inflation

Feb- July 86

ARGUS 3/2/86

153

Sharply higher pay rises seen

Financial Editor

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

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

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

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

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

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

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

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

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

As a result he expects the value of real assets to rise more rapidly than the inflation rate and labour, while temporarily cheap, to be a good deal more expensive by the end of the year.

Biggest drop in retail and wholesale trade

Real wages are down in every sector of economy

BUS DAY 4/2/86 (153)

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

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

Business Day Reporter

The largest fall was in the retail and wholesale trade sector where there was a deterioration of 6,1%, including an 8,1% decline in black wages.

Whites suffered most in the construction sector, with a fall of 8,2% in real wages.

The mining industry remained the most lucrative for whites, with an average income of R2 215 a month. But it was the second-most-poorly-paid industry for blacks, with wages averaging R390 a month.

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

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

Banking was the best-paid area for blacks, at an average of R611 a month, while it was the second-worst-paid for whites at R1 449.

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

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

Cole says there is a preponderance of civil servants in the SA economy, especially with the tricameral parliamentary system.

nflation is too high but unlikely
o reach 20 %, says Santamtrust

STAR 5/2/86 (153)

By Stan Kennedy

tamtrust says in its latest rket Opinion that it is diffi- to be optimistic that there be any sharp decline in the ation rate in the near future his is because of the recent p increases in the import com- ent of the producer price x, certain administered prices some key consumer goods

he only positive aspect, in its v, is that there is a reasonable lihood that by mid-year the r-on-year rate will not reach 20 percent level and will be und 17,5 percent

Market Opinion says that al- ugh there is currently a greater erest in gold, it cannot, sum- rily, be expected to continue to ge strongly As such, any opti- sm is on the "cautious" side, al- ugh less so than a few months Reasons for the underlying imism are

The dollar will probably remain atively weak and could even come under further downward pressure,

- The possibility of an acceleration in the US inflation rate,
- The extent to which the oil price is under pressure should result in sustained uncertainty regarding the stability of the international financial system,
- The probability of a sustained strong interest in the metal from the Far and Middle East

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

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

As for a realistic level for the rand today, it says that given the surplus on the current account of the balance of payments a value of R1 equals $0,60 would not be too far off the mark

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

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

"This means that the rand, even in the absence of negative political influences, could be worth only $0,38 in early 1991"

"This exercise is highly artificial but still serves to illustrate what our high inflation rate can do to the exchange rate of the rand The conclusion is clear something will have to be done to reduce our inflation rate," it says

Domestic sugar price hike looms

Bus Day 5/2/84

(153)

ALAN PEAT

A DOMESTIC sugar price rise is expected soon.

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

Sasa GM Peter Sale declined to confirm this.

"We keep the Department of Trade and Industry informed on a regular monthly basis of the fluctuating factors in the sugar industry," he said

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

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

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

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

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

A senior executive of a sugar company said "Despite the end of the drought, we are still faced with the low international sugar price over which we have no control

How long must you work to earn a litre of milk?

153 STAR 5/2/86.

By Jackie Unwin

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

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

Mr Roux said that in 1975 the average person would have had to work about 14,6 minutes to earn the cash to buy a litre of milk

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

It was calculated in 1975 that the average worker worked 93,9 minutes to earn 1 kg of cheese Last year he would have had to have worked only 89,5 minutes

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

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

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

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

Commenting on the calculations of how long an average worker would have to work to earn a litre of milk or kilogram of cheese, she said "In South Africa, in particular, there is no such thing as an average worker While I appreciate these facts, they do not really tally with reality."

around his membership of Lloyd's and association with one of its most colourful personalities

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

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

The suspension ended last month Posgate

Jeffrey Archer ... backing Posgate

Glover, an agency currently applying for re-registration

It is normal practice for aspirant underwriters to be sponsored by three existing members, says Lloyd's press officer David Larner He is not prepared to reveal the identity of the other two sponsors

"It is not Lloyd's policy and we much regret that Archer's name was leaked in this connection," says Larner ■

153

WHEN THE R100 NOTE?

With inflation rocketing through 18%, consumers could soon be faced with the R100 note. For one adverse side-effect of inflation, of course, is a pocket bulging with coins. (You can also gauge inflation by the value of coins people leave on the ground and don't bother to pick up.)

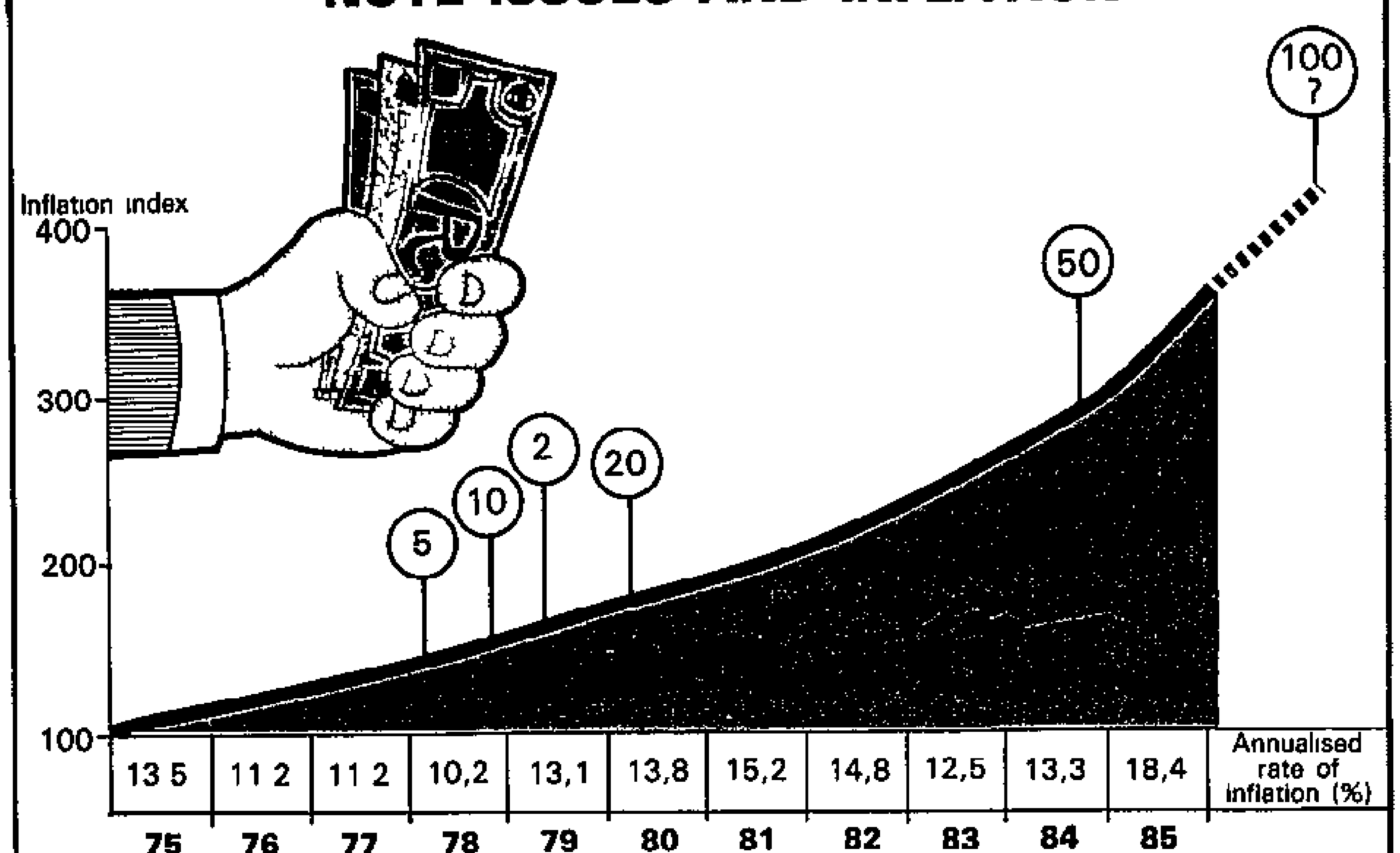
But the Reserve Bank has firmly denied rumours that a new large note is destined for circulation in 1986. Reserve Bank GM Gert de Kock, says that such a note is under consideration, but high level committee discussions are satisfied with the present range of notes

De Kock says that three years are needed between the decision to issue a new note and eventual issue through the banking system. He intimates that 1990 is the likely date for the R100 note

Another development could be the scrapping of the R2 note and its replacement soon by a coin, says De Kock The R1 note was withdrawn in 1971 The purchasing power of the 1971 rand was barely 10c in 1985

The graph plots new note issues since 1977 against the inflation rate. Five new denominations have been issued in the past eight years Hugo Smuts, GM of SA Bank Note Company, tells the *FM* he has not received a print order from the Reserve Bank for a new issue but feels it will not be too long before "a R100 note is exchanged for a tank of petrol."

NOTE ISSUES AND INFLATION



PENSION FUNDS

Disclosing deficits

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

"Now the issue is one of the major accounting topics," says Una Curtis, director of accounting of the SA Institute of Chartered Accountants (Saica)

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

Their comments will be reviewed this month and necessary changes made When the document has been fully discussed and approved by APB it will become "a statement of generally accepted accounting practice "

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

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

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

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

GST

Growing avoidance

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

The main way to reduce gst is to change

the nature of a transaction, from a taxable to a tax-exempt category This, says Arthur Andersen's Richard Rubin, has encouraged a "good deal of innovative fiscal thinking," though he advises care where an income tax saving has the additional effect of saving gst

For if the purpose of a scheme is to save either income or any other tax, it may be vulnerable from an income tax viewpoint. In such a case, says Rubin, the entire structure can be ignored, but schemes to save only sales tax are not subject to attack

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

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

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

Arthur Andersen's Rubin ... carefully saving tax

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

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

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

Gst potentially hits profitability of an enterprise at two levels

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

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

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

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

KANTOR COMMENTS

Short cuts to economic revival

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

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

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

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

A few examples will illustrate the issues

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

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

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

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

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

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

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

AGRICULTURAL CONFERENCE

11/2/86 - BUS DAY

Davin report could change wheat sector

GERALD REILLY

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

The Davin commission recommended:

- Price controls on wheaten meal and standard bread should be lifted from October 1;
- Restrictive registration in the milling and baking industries should lapse from the same date;
- Subsidies on bread should also lapse from October 1.

In its comments on the recommendations, submitted to government, the Wheat Board said that if the total subsidy on bread was abolished from October 1, the price of brown bread at the present level and subsidy would rise immediately by 24%.

It could be accepted that bakers and millers would adjust prices, as they had been making representations for an increase in cost margins, the board said.

Retailers had long been opposed to the fixed retail margin of 2c/loaf (2,9% on white bread and 4,2% on brown), and a considerable increase could be expected, it said.

When restrictive registration was abolished, a large number of new bread bakers would enter the industry, the board said. At present there are about 350 fully-fledged bakeries manufacturing bread and confectionery.

It was also likely that most of the 1 500 registered confectioneries would enter the bread-baking industry if restrictive registration were abolished, the board reported.

Quality control would be further hampered. A considerable increase in the price of bread would have a detrimental effect not only on wheat consumption, but also on spending by a large section of the population in whose daily diet bread was an indispensable item, it added.

● WENTZEL

Wentzel calls for vigilance

BUSINESS advisers should "intensify their vigil" for factors affecting the economy so that early action could be taken to counter damaging influences.

Opening the 1986 Agricultural Preview Conference in the CSIR conference centre in Pretoria yesterday, Agricultural Economics and Water Affairs Minister Greyling Wentzel urged business experts and consultants to refine their interpretation of such developments and come forward with "carefully considered previews".

"On this basis it should be possible to act timeously in avoiding or mitigating unfavourable trends," he said, adding that adverse factors in the past few years had posed a serious threat to the survival of a viable agricultural sector.

Wentzel said government's White Paper on agricultural policy, which focuses on effective and profitable farming, should serve as a guideline for the future of SA's agricultural industry.

"Since agricultural production is aimed primarily at the provision of food for the population, and our country has only limited agricultural resources from which a rapidly-growing population will have to be fed, the pursuit of the goal of self-sufficiency cannot be over-emphasised.

"The volume of food production up until the present has grown faster than the population. There are indications, however, that the rates at which population and food production are growing are moving closer together," the minister said.

Because agriculture in SA was bound closely with weather conditions, the country's food production was vulnerable, he said.

"A striking example was the drought of the past two years when, for two consecutive seasons, we were unable to produce enough maize for our own needs.

"The emphasis on self-sufficiency does not mean, however, that it must be pursued ... at any price.

"If this should happen, it could result in irrational business operations which would not be economically justifiable and would probably not be reconcilable with the maxims of reasonable prices or optimal utilisation of agricultural resources," Wentzel said — Sapa.

Farm exports bolstered by weak rand

BUS DAY 11/2/86

GERALD REILLY

CONTROL board reports submitted to the conference reflect big increases in export earnings last year, mainly attributed to the weak rand

The Deciduous Fruit Board had a smaller crop in 1985, but gross value increased by 27% to R355m.

Exports increased by 38% to R243m even though tonnage was down 3% to 306 000 tons.

Wool Board production fell 3,4%, against a price rise of 43,5%.

Total market realisation for 1984/85 was R402,8m.

The Sugar Association reported record cane production in the 1984/85 season.

Average yields were high, reaching nearly 80 tons/ha.

Total industrial revenue in excess of R1bn for the first time, however, was unable to restore financial stability. After covering costs and returns, it provided a mere R2m towards return on capital — less than 5% of growers' and millers' entitlement.

The Canned Fruit Board said that over the past two years there had been an improvement in the industry's financial situation.

The Dried Fruit Board reported a huge increase in production, from 13 000 tons in 1976 to more than 47 000 tons projected for this year.

Backlash to debt standstill

BUS DAY 11/2/86

GERALD REILLY

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

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

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

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

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

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

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

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

Inflation 'the enemy'

BUS DAY 11/2/86 (153)

GERALD REILLY

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

De Kock appealed to farmers to support the monetary authorities when they applied market-orientated policies to bring about an optimal rate of increase of the money supply and total spending

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

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

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

If the inflation rate could be reduced to any material extent, interest rates would probably fluctuate at significantly lower levels than in recent years

18/2/86 BUS DAY (153)

21% PPI jump fuels inflation fears

Economics Staff

INFLATION fears will not be soothed by the December production price index's year-on-year 21,3% increase, although the monthly increase is a little more positive

Compared with the October to November PPI increase of 4,2%, prices increased 1,7% from November to December

The all-commodities index — incorporating both imported and domestic goods and services — rose by a year-on-year 21,3%.

Increases in producer prices will filter through to the consumer price index (CPI) in the months ahead The CPI increased by a record 18,45% in December, and the latest PPI figures suggest the CPI could breach the psychological 20% barrier early this year

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

Imported goods, which represent about 23% of commodities used in the index, rose 30,7% in price over the year to December The monthly increase was 2,5%, representing an annual rate of over 30% Prices of locally-produced goods increased by an annual 18,7% and a monthly 1,6%.

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

There was 19,2% increase in producers' sales prices for total output

PRICE MOVES AT A GLANCE

REUTERS

KEY MARKET MOVEMENTS — FEBRUARY 7 to FEBRUARY 10

Gold			JSE	Previous			Latest		Johannesburg Stock Exchange		
$/oz	$/oz	R/oz	Krugerrand	$/R Comm	$/R Fin	DM/$	£/R	3 months B A	All Gold BD Index	BD Indust Index	JSE Ov'all Index
339,80	340,15	742,68	755	0,4690	0,3385	2,4052	0,3500	12,25	1197,4	1186,6	1357,4
								NO MOVE			
336,75	337,20	718,01	735	0,4580	0,3350	2,3891	0,3344	12,25	1189,8	1183,5	1352,6
LONDON CLOSE	LONDON AFTERNOON FIX					FRANKFURT CLOSE	LONDON CLOSE				

Feb. 1986

Price increases: views differ

153

By Jackie Unwin

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

Consumer Council surveys conducted between last September and January showed that there were only slight price increases on 101 items in 30 stores in the Pretoria area.

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

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

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

The council's survey of 101 consumer items showed Pick 'n Pay prices decrease by 0,08 percent during the period.

The research figures showed Pick 'n Pay to be the cheapest supermarket — 3,6 percent cheaper than OK Bazaars, 3,7 percent cheaper than Checkers and 9,7 percent cheaper than Spar

OK Bazaars was 0,1 percent cheaper than Checkers and 5,9 percent cheaper than Spar Checkers was 5,8 percent cheaper than Spar

OK Bazaars' prices increased by an average of 2,5 percent, Checkers's by 1,3 percent, Spar's by 3,1 percent, Pick 'n Pay Hypermarket's by 4,1 percent and Hyperama's by 3,3 percent

The average price increase of the 101 articles was 2,3 percent Groceries increased by an average of 2,1 percent, cleaning agents by 5,8 percent and toiletries by 3,4 percent

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

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

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

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

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

Mrs Hurwitz said over the 10-year period during which the Housewives' League had conducted surveys, Pick 'n Pay was the cheapest throughout

NEWS FOCUS

12/2/86 : BUS DAY (153)

Taxes on petrol come under fire for fuelling inflation

PETER WALLINGTON

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

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

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

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

The AA has in the past recommended a number of steps, including

- ☐ Abolishing or reducing the Equalisation Fund Levy of 1,3c/l;
- ☐ Reducing the National Road Fund Levy from 5c to 2c/l,
- ☐ Pegging customs and excise at 3c/l,
- ☐ Reducing general sales tax on petrol from 12% to 8%;
- ☐ Abolishing GST on pipeline charges,
- ☐ Reducing the wholesalers' margin by 2c/l.

