. “A total difference of nearly 80% on this important part of the PPI will reflect a totally different picture. They could be off the mark by as much as 1% to 2% (in producer inflation) and that could have major implications for the rand.”

However, Standard Bank’s economists said the surprising drop in crude oil prices might have been caused by sales having been concluded on a fixed-price basis — before the CS&S currency fall and the fuel price hike. A CS&S spokesman said the figures had been compiled before the currency tumbled in April and did not reflect the change in the currency market. Recent fuel price rises were also not reflected in the PPI, which she expected to start rising in April.

The CS&S figures showed the total component of the PPI decreased 0.1% month-on-month to reach a year-on-year rate of 6.0% (6.0%). Economists were surprised by the fall in the primary sector, with food prices down 2.9% month-on-month while mining fell 5.1%.
THIRTY-FIVE prison warders who staged a month-long strike at Upington Prison in the Northern Cape have been fired, the Department of Correctional Services said yesterday.

"The dismissal of the black warders can at best be described as an act of naked racism," the Police and Prisons Civil Rights Union (Popcrus) said following the sackings on Tuesday.

The warders went on strike on April 15 to support demands for affirmative action. They wanted 30 percent of the administrative posts to be reserved for Popcrus members.

The department said in a statement that warders were fired "as a result of illegal strike actions and criminal offence."

Northern Cape Correctional Services spokesman Mr G Britnell said the action had been taken after negotiations failed to resolve the situation.

He said the strikers ignored a court order to return to work and an ultimatum from the department.

"After careful consideration and evaluation of the reasons and all relevant facts, it was concluded that 35 staff members did not present sufficient reasons for their actions and they were discharged with immediate effect," Britnell said.

The Northern Cape Popcrus branch accused the authorities of racism and standing in the path of change.

"The Popcrus action was aimed at the transformation of the correctional facility which is still dominated by white people," provincial spokesman Mr RF Waldick said in a statement yesterday.

"Popcrus sees the current action of the prison authorities, especially at provincial level, as an effort to obstruct the change and therefore calls for the immediate and unconditional reinstatement of the 35 warders."

Waldick called on Northern Cape Premier Mr Mannie Dixon and Correctional Services Minister Spho Namela to intervene - Sapa.
Bara's 'go-slow' workers warned

BY STAFF REPORTER

Protesting laundry workers at Baragwanath have been warned to return to work today, or be issued with warning notices, the first step in disciplinary action which could lead to dismissal.

The 150 National Education Health and Allied Workers' Union (Nehawu) members have been on an illegal go-slow since last week.

They have said it is caused by unresolved disputes around the filling of posts at the hospital.

Health department spokesman Popo Maja said yesterday the workers had been told to return to work following a meeting with health officials last Friday.

He said if they did not return to work, they would be issued with notices demanding that they supply reasons for not returning to work.

If they did not supply good reasons, they would be dismissed, Maja said.

He said that the health department had agreed to look into their grievances at Friday's meeting.

However, Maja warned that they would not countenance the illegal go-slow.

The department would take action against those workers who had intimidated three colleagues to such an extent the hospital had been forced to redeploy them.

Yesterday, the Baragwanath Hospital was still only accepting emergency patients after freezing the admission of non-emergency patients on Friday.

A hospital spokesman, Hester Vonster, said that 80 workers had been working around the clock to try to cut the backlog of linen.

She did not know how successful the workers had been.

About 30 000 items, including bed linen and pyjamas, are usually washed every day, the spokesman said.

Nehawu was not available for comment on whether the workers would be returning to work today.
CPI falls to a 24-year low of 5.5%

By Christiaan Volckeringh

Cape Town — Falling food prices pulled annual consumer inflation to a 24-year low of 5.5 percent last month, but economists expect this to be the last drop for many months.

At the same time, South Africa's real interest rate jumped to an all-time high of 14.75 percent.

The sharp drop in inflation from 6.3 percent the month before surprised economists, who expected a more modest drop after the petrol price rose 8% a litre last month.

The Central Statistical Service ascribed the drop to lower prices for fish, fruit, vegetables, and other food items. The food price index has the second-highest weighting in the consumer price index (CPI).

The core inflation rate, which excludes food and housing, was 5.9 percent. Economists who had expected last month's inflation rate to be about 7 percent, said yesterday the good figure would pull the average inflation rate for the year down and keep it below double-digits.

The economic unit of Standard Bank said the 0.6 percent month-on-month increase in the CPI was "roughly half the figure the market expected".

"Since April is a seasonally high month and the increased excise duties and increase in the petrol price was measured, the drop indicates the underlying inflation continues to be subdued," the bank said.

It said inflation could average below 8 percent this year and there was very little chance of it reaching double figures.

The drop is expected to be the last in many months, however. Economists expect the inflation rate to reach 6.5 percent this month.

"From April's figure, inflation will rise slowly towards the end of the year. Fortunately, the very low figure for April will keep inflation from pumping back into double-digits this year. My highest inflation figure between now and the year-end is 9.8 percent," she said.

Some economists, however, doubted the lower excise duty was fully reflected in the figures.

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Inflation plunjes

to a 24-year low

Grota Steyn

INFLATION plunged to 5.5% in April from 6.3% in March, surprising the markets and raising hopes that SA would be able to avert double-digit inflation despite the rand’s meltdown.

The Central Statistical Service said inflation was at its lowest level since June 1972, with the consumer price index (CPI), calculated on a basket of goods, up only 0.6% month on month.

Economists had expected a decline in inflation as the CPI was calculated off a high base, but were surprised by the extent of the fall. A marginal fall in food prices told only part of the story. They agreed that inflationary forces were generally well under control.

"The rand’s depreciation occurred in a disinflationary environment," Sandlam economist Pieter Calitz said.

Standard Bank’s economics division said: "The current environment of increased domestic competitiveness, tight monetary policy and a softening

of demand should prevent price increases from being passed on to consumer goods easily."

The relatively small monthly-on-month rise occurred despite increases

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Inflation

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in the petrol price and excise duties, and the rand’s depreciation

Economists again had to revise their estimates for the year, which had been pushed to double digits by year-end after the rand crisis. Standard Bank said the risk of inflation reaching double digits again had lessened. Sandlam agreed inflation should average less than 8%, but Mathison & Holldge’s Liz Farquharson saw a range of 8% to 6.5%, "depending on when the prime rate increases is reversed."

An interest rate increase adds about 0.4 percentage points to the inflation rate via mortgage costs. Ironically, interest rate increases are usually intended to quell inflation by putting a damper on spending. Inflation peaked at 11% in April last year and has been on a declining trend since. However, economists expect it to resume an upward trend this month, partly because increases in CPI in the second half will be calculated off a low base

One economist was sceptical about the accuracy of the figures, finding the small increase in transport costs after the fuel price rise surprising. Transport contributed 0.1 percentage points to the 0.6% month-on-month rise. She also questioned whether the postal tariff increase was included in the basket.
Hard times ahead after lowest inflation rate in 24 years - warning

Staff Reporters

Consumer price inflation for April was at a 24-year low of 5.5% - but economists have warned of hard times ahead.

The drop from 6.3% in March, as reported by the Central Statistical Service, is the lowest since June 1972.

But economists say consumers can expect to suffer increasing inflation rates - the immediate effect of higher interest rates coupled with a weak rand.

Nedcor Chief Economist Dennis Dykes said inflation figures for May were expected to jump back to between 6% and 6.5%, based on petrol price increases, the increase in mortgage bond rates and the weakness of the rand.

He foresaw inflation continuing to rise to around 10% by yearend, but dropping next year.

Standard Bank Group economist Nico Cypionka said April's drop was below market expectations, and he predicted a peak of 9.5% later this year. But this year's expected consumer inflation average of 8% would still be lower than last year's 8.7%, he said.

Dykes said the effect of the rand's decline in February had been delayed, allowing the current drop in inflation, but as the increase in import prices was felt, inflation would creep up.

A decline in food prices, especially fish, fruit and vegetables, had an impact on April's figures.
Financial climate is looking rosy as inflation and some bond rates come down and fuel prices set to follow

BY SHIRLEY WOODGATE AND PATRICK PHOSA

Cash-strapped consumers who have been feeling the pinch of high mortgage rates and rising prices may at last be seeing a glimmer of light at the end of the economic tunnel.

Good news for the consumer were inflation figures released yesterday, a likely drop in the price of petrol and diesel, and the move by another major financial institution to lower its capped mortgage rates.