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

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

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

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

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

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

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

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

Petrol industry sources said changes were likely to result from last month's petrol price structure symposium in Cape Town

18% inflation is 'here to stay'

(153)

13/2/86

STAR

By Stan Kennedy

Stockbrokers Simpson, Frater, Stein & Strong forecast that the average commercial rand will be about $0,39 in the current year and inflation will remain at a high of 18 percent.

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

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

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

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

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

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

"However, this has been due to an improved gold price, the tightening of exchange controls, as well as the unwinding of leads and lags

"Although the unwinding of leads and lags has been an important factor affecting the rand's improvement, leads and lags are a temporary phenomenon There will come a time when most delayed export receipts will have been repatriated and the rand will then have to rely on more fundamental factors for support"

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

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

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

If rainfall continues, certain farming products will have to be exported irrespective of international prices or the rand/dollar exchange rate Given the current international maize price of $100/ton and an exchange rate of $0,43, maize can be exported only at a loss

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

Lastly, unless political confidence is restored, an appreciating rand would tend to aggravate capital outflows and further encourage emigration as an economically viable option.

ebruary 13 1986

Over 50 000 have signed petrol petition

STAR. 13/2/86.

153

By Jackie Unwin

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

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

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

Mrs Purkiss said the public had given tremendous support and encouragement

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

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

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

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

FOREIGN EXCHANGE/David de Kock

(153)

13/2/86. Bus. Day

PPP — a popular illusion

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

Even now popular thinking is that, while the rand has become undervalued in terms of purchasing power parity, it can only appreciate to the so-called PPP level estimated at around US$0,60.

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

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

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

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

Guideline

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

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

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

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

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

Right now the rand is undervalued in terms of PPP — ask anyone who has been overseas lately. Just compare the cost of a cup of coffee, in that instance the rand should be around R1=US$2,00. Hotel accommodation, magazines and even a bottle of Coke all give much the same answer.

Concern

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

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

□ *David de Kock is MD, Forisk Currency Management (SA).*

to an insurer in the consortium for a free token That insurer will handle claims (Specified companies will handle claims against drivers who have no token)

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

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

So much for the claims side

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

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

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

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

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

14/2/86

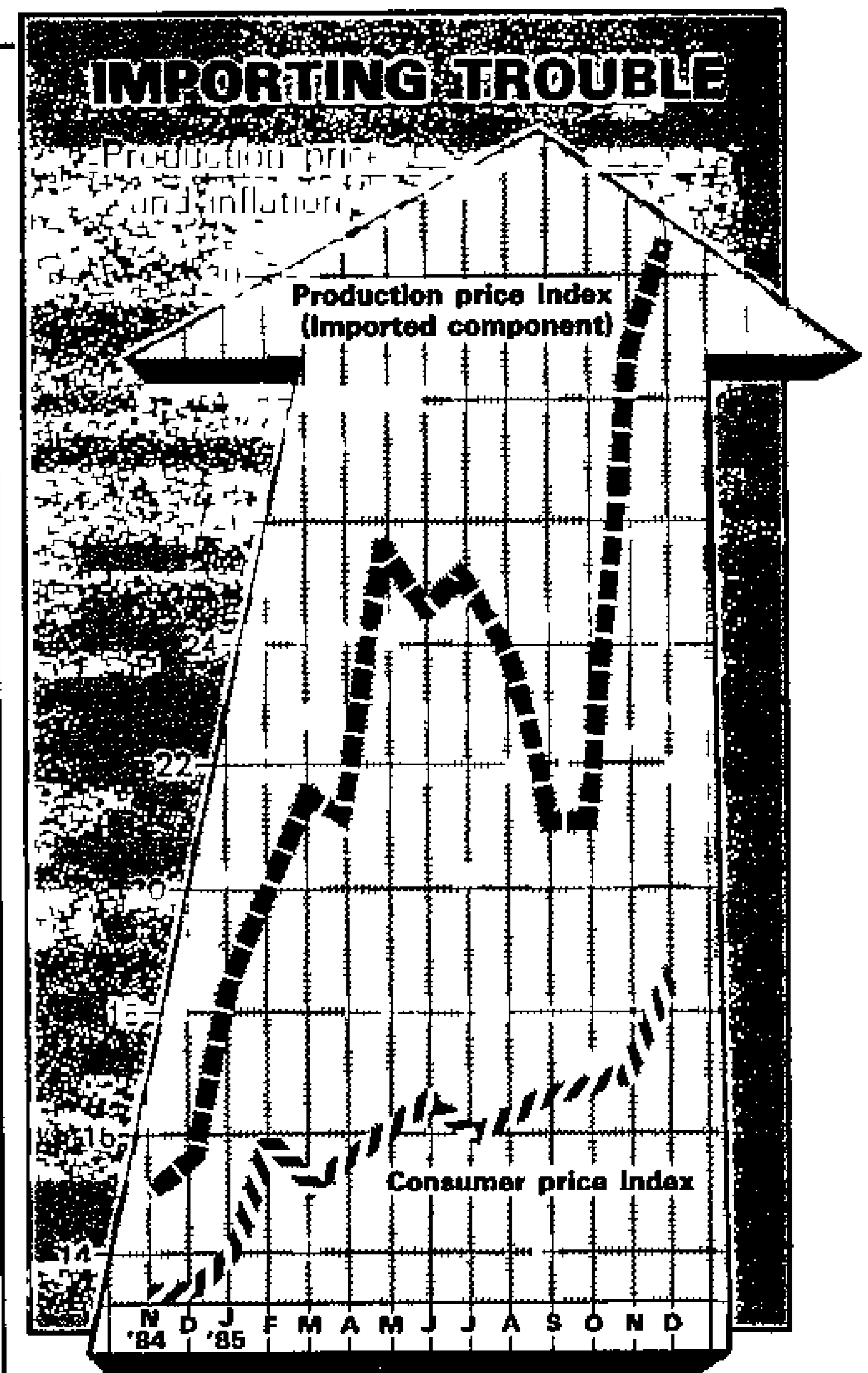
INFLATION 153 FM

More from the PPI

As expected, the production price index (ppi) leapt further for December For all items it was 21,3%, year-on-year This compares to 20,4% for November

More alarming, but expected nevertheless, was that the imported component was 30,7% up, year-on-year, compared to 28,5% the previous month A year before, the 1984 figures were just 14,9% for November and 15,6% for December Locally produced items experienced a relatively small increase, from 18,1% in November 1985 to 18,7% in December

Obviously the plummeting rand is the villain the 10% import surcharge added insult to injury The currency's most recent plunge began in mid-1985, when it stood around US50c Within a few months ppi began shooting up Imported prices have almost a 23% weighting in the ppi Given the lag effects, as one observer put it, "We'll see a few more months of big increases, even with the rand now appreciating"



A major boost for December was the jump in the petrol price by almost 6c/*l* The 2c/*l* increase this January has still to be recorded in the ppi

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

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

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

FOREIGN DEBT

Final solution?

Mediator Fritz Leutwiler this week circulated his proposals for solving the foreign debt impasse.

The proposals, delivered to SA's foreign creditor banks and the Standstill Co-ordinating Committee (SCC), will no doubt be studied in detail before both parties present a firm reply at the next talks in London on February 20

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

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

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

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

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

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

SA had proposed to begin repaying capital in 1990 Now, it is believed, Leutwiler will deliver the message that SA will probably put a certain amount of money up front as a gesture of goodwill to appease edgy foreign bankers Also, it is believed, it has offered to

Mediator Leutwiler . . . playing his last card

raise the rate of interest paid on what in effect are short-term loans that have been converted to long-term loans

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

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

The recent sharp drop in the oil price could work in favour of early agreement For international bankers there is little doubt that loans to Third World countries — granted in the expectation of a high oil price — are the real nightmare

"These days, when bankers think of a debt problem they barely consider SA With a falling oil price, there is no way these debtors can continue with existing arrangements," says a senior source

Meanwhile, the reason for the withdrawal of credit to SA has been much debated

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

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

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

BAREND'S MINI-BUDGET

Finance Minister Barend du Plessis unveiled no surprises in introducing the Part Appropriation Bill, otherwise known as the mini-Budget. It is not the place to announce a clamp on concessions to gold mines for capital expenditure, for example. That type of cruncher is reserved for the main Budget on March 17

Although the speech traditionally contains an economic overview, it is technically only a stop-gap to gain authorisation for State expenditure on voted, as opposed to statutory accounts, until the new Budget becomes law As such it doesn't provide a good indicator of what to expect

Du Plessis told Parliament he needed an additional R10,1 billion to meet interim funding requirements, up 44,3% on last year, but in theory only

Changes in the operation of the Financing of Revenue Accounts Act, according to his Department, saw funds last year transferred to the three Own Affairs administrations under article 84(A) pertaining to statutory payments These were therefore excluded from the Part Appropriation Bill, but this year they fall under 84(B) and must be voted. Adjusting for this technical change, the Department maintains, gives a reasonable 10% rise on a comparable basis.

Reductions in ceiling interest rates under the Financial Charges Amendment Act (the old Ladofca) were simply a formality, since few would enter into new agreements at the old maxima in the light of the general fall in rates.

The speech is essentially historic rather than predictive, but the Minister couldn't resist repeating the rosy forecast of a real growth rate of 3%, compared with last year's 0,5% decline. He also hinted at "imaginative steps" to promote exports

Probably the most telling comment came from Du Plessis' appeal for measures to enable a faster response to changes in the economy during the parliamentary recess. A second session of Parliament has been mooted for years, finance at least seems in need of more flexibility. As Du Plessis is fond of asking, imagine the performance of a company that had to set financial planning a year in advance and stick to it come what may

Beer and matches to cost more

STAR 15/2/86

The price of beer is to increase by an average of 8,7 percent on Monday, SA Breweries announced yesterday

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

"The company has again cushioned the blow on the working man's choice, the 750 ml 'quart' bottle by keeping the increase down to only 7,2 percent"

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

● Matches are going up in price by 3c to 4c a box, an increase of 33⅓ percent

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

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

Mr Heilbron said last night that his company had a long history of keeping prices well below the inflation rate It was now engaged in a modernisation programme to become even more cost-effective and this would enable the company to continue limiting further price increases

(2) (a) and (b): Yes, after the receipt of the representations, but as pointed out in the reply to question (1) (c) (ii), the position is that once a mark has been registered, only a court of law can order expungement if it is satisfied, after hearing the evidence submitted in the prescribed way, that the mark should be removed from the register

(3) No.

HANSARD

Group Areas Act

*29 Mr R M BURROWS asked the Minister of Constitutional Development and Planning

(1) Whether his Department has received any applications from couples who entered into mixed marriages for the issue of permits in terms of section 26(3) of the Group Areas Act, No 36 of 1966, to reside in White areas permanently and exempt from the provisions of the said Act, if so, how many as at the latest specified date for which figures are available,

(2) whether any applications have been granted; if not, why not, if so, how many as at the latest specified date for which figures are available,

(3) whether any applications have been refused, if so, what was the reason for the refusal in each case;

(4) whether he will make a statement on the matter?

The DEPUTY MINISTER OF DEVELOPMENT.

(1) No.

(2) Falls away

(3) Falls away

(4) No

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

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

HANSARD 153 18/2/86 Q. Col 104.

Reserves for combating inflation

*30 Mr L F STOFBERG asked the Minister of Transport Affairs:†

(1) Whether the South African Transport Services have obtained permission to build up special reserves for combating inflation, if so, (a) when and (b) from whom,

(2) (a) what such reserves are at present available in respect of the South African Transport Services, (i) including and (ii) excluding the South African Airways, and (b) in respect of what date is this information furnished?

The MINISTER OF TRANSPORT AFFAIRS

(1) No

(2) Falls away.

Mr D J N MALCOMESS: Mr Speaker, arising out of the reply of the hon the Minister, surely he is aware of the fact that there is a special depreciation allowance for the SATS which creates a reserve in order to be able to purchase goods at current prices and which is in effect a protection device against inflation? If so, does he not consider the answer he has just given to be an incorrect one?

The MINISTER: It has nothing to do with inflation There is a reserve, but it is not for combating inflation

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

The MINISTER: How can we have a reserve if we showed a loss of R400 million this year? There is no reserve. I do not argue that inflation does not exist, but we do not have a reserve to cover inflation. It is a reserve to cover the ordinary deterioration of stock.

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

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

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

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

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

The MINISTER: I can spell that out The hon member is perfectly right, it has nothing to do with inflation The question dealt with inflation Why does this hon member take up this matter? The hon temporary member for Sasolburg asked this question Why does this hon member now ask all these questions?

Maj R SIVE: Mr Speaker, further arising out of the hon the Minister's reply, may I ask him what the difference is between inflation and prices going up all the time?

HANSARD 18/2/86

Moutse: referendum

*31. Mr P G SOAL asked the Minister of Constitutional Development and Planning:

Q Col 106.

(1) Whether he or any member of his Department has received any requests from the residents of Moutse for the opinion of the residents of that area regarding the incorporation of Moutse 1, 2 and 3 into KwaNdebele to be tested by means of a referendum or poll, if so, on what dates were these requests received,

(2) whether these requests were acceded to, if not, (a) why not and (b) who took the decision in this regard; if so, (i) when is this referendum or poll to take place and (ii) how will it be conducted,

(3) whether any member of the Lebowa Government has requested that such a referendum or poll be held, if so, (a) who made the request and (b) what was the response thereto;

(4) whether he will make a statement on the matter?

†The DEPUTY MINISTER OF DEVELOPMENT

(1) No, but a request was received from an erstwhile member of the Lebowa Legislative Assembly at a meeting on 18 November 1985.

(2) No.

(a) In view of the fact that the Government's decision announced by me on 25th September 1985 was preceded by a 10 year period of consultation and investigation by the Commission for Co-operation and Development and by virtue of the report of Dr P S Rautenbach DMS I was con-

153

People 'punch-drunk' over worsening plight

BUS DAY 18/2/86.

LESLEY LAMBERT

PEOPLE entered 1986 punch-drunk and confused because, despite assurances that monetary and fiscal policies were working, their plight was worsening, says Stellenbosch University's Bureau for Economic Research (BER).

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

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

The facts were that inflation was rising — and still is — at an alarming rate.

Latest official pay figures for the first nine months of 1985 show an average rise of 9,3% compared with a 15,8% increase in the cost of living.

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

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

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

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

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

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

POLITICAL REPORT

153

SATS fares to rise up to 15 pc

STAR 20/2/86

By David Braun
Political Correspondent

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

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

The new SATS budget provides for a record income of R9 322 million and working expenditure of R9 420 million, leaving an estimated deficit of R98 million.

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

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

Return airfares between Johannesburg and Durban rise to R326 (R296) first class, R288 (R262) business class and R250 (R228) economy class The R130 (late night economy) is cheapest

Rail passenger fares on inter-city services go up by 15 percent and on commuter services by 12,5 percent from April 1.

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

DOMESTIC AIR FARE RISE (RETURN)

	WAS	NOW
1ST CLASS JOHANNESBURG TO CAPE TOWN	R544	R598
BUSINESS CLASS	R480	R530
ECONOMY CLASS	R418	R460
LATE NIGHT ECONOMY CLASS	R210	R230
1ST CLASS JOHANNESBURG TO DURBAN	R296	R326
BUSINESS CLASS	R262	R288
ECONOMY CLASS	R228	R250
LATE NIGHT ECONOMY CLASS	R120	R130

RAIL FARE RISE (ONE WAY)

	WAS	NOW
1ST CLASS JOHANNESBURG TO DURBAN	R88	R102
2ND CLASS	R62	R72
3RD CLASS	R31,50	R36
1ST CLASS JOHANNESBURG TO CAPE TOWN	R171	R197
2ND CLASS	R121	R139
3RD CLASS	R61	R70

RAIL COMMUTER FARE RISE
(MONTHLY TICKET)

	WAS	NOW
NALEDI TO JOHANNESBURG	R48,50	R55
KRUGERSDORP TO JOHANNESBURG	R54	R61
PRETORIA TO JOHANNESBURG	R88	R99

20/2/86
BUS DAY (153)

Decision on petrol price not likely before mid-March

GERALD REILLY

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

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

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

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

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

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

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

In the process reserve funds totalling R1,4bn had been drained away to avoid drastic price rises.

BUS DAY 20/2/86 (153)

Agriculture may use Sats services even less

Rail increases seen as further aid to inflation

● SCHOEMAN

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

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

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

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

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

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

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

Volkskas chief economist At Engelbrecht said although the increases, and those imposed at the beginning of the year, were below the current 18,6% inflation rate, they would filter through the economy loading costs throughout commerce and industry.

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

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

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

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

He added. "What is more, the estimated loss of R396m for the current year is not a loss at all in private-sector terms."

This was, he said, because apart from a normal depreciation reserve being deducted from profits, a further reserve for higher replacement value of about R600m would be deducted in the current year.

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

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

Labour Party leader Allan Hendrickse said he regretted the increases.

Mohanlal Bandulalla, Solidarity spokesman for transport affairs, said the increases were bound to cause hardship among black communities most of which relied on rail transport.

'Rail tariff increase is inflationary'

Political Staff

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

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

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

"The estimated loss of R396-million for the current year is not a loss at all in private sector terms

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

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

Mr John Malcomess

Passenger service will lose R1 100-m

Political Staff

CAPE TOWN — Rail passenger services will lose an estimated R1 100 million in the next financial year, in spite of the April increases in mainline and commuter fares which will net an extra R27 million

Minister of Transport **Mr Hendrik Schoeman** said in his SA Transport Services budget speech in Parliament that R608 million of the deficit would have to come from the State and R492 million from the profits of harbours and pipelines

The estimated surplus for harbours in 1986/87 is R333 million and for pipelines, R20 million.

20/2/86 BUSDAY

153

Rail and air tariffs rocket in budget

CHRIS CAIRNCROSS

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

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

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

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

The increases announced yesterday included.

☐ Domestic airfares go up by an average 10% from March 1. This means first-class return airfares between, for example, Cape Town and Johannesburg go up from R544 to R590, business-class from R480 to R530, and economy-class from R418 to R460;

☐ Structured increases in rail-goods tariffs go up in a range from 2,2%-15% from April 1. In the case of high-rated traffic, tariffs are being adjusted by percentages varying from 2,2% over short distances to a maximum of 10% over 4 000km.

☐ Rail-passenger fares on inter-city services go up by 15% and on commuter services by 12,5% from April 1. According to Schoeman, the additional revenue obtained will be about R27m for the 1986/7 financial year He still expects passenger rail services will operate at a loss of R1,1bn during the year.

State compensation is consequently expected to amount to R608m, necessitating internal cross-subsidisation of R492m

Schoeman said this cross-subsidisation was made possible only by surpluses realised from pipeline and harbour charges.

The estimated surplus for harbours is expected to be R333m for 1986/7 and R200m for pipelines.

Post Office needs an extra R300-m

29/2/86 STAR 153

PARLIAMENT — The decline in the value of the rand and general cost increases were mainly responsible for the 6,8 percent increase over the original Post Office Budget, Minister of Communications and Public Works Dr L A P A Munnik said yesterday

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

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

- R18,58 million for international commitments.
- R4,1 million for the hire of overseas telecommunications circuits
- R43,39 million for payments to other countries for telecommunications and postal traffic
- R4 million towards the development of communications satellite systems

Total expenditure for 1985/86 was estimated at R261,1 million — R51,492 million more than the original appropriation

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

An extra R124 million was needed for the cost of loans and interest payments, of which nearly R106 million was for higher interest payments on foreign loans because of the lower rand/dollar exchange rate, high level of rates, and the debt standstill.

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

Capital expenditure of an additional R113,61 million was needed for telecommunications This was caused mainly by the less favourable exchange rate and higher GST

Dr L A P A Munnik ... low rand is blamed.

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

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

W/E Argus 22/2/86

153

Inflation 'disaster' — PFP

Weekend Argus Political and Financial Staff

THE jump in the inflation rate to 20,7 percent last month is a disaster not only for consumers but for the recovery of the economy, said the Progressive Federal Party spokesman on finance, Mr Harry Schwarz

"The Government appears to have surrendered completely in the fight against inflation, and South Africa is paying the price In any other Free World country, the Government would have felt obliged to resign"

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

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

Consumer groups have demanded an immediate drop in the petrol price.

Black Consumer Association president Mrs Ellen Kuzwayo said she was dumbfounded "People are starving and children are dying but those suffering don't understand what this inflation figure means"

A spokesman for the Consumer Council, Mr Paul Roos, said the council was shocked by the inflation rate "There are, however, indications that it has reached a turning point, particularly with the improved foreign exchange rate"

FIN·MAIL 21/2/86

153

PETROL PRICES

Cash guzzlers

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

We calculate that, even by conservative estimates, South Africans are paying around 20% too much for their petrol. So for Reef 93 octane, currently priced at 102c/*l*, they should be paying about 80c/*l* This would slash over 5% off the rate of inflation within nine months, giving us a cpi of 13,4% on current figures.

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

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

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

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

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

The landed cost, rated at 65,15c/*l* has risen 83% since July 1984. The rand then was worth US$0,71 It is now worth over US46c, amounting to a depreciation of 35% The past 18 months has also seen a fall in oil prices of over 25% from around US $27,50/barrel for Arabian light (We don't know what SA is paying, but the cheapest around at the moment is below $15/barrel for future delivery.) But even at $23,75/barrel, our landed cost should be around 49,9c/*l* — a big saving of 15,25c

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

Calculations suggest that we pay an excess 20c a litre for our petrol at the pump. Given the influence this key price has on inflation, isn't it time that it was cut?

But there are other factors confusing the landed cost picture It's certainly calculated in a rather peculiar way, based on the average cost of purchasing not crude oil (as would seem logical), but petrol from four refineries in Singapore and the Persian Gulf To this is added freight at over 4,3c/*l*, plus insurance, leakage, landing and wharfage totalling another 1,3c or so, for a cif delivery of 65,15c/*l* to five SA ports.

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

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

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

The transport cost is about 7,5c/*l* for Reef consumers. It must be a complicated arrangement because, claims a Sats spokesman, "some of the transport funding we don't get in our pockets."

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

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

It all seems a bit of a mix-up. At the very least, transport costs should be evened out for all consumers Slashing the cost by 4,5c/*l* to 3c/*l*, but charging it on all petrol sales, would probably earn Sats the same revenue.

The third item is **the oil company wholesalers' margin** of 5,06c/*l* It is already being reduced under a five-year government plan, and we just round it off to 5c/*l*

The retail profit margin at 5,2c/*l* is probably one of the most iniquitous items in the schedule, ignoring the basic pricing mechanism of the free market

A GUESS ABOUT GAS

Petrol make-up	Current government price	FM's saving	New cost
	c/l Reef 93 octane		
Landed cost	65,15	15,25	49,9
Transport cost to the Reef	7 50	4,50	3 0
Oil company margin	5,06	0,06	5,0
Retail profit margin	5,20	2,60	2,6
Sub-total	82,9	22,4	60,5
GST 12%	11,0	3,8	7 2
Sub-total	93,9	26,2	67,7
Customs & Excise	4,0	—	4,0
National road fund	5 0	—	5,0
Central energy fund	4,0	2,0	2,0
Equalisation fund levy	1,3	—	1,3
Sub-total	108,2	28,2	80,0
Less under-recovery	6,2	—	—
TOTAL	102,0	28,2	80,0

Notes See text for details Figures are approximate

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

DEPOSIT RATES

Longer terms higher

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

For most of last year, shorter fixed deposit rates were higher than longer-term rates 20,5% compared to around 16% for the long end Now rates range from 14% for the shorter end to 16% on long-term deposits

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

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

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

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

When 12-month deposit rates were at their highest last March-April (20,5%), mortgage bonds for over R60 000 were around 22% This 50-point differential has widened to 450 points (bonds for over R60 000 are 18,5% and 12-month rates 14%)

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

Last week, owing to a typographical error, the *FM* reported Escom's external funding requirement as R8,6 billion. The figure should have read R3,6 billion The *FM* apologises for any inconvenience.

Nedbank's Dagut ... seeing a liquidity build-up

However, societies argue that while 12-month deposits are a major component in their cost structure (35%-50% of total funding), they are locked in at higher rates set last year.

Lower rates take time to work through to lower bond rates Banks' funding costs fall much more quickly

Rates paid to shareholders are also a major cost factor (30%-40% of total funding) These dropped to 14,5% from last year's 16% high. They last fell in November a further cut, on top of declining savings and 12-month deposit rates, would obviously enable societies to drop rates.

Tindall adds that 80% of building society assets are in mortgage loans, the rest in money market paper The problem is that income from the latter has fallen as a result of short rates dropping. "So margins are narrower than four months ago," he says ■

INFLATION FINMAIL 153 21/2/86

Hope and despair

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

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

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

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

"A stronger rand will obviously ease import costs — a major factor in upward pressure on the cpi We don't yet know the outcome of our foreign debt negotiations, but clearly we'll have to lose at least some current account earnings through capital outflows" Naturally, import costs would continue to rise if the rand responded negatively to this

There is also uncertainty about consumers' reactions to government's "mildly stimulatory economic policy"

"I don't hold with the line that government has gone too far," says Engelbrecht, "not yet anyway" He points out that the stock-to-turnover ratio is low "Retailers will lose turnover if they don't restock Lower interest rates should be encouraging them to buy in"

Apart from stock purchases, continuing export buoyancy and higher agricultural crops should also stimulate the economy. "But all these things can't happen unless final demand picks up

It's really a question of consumers' ability to spend Interest rates are still relatively high. We have high unemployment and high inflation, while in general, most people have not been compensated for cost increases through the wage packet.

"So I'm not sure what the reaction will be to government stimulation."

Biggest problem

Louis Geldenhuys, economic consultant to George Huysamer, agrees that inflation is our biggest problem He expects an average for 1986 around 16%-18% "We've been fighting this for a decade without success. The population has completely lost confidence I'm very disturbed with the standard of the economy and its management," he says

However, not everything is working towards higher inflation, there are positive factors Geldenhuys outlines some of these from his recent report for George Huysamer's *Economic Perspectives.*

These factors could push inflation higher:

- ☐ Government economic policies,
- ☐ Sharp increases in government spending,
- ☐ Capital self-financing through higher prices and tariffs,
- ☐ Dwindling fixed investment spending. In real terms, this has been shrinking continually since its peak in 1981, while,
- ☐ Import costs, rising almost 50% a year since September 1983, are not yet fully reflected in official price indices

And these factors could bring it down:

- ☐ Money supply growth rate has declined considerably (it is difficult for prices to rise on this basis),
- ☐ Personal savings are rising,
- ☐ Appreciation of gold in dollar terms;
- ☐ The possibility that government may contain its budget deficit and avoid increasing indirect taxes,
- ☐ Continuing wage restraint, coupled with modest price increases, especially of food; while,

☐ World disinflation should act as a damper on domestic price increases.

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

TAX HUNTERS

Chancing abuse

21/2/86

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

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

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

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

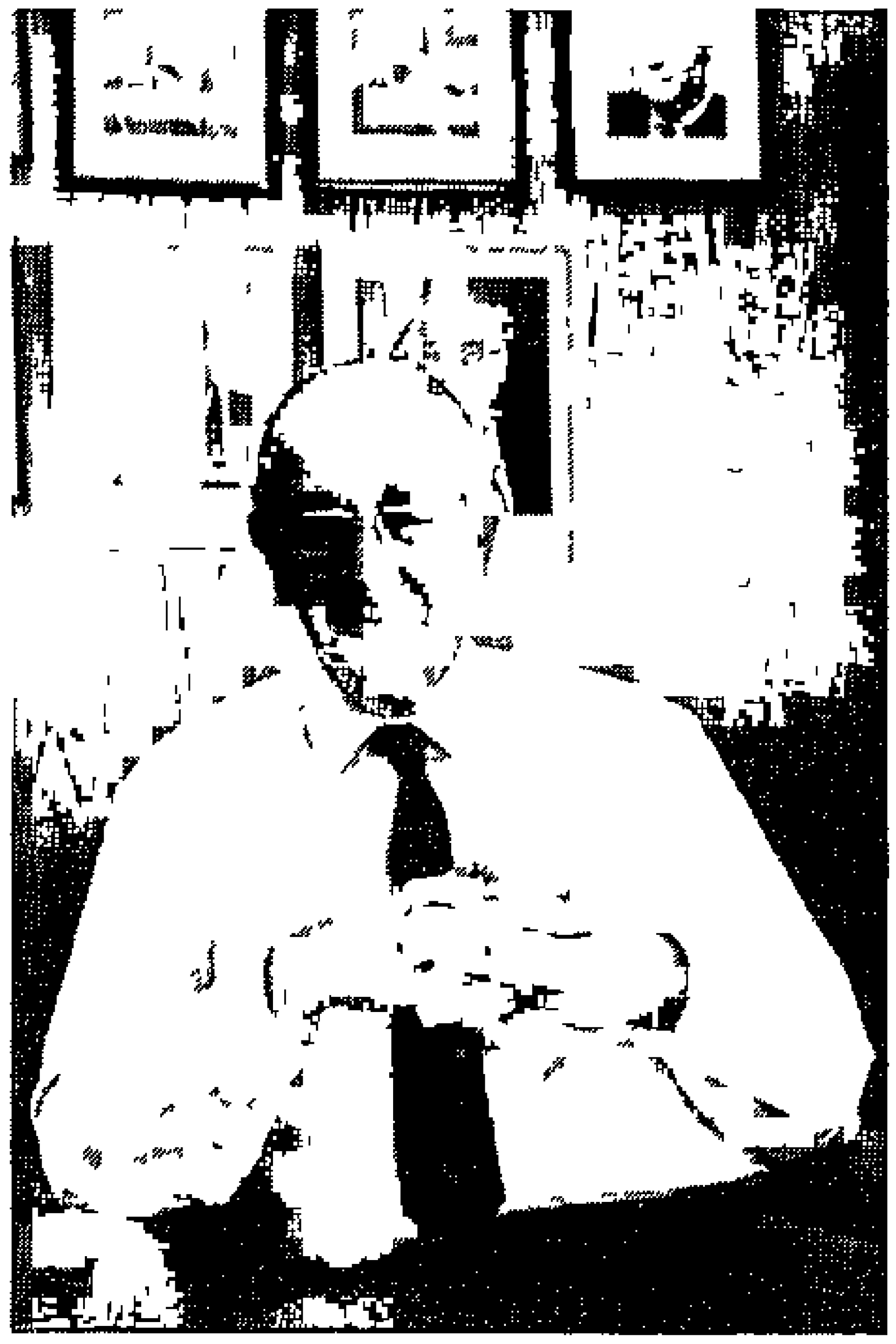
On authorisation from commissioner Carl Schweppenhäuser inspectors may enter premises and march off with books, money, accounts, records and other documents They may ask a taxpayer for details of his assets and liabilities on a particular date, income derived during a particular period, expenditure/details; and other information to help paint the taxpayer's profile

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

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

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

But chances of abuse do exist. Taking a small amount on review, appeal et al, may



Revenue's Schweppenhäuser ... looking for non-disclosure

not justify objection in money terms (It does not help that tax consulting fees are not tax-deductible) *Each* amount which the inspector says is to be taxed has to go through the legal process on its own merits, when each is added up, the total may be considerable

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

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

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

TAXATION

Pipping the post

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

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

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

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

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

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

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

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

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

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

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

Surplus sold at loss but now there's a . . .

Warning of milk shortage, price rise

21/2/86 STAR

153

By Jackie Unwin

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

Yet at the end of last year the board issued an official circular warning that the surplus of 12 809 tons of skim-milk powder was expected to rise to 32 428 tons by February 1987.

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

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

"Milk production has dropped 8 percent for the country as a whole, and in some individual cases by 30 percent."

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

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

Food schemes

He said the surplus stock of skim milk powder at the beginning of the board's financial year in March 1985 — as well as the surplus produced during the financial year was 19 500 tons.

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

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

- Welfare organisations, such as Kupugani, Imqualife, the Kwashiorkor AFC, and the Government food aid scheme.
- Local manufacturers of ice cream, infant food, as well as bulk consumers such as hospitals and mine compounds, at price reductions totalling R10,9 million.

Bigger loss

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

"At the moment, we are exporting between 5 600 to 6 000 tons. It is the last of the older surplus, which is not suitable for human consumption," said Mr Roux.

"Our experience has proved that reducing the price locally creates a bigger loss than exporting."

- In January, Minister of Agricultural Economics and Water Affairs Mr Greyling Wentzel said the increased price of milk would result in a drop in demand and an increase the dairy surplus.

(153) DISPATCH 22/2/86

Inflation soars to new high

Dispatch Correspondent

PRETORIA — Inflation has exploded through the 20 per cent barrier to the highest rate for 60 years, according to the consumer price index released here yesterday by Central Statistical Services

The index jumped by a record 3,1 per cent during January to a year-on-year figure of 20,7 per cent For the year to December the figure was 18,4 per cent

The food index, a major reason for the 20,7 per cent rate, surged by 4,4 per cent in January to a year-on-year level of 19 per cent

Commodities showed an increase of 23,7 per cent and services an increase of 14,7 per cent

For the lower income groups the index reflected an increase of 3,8 per cent in December to a year-on-year figure of 18,7 per cent, for middle income group 3,2 per cent and 20,7 per cent, and for the higher income groups 2,8 per cent and 21,3 per cent

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

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

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

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

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

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

● Bankers said the rand's rise to $0,4980 yesterday had erased doubts of its ability to weather the outcome of the talks on South Africa's debt and it should strengthen further with the pressure temporarily off

They said the rand's steady rise throughout the week was a vote of confidence which was not likely to be quickly repealed

CAPE TIMES 22/2/86

153

Cost of living rises by 20,72%

By AUDREY D'ANGELO

THE cost of living rose by 20,72 percent during the 12 months ending in January, compared with the previous record of 18,45 percent in December, figures released by the Statistics Office show

The cost of food alone rose by 4,37 percent during January and the all-items index by 3,09 percent.

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

Professor David Rees, of the University of Cape Town Graduate School of Business, said "This rise is a bit higher than most people expected . . it does not change general opinion that the inflation rate is expected to fall in 1986"

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

The lower income group index for January was 3,82 percent higher than in December. The middle income group index rose by 3,25 percent and the upper income group index by 2,79 percent

Inflation rate at its highest for 66 years

22/2/86 STAR

153

By Jackie Unwin and David Braun

The inflation rate shot through the feared 20 percent level in January. It rocketed to 20,7 percent — the highest for 66 years

Increases were spread across the board, with food rising 4,4 percent in January against December This hit poorer people the hardest

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

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

inflation rate should start levelling off soon

This would happen because of the recovery of the rand And other factors which had contributed to inflation had been brought under control the money supply was under control, interest rates were lower, production volume was up and the latest transport tariffs increase had been kept well below the inflation rate.

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

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

Calls for cut in petrol price

South African economists are aghast at the increase, but said it was expected. It reflected the depressed value of the rand and the petrol increase

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

Black Consumer Association president Mrs Ellen Kuzwayo said she was dumbfounded "People are starving and children are dying, but those suffering don't understand what this inflation figure means"

But leading economists were hopeful that the upward-spiral inflation pattern would not continue, because of the improvement in the rand

Mr Paul Roos spokesman for the Consumer Council, said it was shocked by the inflation rate

"There are, however, indications that it has reached a turning point, particularly with the improved foreign exchange rate of the past few weeks

"The council would like to see the petrol price dropped to a realistic level as soon as possible'

Mr Clive Weil, managing director of Checkers, said "It is a frightening figure — a psychological benchmark."