The positive indicators coincided with Finance Minister Trevor Manuel's announcement on his return from London yesterday that registered taxpayers would be allowed to take R200 000 out of the country for investment purposes. This once-off concession is in addition to the annual R80 000 holiday allowance. His announcement is a major step towards relaxing exchange controls.

On the inflation front, figures released by the Central Statistical Service yesterday show inflation staying below double digits and coming in at 9.5%, down from April's almost two-year high of 9.9%. Inflation fell in spite of a relatively sharp hike in food prices, largely due to higher production costs. Petrol, eggs, cheese, vegetables and sugar.

The inflation figure augurs well for the widely expected cut in the prime interest rate later this year. Homeowners have been struggling with high rates for about a year following two successive increases early last year in response to the weakening rand.

On the mortgage front, Absa became the second banking group to reduce its fixed mortgage rate on bonds exceeding R100,000. The bank said it was doing so in anticipation of a short-to-medium-term reduction in interest rates. Its fixed rate will drop from 19% to 18.5% over a 12-month period and from 18.5% to 18.25% over a 24-month period. A new 18-month fixed-term rate will be available at 17.9%, which is 2.4% lower than the prevailing rate.

Property economists said only a small portion of the banks' home loans business was conducted on a capped basis, but the fact that bonds were prepared to offer a fixed rate lower than the current rate indicated an imminent downward shift.

Property economist Erwin Rode said the fixed-rate decrease "precedes an expected drop in the interest-rate cycle, which is now assumed to be at its peak".

More immediately, the price of petrol is expected to drop by 3c a litre on Tuesday. Diesel is expected to drop by 4c.

> More reports
   Business Report
Inflation jumps 1% after bond rate rise

Figure 26/7/96 (153)

Business Editor

Food prices fell again in June, but the rise in mortgage bond rates at the end of May sent housing costs shooting up, according to the latest inflation figures.

Figures released by Central Statistical Service show the inflation rate jumped to 6.3 percent over the year to June, compared to 5.9 percent in May.

The acceleration was mainly due to higher housing costs, up 2.4 percent over the month and 13.7 percent over the year. Housing costs account for one-fifth of the average household budget.

Higher petrol prices also kicked in last month. The cost of running a car has risen 13.5 percent since June last year.

But food prices fell 0.3 percent in June, with prices of fruit and nuts, coffee, tea, vegetables and meat all lower than in May.
Some SADC states 'hurt by inflation'

From Reuters

Maseru -- Most southern African economies are well managed but high inflation still hampers economic recovery in parts of the region, the Southern African Development Community (SADC) said yesterday.

Ministers of the 12-nation group were meeting in Maseru this week to assess progress made in the past year before a SADC summit of regional leaders tomorrow.

The SADC's council of ministers said yesterday that it was satisfied that progress had been made during the past year in implementing the body's policies and programmes.

"Council noted that on the whole, the economies of the region are well managed with structural adjustment programmes achieving some of the intended goals," the ministers said.

However, the council said, inflationary pressure continued to undermine the economic recovery in some member states.

SADC groups Mauritius, Angola, Lesotho, Swaziland, Zambia, Zimbabwe, Namibia, Mozambique, Tanzania, Malawi, Botswana and South Africa.

The ministers said that expenditure in the region had fallen in the past five years as a result of stringent fiscal discipline.
Soaring food prices raise inflation to 8.4%
Gloom as inflation leaps ahead to 9.1%  
CT(BR) 21/11/96
CHRISTO VOSSENBURG
Cape Town — The spectre of double-digit inflation in the near future loomed large yesterday, when the Central Statistical Service announced that inflation jumped from 8.4 percent in September to 9.1 percent in October — the highest level since last June. Although there was a mixed verdict on the prospect of double-digit inflation, most economists said inflation would flirt with the 10 percent level within months. Rates on the capital market then rose more than 20 basis points.

By late yesterday the key R150 long bond was trading at 16.00 percent after starting the day at 15.77 percent.

Analysts had expected inflation to rise to just below 9 percent. The worse-than-expected figure caused most to revise upwards their forecasts for future inflation. Food prices were again the main culprits in October. After jumping from 7.9 percent in August to 10.4 percent in September, food inflation rose to 12.4 percent last month.

The big rise baffled some analysts. "Seasonal factors must be at play. That is the only explanation I can give," said Pieter Calitz, a senior economist at Sanlam. Vegetable prices jumped 11 percent from September to October for an annual rise of 35 percent. The official food inflation of 12.4 percent is a national average of cosmopolitan areas. In the coastal cities of Cape Town, Port Elizabeth and Durban, food inflation has long hovered above 10 percent.

Last month the highest food inflation was measured in Potchefstroom, with prices 14.4 percent higher than a year ago.

But most economists are still forecasting inflation to peak below double digits. Standard Bank's economics division expects inflation to peak at 8.5 percent this month and fluctuate between 8.9 percent and 9.4 percent in the next six months.

Johan Rossouw, a senior economist at Huyssen & Stals, expected inflation to rise to 9.8 percent this month, but said it would stay below 10 percent next month.

□ Business Watch, Page 18
WEIGHTING THE CONSUMER BASKET

CAPTURING THE NEW SA

The new inflation weighting structure — the consumer basket — to be introduced next year by Central Statistical Service could differ vastly from the existing one.

The basket reflects the spending patterns of the average household and surveys to update it were made in 1985, 1978, 1970 and 1958. But, this time, the new basket will not only capture changes in consumer behaviour if funding is available, it will include spending patterns in rural areas not previously monitored.

For the sake of continuity and comparability, over the next year, the weighted average for the selected metropolitan areas — now used for determining the “headline” annual inflation rate — will be retained.

This could have a significant impact. According to the October 1995 household survey, half of all people live in rural areas.

Says Old Mutual economist Johann Els: “The inclusion of new areas in the calculation means lower income groups will be a bigger determining factor for an eventual composite inflation rate.”

This is especially the case with food which “already has a large weighting (18.6%) in the overall inflation rate. And it is one of the more volatile components. This makes for the possibility of a more volatile inflation rate in future.”

Some of the shifts that occurred between 1958 and 1990 include increased expenditure on services from 32.4% to 42.1%, a drop in food expenditure from 28.2% to 18.6%, increased spending on housing (16.7% to 20.5%) and transport (11.2% to 14.4%) and the reduction in

spending on clothing & footwear from 12.4% to 7%.

The 1995 October Household Survey’s income disclosure has been used to verify expenditure on goods and services (and therefore the basket) if the funding is available, field workers will be sent to small towns, rural areas and informal settlements to monitor prices.

At a recent conference, CSS head Mark Orkin said the field workers will eventually monitor the informal sector more closely. They will also assist in the proposed quarterly labour surveys of households in an attempt to get more accurate figures on unemployment.”

Mark Orkin

...
INFLATION

1997
Johannesburg — Average consumer price inflation fell to a 24-year low of 7.4 percent last year, despite rising to 9.4 percent last month, the Central Statistical Service (CSS) said yesterday.

This is the lowest average yearly inflation figure since 1972, when average inflation was 6.1 percent.

The higher bond rate pushed the CPI up 0.4 percent and the petrol price rise added another 0.2 percent.

The capital market shrugged off the good news yesterday with rates showing little movement just before and after the inflation figures were released. The yield on the R150 bond had risen to 15.410 percent by late yesterday from 15.385 percent on Monday.

In the past, food prices have pushed up inflation over the festive season, but last month food prices unexpectedly acted as a drag on inflation when food inflation dropped from 11.6 percent in November to 9.9 percent in December.

Lower food inflation pulled last year's average food inflation down to 6.1 percent — this was the lowest average since 1971 when the rate was 3.9 percent, the CSS said.

The subdued rise in December fuelled optimism among analysts about the near-term direction of inflation, with most now forecasting inflation to peak below 10 percent.

Standard Bank’s economist predicted inflation to stay between 9 percent and 10 percent in the first half of this year and then to drop, bringing the yearly average to 8.7 percent.

Henry Flint, an economist at stockbrokerage Mathison & Hollidge, said: “If inflation breaks into double figures, it will not move much above 10 percent and also not stay there for long.”

Dave Mohr, the chief economist at Old Mutual, expected inflation to be firmly on a downward trend by the second half of this year.

Carole Mason, the group economist at Investec, forecast an average inflation rate of 8.5 percent this year.
The costly Mother City - inflation near highest in SA

Latest official inflation figures confirm what most Capetonians have long suspected - inflation is higher in Cape Town than almost anywhere else.