Mr Richard Cohen, director of Pick 'n Pay, said "It is disgusting There is no Government control, and one questions whether it is serious about the welfare of the people. A main reason for this high inflation rate is the import surcharge, and we appeal to the Government to consider doing away with it."

Mrs Joy Hurwitz, president of the Housewives League, said Inflation is consuming us It is an area the Government should be attending to more than any other Until that is right, there is no hope that the economy will come right."

Tonight! TV Award winners Pinkie Ngese (left) and G
Jacqueline Douguet — French star of the latest Sun City
Dudu Mkhize (right) at yesterday's award ceremony in Johan

Surprise for TV a

By Janine Walker

At the Tonight! TV Awards ceremony in Johannesburg yesterday some winners were overcome with emotion — and one had good reason to be dumbfounded

Patrick Shai won an award as "best actor in a single drama" on TV2/TV3 for his role in "Jason Modjadji" and was astonished to find that it was not his photo on the presentation plaque An SABC gremlin resulted in the wrong photo being sent to *The Star* for mounting on the plaque

He had the audience crying

He had the audience with laughter at his go moured acceptance

The winners were

- Best single drama. TV1 Gray Hofmey Weeks in Paradise" TV2 3. Bill Pyli Kubheka for "Kwakuhle Kwethu"
- Best drama series. TV1 Koos Roe perasiestories" TV2 3 Bernie Buys fo lii
- Best performance by an actor in a sin TV1 Wilson Dunster for his role in "Tw Paradise TV2 3 Patrick Shai for h "Jason Modjadji"
- Best performance by an actor in a ries TV1 George Ballot for his role in man" TV2 3 Ndaba Mhlongo in "Intam
- Best performance by an actress drama. TV1 Trudie Taljaard for her rol Weeks in Paradise and Die Haru TV2 3 Pinkie Ngese for her role in "Uno
- Best performance by an actress in a ries. TV1 Marie Pentz for her ro'e in "K

Expert expects sharp CPI drop

Economics Reporter

THERE should be a sharp drop in the consumer price index (CPI), when the February figures come out, and the average rate for 1986 will be 16,5-17%, according to Rudolf Gouws, new group economist at Rand Merchant Bank.

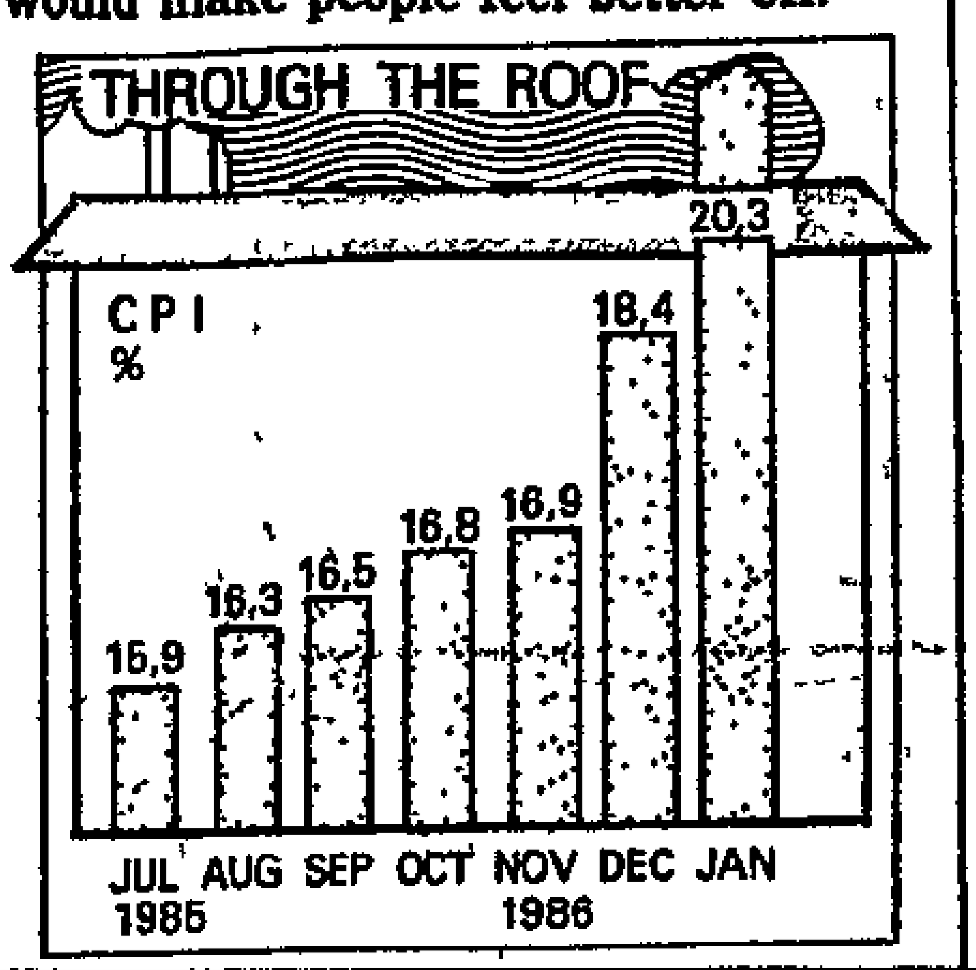
All economists have been surprised by the January rate of inflation, which at 20,7% was at least 1% higher than expected, Gouws adds

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

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

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

He says the next budget will be crucial, as the right tax cuts could defuse expectations as greater take-home pay would make people feel better off.



Pick'n Pay says it will test petrol order

153

ST(PM) 23/2/88

By Jackie Unwin

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

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

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

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

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

"I personally am shattered that the Government would make this decision with our inflation rate so high," Mr Ackerman said

More pension funds regulate increases

CAHC Trans 26/2/86 153

By AUDREY D'ANGELO

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

The average annual increase granted to pensioners is more than 8,5 percent — but this still lags well behind the current inflation rate of 20,7 percent

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

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

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

Trend

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

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

"About 88 percent of the pension funds analysed allow all employees to become members of the same fund," the report says

"Of the remaining 12 percent, all but three funds have separate arrangements for those categories of employees excluded from the main fund, usually for practical rather than discriminatory reasons"

Discussing inflation, the report says: "Pension fund sponsors are much more aware these days of the effect inflation has on the income of existing pensioners

"No less than 90 percent of the participants review the benefits of their pensioners regularly."

Contributions paid by employers vary widely, from 3,5 percent to 28 percent of the employee's salary

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

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

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

"It is, however, an area which will have to receive attention over the next few years"

26/2/86
STAR

Car prices to go up — again

133

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

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

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

Manufacturers say new vehicle prices still lag well behind the increases in the prices of imported components

Feb. 1986

153

BP hits at Ackerman over 'oil protectionism'

Petrol giant clamps down on Pick'n Pay

Bus Day

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

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

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

This dramatic move brings to a head a long-running dispute, between Pick 'n Pay on the one hand and government and oil companies on the other, in the group's battle to discount petrol at its 12 filling stations

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

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

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

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

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

He said Pick 'n Pay would attempt to

E HAFFEJEE takes down the "double price" sign at the Boksburg hypermarket.

PETER WALLINGTON

continue negotiations with the DMEA and the oil companies.

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

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

In other developments yesterday

□ PFP energy spokesman Brian Goodall said it appeared the oil industry was doing the DMEA's dirty work for it

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

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

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

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

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

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

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

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

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

"From this it should be quite clear that Ackerman's allegation is totally unfounded" Sims said

Toyota raises prices 5%

BUS DAY 26/2/86

ALAN RUDDOCK

CAR prices are going up by another 5%.

Market leader Toyota confirmed yesterday that its prices would go up on Saturday by an average of 5% — except on the latest Cressida model.

Other manufacturers said they would follow Toyota's lead within days

Saturday's increase is the first of the year. The last increase, 8%, was at the end of December. Further increases, also of about 5%, are expected on quarterly

The latest increase means that in the past 12 months car prices have risen as much as 28%

Commercial vehicle prices are also expected to rise 6%-7% next week. Manufacturers say prices, especially in the heavy vehicle sector, will increase about 35% this year, with four more phased increases at two-monthly intervals.

Manufacturers say they cannot increase their prices until the market leader moves.

"There is no price-fixing. If there were prices would be even higher. We all need substantial increases but are restricted by what Toyota decides to do," one manufacturer said.

While input costs have soared in the past 18 months, manufacturers say price increases have lagged far behind and they are still trying to close the gap.

They believe the price increases will be balanced by easier hire purchase terms and lower interest rates.

However, the timing of the increase leaves no room for pre-emptive February purchases Indications are that the February market will be between 16 000 and 16 500 — up on January's disastrous 13 859, but still below the encouraging monthly sales in the last quarter of 1985.

The latest price increases are expected to deal a blow to passenger car sales in March. However, recovery might be stimulated by traditional factors such as the delivery of government vehicles.

MPs urge Govt to cut rail fares and tariffs

STAR 27/2/86 153

Political Staff

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

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

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

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

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

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

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

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

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

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

Earlier, Mr Myburgh Streicher (NP, De Kuilen) said SATS had to increase tariffs because of "external factors completely beyond its control"

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

Mr W Vause Raw (NRP, Durban Point) said the SATS budget was "a disaster" which would hit every South African

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

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

EXPECTED

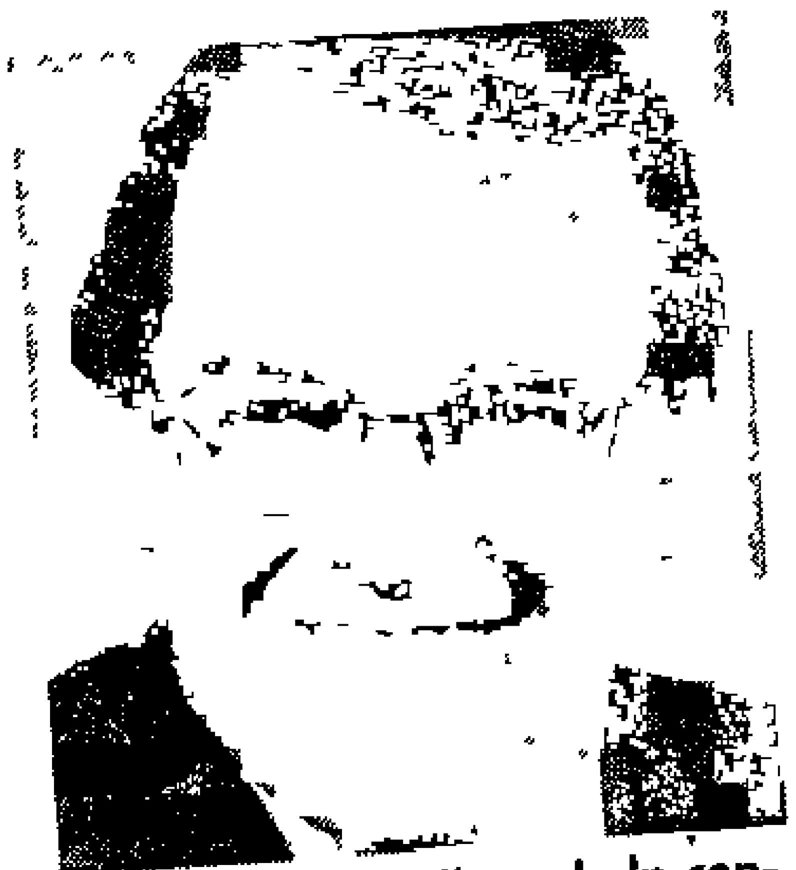
Another energy factor in the SATS budget was an expected rise in electricity tariffs, and yet Escom had announced that its expenses were to be cut by millions of rand

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

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

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

"I query, however, if it is necessary that over 38 c a litre of the new price will go in taxes, duties and levies of various sorts. They now account for over 40 percent of the petrol price," Mr Goodall said



Mr Brian Goodall . . . help contain inflation

Dr Piet Welgemoed . . to break even

Post Office rates likely to increase

STAR 27/2/86

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

The Minister of Communications, Dr Lapa Munnik, is to ask Parliament to approve a record R5 400 million budget for the Post Office for the coming year.

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

According to the Post Office Appropriation Bill tabled in Parliament today, the total expenditure for the Post Office for the year ending March 31 1987 will be just over R5 400 million.

Staff expenses will take R1 500 million, financing costs R665 million and capital expenditure on telecommunications R1 400 million — Political Staff

PARLIAMENT

Bus DAY

27/2/86

Govt puts Ekangala incoporation on ice

BARRY STREEK

GOVERNMENT has backed down on its controversial decision to transfer the black township of Ekangala to the KwaNdebele homeland on April 1 — al though the move could take place later

Deputy Minister of Constitutional Development and Planning Piet Badenhorst yesterday told the House of Assembly that the incorporation of Ekangala into KwaNdebele "in the near future is not under consideration"

This conflicts with statements earlier this year by the Commissioner-General for KwaNdebele, Gerrie van der Merwe, that Ekangala would be transferred to the homeland on April 1 this year

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

It also lead to a row on American television network's ABC's Nightline series on SA last year, when Black Sash president Sheena Duncan clashed with Minister of Development Aid, Dr Gerrit Viljoen on the issue.

● BADENHORST

● SOAL

However, Badenhorst said in reply to a question tabled by Peter Soal (PFP, Johannesburg North), that possible incorporation of Ekangala into the homeland "has not been finalised"

It now seems unlikely incorporation will take place before KwaNdebele's scheduled independence in December this year

Bus DAY

27/2/86

Fuel price cut could have been far more

ORMANDE POLLOK

OPPOSITION parties yesterday criticised government for not reducing the petrol price by more than the 8c and 10c a litre

Spokesman for the Progressive Federal Party, the Conservative Party and the New Republic Party were unanimous in their criticism but welcomed the cuts at the same time

Brian Goodall, (PFP) said "With the price of oil in dollars down by a third and the rand up by over 40% from its low point, 10 cents was the minimum decrease one was looking for "Obviously this decrease will help to contain inflation but, it should be the first of many downward adjustments'

However, Goodall questioned whether more than 38 cents per litre should be for taxes and levies of various kinds.

Dr Frans van Staden, the CP's spokesman, said the party welcomed the decrease as it had been asking for it for sometime.

Ralph Hardingham, spokesman for the NRP, also said that while welcoming any cut in the price he regretted that it could not have been more.

Barend stonewalls question about bail for banks

Bus DAY 27/2/86

CHRIS CAIRNCROSS

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

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

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

However Du Plessis did note in his reply that the Reserve Bank regularly provided financial accommodation to banking institutions by rediscounting Treasury bills, bankers' acceptances government stock and other financial assets for them, or by extending loans against the security of such assets

'Trojan horse' attack recalled

Bus DAY 27/2/86

PATRICK CULL

TRANSPORT Affairs Minister Hendrik Schoeman said yesterday he had no knowledge that a SA Transport Services vehicle was going to be used in the notorious "Trojan horse" episode last year in which a number of youths were killed or injured

Schoeman gave this assurance in the House of Assembly in reply to a question from Opposition transport affairs spokesman John Malcomess (PE Central)

Speaking during the second reading debate of the transport budget, Malcomess said a Sats vehicle had been used in Langa, Cape Town, as a decoy vehicle on which police were hidden. While driving down a street in a problem area, police emerged from the truck, opened fire and shot several youths

Malcomess asked whether Sats had realised that relatives of Sats employees might have been killed — and, perhaps, had been killed — in the incident.

"What sort of relations are you building with your 110 000 black, coloured and Asian staff?" he asked, adding it was possible that Sats property could have been singled out for attack as a result of the police action

Pass on your fuel-price saving, Sats told

Bus DAY 27/2/86

TRANSPORT MINISTER Hendrik Schoeman was challenged to pass on to the consumer the minimum of R100m that SA Transport Services (Sats) would save in a year as a result of the fuel price cuts announced earlier yesterday

John Malcomess (PFP Port Elizabeth Central) said during the second reading debate on the Transport budget in the House of Assembly that besides the "massive" saving as a result of the price cuts, Sats would not be paying the Third Party insurance levy on fuel to be introduced soon.

"I challenge the Minister to reduce rail fares and tariffs now," Malcomess added.

INFLATION FIN MAIL 28/2/86 153

No panic . . . yet

"Don't press the panic button," seems to be the consensus about the record post-war inflation rate — although the surprising thing is the number of economists who didn't think it would break through the 20% barrier, into the banana republic league.

But late last week the announcement came that the cpi for January, year-on-year, had rocketed through that psychological barrier, to 20,7%. Comparing this to 18,4% for December and 16,9% for November, consumers will be forgiven for panicking, but "take heart," economists generally believe that most of the weak rand cost pressure has worked through the system.

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

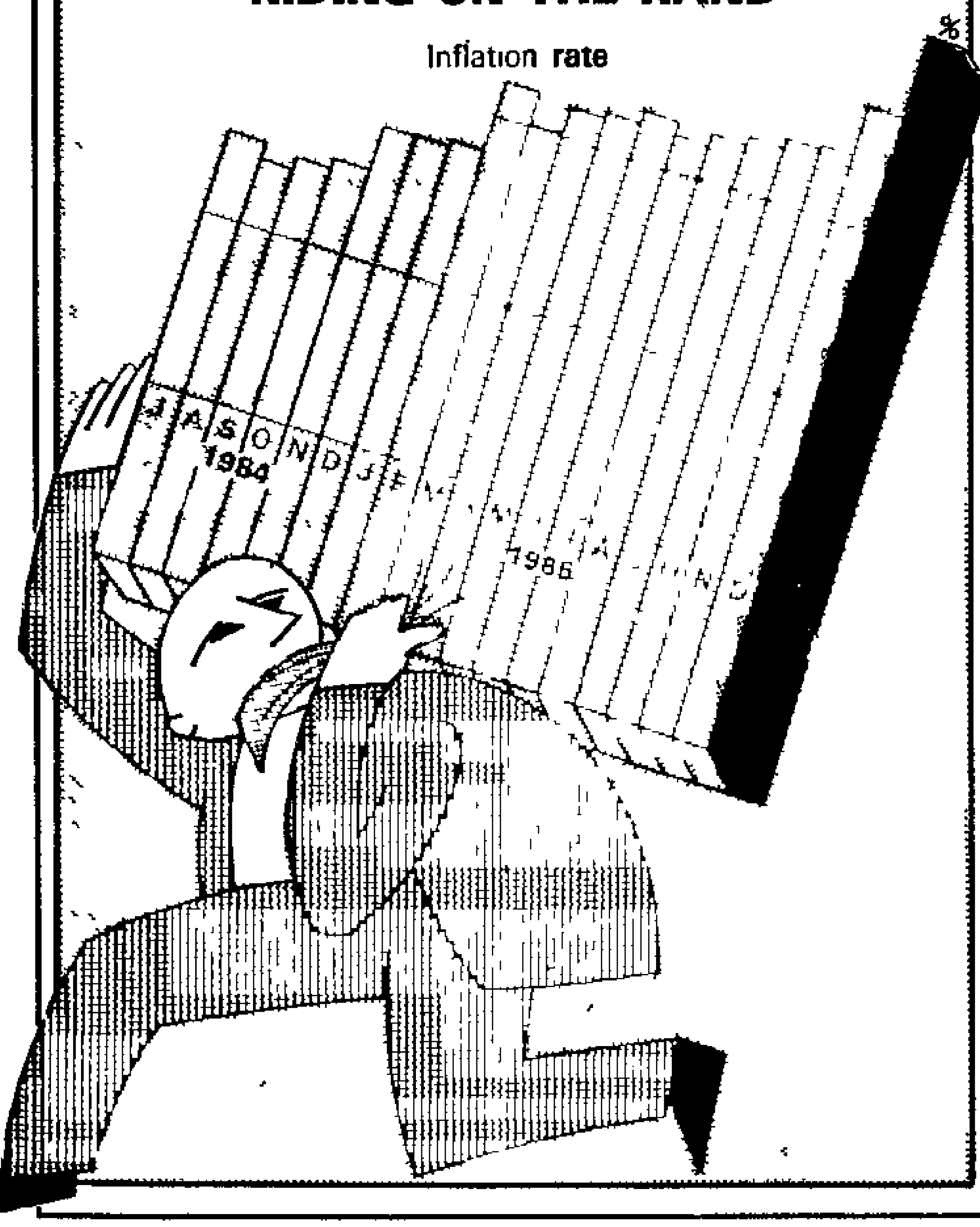
From its trough around the end of August, it has risen no less than 46,9%.

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

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

RIDING ON THE RAND

Inflation rate



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

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

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

Economists are now left hoping that capital outflows associated with the debt repayment programme won't push the rand back to under US50c. ■

Structural changes evident

Inflation damper on export earnings

153 BD DAY 28/2/86

JOHN TILSTON

INFLATION has severely dented export performance in the past year but there is hope that structural changes have taken place in some export sectors.

An analysis of January's preliminary trade statistics shows that export receipts were 20,33% higher in January than the same month last year, once the nominal effect of the rand's change in external value has been accounted for

However, prices within the economy increased by 20,7% over the same period The nominally higher export receipts have made no real contribution to the economy.

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

Imports seem, as expected, to have been dampened by the rand's value. The jump in January to R2,86bn from last January's R2,36, is almost wholly accounted for by "unclassified" goods, probably oil and arms.

In January last year the average value of the rand was \$0,4624. Last month the average value had climbed back to \$0,4246 from the depths it had reached in the second half of 1985 However, during this period the dollar shed 25% of its value.

"Unclassified" exports, which include gold, diamond, uranium and arms sales, accounted for 47,8% of exports last month.

Europe is the largest importer of SA goods

America accounted for only 9,4% of total exports.

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

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

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

Industries involved with wood have boosted foreign sales by 119%

Other successes include cement, stone, asbestos and glass, up 148%, animal and vegetable fats, up 122%, vegetable products, up 90%, vehicles, aircraft and their parts, up 82%, prepared foodstuffs, up 84%.

Effect of inflation on housing prices in Port Elizabeth

E.Pos 28/2/86 (153)

"THE horrific inflation rate of 20,7% will have an affect on housing prices throughout the Republic and Port Elizabeth.

"However, a decline in inflation can be expected

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

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

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

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

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

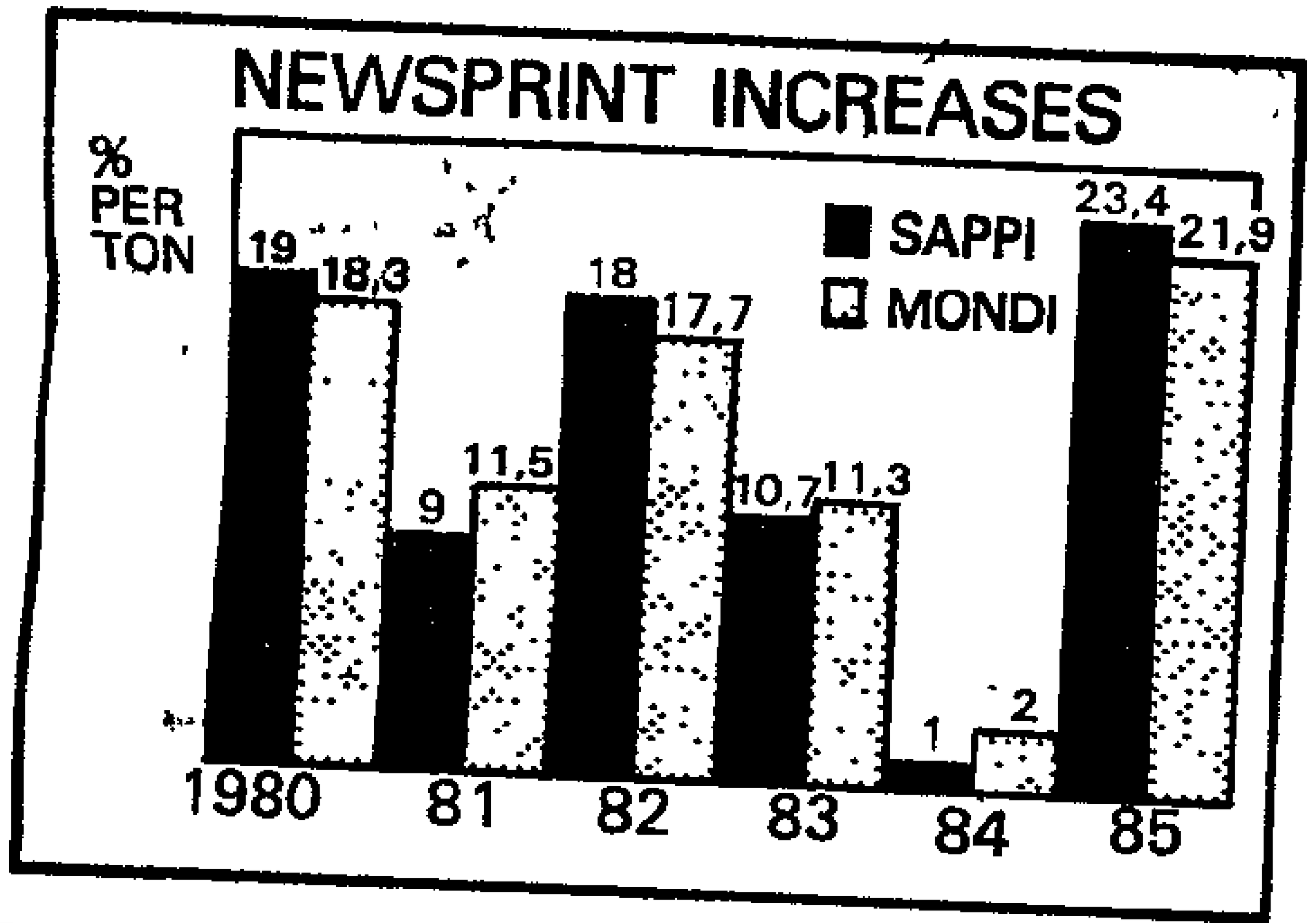
"With the increased demand for bond fiannce, building societies will once again have to ensure that valuations are realistic and that prospective home owners are able to afford the type of property that they wish to purchase

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

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

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

"We look forward to the day when people in the financial world look at a white or a black housing problems on an overall basis for the entire country where the standard of housing enjoyed will depend on income alone"



Newsprint rise might trouble publications

BUS DAY

LAWRENCE BEDFORD

SHARP increases in the price of newsprint could spell trouble for some publications.

Hal Miller, executive chairman of the Argus Printing Company and chairman of the Newspaper Press Union (NPU) industry committee that negotiates with papermills, confirmed yesterday that talks were going on with Sappi and Mondi

However, he refused to comment on claims by industry sources that the mills were claiming increases of 17%. The sources added that an announcement on an increase for the first six months of 1986 was due shortly, possibly this week.

Describing the present talks as routine, Miller said. "To say more than that we are negotiating to keep the increase as low of possible would be counterproductive at this stage of discussion."

He added: "Behind the scenes, there is negotiation going on about the possibility of a new newsprint contract with the mills to replace the existing one We're also talking about the current price of newsprint"

Sappi and Mondi officials refused to comment beyond saying they expected a price announcement to be made through the NPU this week.

However, Mondi newsprint marketing manager Sandy Blades said demand for newsprint last year — when several titles, including the *Rand Daily Mail* and *Sunday Express*, disappeared — fell more than 15%.

Demand for newsprint has almost halved since 1975, when suppliers were looking at sales of about 250 000 tons a year The 1985 newsprint requirement was about 130 000 tons.

Newsprint prices were adjusted twice in 1985 to take into account the switch to thinner paper.

"Jack and Jill", Mr and Mrs Everyman, have had enough. They are not prepared to accept the latest petrol price rise. Pensioner Mr Jack Huber and a young housewife and mother, Mrs Jill Purkiss (holding baby Daniel) are launching a petition asking the Government to fight inflation and drop the petrol price.

153

PFP sees anger over 'fictitious' hike

By Jackie Unwin

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

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

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

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

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

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

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

HIGH PERCENTAGE

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

"It is a fictitious levy.

"People see the oil price overseas coming down and are asking why we are paying more for petrol in South Africa."

Surprise overnight increase in fuel price shocks motorists

STAR 2/1/86

New Year petrol blow

(153)

By Maud Motanyane and Jackie Unwin

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

On the Reef, the cost of premium (93 octane) has risen by 2 c a litre, bringing the price to R1,02 c a litre.

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

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

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

PETROL

Date	Cents per litre:
April 1970	9,9c
July 1972	10,2c
December 1972	10,4c
January 1973	10,9c
November 1973	12,4c
February 1974	15,1c
April 1976	23,8c
March 1979	39,3c
June 1979	54,2c
April 1980	54,4c
July 1981	61c
April 1982	64,6c
September 1982	65,2c
February 1983	63,6c
August 1983	59,6c
July 1984	63,5c
January 1985	88,5c
April 1985	90,1c
September 1985	94,6c
November 1985	100,5c
January 1986	102c

(Witwatersrand price)

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

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

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

Mr Gordon Hoult, general manager of Pick 'n Pay supermarkets, said the prices of toiletries, soap powders, coffee, tea and other items would probably rise during the first months of the year. Bread, mealie meal and milk were also expected to cost more.

Mrs Ina Perlman, Operation Hunger's director, said appeals for food were pouring in from all over the country.

"Black people and pensioners are the hardest hit. But the problem will worsen among all racial groups as unemployment rises."

Mr Richard Cohen, director of a supermarket group, painted a grimmer picture.

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

'Bread and marge'

Because of the surcharge, margarine prices have gone up by 10 percent and manufacturers say that another increase is in the offing.

There is already speculation that the price of bread will go up again should the Government not subsidise the higher farming costs resulting from fuel increases. Bakers have already asked the Wheat Board for such an increase.

Mr Owen Dinsdale, managing director of Barlows Manufacturing, said television sets would be affected because of the number of imported components.

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

Pharmaceutical companies said that prices of medicines, particularly drugs, would also rise because of the adverse economic conditions and increases in the price of raw materials.

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

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

'Motorists should have had more warning'

By Sue Leeman, Pretoria Bureau

There was little advance warning of last night's petrol price increase from either the Department of Mineral Affairs or the Department of Transport or Transport Services.

Confusion resulted from the sudden news this morning that the price had already been increased at the pumps.

A Department of Mineral and Energy Affairs spokesman said today there had been no announcement by the Minister, Mr Danie Steyn. The spokesman said he did not yet have specific details of the increase.

The Minister of Transport, who recently announced rail tariff increases of around 15 percent, said at the time the cost of petrol could be affected, but did not elaborate.

Head of the Motor Industries Federation, Mr Danie van Huyssteen, said today the rail tariff hike had made a petrol price increase unavoidable.

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

He was surprised that the relevant Government departments had not been more forthcoming.

A Mineral and Energy Affairs spokesman confirmed this morning that the department would be reviewing the petrol price at the end of this month. This raises the possibility of a further increase.

Minister Mr Danie Steyn said at the time of the last increase in December that unless the rand recovered to 45 US cents by the end of 1985, another increase would be considered.

The rand has hovered at less than 40 US cents for some months now and saw the New Year in at a similar level.

3/11/84 BUS DAY (153)

Fuel price rise shocks transport industry

ALAN PEAT

THERE is anger in the transport industry and various organised bodies at the latest variable fuel-price increase ascribed to the 15% average tariff rise by SA Transport Services

Sats transports oil through the Durban-Johannesburg pipeline or by rail and road.

It has been described as "virtually a means to subsidise Sats' loss-making activities".

Further bad news is that another increase is expected soon as a result of the exchange rate.

Mineral and Energy Affairs Minister Danie Steyn announced a "half-price" 6c/l increase on November 11 The increase was only half that needed and, if the situation did not improve, the price would have to be reviewed early in the new year, said Steyn.

The new increase, varying in amount, is different in all the country's 30 fuel-price grid areas — dependent on the transport distance from source to purchase point

Coastal areas such as Durban and Cape Town face no increase. The Witwatersrand has 93 octane petrol increasing to R1,02/l (1,8c due to the tariff increase and an extra 0,2c for GST) and a diesel pump-price of R1,02.

The various increases are fed into the Sats' pipeline fund, which was devised to maintain and run the Durban-Johannesburg fuel pipeline.

But, according to several observers, Sasol and Natref on the Highveld now supply the bulk of the fuel needs on the Reef.

33 ~~244~~

Petrol price rise provokes Govt departmental squabble

STAR 3/1/86 153

By Sue Leeman and David Braun

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

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

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

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

However, the department s Director of Energy Provision, Mr Lourens van den Bergh, defended the increase

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

It was the department's policy to have one price as chaos would result from separate prices for petrol-from coal and that produced from crude oil

Mr van den Bergh added that Sasol was an import-replacement industry (invoervervangings bedryf) and if there was no price control on petrol Sasol would be able to increase its prices when the cost of petrol produced from crude oil rose.

Undertaking

Thirdly, he said, Sasol had received the undertaking when it went private that the price of Sasol petrol would be the same as that produced from crude

The Minister of Transport, Mr Hendrik Schoeman, has questioned the increase and denied that the January 1 rise in rail tariffs had made it necessary to raise the price by 2 cents a litre

Increased rail costs, he said, should have necessitated a much smaller rise of around 0,5 cents

Transvaal motorists were the victims of inconsistent Government subsidies and pricing policies the Progressive Federal Party said today

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

STAR 3/11/86

New calls for fuel price probe

153

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

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

On the Reef, the cost of premium (93 octane) increased to R1,02 a litre.

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

Botswana residents will pay R1,08 for a litre of 87 octane — 4 c up on the 1985 price.

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

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

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

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

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

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

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

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

He said it would adversly affect the already high inflation rate and would have a ripple effect on various other products.

Pumps idle as motorists digest shock of increase

STAR 3/1/86 153

By Estelle Trengove

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

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

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

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

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

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

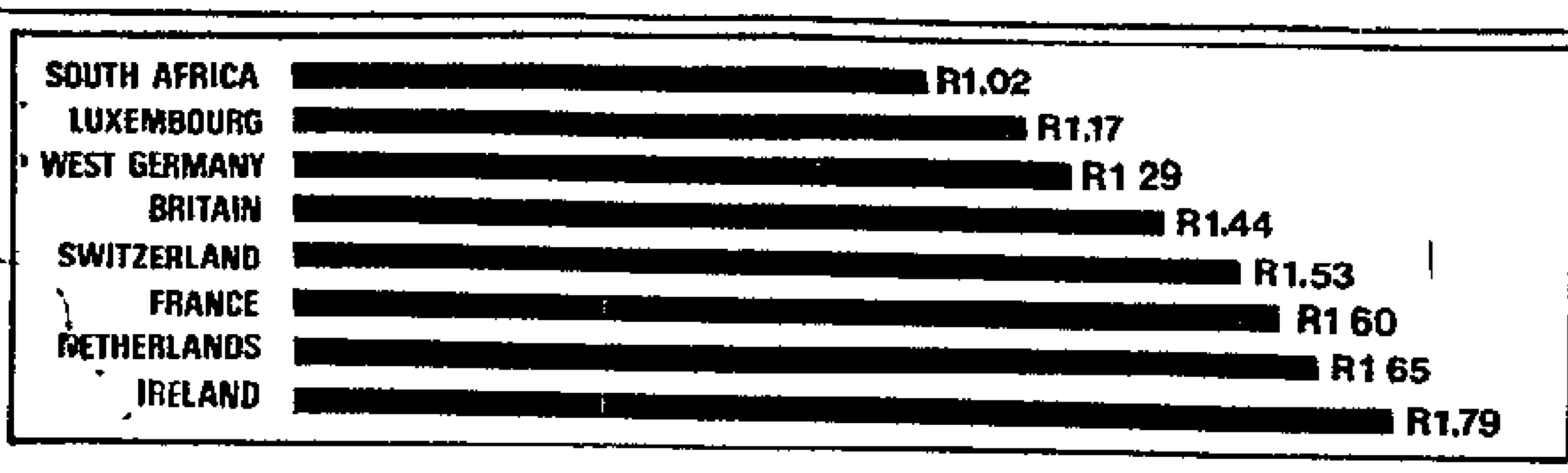
Mr H A Wallace described the price hike as ridiculous. Shrugging, he added: "But what can you do?"