Prices are rising faster in Cape Town than any other urban area except Durban, and much faster than the national average, says the Central Statistical Service.

Between December 1995 and December 1996 prices of all the items monitored by the service rose by 10.3 percent in Cape Town compared with 9.4 percent in the country as a whole. Only in the Durban-Pinetown area, which showed an inflation rate of 10.4 percent, are prices rising faster.

The service monitors the prices of a wide range of goods and services in 14 urban areas to arrive at a national level for the consumer price index, the official measure of inflation.

More than 500 items are priced each month, from turnips to toothpaste, mealie meal to medical aid payments, chutney to dry cleaning, house rentals, the interest on home loans, furniture, clothing of all sorts, car prices and parking charges, bus, train and air tickets - and even funeral expenses.

For several months Cape Town has been at or near the top of the inflation league. Cape Chamber of Commerce and Industry director Colin Booyes said the higher inflation rate was no surprise.

"Cape Town is more and more attractive to people from other parts of the country," he said.

"Higher demand from the huge influx of tourists and others coming to Cape Town has spurred higher prices. But I hope we will get on top of this inflation," Boland Bank economist Francois Jansen said a scarcity of properties to let in the city could be pushing up rents, contributing to higher inflation. But on the whole, the figures baffled economists.

"It's not as if we are way off the delivery routes for goods," said Mr Jansen. "It's hard to see why prices should be rising faster here."
Cape Town inflation still higher than other SA cities

Inflation in Cape Town is still outrunning the national average, Central Statistical Service figures for March show.

For the country as a whole, the year-on-year change in the consumer price index dropped in March to 8.6 percent from 8.8 percent in February.

But in the Cape Peninsula, inflation is running at 9.9 percent.

Of the major cities, only Bloemfontein and Durban show higher inflation rates than Cape Town.

But on the food price front, the Cape Peninsula scores better, with food price inflation running at 9.5 percent a year in March compared to the national average of 9.3 percent.

Except for the Witwatersrand, where food inflation is running at a comparatively low 8.3 percent, all the big South African cities showed faster food inflation than Cape Town.

In Port Elizabeth, food prices shot up 11.7 percent, in East London by 11.6 percent, by 11.2 percent in Bloemfontein and a staggering 13.3 percent in Durban.

In the country as a whole, consumers benefited from a drop in meat prices, down 0.4 percent from February to March, while prices of milk, cheese and eggs, fats and oils, fruit and nuts and vegetables all rose between 1 percent and 1.8 percent over the month.

Once again, prices rose faster in chain stores than in smaller retail outlets.

Food prices in chain stores were up 8.8 percent over the year and in other shops 8.1 percent.

The consumer price index for March was also kicked upwards by a 9.6 percent hike in the costs of education, as the Central Statistical Service included new figures for school and university fees after its annual survey.

Next month's figures will include higher prices for water in some urban areas, higher toll fees and increases in the prices of medicines, newspapers and magazines, and homeowners' insurance, the Central Statistical Service said.
Expert claims SA's stable experience is unique in modern economic history

South Africa’s experience of inflation was unique because never before has a country had inflation between 10 percent and 20 percent a year for 25 years without it either going down or increasing into hyperinflation. Phillip Mohr, of the economics department at Unisa, said yesterday.

Mohr told a Unisa forum meeting that in this instance South Africa had done well because it had been able to maintain its high inflation from about 1975 onwards. During this stage it had the most stable inflation rate in the world. He said inflation was preferable to the deflation experienced during the great depression in the late 1920s, but the fiscal situation was precarious.

He said the reduction in South Africa’s inflation rate to 7.7 percent last year was brought about by a greater degree of economic discipline than in previous years. — Ray Colman, Pretoria
Inflation drops to nine-month low

Belinda Beresford

CONFUSION about the timing of a possible interest rate cut was heightened yesterday after the consumer price index (CPI) for June fell 0.7 percentage points to 8.8% while the trade figures for the month surged to a surplus of R4,15bn.
The CPI figure was the lowest for nine months and below general expectations among economists of about 9.1%. The seasonally adjusted index rose 0.5% month on month.
However, the gloss was taken off the trade statistics by an addendum from the SA revenue service that the import figure would have to be adjusted upwards by about R1bn. This was due to crude oil consignments which had not been cleared in time for the release of figures. The correction will be given with the July figures.
The Central Statistical Service (CSS) figures show the core inflation rate was 8.8% for June against May's 9.5%. The monthly increase in the core inflation index was 0.3%.

Inflation
Continued from Page 153

However, a "very big surprise" had been that precious metal exports had been R2bn higher than usual. This indicated there may have been an adjustment to the figures for the category. If this extra R2bn was deducted from the export total, and the R1bn added to the import total, the trade surplus was only about R1bn - roughly in line with expectations, he said.
The official inflation rate rose 0.3% month on month. Of this, 0.1% of a percentage point was attributed respectively to food, housing and equipment. "Other" items also contributed 0.1%, while transport subtracted 0.1%.
The CSS data shows food inflation rose to 12.8% - the highest since May 1995 when it was 13.8%. The month-on-month increase in the food component was 1.1%. Nonfood items showed a month-on-month increase of 0.2%.

Schusssler said the lower-than-expected CPI figure could indicate a rapid slowdown in the rate of inflation over the next few months. "An interest rate cut is now long overdue, the economy has slowed down. We cannot afford to look at just one set of figures, but should look at the overall picture."
"What is more important - the price of the food on the table or whether people have food on the table?"
The Standard Bank economics division said the June inflation rate showed the downward trend was "firmly established and a rate of about 7% by the end of the year is a distinct possibility". The annual inflation rate was likely to be below 9%.
The bank said the jump in the trade surplus for June was not surprising "due to the erratic nature of SA's trade figures".
The R3.2bn rise in precious metals and metal exports was probably mainly driven by diamond sales.

Comment: Page 15
Producer inflation at lowest rate in a year

Helmo Preuks (153)

YEAR-on-year producer inflation was 6.9% in July, its lowest rate in a year and a substantial drop from June's 7.5% figure.

Economists welcomed the lower than expected figure after predicting a consensus rate of 7.3%, and the bond market initially strengthened to a 14.68% yield on the R150 government gilt from 14.115% before the figure was released. However, a weaker rand saw bonds give up their gains.

"This is a good figure and I expect the year-end rate to come in below 6%," RMB economist Rudolf Gouws said if the average monthly increase since February of 0.3% was projected forward, a rate of 4.2% would be reached by December. However, he expected the decline in oil prices to end soon, which would lift the monthly increases for the remainder of the year.

EW Balderson economist Mike Schuissler was equally upbeat. "It is not often that we beat the Germans in the inflation stakes, so I must really crow in inflation terms it is like winning the World Cup."

He said the annual inflation rate for imports was 3.9%, whereas German import prices rose 4.2%. "My worry is what the relatively low depreciation of the rand is doing to our export competitiveness as I doubt that most of our exporters secured 12-month forward rates of R5 a dollar and above when they were available at the end of last year and the beginning of this year."

Huysam Ds Slans economist Johan Rouxelou predicted a 6.5% rate in August, with a year-end rate near 6%. "I think this low figure will feed through into consumer inflation with a one- or two-month lag, so I will be lowering my consumer inflation forecast," he said.

The annual rate of increase in the producer price index for locally produced commodities was 7.5% from 8.5%, while for imported goods it was 3.9% (4.1%), the lowest since April last year, when it was 3.2%.

Overall, the Central Statistical Service said, there was a 0.18% monthly increase, with the biggest individual contributor being electricity (0.15%) and gas and water (0.10%).

The seasonally adjusted quarter-on-quarter annualised rate continued its recent decline, with the overall rate at 2.4% from 2.7% in June and 12.7% in December last year. The imported component appeared to be slowing in the recent oil price reductions, with economists saying these were close to an end. The rate was a decline of 7.1% compared with a 10.7% decline in June and an 18.1% increase in December.

The rate for SA-produced goods, 80.74% of the index, was 5.0% in July from 6.3% in June and 11.4% in December. — I-Net.
SA inflation rate goes down

By Business Reporter

LOWER food prices pulled South Africa's official inflation rate down by 0.4 percent in August, Central Statistical Service figures released yesterday indicated.

The CSS said the consumer price index (CPI) dropped to 8.7 percent from July's disappointing 9.1 percent.

The monthly and seasonally adjusted increases were measured at 0.2 percent.