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

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

pletely.

r of the NPP,
pa



Fuel price in rands 'cheap'

4/1/86 153 STAR

Staff Reporter and The Star Bureau

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

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

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

The cheapest petrol in rand terms in Europe is to be found in the socialist state of Yugoslavia where it costs R1,08 a litre

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

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

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

Transport cost

"(1) The increase in transport cost as determined by SATS and as announced previously on November 26 1985 by the Minister concerned

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

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

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

4/1/85 STAR

Broker predicts tax cuts, less fiscal control

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

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

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

The overall exchange index rose by 33 percent last year.

● The rand has started 1986 on a firm note and is testing the 40c US mark The latest rand-dollar rate on the JSE was 39,5c US, the gold price on the London Stock Exchange was $326 and the JSE industrial overall index reached a new high of 1 069,5

153 BUS DAY 6/11/86

Registered

Battery of price increases coming, says Hirzel

CHERILYN IRETON

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

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

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

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

Pick 'n Pay announced it would hold the milk price down as long as possible and blamed government for the increase.

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

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

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

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

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

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

"At the moment, supermarkets are subsidising home delivery," said Summers. "To prevent further increases, we will have to look at abolishing this. However, dairies know that if they do so, consumption will drop."

Back to school could mean tears for parents too — in a uniform shop

STAR 6/1/86

153

By Janet Heard and Jackie Unwin

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

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

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

BUYING LESS

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

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

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

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

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

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

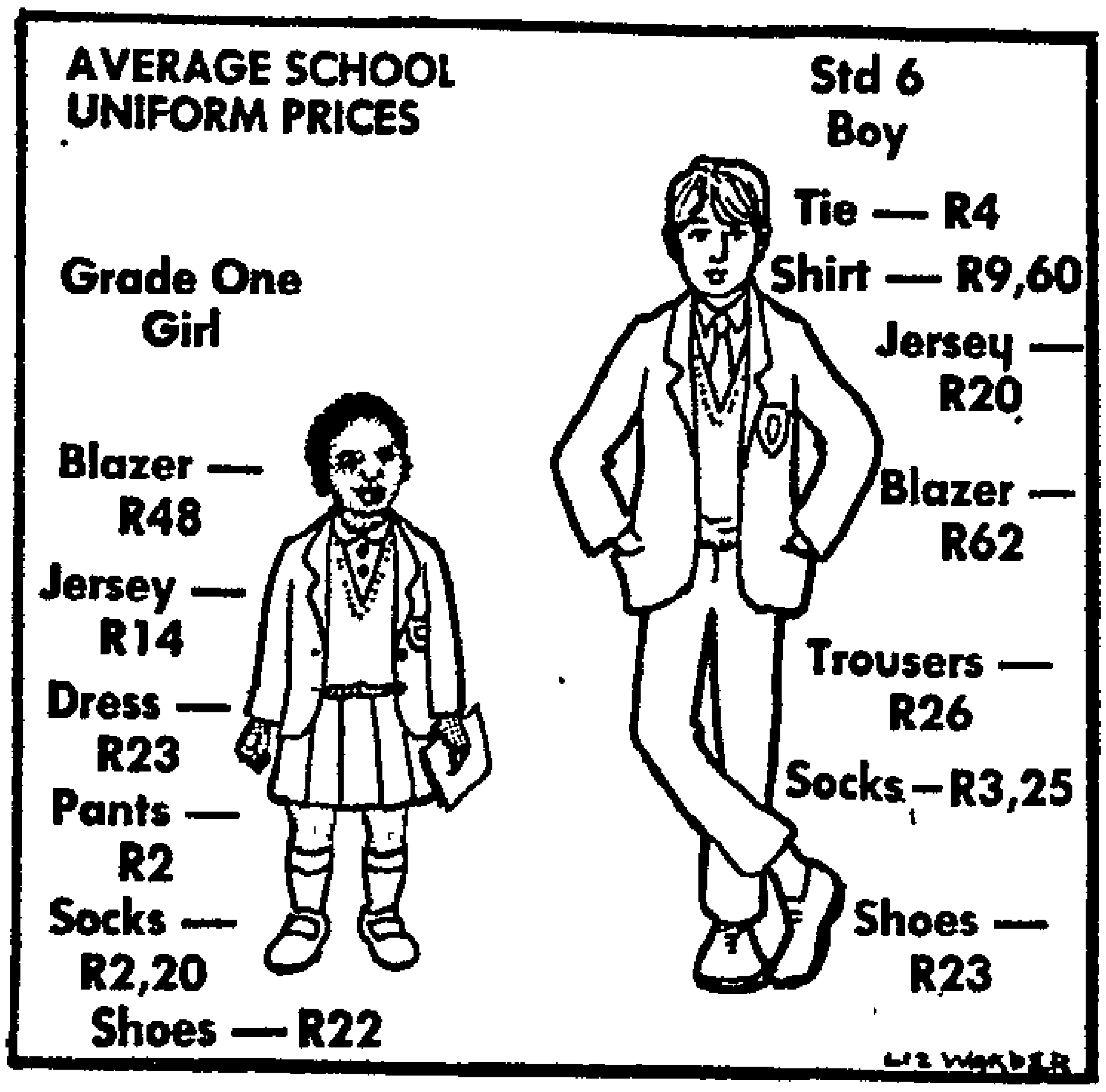
FASHIONS

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

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

The trend toward tracksuits replacing traditional school uniforms in many private and Government schools is continuing And many schools, particularly primary schools, have dispensed with blazers to cut costs

Tracksuits cost between about R21 and R35, and replace the blazer and dress or trousers



Oil firms challenge fuel price rise

BUSDAY

6/1/81

153

ALAN PEAT

OIL companies have challenged an official Press statement on the petrol price increase

Transport Affairs Minsiter Hendrik Schoeman was reported on Friday as having said that the 2c increase of 93 octane petrol on the Reef was not due to the average 15% increase in rail tariffs which came into effect on January 1

The increase in goods transport tariffs would have made only a 0,5c/l price rise necessary, he said

But, say the oil companies, Schoeman has misunderstood the reasoning for the grid price increases and final fixing of pump prices

The figures, worked out from the rail transport distance of each sales or filling point from the source of the fuel, were calculated by BP in its capacity as secretary company to the oil companies

"The price of petrol has been increased in certain areas because of the SA Transport Services' (Sats) 15% tariff increase," said a spokesman for a major oil company "This increase was announced by Minister Schoeman in November

"The price increases are only a result of increases in railage cost and general sales tax

"The oil industry increased prices in affected areas with the approval of the Department of Mineral and Energy Affairs

"Most pumps at the moment can only register in 1c units

"To alter a price to a round cent, it must be either rounded up or down

"In the case of 93 octane, it was over the cut-off point and, therefore, rounded up."

Coastal petrol pricing led the way

ALAN PEAT

DURBAN and Cape Town are not the places to live if you are worried about the rate at which your petrol price increases — despite the fact that the two coastal cities escaped the latest rise.

Driving in these two cities a year ago, you would have been forking out 57,8c/l for 98 octane fuel — the applicable fuel octane level on the coast. Drive into a filling station now and you will have to pay 98c — a 69,5%.

People there driving 2 000cm³ to 2 500cm³ cars would have paid about R4,79 last year for each 100km travelled Now they have to find R8,13 for the same trip.

The average sales representative in a 1 501cm³-1 800cm³ car would have cost his employer R4,16 for every 100km travelled last January 6, compared with R7,05 now.

The Johannesburg increase for the applicable 93 octane petrol was 60,6% for the year — from 63,6c last January to R1,02 now.

The typical Johannesburg businessman would have spent R5,27 for a 100km journey last year and R8,46 now. A representative would have paid R4,57, compared with R7,34 now.

Bloemfontein residents faced a 65,9% annual increase rate on 93 octane petrol — from 62,7c to R1,04 — and now face a higher fuel price than the other three cities.

Executives there paid R5,20 a year ago for their 100km trips and representatives R4,51. Now they have to pay R8,47 and R7,49 respectively.

6/1/86
BUS DAY

Inflation undercuts increases

Meagre rises trim living standards

JOHN TILSTON
and STEPHEN CRANSTON

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

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

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

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

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

Among major groups awarding increases was Barlows, which employs a vast number of people. It awarded 10% towards the end of last year.

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

A large insurance company granted increases of 12%.

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

Similar increases are being forecast for the current year by employement analysts

Smaller organisations will mostly pay less

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

The hard-pressed newspaper industry granted journalists about 8% average in December.

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

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

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

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

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

At a seasonally adjusted annual rate, total remuneration of employees increased by 13,5% in the second half of 1984.

However, the subsequent slowdown in employment growth, higher unemployment rates and lower rates of wage settlement, caused it to rise at a seasonally adjusted annual rate of only 8,5% in the first half of last year and by a meagre 3,5% in the third quarter of 1985

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

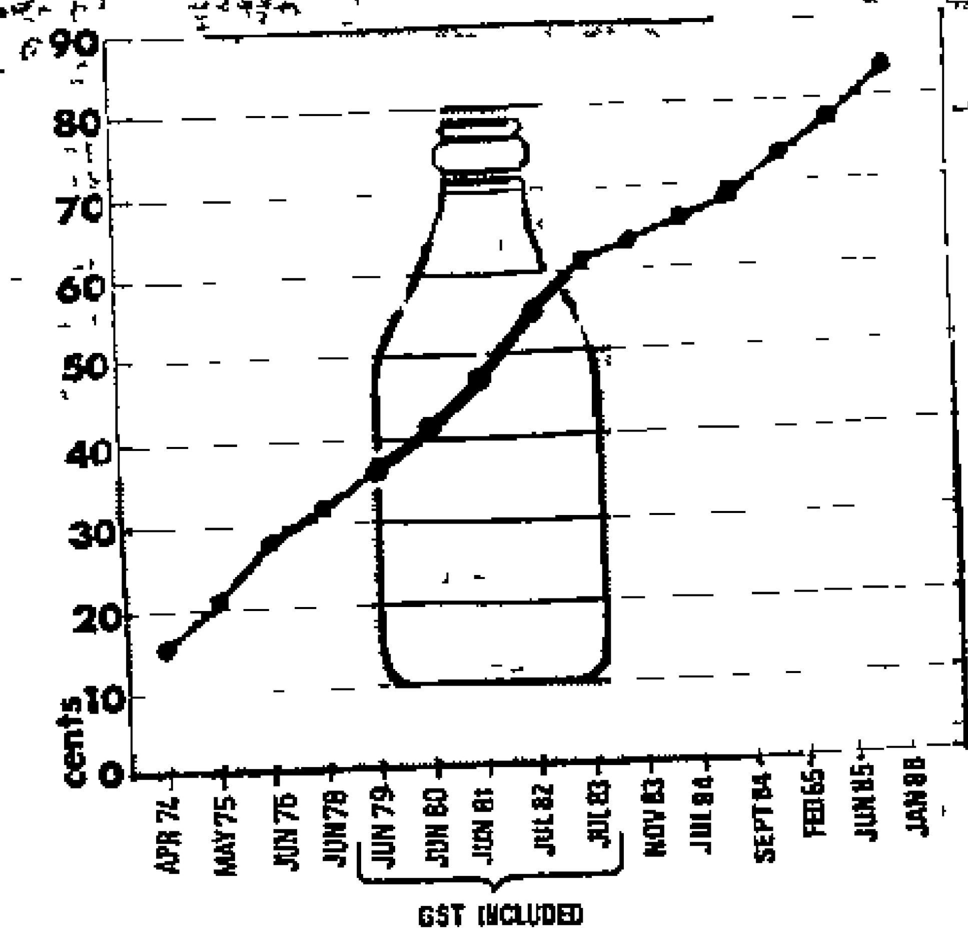
At the same time, labour productivity, as measured by real gross domestic product (GDP) a worker in the non-agricultural sectors, started to decline in the fourth quarter of 1984.

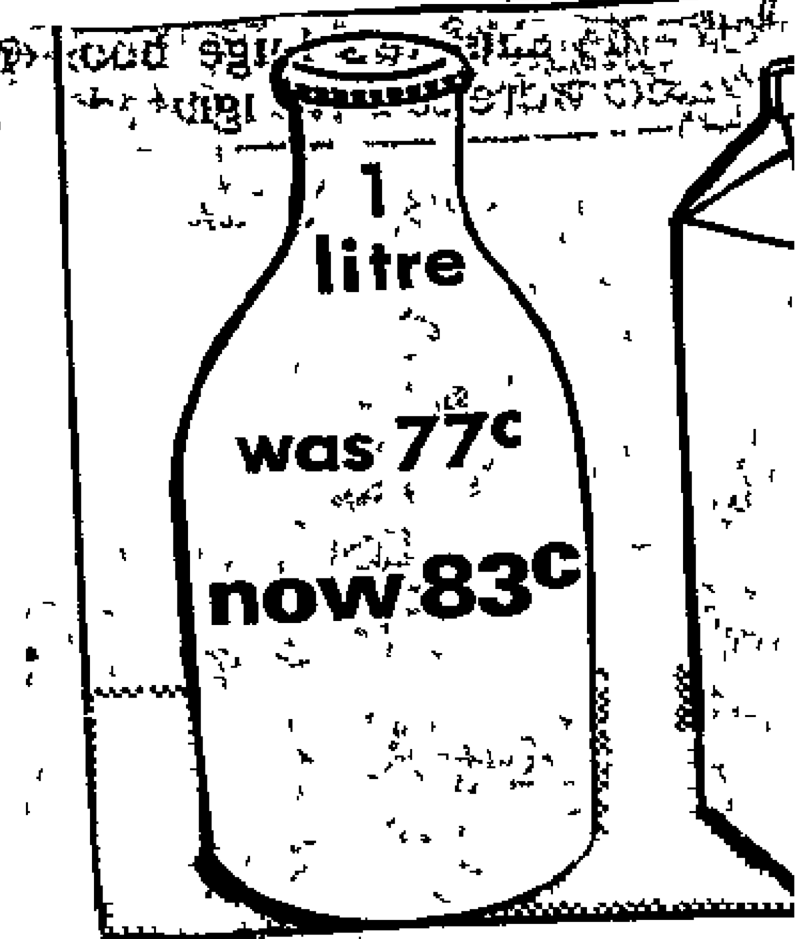
In the first half of 1985, productivity was 1,9% lower than in the corresponding period of 1984

6c milk price rise will increase glut

STAR 6/1/86

153





By Colleen Ryan

In spite of a big surplus in skim milk powder, dairies in the Transvaal have increased the price of milk by an average 6c a litre.

There are fears that the rise could lead to a drop in milk consumption and a further build-up in the milk powder glut.

The dairies are increasing the price of bottled milk from 77c to 83c a litre Supermarket prices will increase from about 79c to 85c, though retailers say they will hold the old price for as long as possible

A spokesman for Pick 'n Pay said the present price of 79c a litre would be held until mid-February Prices at Checkers and the OK will remain unchanged during January

Prices at cafes will vary, but according to a random survey of cafes by *The Star*, average prices will range between 99c and R1,05 a litre.

Some dairies, such as NCD, put up their price in December, but at least one large distributor, Nels, will introduce the new price only later this week.

The increase by distributors has come as a big blow to producers, who agreed not to raise their prices because of the milk powder surplus.

Before the increase was announced, the Dairy Board warned that the present surplus of 12 809 tons of skim milk powder was expected to rise to 32 428 tons by February 1987.

Consumption worry

The chairman of the national dairy committee of the South African Agricultural Union, Dr Vos Grey, said the increase was excessive and could have an effect on consumption. "Farmers have the same inflationary pressures on them as distributors. They acted with great responsibilty when they agreed to hold their prices this year."

Dairies claim that the petrol price rise, higher labour costs and the high cost of imported packaging materials have forced them to increase prices.

A spokesman for NCD said it was perturbed about what effect the increase could have on consumption.

"People must understand that this inflation rate spiral will take its toll. This increase covers higher packaging costs and the previous petrol price increase."

Asked to comment on the surplus milk powder build-up, he said it was nonsense to claim there was a large glut

The Housewives' League has also slammed the rise and warned that consumers would have no option but to cut back. Vice-president Mrs Jean Tatham said it had come at "exactly the wrong economic time".

● The Government has lifted the price control on milk for retailers and distributors, but the producer price is still subject to control.

Dearer fuel blamed for rising pressure

BUS DAY 7/1/86 (153)

Bread is in line for a price rise

LINDA ENSOR and GERALD REILLY

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

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

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

In November petrol increased by 5,9c/l and last week by 2c for 93 octane on the Reef. Rail tariffs also increased by 15% from January 1.

"Since it is a controlled industry, government has no option but to compensate for increases in input costs," says Wheat Board GM Dennis van Aarde. "It is very unlikely that government will increase the subsidy out of its own funds."

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

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

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

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

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

The 1984 budget, which made R200m available for the bread subsidy, fell short by an estimated R83m.

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

Increased input costs made a further 5c increase (representing R38m of the subsidy) necessary and at the beginning of October producers, and the milling and baking industries each contributed R5m to increase the subsidy fund.

In addition the Wheat Board paid in a further R10m out of its reserve fund.

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

Another aggravating factor is the anticipated 300 000-ton shortfall in the 1985/86 wheat crop which will necessitate importing wheat at a cost, at current exchange rates, of about R120m.