However, the core inflation rate, which excluded volatile commodities such as frozen foods and vegetables, and mortgage rates, rose by 0.1 percent to 8.8 percent.

Food inflation declined by an annualised two percent to 10 percent, while the monthly index fell by 0.1 percent. The fall in the monthly food CPI was attributed to lower meat prices (-0.5 percent), fats and oils (-0.2 percent), and vegetables (-1.2 percent).

The monthly increase for all items excluding food was 0.3 percent, largely due to higher prices for non-alcoholic beverages (0.1 percent), alcoholic beverages (0.3 percent), cigarettes, cigars and tobacco (0.9 percent), and fuel and power (1.1 percent).

Kimberley recorded the highest area inflation rate of 10.3 percent.
No end to Cape Town's growing inflation spiral

Food price rise beats national average

By IDE DABSONS
BUSINESS EDITOR

Prices in Cape Town are still rising faster than in most other South African cities, official figures show.

Consumer price index data issued yesterday by the Central Statistical Service (CSS), in Pretoria, show that the inflation rate in Cape Town over the year to August was 9.1% compared with the national average of 8.7%.

In the inflation stakes only Kimberley and East London did worse than Cape Town, with prices in Kimberley rising 10% over the year and in East London 10.5%.

Food prices in Cape Town rose 10.7% over the year, compared to the national average of 10%.

The figures do not show whether or not living in Cape Town is more expensive than in other cities. But they do show a higher inflation rate in the Peninsula.

The national inflation figure of 8.7% is in line with predictions by economists who had been expecting the inflation rate to dip again after rising to 9.1% last July.

Food prices for the country as a whole fell in August, the figures show, with meat prices down 0.5%, prices of fats and oils down 0.2% and prices of vegetables down 1.2% over the month.

But these declines were partly offset by:

Food prices rising faster in the big chain stores than in smaller outlets, latest CSS figures show.

Food prices for grain products, milk, cheese and eggs, fruit and nuts, sugar, and coffee, tea and cocoa.

The lower food prices mostly benefited households in the middle to high income groups.

For households in the very low and low income groups, who spend more on grain products and less on meat, for example, average food prices rose over the month.

The very low expenditure group is defined by the CSS as households which spend less than R6 340 a year; the low expenditure group spends between R6 341 and R11 590 a year; the middle group between R11 591 and R21 905; the high expenditure group between R21 906 and R49 498 and the very high expenditure group spends more than R49 499 a year.

Once again, food prices are rising faster in the big chain stores than in smaller outlets.

The CSS figures show that food prices in chain stores rose 10.8% over the year to August while smaller outlets held down the increase in food prices to 7.7%.

Prices of non-food items rose 8.4% over the year, with increases in the prices of drinks, cigarettes, clothing and footwear, fuel and power, housing and transport in August.
Inflation fingered to take the fall

Reserve Bank Governor Chris Stals's move to cut Bank rate by a percentage point is taken as a strong signal that he is confident SA has moved into a lower inflationary environment.

But given his preoccupation with bringing consumer inflation down in line with SA's main trading partners (about 2.5%), is Stals confident that his decision heralds a trend that will move the country towards the low-inflation economy he wants?

Low inflation can broadly be seen as falling below 5% and staying there SA's consumer inflation during the past 18 months touched 5.6% but headed straight back towards the 10% level again.

Stals's priority will surely be to see inflation settle into a stable and sustainable band as this will temper inflationary expectations and suggest to labour and consumers that inflation in the future will be close to 5%.

Economists are divided on whether the economy will attract the low inflation badge. Broadly, there are those who are confident that inflation will break below the 5% level and remain there as long as El Niño doesn't play havoc with food prices.

Economists are divided on whether the economy will attract the low inflation badge. Broadly, there are those who are confident that inflation will break below the 5% level and remain there as long as El Niño doesn't play havoc with food prices. On the other hand, there are those who expect inflation to move within a band of about 6%-8.5% for the next year or so.

Underlying trends in demand for consumer credit show that monetary policy has been more successful in dampening excessive demand than was generally assumed. Latest private-sector credit extension figures, smoothed by annualising and seasonally adjusting the monthly figures on a three-month basis, show a significant slowdown in credit extension. Whereas growth was around 20% earlier this year, the figure dropped to just above 6% in August.

Stals relies on a quarterly version of the figure because he is wary of monthly fluctuations. But he has set an informal 12% guideline for M3 money growth in place of the more rigid 6%-10% guideline that has not been met in years.

Among the financial institutions that have taken a bullish view of inflation are Chase Manhattan, ABN Amro, Merrill Lynch Smith Borkum and Old Mutual.

Chase Manhattan emerging markets head Nick Griffiths sees consumer inflation at below 5% by the end of next year. Merrill Lynch Smith Borkum chief economist Jos Gerson forecasts that by mid-1999, the inflation rate could be as low as 3%-4%. He stresses that a speculative attack on the rand would undermine this possibility.

ABN Amro economist Anastasia Gekus positions inflation at 4.5% by the end of next year. But she qualifies this with the possible impact of El Niño on food prices and says this could push inflation up towards the end of the year.

"If the environment stays as it is now, then inflation will stay below 5% from then on," she reckons. Gekus expects two percentage point cuts next year but notes that SA will have to move towards international norms if inflation does settle under 5% because "a 14% base rate would still be high in a low-inflation environment."

Old Mutual economist Johan Eils also foresees inflation dropping below 5% and staying there if fiscal policy is tightened and monetary policy remains restrictive. But he adds that the effects of El Niño will have to be taken into account.

The economists who believe that inflation will settle in a band above 5% are by far in the majority. They cite the still relatively high wage settlements as a primary reason for consumer inflation to stick in this range. The effects of El Niño — difficult to quantify — promise to be another wildcard in the inflationary pack.

DMG economist Gordon Smith sees consumer inflation moving into a "lower inflationary environment" but cautions that calling a rate under 5% "is very risky."

Smith argues that wage settlements are the best indicator of future inflation. "We need to see wage settlements moderate to between 6% and 7% before 5% inflation will be reached," he stresses. "They are now between 9% and 10%."

He would like to see SA get to a stage where the central bank, government and labour support each other on meeting an inflation target, as is the case in New Zealand. "It has taken a long time to develop in Latin America," adds Smith, "but eventually expectations must reflect wage settlements."

On the El Niño inflationary factor, Smith is "skeptical", on its likely impact on food prices. "Our studies show that there will be some food price pressures but these may not be as much as in previous El Niño periods."

Smith expects inflation to fall to a low of 6% next year but to tick up again to 7% by the end of 1998 because it will come off a lower base, set this year. "This still represents a major success and the outlook will get more bullish if wage settlements fall I think they will fall, but am not sure how quickly."

SBC Warburg equity director Tim Hacker expects consumer inflation to fall to 7% by the end of this year and to end 1998 on the same note, with an average for next year of 7.5%. He doesn't expect consumer price inflation to dip below 5%.

ING Barings economist Nick Barnardt doesn't believe consumer inflation needs to go much lower than around 6% as the top emerging economies of the world have an average inflation rate.
of about 8.5%. He points out that service price inflation tends to be far more robust than goods inflation globally and sees consumer inflation at 7% by the end of next year after reaching 7.5% late this year. His estimated bottom point during 1998 is 6.2%.

Barnardt warns that the favourable credit extension trends are difficult to interpret because the low growth may be a result of an adjustment after consumers overextended themselves during the previous months. He points out that the second-quarter growth in private-sector credit extension seasonally adjusted and annualised was 23% and that initial indications are that this may drop to about 5% in the third quarter.

"You cannot conclude that credit demand has necessarily gone into a massive downswing," he argues. "In July and August credit demand virtually came to a standstill after a big increase in June. We will have to see whether that was a pause for breath or really the start of a new, softer trend."

Barnardt expects private-sector credit extension to slow to 1% and stop at about 10.5% by the middle of next year.

FBC Bank economist Hanah Farhan expects inflation to remain in the upper band because there are still inflationary pressures in the SA economy. "The structure of our economy is not yet that of a low-inflation economy," she says.

The main unknown for next year is how severe the drought will be, she comments, "but we are better prepared than before and therefore the price increases during the initial phase are likely to be lower than expected by some."

Wage settlements will also be inflationary if they remain at the same level as those negotiated this year. Farhan would like to see the settlements decline to 7% next year.

Huyssamer Stals economist Johan Roussox forecasts that the lower turning point of the inflation cycle next year is likely to be just above 5% and predicts that inflation will reach 6.8% by the end of this year and relatively high 7.7% by the end of next year. But by his own admission he takes a more conservative stance when forecasting and says that based on the good inflation producer figure he may revise the forecast downwards.

"I won't be surprised if we move below 5%," he remarks, "but that will depend on the number of rate cuts and what happens to the rand. Therefore I see inflation entering a fairly flat period."

JP Morgan economist Peter Worthington is "quite bullish" on inflation and puts it at 7% by the end of this year and 6% or lower by the end of next year. But he adds that El Nino and food prices may be a swing factor. He sees the benchmark R150 bond yield to slow to about 13.1%-3.25% by the end of the first quarter and views other banks as "far too optimistic because inflation prospects are largely already priced in. government will miss its fiscal targets and the global environment will see some rate hikes in the US."

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Inflation in Cape slows from 9.1% to 7.6%

BUSINESS EDITOR

The inflation rate in Cape Town fell sharply in September in line with a fall in the national rate, official figures show.

Figures yesterday from the Central Statistical Service show Cape Town's inflation rate dropped from 9.1% a year in August to 7.6% in September. For the country as a whole, the inflation rate, as measured by the rise in the consumer price index, fell from 8.7% to 8%.

Food price inflation in Cape Town also slowed, from 10.7% year-on-year in August to 8.5% in September. But food prices are still rising faster than the national average of 8.3% over the year to September.

For the year, prices of milk, cheese and eggs are up 12.1% and of fats and oils 10%. Meat prices have risen more than 9% over the year.
Slow consumer inflation ahead

Producer inflation at 26-year low

"I think we're going to be surprised by just how low inflation falls next year," says Old Mutual Asset Managers economist Rian le Roux. And the October producer price index certainly bears him out.

Producer prices in October were only 4.9% higher than their level in October 1996. That's well below the 6.1% year-on-year increase for September, and below economists' consensus forecast of 5.4%.

The price of locally produced goods rose 5.7% year-on-year, compared with 6.8% in September.

And inflation on imported goods was a feeble 1.3% year-on-year, compared with 3.8%.

That supports Syfrets economist Sandra Gordon's theory that the year-on-year change in crude oil prices— with a lag of about three months — is a reliable leading indicator of imported inflation (Trends September 12).

So far, her prediction that imported price pressures would continue to ease during 1997 has been right on target.

FINANCIAL MAIL - DECEMBER 12 - 1997
No sentence and no trial – Pollsmoor prisoners highlight their plight
But SA's trade account punches into deficit

Peninsular Leads way as

Inflation Rate Falls to 6.8%
Inflation

1998 - 1999
City inflation lowest – survey

Cape Town is winning in the inflation stakes, according to the latest figures from the Central Statistical Service.

The Cape Peninsula and Pietersburg recorded the lowest inflation rates in the country over the year to December, with prices rising only 5%. For the country as a whole, the inflation rate was 6.1%, down from 6.8% over the year to November.

Food prices rose 6.4% over the year, the lowest annual rate of increase since 1996.

Over the month, food prices rose 0.7%, with meat prices up 0.9% and prices of fats and oils up 0.5%. Prices of fruit and nuts (up 1.9%) and of vegetables (up 1.8%) recorded bigger jumps but these were partly offset by drops in the prices of tea, coffee and cocoa.

Among the major urban areas, Kimberley recorded the highest inflation rate. Durban had the highest level of food inflation.
Reducing inflammation to low levels may not be a cure-all.
Fuel strike war' as police, workers clash

Petrol stations begin to run out of supplies as motorists flock to fill up, while protestors man blockades outside depots to prevent trucks making deliveries

**Police use teargas on strikers at depots**

Local, many petrol stations had either run out of petrol, or were running short, and were inspected by police officers who were warning motorists not to fill up, "We had better run out of petrol, or we may be killed," a police officer told The Star.

The police also warned motorists not to fill up, "We may run out of petrol, or we may be killed," a police officer told The Star.

Meanwhile, all new forecourt, humanity, Puerto Rico, and the food and oil depot in_vro depot on the main road in_vro.

This, coupled with panic, opened by the electric motor workers on strike, caused long queues at many petrol stations and gas___

The fuel crisis and fuel and food shortage are likely to continue for months until the strike is settled.

Meanwhile, all new forecourt, humanity, Puerto Rico, and the food and oil depot in_vro depot on the main road in_vro.

During the day, some___

**Industrial action affects crucial deliveries**

Industry governors have issued a warning to ensure that services, including petrol, are not undermined, and that stocks are not depleted.

The strike by the forecourt employees, who belong to In_ire, has been described as "illogical and unjust" by the Malaysian Federation of Shipping Companies.

"We urge the government to take immediate action to resolve the crisis," said the federation's president, Mr. Abdul Rahman. "The strike has caused a severe disruption to supply services and has affected the smooth running of industries. We have been told by the police that the strike is illegal and that no protection will be given to the strikers," he said.

The strike has been declared illegal, and the workers have been warned that they risk arrest if they continue to strike. The police have threatened to use force if necessary.

The federation also said that the strike has caused a "serious" disruption to supply services and has affected the smooth running of industries. The federation has been told by the police that the strike is illegal and that no protection will be given to the strikers. It has been told that the strike risk"
Chemical Workers consider wage offer. "Fuel strike war" as police workers clash over demands.

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TABLE 6.4:

TOILET FACILITIES OF ASIAN RESIDENTS OF THE "COMMON AREA" DIFFERENTIATED BY GULF AREA

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CAROLEE SUHMAN
' Strikes a threat to low inflation' 

By Isaac Moledi

SOUTH Africa runs the risk of having its consumer price inflation jump from the current five percent year-on-year to about eight percent by the end of the year, international brokers firm Salomon Smith Barney (SSB) said at the weekend.

In a statement on Friday SSB, a specialist in economic and market analysis, said it was concerned about the country's wage growth and a recent wave of strikes. These, the firm said, could have an effect on CPI inflation.

It said a recent wave of strikes had somewhat refocused investors' attention on the economy's structural problems. South Africa's labor market inflexibility in particular, was of major concern, said the firm.

Although the jump in CPI inflation from five percent to eight percent was expected to be reversed throughout 1999, this, to a large extent, depended on the labor market, which SSB described as "a key issue".

"Monetary and fiscal policy probably are tight enough to prevent a lasting inflation deterioration, and thus allow the external accounts to eventually benefit from the weaker rand.

"However, a pass through of higher import prices to wage growth would risk damaging long-term inflation expectations," the SSB statement said.

The firm said, in the wake of a severe downward rand adjustment and amid concerns on the emerging markets in general, international investors would be watching the outcome of the recent strikes, particularly as some of them had been accompanied by militant and even violent demonstrations.

Investor attitude on a country like South Africa would largely depend on how far they (investors) perceive the crisis was damaging the economic fundamentals, and on how policymakers were responding to the new challenges.

"In our view, the risk of a new acceleration in wages as a response to the rand depreciation appears limited. Similarly, while showing increasing awareness that structural labor rigidities impede job creation and growth, the ANC-led Government is unlikely to reverse the pro-labor legislation of the past few years soon."

The firm saw the likelihood of a break in the alliance between the ANC, the Congress of South African Trade Unions and the South African Communist Party before the 1999 general elections.

"Similarly, the Government is unlikely to embark on ambitious programmes such as labor market deregulation or accelerated privatization before the election, given grassroots perception that such shifts would favour the white, upper class minority," the firm said.
SA inflation rate remains same

SOUTH Africa's year-on-year inflation rate for March was unchanged at 5.4 percent, the Central Statistical Office said yesterday.

Economists were mixed as to the probable trend the inflation figures for March would take with some predicting a significant decline from 5.4 percent in February to 5.2 percent.

Others had predicted a marginally higher figure of 5.5 percent, based on an assumed month-on-month rate of an increase of 0.7 percent.

"Although the figure came as a surprise, this is not the beginning of a new trend in the CPI," Genbel Securities chief economist Loyiso Jiya said.

Jiya said the CPI was expected to reach its lowest level of 4.5 percent by June and to maintain the 5.5 annual average.

The CPI for metropolitan areas increased by 0.7 percent while the seasonally adjusted index increased by 0.4 percent.

Increase in rate

The inflation rate for metropolitan and other urban areas was 5.3 percent as at March - an increase of 0.7 percent.

The increases were slightly counteracted by a decrease in the price index for transport (-0.1 of a percentage point).