Fresh milk producers were last granted an increase in July of 3,5c/l.

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

At the same time he imposed an additional levy of 0,5c/l on both fresh and industrial milk farmers.

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

Yesterday the chairman of the SAAU's dairy committee, Dr Vos Grey, said since July production costs had increased by between 12% and 15%.

The justification for a price hike was therefore clear.

On this week's announcement by distributors that they were raising their prices — from 77c/l to 83c/l — Grey said the distributers justified the increase on grounds of imported inflation and fuel price hikes.

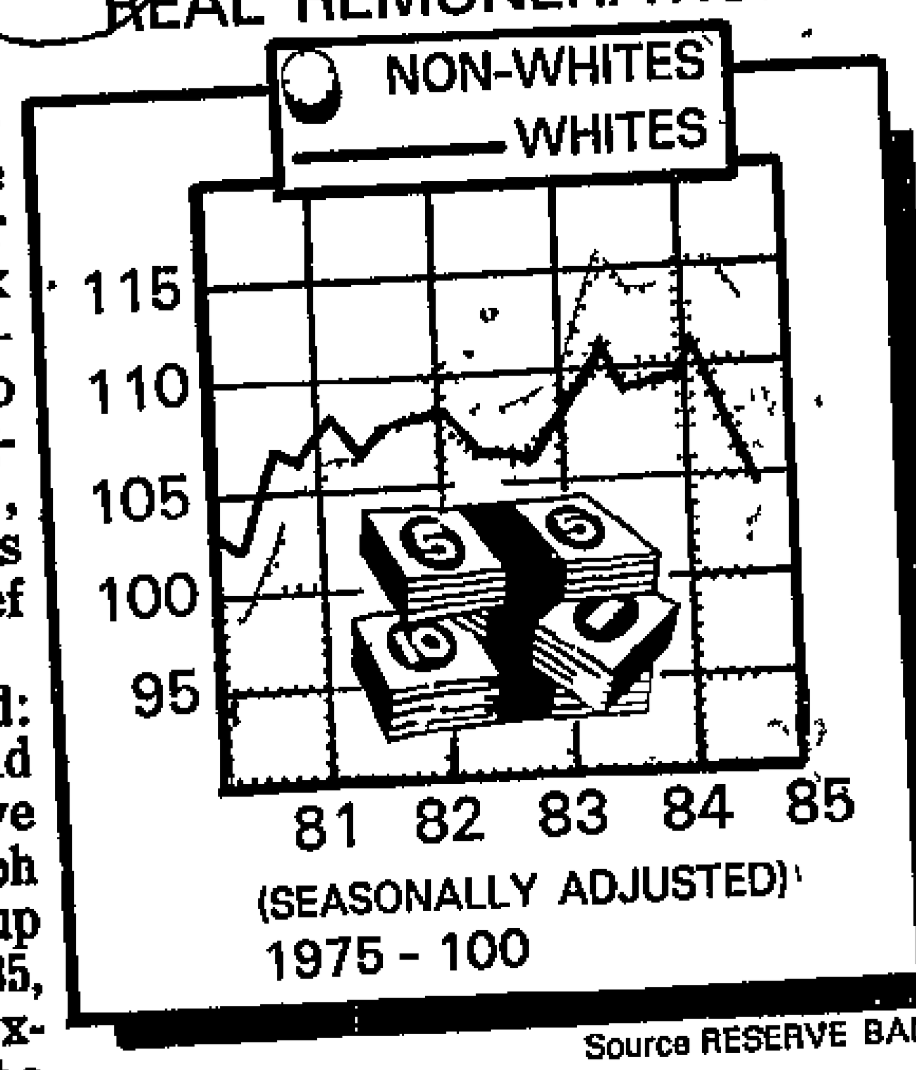
"Imported inflation and higher fuel prices are also cutting into the shrinking profitability of milk producers."

BUS DAY 7/1/86

Gap between pay and prices widens

STEPHEN CRANSTON

THERE is an ever-increasing gap between the consumer price index and pay, according to Cees Bruggemans, Barclays Bank chief economist.



Source RESERVE BANK

He said: "If we read the Reserve Bank graph that goes up to mid-1985, we can extrapolate that the decline since late 1984 has not been reversed but has continued.

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

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

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

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

"If the brain drain continued, good managers might receive greater remuneration because of their scarcity value, but it would have to be much more severe"

Petition fuelled by petrol price rise

153

STAR 7/1/86

By Jackie Unwin

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

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

Mr Jack Huber (65) of Benoni and Parkhurst mother Mrs Jill Purkiss — "just call us Jack and Jill" — are drawing up the petition and Mr Huber says he is prepared to go to jail over the issue

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

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

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

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

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

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

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

Mrs Purkiss is asking anybody interested in the petition to contact her at (011) 447-2765 Mr Huber's phone number is 849-5371

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

● Picture on Page 3

'S

n the South
ricketer magazi
ause of John Sc
nocuous article
Mr R Capel,
berg. "The ban
the Cricketer m

Mr Dennis
The two

Barclays Bank predicts higher inflation rate

CAPE Times 9/1/86

153 128 388

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

In the two years, 1985 and 1986, that the Consumer Price Index will probably average 16 percent, non-agricultural remuneration may increase only at an average of 10 percent

The "recoupment" which labour would seek, when taking place from an already historical high inflation rate, could only imply a "further ratcheting up of wage demands and CPI inflation in the recovery period ahead, strengthening the argument in favour of a voluntary (and therefore reasonably flexible) incomes policy"

Inheritance

"Similar to the inflation inheritance has been the revaluation of the foreign debt burden in rand terms This debt will have to be serviced and amortised by a gross domestic product that has essentially stagnated in real rand terms since 1980 even while the debt has increased nearly three-fold in real rand terms since then

"The interest burden associated with this debt has also increased explosively to some $2 billion or nearly R5 billion in 1985," says Barclays

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

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

Weaknesses

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

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

'Most destabilizing was probably the unrestrained rise in real government consumption spending, which contributed greatly to the excess demand condition throughout this period

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

Stabilization

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

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

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

Outlook grim as production costs soar

10/1/86 153 Mercury

Mercury Correspondent

PRETORIA—Hopes of even a moderate decline in the rate of inflation this year were dashed yesterday by the release of the November production price index, which increased by a year-on-year 20,4 percent

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

The All-Commodities Index, incorporating both imported and domestic goods and services, rose by a year-on-year figure of 20,4 percent, with an increase in November over October of 4,2 percent.

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

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

'More shocks'

The decline in the external value of the rand and the import surcharge have badly affected the rate of price increases, but even the year-on-year figure for locally-produced commodities rose by 18,1 percent, with a 2,8 percent jump during November

Imported commodities increased by 28,5 percent November-on-November, and by a huge 8,8 percent (which annualises to well over 100 percent) in November

Volkskas economist Adam Jacobs said the 8,8 percent rise was due mainly to the first effects of the 10 percent import surcharge

'The index indicates there are many more shocks for consumers in the months ahead '

10/1/86 "BUS DAY"

153

Leap in production price index heralds inflation boost

GERALD REILLY

HOPES of even a moderate decline in the rate of inflation this year were dashed yesterday by the release of the November production price index, which increased by a year-on-year 20,4%.

This has effectively guaranteed that price increases to be faced by consumers — as measured by the Consumer Price Index — will jump to over 20% later this year.

Increased prices faced by producers will ultimately be passed on to consumers.

The All-Commodities Index — incorporating both imported and domestic goods and services — rose by a year-on-year figure of 20,4%, with an increase in November over October of 4,2%.

On an annualised basis, the monthly increase represents a staggering rate of inflation of 64%.

If such a rate were sustained, South Africa's economy would rapidly sink into a vicious hyper-inflationary cycle.

The decline in the external value of the rand and the import surcharge have badly affected the rate of price increases, but even the year-on-year figure for locally produced commodities rose by 18,1%, with a 2,8% jump during November.

Imported commodities increased by 28,5% November-on-November, and by a huge 8,8% (which annualises to well over 100%) in November.

Volkskas economist Adam Jacobs said the 8,8% rise was due mainly to the first effects of the 10% import surcharge.

"The index indicates there are many more shocks for consumers in the months ahead".

Against a background of the November figure he now expects the average inflation rate for 1986 will be between 17% and 18%. "And it will not surprise me if the CPI goes above 20% at some stage during the year"

Aggravating the CPI level would be the tendency for food prices to continue to rise — particularly meat prices.

The services segment of the CPI could also be expected to rise sharply, including medical costs and short-term insurance rates.

Other economists agreed the outlook for 1986 was grim. They agreed, too, that the CPI would hit 20% during the year, and that this might not be the ceiling

sunrise news

But the petrol price is no joke!

"Stop clowning around with the petrol price," says the much-loved clown, Francesco. He has given the "Jack and Jill" petrol price petition his full backing and says he will have to give up his touring shows because the cost of pulling his caravan is too expensive. He was one of 700 people who have telephoned Mr Jack Huber and Mrs Jill Purkiss over the past four days. Franceso teams up here with Mrs Purkiss and her baby Daniel.

'Jack and Jill' project snowballs

Black consumer body supports fuel petition

STAR 11/1/86 (153)

By Jackie Unwin

The Black Consumer Association has given its support to the "Jack and Jill" move to petition the Government to drop the petrol price increase

The petition project is snowballing with more than 400 telephone callers offering to help since *The Star* published the story of the launch on Tuesday

The executive director of the association, Mr Eldridge Mathebula, said "Most of the black consumers do not have cars as they are a luxury, but when petrol rises it affects bread, milk, and margarine which the poor consumers are highly dependent on

"We feel very strongly about this and must take some action"

The petition was started by a Benoni pensioner, Mr Jack Huber, and a 24-year-old Parkhurst housewife, Mrs Jill Purkiss, who decided to take a stand when the inland motorist was hit by the latest petrol price increase

"We have had numerous calls from furious consumers all over the country, not only the inland areas, so we have decided to change the wording of the petition to include consumers in the whole of South Africa and not just the inland areas," said Mrs Purkiss

New wording

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

Mr Huber said "The phone rings from 6am to midnight non-stop The people feel we must stand up at last and stopped being pushed about

"There is a lot of despair and people are finding it so difficult to make ends meet and get to work

"Jill and I take down their names and addresses, send them one copy of the petition and ask them to photostat and circulate it to cut down printing costs"

He said some paper and envelopes had been given to help with expenses But he said buying postage stamps might prove a problem

Anybody who would like to help with the petition should telephone Mrs Purkiss at (011) 447 2765 or Mr Huber at 849 5371.

General price freeze urged

Consumer Reporter

A Johannesburg man feels the petrol price petition is "a waste of time" Instead, the government should be petitioned to impose an immediate price freeze, says Mr Harry Friedgut.

Mr Friedgut said: "I think simply organising a petition in regard to the cent petrol price rise is a waste of time. We are actually being faced by an economy getting completely out of hand.

"We have had three classic examples in the past few weeks — a 10 percent increase in the price of cement, which was totally unjustified, the milk price rise and the petrol situation.

DISCOUNT PETROL

"In reverse, when Pick 'n Pay wanted do something for the benefit of the consumer and discount petrol, the government moved with haste to stop it.

"If the increase in our rand value should remain constant it will take months and months before we get the benefit — if ever

"Assuming the petrol petition succeeds, which is highly unlikely, all that is going to happen is the price will revert to R1 The petition should be for a general price freeze. Israel had a 400 percent inflation, imposed a price and wage freeze, and brought down inflation to 200 percent.

"The petition on the government should be for an immediate imposition of a price freeze otherwise the country is headed in one direction. It is far more serious than a purely economic problem. In my view the man in the street, the black man, is not concerned with a vote, which is a concept, a nebulous thing. But when those who are employed can no longer feed their children then there will be trouble," he said.

Suicide syndrome marks the hard times

Star 11/1/86

153

By Colleen Ryan and Glenda Spiro

Economic hardship and political instability are fuelling family violence, suicide and aggression among all South Africans.

Counselling services are hard pressed to meet the demand for help and at least one group, Suicides Anonymous, is planning to expand its operations because of the situation

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

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

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

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

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

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

POSITIVE

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

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

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

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

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

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

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

He said that black people were joining the suicidal pattern

Meanwhile the centre, which is funded by Mr Bloomberg personally, has plans for expansion and hopes to hire counsellors

GRAPHIC BY PNINA FENSTER

Cost of living: up, up and away

153 13/1/86 BUS DAY

RAMPANT price hikes are widely expected to turn 1986 into one of the worst years people have known. (See graph)

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

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

This assumes the external value of the rand will average US$0,40, he adds.

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

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

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

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

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

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

New consumer resistance to higher prices could trip the progress of runaway inflation.

Consumer bodies have strongly motivated public resistance, and the usually shy South African consumer has reached the stage where buyers are forced to take on the challenge.

LESLEY LAMBERT

Lee says one aspect with disturbing, long-term implications for inflation is the authorities' shift in monetary policy — from curbing inflation to encouraging growth.

The dangerous after-effects of this shift — including the increase in government spending — will lag, striking the economy in 1987 rather than this year, according to Lee.

Although November's 4,2% production price index figure was the highest since 1953, this was due to the accumulative effect of the weak rand and the surcharge on imported goods on items not accounted for each month, he adds

SA torture scene described in UK

STAR 15/1/86

229

The Star Bureau

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

The claim came in a grim hour-long documentary on Thames Television yesterday, a programme described by one reviewer as coming "dangerously close to being a video nasty"

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

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

ELECTRODES

It had put him off eating meat, he said

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

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

Growing support for 'Jack and Jill' petition

Star 15/1/86

153

By Jackie Unwin

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

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

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

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

The petition has the support of consumer organisations

Mr Robin Scholtz, controller road traffic affairs of the Automobile Association, commented "The more people who make their feelings known to the Government the better

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

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

She has also distributed copies to cafes in the area - "and they report that customers are eager to sign"

'PRICE FREEZE'

In response to criticism by a Johannesburg man that the petition was a waste of time and should call for a price freeze, she replied "Thank you for taking so much interest Please waste two minutes to sign a form

"This is just the beginning About 75 percent of the callers don't want us to stop after the petrol petition"

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

Anybody who would like to help with the petition should phone Mrs Purkiss at (011) 447 2765 or Mr Huber at 849 5371

ys hostess
is one of
the Miss
petition,
entrants
agencies
all over
the lucky
chosen to-
ed to take
iss World
to be held
d of the

Wine price set to rise by 13 pc

STAR 15/1/86 153

PAARL — Wine prices are expected to increase by at least 13,6 percent this year

A statement issued by KWV yesterday announced an increase of 13,6 percent in the minimum price to be paid by wholesalers to wine farmers during 1986

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

The minimum price for good wine is now R48,26 a hectolitre Last year's price was R42,48. This represents an increase of 4,3c a 750 ml bottle.

About 50,5 percent of the total wine harvest can be sold on the South African market as good wine, the statement said.

The minimum price of flavoured wine remains unchanged

The minimum price for distilling wine is now R31,24 a hectolitre compared to R27,50 last year

This is an increase of 3,7c a litre

BRANDY

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

The surplus has been estimated at 19,4 percent of the total vintage and is earmarked for the export market

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

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

"This year's wine crop surplus will be sold on the highly competitive overseas commodity market as the KWV had succeeded in doing in the past few years." — Sapa.

Surcharge on books slated

14/1/86 STAR

153

Municipal Reporter

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

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

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

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

Private sector pay increases lag 5pc behind inflation

15/1/86 STAR

153

Pretoria Bureau

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

It found that for the year from July 1984 to July 1985, average overall increases were 10,8 percent. The inflation rate for that time was 16,4 percent.

Blacks got the largest percentage increases, 12,3 percent, followed by Asians (10,7 percent) and whites (9,9 percent)

The highest increases among whites was in the data processing field, where pay rises averaged 13,2 percent. The highest rise for blacks was in the clerical and secretarial sector (13,3 percent), for Asians and coloureds in administration, 12 and 12,9 percent respectively.

Among all population groups, the lowest wage hikes were in the manufacturing sectors which saw an increase of 8,3 percent for whites, 9,4 percent for blacks, 8 percent for coloureds and 7,5 percent for Asians

The latest Reserve Bank bulletin says the total renumeration of employees increased by 13,5 percent in the last six months of 1984. But as the economy continued on its downward slump, salaries only showed an increase of 8,5 percent in the first half of last year and 3,5 percent for the third quarter of 1985.

Too little cash in kitty and . . .

Inflation will erode buying power of R450m roads fund

'BUSDAY' 16/1/86 (153) 267

ALAN PEAT

THE Department of Transport is preparing its 1986/87 road-building and maintenance programme, but there is too little cash in the National Road Fund (NRF), says director of planning Ed Petzer.

NRF income increased twice last year. The increased fuel levy gained it 5c/*l* in January and a further 2c/*l* was added in July

"With these, we were able to budget for about R420m for the present programme, and we will have spent about that by the end of our year in March," Petzer says.

"We shall be budgeting on about R450m for 1986/87. This is an increased income of just over 7% But allowing for the inflation rate, we actually lose in purchasing power."

John Hodgson, chairman and CE of Group Five and D&H, is disturbed at this continuing loss in road-building and maintenance funds.

"With the best will in the world and despite the highest level of competence, nothing can be done for our roads without adequate finance. And the funding has been steadily eroded in recent years," he says.

"Expressed in 1975 terms, funds declined by 18% for 1984, as against 1979 At no time in between were the 1979 figures exceeded or even matched. In 1983, for example, the figure fell by 25%."

The situation is partly remedied by the proposed introduction of private toll roads. The planned programme is estimated to cost about R2bn which, Petzer says "takes some of the weight off the shoulders of the NRF".