The price index for food showed an annual rate of increase of 6.1 percent in March - 0.2 of a percentage point higher than the corresponding rate of 5.9 percent in February.
Producer inflation jumps to 3.7% on rise of oil price

Cape Town — A sharp rise in the spot rand price of oil pushed the annual rate of producer inflation up sharply to 3.7 percent in July from 2.8 percent in June, the Central Statistical Service said yesterday.

The oil price rose when the rand weakened by 4.5 percent against the dollar in June and another 17.2 percent in July. The rise of producer inflation was in line with market expectations. There is a close historical relationship between the spot rand oil price and producer inflation. Rises in producer prices usually filter through to consumer prices with a lag of two to three months.

Economists said the effect of the drop in the rand had not yet been fully reflected in wholesale prices, but forecast only "moderate" rises in producer inflation.

The economics unit of Standard Bank said producer inflation could reach 5 to 6 percent by December and could peak at about 7 percent next year.

Chris Stals, the Reserve Bank governor, said he did not expect higher producer prices to push consumer inflation into double digits. The slide in the rand since late May had an adverse effect on all imported goods, and imported inflation rose sharply from 0.9 percent in June to 5.1 percent in July.

The monthly producer price index rose 4 percent from June to July, its highest monthly rise since November 1990 when it rose 8.1 percent.

The rise in the price index of locally produced goods remained subdued in July, with the monthly rise almost unchanged at 0.4 percent. On an annual basis the index rose 3.5 percent in July from 3.2 percent in June.

Johan Rossouw, the chief economist of ABN-Amro, ascribed the stability of the index for locally produced goods to the slowdown in domestic economic activity and slack demand.

Business Watch, Page 2
Commission's own economic and social research shows that the present level of disparity in the EU is unacceptable. If we are to work towards a future of real convergence, we must act now to address the underlying causes of the problems.

The Commission proposes a series of measures to tackle this issue, including:

1. Strengthening the Single Market
2. Enhancing the Competitiveness of SMEs
3. Investing in Education and Training
4. Promoting Innovation
5. Enhancing Social Protection

These measures will help to reduce disparities across the EU and create a more integrated economic space.

[Signature]

[Date]
Security guards on national strike

FRANK NXUMALO

Johannesburg — More than 130,000 security guards belonging to 11 security industry unions are expected to take part this morning in an indefinite nationwide strike for more pay and improved working conditions.

Mick Bartmann, the chairman of the South African National Security Employers’ Association, said the strike could plunge the country into a crisis as criminal elements might take advantage of the security vacuum to hit vulnerable companies.

But security guards working for SBV, the cash-in-transit company owned by the big four banks, will not take part in the strike as their union, the South African Society of Bank Officials, is not involved in the industrial dispute.

“SBV has informed us that their cash-in-transit division will not be participating in the strike. Operations relying on cash-in-transit, like full ATMs, should therefore remain unaffected.”

“As far as the physical guarding of banks is concerned, bank branches have been warned of the situation and we have been assured that plans have been made,” said Lincoln Muli, a spokesman for the Council of South African Banks.

The strike, which started on Friday, was marred by violence and intimidation along the route.

Jerry Ngcobo, the president of the Transport and General Workers’ Union, said the security guards would march to the southern Gauteng labour department this morning to hand in a memorandum of their demands to a “senior official.”

Workers are demanding, among other things, a 12 percent wage increase, a full 13th cheque, a 4 percent employer contribution towards a provident fund and double pay for Sunday work.

A revised offer by employers of a 10 percent wage increase and a 3 percent contribution split between a provident fund and an annual bonus was rejected by the unions on Thursday night, precipitating the strike.
Govt to set inflation targets and establish monetary policy board

CAPE TOWN — Government is moving ahead with plans to set specific inflation targets, aimed at giving the Reserve Bank’s monetary policy a more clearly defined goal.

Reserve Bank governor Chris Stals and SA was not ready for such a move. Finance director-general Mario Ramos said inflation targets were in line with international practice, providing a benchmark against which Parliament and the electorate could evaluate the Bank’s performance. The aim would be greater transparency.

"We work to targets in everything and clearly the money supply target is not a very predictable target. We’re working to any other," Ramos said.

Parliament’s finance committee is expected to propose this month that a monetary policy board be set up within the Bank to help achieve the targets.

Stals said he supported the idea of inflation targets set by government but he did not believe they could be introduced within the next two years as they would have to be worked into the growth, employment and redistribution (Gerr) strategy.

Finance Minister Trevor Manuel indicated his support for inflation targets to Parliament’s finance portfolio committee on Friday.

Ramos said government setting inflation targets would not interfere with the constitutionally enshrined independence of the Reserve Bank as the Bank would continue independently to control the instruments required to achieve the monetary policy goals. Every constitutional of every central bank operates along these lines, drawing a distinction between goal independence and instrument independence."

Stals said, "Inflation targeting is an interesting objective for the future but it is very difficult for the government to commit itself to an inflation target — all policies, wages and salaries, trade policies must fit into it. I have always been in favour of inflation targets but the Reserve Bank on its own cannot introduce them. It is something that the country must decide on. I just think we are not ready for it."

It would damage SA’s credibility to set an inflation target much higher than that of its major trading partners.

Ben Turuk, head of a finance committee subcommittee probing the Bank’s role in monetary policy, said a monetary policy board would bring fresh, diverse input to monetary policy.

The Bank’s monetary policy committee — consisting of Stals and three deputy governors — was "rather closed". Stals said board members would have to be full-time employees of the Bank.
Plan to implement inflation target sparks debate

Greta Steyn

GOVERNMENT's decision to push for inflation targets has sparked debate among economists about what targets should be and how soon they can be implemented.

There is disagreement also about the desirability of setting up a monetary policy committee with people from outside the central bank to help take decisions on monetary policy. Although government has indicated it is thinking about doing so, Ben Turok, chairman of the parliamentary subcommittee looking at the Reserve Bank, said yesterday the committee had not even discussed the issue.

ING Barings economist Nick Barnardt said he was in favour of inflation targeting and wider representation on the monetary policy committee. "But the target will have to take into account that inflation is going to rise again in the next upswing. A range of 5%-8%, or even 9%, would be realistic."

Barnardt believed there was a good chance over the next three years or so that inflation could reach 8%-9% again. He believed it was the realisation of this that had caused Bank governor Chris Stals to be reluctant about accepting explicit inflation targets.

Stals said earlier that it would damage SA's credibility to set an inflation target much higher than that of its major trading partners. He believed all policies—not just monetary policy—had to fit in with the target. That included the setting of wages and salaries.

Standard Bank economist Nico Coypunaka believed the inflation target had to be set at low levels, otherwise markets would react adversely. "The question is to what extent government can be counted on to keep its side of the bargain and to get the unions to fall in line. As long as that question remains, Stals is right to say SA is not ready yet."

The SA Chamber of Business (Sacob) favoured inflation targeting, but said the timing of its introduction should probably be delayed until after the next general election, so that the new govern-
Maharaj convenes talks on future of taxi industry

Pearl Sebolao

TRANSPORT Minister Mac Maharaj is to convene a national taxi task team plenary next month to discuss the future of the taxi industry.

This could pave the way for the abolishment of the task team and the recognition of the Interim National Taxi Council as the industry’s mouthpiece.

Yesterday Maharaj met delegates of the intermin council, representing provincial taxi councils and major taxi bodies. The council submitted proposals on future regulations and outlined its work so far. It called for limited statutory powers and the transfer of the task team’s brief to it.

It also called on government to assist in the process of unifying the industry and disempowering those who sought dummy Government was requested to provide for short-term funding to assist with the peace and unity process.

Maharaj said he would meet with transport MECs from the various provinces today to discuss the council’s proposals. He expressed support for the establishment of a formal body for the industry, saying that if the body obtained support of all the stakeholders it would have a positive impact.

Council interim chairman Bani Nagel said there was enthusiasm within the taxi industry for the establishment of a unifying body. He was confident that everything would be finalised soon and the body launched by June. Various subcommittees have been set up, including the conflict resolution, finance, and business and marketing subcommittees.

Low wage increases anticipated as consumer price index drops

Reneé Grawitzky

EMPLOYERS were anticipating wage increases ranging between 6% and 8% this year in view of the sharp drop in the consumer price index from an overall average of 8% last year to its current level of 5.7%, consultants said yesterday.

Despite high employer expectations of low single-digit increases, unions were anticipating increases in line with settlements reached last year, the consultants said.

Andrew Levy & Associates’ annual report stated that overall settlement levels last year averaged 9.3%, slightly down on the previous year’s average of 9.9%. The report said, however, that despite a rise in the average pay per worker, unit labour costs had declined because of a rise in the average real labour productivity. The report said: “Whereas the average compensation per factory worker appears to have risen by about 10%, the average increase of around 7% in average manufacturing labour productivity limited the factory-sector unit labour cost inflation rate to only about 3% in nominal rand terms.”

Durban-based consultant Pat Stone said that with inflation down and rising costs, employers wanted to settle closer to 6% and 8% rather than between 9% and 10%. Private sector employers were picking up the message delivered by government in terms of the stance on wage increases for public servants: “Government’s stand will filter through to the private sector that it has a pay policy, even if it’s not formalised.”

Gavin Wessels of Werner Campaign-la & Associates said employers had carefully watched the security industry’s strike which settled overall on 10% on wages with a total package of 14%. Employers, he said, were not prepared to settle above the 10% mark, with many small and medium size enterprises recovering from retrenchments, anticipating low single-digit increases.
Inflation still hits the poor hardest

ALIDE BASHOOS
Business Editor

Inflation is still hitting the poor hardest, official figures show.

Consumer inflation in South Africa is running at 5.4% a year, according to the Central Statistical Service in Pretoria.

The service publishes figures for households in five spending categories: very low, low, middle, high and very high.

The figures show that the downward trend in inflation has benefited the poorest households least.

In February, inflation for "very high" spenders (households spending R49,489 or more a year) was 5.3%, while for the "high" spenders (R21,910 to R49,489), the rate was 6.4%.

For the "middle" group (R11,591 to R21,909 a year), it was 6.6%. "Low" spenders (R6,941 to R11,590) faced an inflation rate of 6.9% and the "very low" spenders were hardest hit with an inflation rate of 7.2%.

The main reason for the differences is that poorer households are particularly vulnerable to rises in food prices.

• Petrol prices are to go up 8c a litre from next Wednesday. The price rise follows the 10c rise in fuel tax announced in the Budget and an increase in transport prices charged by Spoor Net and Petronet to the oil industry.
Inflation in SA is still too high, says Stals

Johannesburg — A South African inflation rate above 5 percent was too high, Chris Stals, the governor of the Reserve Bank, told the Johannesburg Chamber of Commerce and Industry last week.

Consumer inflation in July was recorded at 6.6 percent. In March, the inflation rate dipped close to 5 percent.

"We still believe inflation is too high in South Africa. At 5 percent it is too high," Stals said. He said South Africa's inflation rate was above the average world rate and this affected South Africa's ability to export.

Stals has made the reduction of inflation the central pillar of his tight monetary policy. Consumer inflation accelerated to 6.6 percent in June, mainly because of higher mortgage bond rates introduced at the beginning of July. Banks increased their lending rates in response to the local currency and financial market turmoil, which began at the end of May.

Commercial banks lifted their mortgage rates to between 23.5 percent and 34 percent last week — the highest level since November 1984. Since May, the central bank has raised interest rates more than 6 percent to try to counter the rand's volatility.

Left-wing economists have proposed that an easing of the inflation rate, the budget deficit and interest rates would stimulate economic growth. Economists grew cautious in the second quarter, as the growth was down to 0.3 percent.

Inflation is expected to rise over the second half. Its increase is only likely to be stemmed by cuts in the interest rate.

"It's going to be tough getting more loans from the banking system in the next six months," Stals said. "These high rates are part of the adjustment process."

But hopes for an easing of monetary policy took a knock this week when credit extension figures for July rose 17.57 percent year on year, much higher than the expected 16 percent.

Stals did not expect an immediate recovery in the local financial market after a sharp outflow of foreign investment in bonds. "I don't see signs of an immediate recovery, but the basic situation is still sound."
Average increase in prices eased to 6.9% last year and is likely to fall 'significantly' this year

Consumer inflation hits 25-year low

“It is now clear,” said SG Franksel Pollak Securities, “that the CPI has peaked in November and will almost certainly fall back progressively and significantly during the course of 1998.”

Economists expect inflation to be well down this year. SG Franksel Pollak’s forecast is for 6.5% and Standard Bank’s for 6%. Mike Schusler, the chief economist at FBC Eudis Bank, is even more bullish, calling for an average rate of 5.1%.

“I think inflation could be under 2% by the end of the year if we’re lucky,” he said yesterday. “People don’t realise how quickly inflation will come down. We definitely don’t have an inflation bugbear.”

Core inflation, which strips out some food, taxation and items sensitive to interest rates, rose marginally from 7.7% to 7.8%, but economists said the figure, which is of more concern to the Reserve Bank than the headline figure, was subdued enough to suggest easier monetary policy.

“Domestic conditions remain supportive of further reductions in the Reserve Bank repo rate,” said Michael Hume, an economist at Lehman Brothers in London. “So, provided the rand holds steady, and the external accounts improve as we expect they will, the Bank is likely to cut rates aggressively this year.”

The headline figure may have been lower without the interest rate increases last year almost half of the 9% rise was due to a rise in housing, mainly mortgage expenses.

“We’re very much in line with the rest of the world,” said Schusler. “If it wasn’t for the interest rate shocks, inflation would have come down drastically. Labour costs are rising, but we’re not employing more people, so the unit cost of labour is coming down.”

World inflation has been dropping for several years. According to the International Monetary Fund, average world inflation in September was 6.3%.

Merrill Lynch said, “Latest monthly data from 11 of 25 major emerging countries (including South Africa) show zero or negative changes in consumer prices.

“The monthly trend suggests developing market inflation could slip below the rate in industrial countries in 1999, probably for the first time ever.”
Cosatu supports inflation targeting call

The Congress of SA Trade Unions (Cosatu) has expressed support for the call by Reserve Bank governor Chris Stals for the introduction of inflation targeting, saying this could be an "effective tool for economic development and job creation".

Responding to Wednesday's budget speech by Finance Minister Trevor Manuel, the federation said yesterday that inflation targeting could help improve government planning.

Cosatu general secretary Mthathwa said priority should be given to lowering interest rates and adopting monetary policies which promoted job creation.

Shilowa was sceptical about the cut in company tax from 35% to 30%, saying it might "create an environment for more profiteering (for companies subsidised by public resources)."

Meanwhile, the National Education, Health and Allied Workers' Union (Nehawu) yesterday accused government of adopting a narrow, cost-driven approach to retrenchments in the public sector. Government is expected to begin laying off workers after a skills audit currently under way is completed later this year.
From the article, the key points are:

1. The consumer price index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. It is a key indicator of inflation and is used to determine the annual increase in the cost of living.

2. The CPI is calculated by the Bureau of Labor Statistics (BLS) and is based on a survey of a sample of consumers' expenditure patterns.

3. The CPI is used to adjust social security payments and other government benefits and to adjust wages in collective bargaining agreements.

4. The CPI is also used by the Federal Reserve to determine monetary policy.

5. The CPI is calculated as a percentage change in the cost of living from one year to the next.
Inflation rate drops to a 29-year low

Edwin Naidoo

While inflation in South Africa has dropped to 4.5%, its lowest level in 29 years, the man in the street will already have felt the benefits of having a little more cash to spare.

Economist Athar Jammie said the drop in inflation was good news for consumers, but they would have already felt the benefits from the drastic drop in mortgage bond rates from a high of 24.5% last September to its recent 16.5%.

The inflation rate dropped to 4.9% in July— the lowest it has been since since March 1970. The rate, as measured by the Consumer Price Index, was 2.4 percentage points lower than the 7.3% for the same period last year.

Jammie said the impact to consumers would be minimal since bond holders would have been paying less on their monthly instalments, due to the gradual decline in the interest rates.

He said it was obvious from the statistics that consumers had benefited.

See Business Report
Inflation at its lowest in 29 years

Bonds take a step back over local CPI fears

Johannesburg – Lower interest rates pushed consumer inflation to its lowest level in almost 29 years in July, figures showed yesterday.

Inflation fell to 4.9 percent from 7.3 percent in June, Statistics South Africa said.

But core inflation, which excludes mortgage, food and other volatile costs, remained stubbornly high, increasing to 6.3 percent from 5.8 percent in June.

This indicated that interest rates were unlikely to drop much further despite the huge drop in headline inflation.

Highest oil prices were likely to lead to another increase of up to 10c a litre in the price of petrol during September, meaning core inflation was unlikely to drop much below current levels in the short term.

Economists and the drop in the headline figure were largely a result of technical factors. The figure for June excluded a 6.3 percent drop in interest rates during the first week of that month. This meant the July figure had recorded a 1.3 percent drop, compared with a 2 percent rise in the corresponding month last year.

"Core inflation won't go much below 6 percent and this will stop prime falling by a full percentage point by year end," said Mike Schussler, an economist at FNB Fiduciary Bank.

Tito Mboweni, the governor of the Reserve Bank, has indicated that fighting inflation was his main priority so the latest figure is likely to result in the Bank maintaining a fairly tight grip on monetary policy. Core inflation is seen as a more significant determinant of future Bank policy than the headline figure.

Economists at SG Frankel Pollak argued that the prime rate might still drop below 15 percent. Core inflation rose because of higher oil prices, not increased local demand.

Since the Bank was using an "elastic" approach to monetary policy, factors like the improvement in the current account, lower credit growth figures and other data showing flat economic growth would probably count as much as core inflation in determining its rates policy.

The bottom line for the market was that the interpretation would focus on headline inflation, the economists said.

"Having broken the psychologically important 5 percent barrier, this will be seen to be opening the door for further reductions in interest rates."
Headline inflation reaches 30-year low

An increase in the petrol price could see figures rise in September

Samantha Enslen and Reuters

A FALL in the prime lending and mortgage rates has taken the headline consumer inflation rate in August to its lowest level in 30 years, but economists caution that the effects of higher fuel prices will result in an uptick in inflation in September.

Figures released by Statistics SA yesterday show that August's headline inflation rate stood at 3.2% year-on-year from 4.9% the month before, exceeding the Reuters consensus forecast of 3.7%.

Stats SA said that the August headline rate was the lowest since September 1989 when consumer inflation stood at 2.1%.

The core inflation rate, which excludes mortgage costs, fresh food prices and municipal rates, stood at 7.9% year-on-year from 8.2% the month before. It also beat the consensus forecast of 8.1%.

Figures released by the Reserve Bank yesterday showed the balance on the current account of the balance of payments (seasonally adjusted and annualised) had fallen to a deficit of R3.4bn in the second quarter from a surplus of R4.9bn in the first quarter, which was revised down from R6.2bn.

Economists were not surprised by the figure as a deficit had been implied in the annual economic review released in August.

The chief reason for the deterioration was due to a fall in nongold exports, a rise in merchandise imports and a rise in net current transfers.

The Bank said "the slightly weaker export performance in the second quarter was probably related to some faltering in the global economic recovery and the oversupply of metals and minerals on international markets." The financial account of the balance of payments showed an inflow of capital in the second quarter of R3.8bn. This was the third consecutive quarter inflow into the economy and was again largely the result of foreign purchases of SA securities, the Bank said.

Peter Worthington, economist for JP Morgan SA, said the current account will likely remain in the red this year, despite growing commodity exports to Asia, because of rising oil prices and a growth-led surge in imports.

This, combined with persistently high core inflation, is likely to prevent interest rates falling below 15.5%

The Bank said the rand price of imported crude oil and the effect this has on vehicle running costs, and the extent to which inflation expectations are accounted for in nominal wage settlements, will determine the outlook for inflation for the remainder of the year.

ABN Amro Securities economist Elize Swart said an increase of 13c/l in the petrol price should see core inflation rise in September.

Meanwhile, Reserve Bank governor Tito Mboweni said at the University of Pretoria yesterday that since March 1995, the Bank has given the green light for SA companies to invest nearly R1bn in the 14 member countries in the Southern African Development Community (SADC).

Outside the SADC, SA companies have received approval for fixed direct investment worth R74.5bn. SADC countries had fixed investment of R7bn in SA at the end of December 1997.

Mboweni said the extent of intraregional investment supported looser exchange controls, which would be crucial to the formation of a free trade zone in the next five years. The target date of 2004 for the creation of a free trade zone implied that all intraregional exchange controls should be abolished by the target date of 2004.
Monthly inflation lowest in 31 years

Jonathan Katzenellenbogen

The consumer inflation rate fell to its lowest level last month since September 1966, but the core or underlying rate remained close to the 8% level of the past year.

Market reaction to the data was positive, but muted, although most economists viewed the latest consumer price index (CPI) figures as bolstering their forecasts for further declines in the inflation rate and permitting the central bank to allow the careful lowering of interest rates.

The main reason for the decline in the headline CPI number is the drop in the average rate on home loans from 23.7% to 16.5% over the past year. Personal borrowing costs are excluded from the core rate, which is more heavily influenced by the weightings given to the petrol price.

The official inflation rate dropped to 1.9% on a year-on-year basis from 3.2% in August, Statistics SA reported yesterday. On a month-on-month basis headline CPI remained at the previous month's level of 0.6%. The headline figure came in 0.3% lower than the consensus forecast. But the level of the core rate, although in line with expectations, continued to disappoint the market.

Core inflation in September was 7.5% and 0.7% on a year-on-month and year-on-year basis. This rate, which excludes interest rates on personal and home loans, food prices which are seasonally volatile, and VAT has become the rate that is more closely followed by most market operators.

Market reaction to the local data was positive but muted, with dealers awaiting the release of US consumer inflation data. Later in the day, the US headline inflation for September came in at 2.6% on a year-on-year basis, which was in line with expectations.

Dealers said the rand did not react to the data, but the benchmark government R150 bond strengthened slightly and closed at a yield of 14.42% from 14.5% previously. The JSE found support from the local and US data releases and the all share index closed more than 1% higher at 7071.5.

James Cross, senior deputy Reserve Bank governor, told Reuters in Copenhagen that the inflation figures confirm a declining inflationary environment. Economists largely agree, with many expecting the October figure to be about 1.4%, largely due to the one percentage point drop in interest rates to 15.5%. This is expected to outweigh the effect of the rise in the petrol price earlier this month by 8c a litre.

Gordon Smith, chief economist at Deutsche Morgan Grenfell, expects the declining trend to continue as the SA economy recovers in the months ahead. He says as capacity utilisation in factories rises, greater economies of scale will permit a decline in unit costs, including labour. He says the free trade agreement with the European Union will make it difficult for businesses to increase the prices of goods.

In preparation for the adoption of an inflation targeting approach to monetary policy next year, the Reserve Bank is considering the price index for which it should aim. Bank officials have said that it is unlikely to be the present core.

There is debate as to whether the present core is appropriate in view of the inclusion of energy prices, which are externally determined. Some economists say this is inappropriate if the core to be targeted will form the basis for wage settlements.

Report cases fears: Page 21
Inflation is lowest in 31 years

CHIMAIRIPA BANDA

JOHANNESBURG: The South African consumer is reaping the fruits of the massive fall in interest rates, paying much less for goods and services compared to a year ago when interest rates hit the roof.

Statistics South Africa (SSA) announced yesterday that official inflation in the country had declined to 1.9% in September, down from 3.2% in August and 4.9% in July.

The current inflation rate is the lowest in 31 years and statistical and financial analysts said that the present rate of 2.3% represented the first time since 1990 that South Africa's inflation rate was better than that of the US.

'This is a wonderful set of numbers. Our inflation rate is below the US. For the currency market it is very promising,' said Colin Garrow at ABN Amro.

Analysts agreed that core inflation, which excluded mortgage rates and some volatile elements, was still high at 7.9%.

Interest rates have tumbled from a massive 23.7% in September last year to 16.5% a year later with consumers paying less on their home loans.

But Johann Eils, an economist at Old Mutual Asset Managers, said the prospects were that core inflation should decline in the next year to about 6% by December.

Chief economist at Econometrix, Azaa Jammie said, 'It means a lot to the consumer. It is a reflection of the change in the interest rates.'

'This is a big benefit, the fact that you are paying much less than you were years ago.'

Jammie said although overall prices are increasing, South Africans are much better off than they were exactly a year ago. The annual rate of increase in food prices was 4.5% in September.

'This will benefit the consumer substantially,' he said.

Dr. Mark Orkin of SSA said yesterday that the large decrease in mortgage interest rates had offset annual increases in transport, food, household operations and medical care which contributed to the 1.9% inflation rate.

'Overall prices are rising quite significantly, and by much more than the cost of living has increased,' Jammie said.

'The cost of living for the average consumer has increased by only 1.9% over the past year in relation to his salary increase. This will leave him with a lot of extra money to spend compared with earlier this year,' Jammie added.

'Bepane Woodruffe, of Merrill-Lynch, warned that interest rates should start to move up again around September next year and this should impact on the inflation rate. She predicts an average of 5% inflation rate next year.'

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