Hodgson, whose Group Five is a member of one of the two private toll road consortiums, agrees

"If the private sector is to own and operate sections of the national road system, and provide the full financial requirements, this will be incremental to all the work financed by government

"As a result, government funding will go much further, being committed to overhauling the backlog"

Newsprint cost to rise 16,5%

BUS DAY 20/1/86

153

Industrial Staff

NEWSPRINT prices for the first half of the year are to rise by up to 16,5%.

Newspaper Press Union members have received notification that ex-mill prices have increased by 14,25% (Mondi) and 16,5% (Sappi).

Industry sources estimate the effective price for NPU members will be about R1 060 a ton, an increase of 17,7%.

Sappi's ex-mill price is up from R788 a ton to R918 and Mondi's from R877 to R1 002. The ex-mill price for higher quality off-set newsprint will be R1 094,72 a ton.

The last price increase — in the second half of 1985 — was 1%. January to June last year saw an effective increase of 14,98%.

Inflation warning

Bus. DAY 21/1/86 183

CHRIS CAIRNCROSS

THE possibility of SA becoming trapped in an inflation/depreciation spiral has become a real threat that cannot be ignored by authorities, warns Old Mutual chief economist Rob Lee

In the OM's latest *Economic Monitor*, Lee says it is worrying that the next upswing is starting from such a high inflationary level.

Previous warnings that the real challenge confronting authorities is to prevent inflation moving higher — to about 20% — have been reinforced by recent events and policy directions

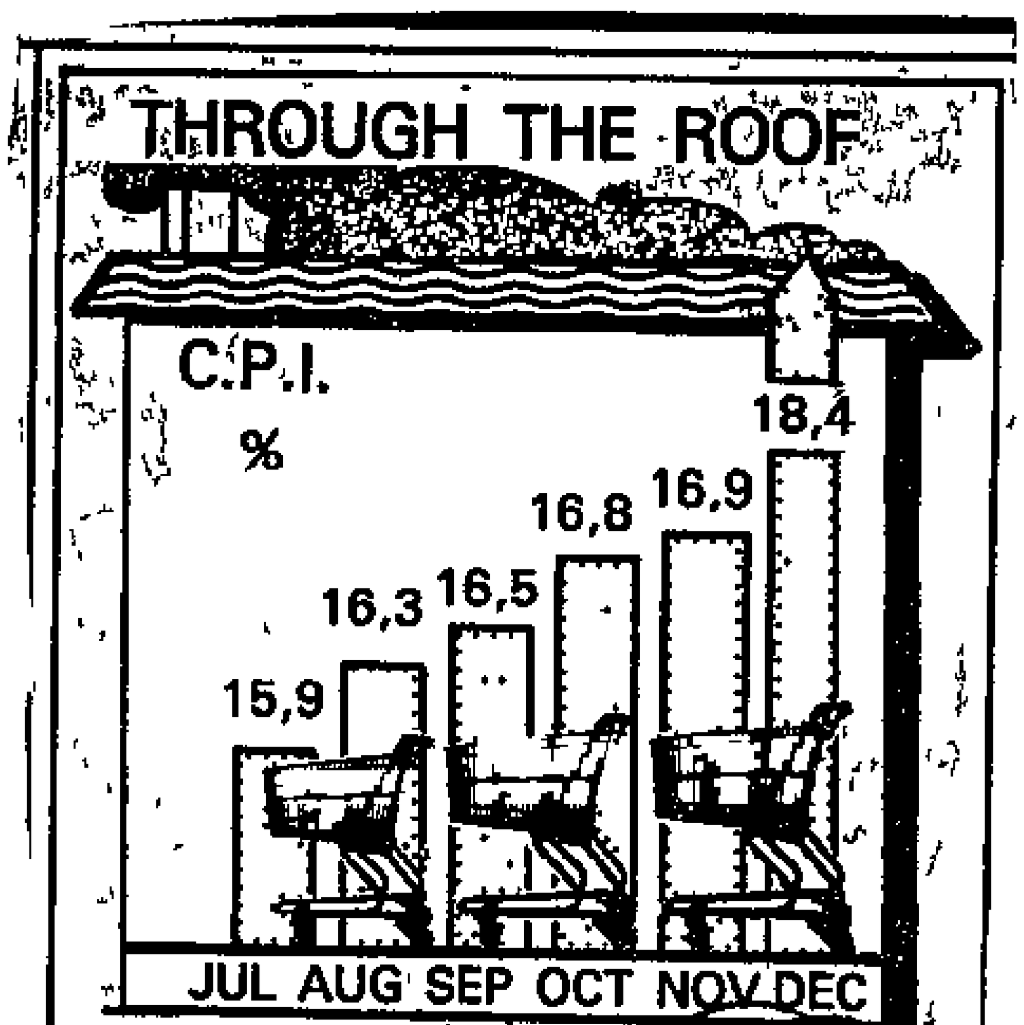
Lee notes factors that have recently led to a worsening in inflation expectations include the continued weakness of the rand — the current improvement is seen as a short-term aberration — big electricity and transport tariff increases and petrol price increases.

In addition, the economy seems to be close to the bottom of the inventory cycle and restocking, of which a substantial portion is imported, will have to occur at much higher prices.

Lee believes that although the further drastic fall in the value of the rand during the second half of 1985 might well have been caused by non-economic factors, the inflationary impact is the same as if they were economic

"The recent moderate growth in the money supply was one of the favourable trends providing some justification for the reductions in short-term interest rates, given the always pressing need for this economy to generate additional jobs

"However, there are some grounds for arguing that the pace of decline in interest rates has been too rapid," says Lee.



CPI spiral will hit consumer

22/1/86 BUS DAY 153

GERALD REILLY

THE inflation rate as measured by the Consumer Price Index (CPI) spiralled to a year-on-year peak of 18,4% in December, according to figures released in Pretoria yesterday by Central Statistical Services.

Sharp rises in food and fuel prices pushed the CPI to its highest level since the 1920s.

The December CPI is 1,5% up on the November-on-November increase of 16,9%. It rose by 2% (an annualised increase of 24%) with a sharp surge in the food-only index of 3,5% (annualised 42%).

Meat prices rose sharply by 6% in December, fruit by 5,4% and vegetables by 5,2%. During December, too, the running costs of vehicles increased by 4,7% (annualised 56,4%), mainly because of the November increase in the fuel price.

Economists warned that the country was on its way to 20%+ inflation unless drastic moves were made by government.

During December the rate for lower

● To Page 2

Soaring inflation hits consumers

● From page 1

153 BUS DAY 22/1/86

income groups rose by 2,2% to a year-on-year 16,3%, that for middle income groups by 2,2% to 18,8%, and the higher income group by 1,8% to 18,9%.

Volkskas economist Adam Jacobs said the increase would have a shock impact on consumers. It would also be a further blow to confidence in the economy.

He said there was a danger that inflationary expectations would become an entrenched feature of the economy and consumers would spend today in the belief that prices of goods and services would continue to rise and the purchasing power of their money would continue to shrink.

"Inflation feeds on itself and to control it is becoming more difficult by the day."

Like other economists, he warned of new inflationary pressures just ahead.

These include the threat of further tariff increases in the Sats budget on Febuary 19; higher postal tariffs from April; the probability of two bread price hikes before mid-year; and a maize price rise from the start of the new season in May.

Moves by government to stimulate the economy could add to the pressures.

United Building Society economist Hans Falkena forecast an easing of the CPI in the first two quarters, for purely technical reasons, followed by an acceleration in the last two quarters. The position would be greatly aggravated if the government failed to keep a tight rein on administered prices and on the money supply, he added.

Inflation hits record 18,4 pc

DISPATCH 22/1/86 153

Dispatch Correspondent

PRETORIA — The inflation rate as measured by the Consumer Price Index (CPI) spiralled to a year-on-year peak of 18,4 per cent in December, according to figures released here yesterday by Central Statistical Services.

Sharp rises in food and fuel prices pushed the CPI to its highest level since the 1920s

The December CPI is 1,5 per cent up on the November-on-November increase of 16,9 per cent It rose by 2 per cent (an annualised increase of 24 per cent) with a sharp surge in the food only index of 3,5 per cent (annualised 42 per cent)

Meat prices rose sharply by 6 per cent in December fruit by 5,4 per cent and vegetables by 5,2 per cent During December the running costs of vehicles increased by 4,7 per cent (annualised 56,4 per cent), mainly because of the November increase in the fuel price

Economists warned the country was on its way to 20-plus inflation unless drastic moves were made by government

During December the lower income group's rate rose by 2,2 per cent to a year-on-year 16 3 per cent, middle income group by 2,2 per cent to 18,8 per cent and upper income group by 1,8 per cent to 18,9 per cent

Volkskas economist Adam Jacobs said the huge increase would have a shock impact on consumers It would also be a further blow to confidence in the economy and there was a danger that inflationary expectations would become an entrenched feature of the economy

Consumers would spend today in the belief that the prices of goods and services would continue to rise and the purchasing power of their money would continue to shrink

"Inflation feeds on itself and to control it is becoming more difficult by the day"

Like other economists he warned of new inflationary pressures ahead

These included the threat of further tariff increases in the Sats budget on Febuary 19, higher postal tariffs from April, the probability of two bread price hikes before mid-year and a maize price rise from the start of the new season in May

The moves made by government to stimulate the economy could add to the pressures

● Sapa-Reuter reports that the US dollar fell against all major currencies except the British pound and the Canadian dollar in European trading yesterday Gold prices rose

In Johannesburg, the rand traded at 44,2 US cents, up from 43,8 on Monday

Gold prices were up in nervous trading Dealers in Zurich, Europe's biggest market, said there had been some fairly heavy professional buying of the precious metal

In New York, the Wall Street stock market fell sharply with oil and bank shares leading the retreat

Traders said investors were worried that the rapid drop in crude oil prices would cause problems for the international financial system

An hour before the close of trading, the Dow Jones average of leading industrial shares was down nearly 20 points at about 1 510

Oil futures prices continued falling

On the spot (immediate delivery) market, US oil, which brought $32 dollars a barrel in November, fell 70 c to $21 a barrel

In London, Brent North Sea crude oil to be loaded in April, which had fallen to a six-year low of $19,20 on Monday, was up slightly at $19,50, but still below the psychologically important $20 level

Sterling, which is heavily dependent on the price of North Sea oil, fell to a record low against the West German mark on European currency markets yesterday, and the Prime Minister, Mrs Margaret Thatcher, hinted that a rise in interest rates might be on the way

CoL surge surprises economists

STAR 22/1/86

153

The 18,45 percent annual inflation rate in December caught economists on the hop and had them revising estimates for 1986.

The food index alone rose virtually seven points on November (3,5 percent) giving rise to fears that the cost of eating could increase 41,6 percent in 1986 if the trend continued

Food prices rose an annualised 16,68 percent in December The index increased from 198,8 in November to 205,7 in December,

Central Statistical Services figures put the index for lower income-earners at 201,6 or 16,33 percent higher than last December. Corresponding figures for the middle and higher income groups were respectively 209,3 (18,79 percent) and 208,0 (18,92 percent.

CPI at highest level since 1920s

Soaring inflation hits consumers

Cape Times 22/1/86 153

JOHANNESBURG — The inflation rate as measured by the Consumer Price Index (CPI) spiralled to a year-on-year peak of 18,4 percent in December, according to figures released in Pretoria yesterday by Central Statistical Services

Sharp rises in food and fuel prices pushed the CPI to its highest level since the 1920s

The December CPI is 1,5 percent up on the November-on-November increase of 16,9 percent It rose by 2 percent (an annualized increase of 24 percent) with a sharp surge in the food-only index of 3,5 percent (annualized 42 percent)

Meat prices rose sharply by six percent in December, fruit by 5,4 percent and vegetables by 5,2 percent

In December, too, the running costs of vehicles increased by 4,7 percent (annualized 56,4 percent), mainly because of the November increase in the fuel price

Economists warned that inflation was on its way above 20 percent, unless drastic moves were made by government

In December the rate for lower income groups rose by 2,2 percent to a year-on-year 16,3 percent, that for middle income groups by 2,2 percent to 18,8 percent, and the higher income group by 1,8 percent to 18,9 percent

Volkskas' economist, Mr Adam Jacobs, said the increase would have a shock impact on consumers It would also be a further blow to confidence in the economy

He said there was a danger that inflationary expectations would become an entrenched feature of the economy and consumers would spend today in the belief that prices of goods and services would continue to rise and the purchasing power of their money would continue to shrink.

"Inflation feeds on itself and to control it is becoming more difficult by the day"

Pressures

Like other economists, he warned of new inflationary pressures just ahead

These include the threat of further tariff increases in the SATS Budget on Febuary 19, higher postal tariffs from April, the probability of two bread price hikes before mid-year, and a maize price rise from the start of the new season in May

Moves by government to stimulate the economy could add to the pressures

United Building Society's economist, Mr Hans Falkena, forecast an easing of the CPI in the first two quarters, for purely technical reasons, followed by an ackleration in the last two quarters.

The position would be greatly aggravated if the government failed to keep a tight rein on administered prices and on the money supply, he added

The chief economist for the Old Mutual insurance group, Mr Rob Lee, said the December CPI was pushed up partly by unseasonal price rises for domestically-produced meat and vegetables South African agriculture has been hit by drought

"We were expecting the rate to go up quite significantly, but not that much," Mr Lee said.

"It is pretty disturbing"

He and other economists said the rate was ominously high 'for an economy which 'is just beginning to bottom out of recession and should be headed for recovery in coming months

"The higher the level of inflation the recovery starts from, the higher inflation is going to go once the economy gets going, and therefore the less sustainable that recovery is going to be," Mr Lee said

He predicted that such a recovery would last 18 months at most, compared with three to four years in previous cycles

Previous recoveries were sustained by foreign borrowing when the current account of the balance of payments ran into deficit, Mr Lee said

"This time we won't be able to do that."

Unless otherwise stated, all financial news in this issue was compiled by Paul Dold and sub-edited by Godfrey Heynes

Du Plessis concerned

THE Minister of Finance, Mr Barend du Plessis, yesterday expressed concern at the country's rate of inflation, currently running at 18,4 percent.

A spokesman for the Department of Finance said a higher inflation rate was anticipated due the government's economic package announced on September 6.

He said the weak rand and increased cost of imported goods had also increased the inflation rate. — Sapa

Forecasting inflation and the 'real' exchange rate

Bus Day 21/1/86 153

JOS GERSON

JOS GERSON is a lecturer at the School of Economics, University of Cape Town

THERE is a great deal of confusion about the current determinants of inflation in SA. Economic textbooks and journal articles are likely to be unhelpful in this regard, because research into the kind of exchange rate problems that afflict us is still in its infancy.

Economists are forecasting an inflation rate of around 20% (*Standard Bank Fund Managers' Report*, 4th quarter, 1985) That may or may not prove to be broadly correct, but one desires to know their reasoning.

There are at least two misleading ways of thinking about inflation under current circumstances One way is to take the old "cost-push" line and argue that, since the economy is rather "slack," inflation is likely to remain relatively low in the coming year — lower than, say, the current 18%

That line of reasoning is theoretically and empirically insupportable The idea that fast-growing economies necessarily engender high rates of inflation and vice-versa is and always has been preposterous

The prolonged recovery of the US economy with continuously low rates of inflation provides the starkest evidence to the contrary in recent times.

Another view is that inflation in 1986 must be very high (much higher than it was in 1985) because the full effect of the fallen rand will work its way through to a broad range of prices

This view is logically defensible and there is probably a great deal of truth in it — yet it ignores a very important phenomenon, namely the fall in our (equilibrium) "real exchange rate"

What do I mean by the "real exchange rate"? It is defined by the amount of foreign goods that an

flated services comprising chiefly rents, salaries and wages.

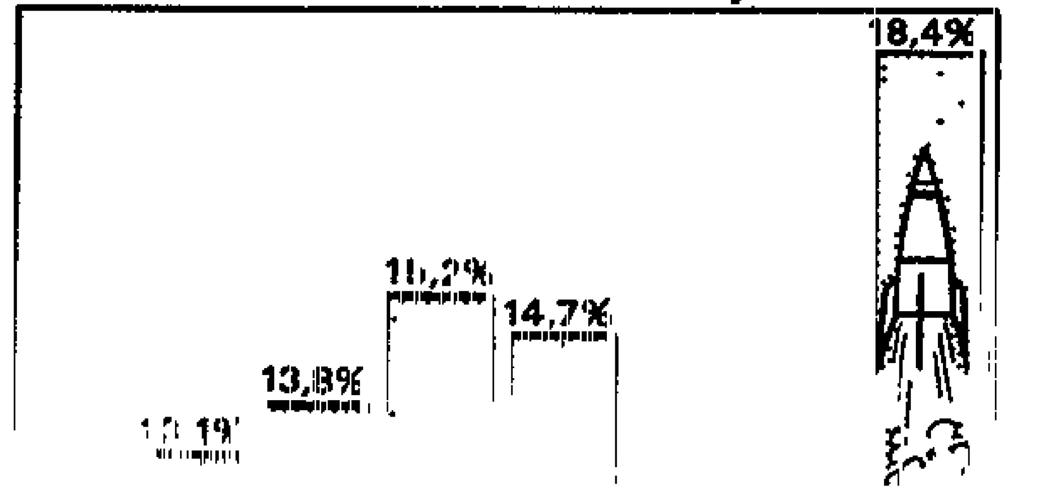
Since import prices have clearly been on the upper side of the official average CPI rate of 18,4% in the 12 months to December and the percentage increase in rents, salaries and wages on the lower side, our purchasing power over foreign goods and services has fallen drastically; that is to say, our *real* exchange rate has deteriorated.

Bearing all this in mind, what will happen if SA's economic fortune recovers? Perhaps the rise in the dollar-price of gold will endure (either as a result of an increase in world tension or a resurgence of US inflation)?

What if, as is plausible, investors discover that they have underestimated the short- to medium-term political, military and economic stability of the country and therewith the price of SA-based assets and the riski-

INFLATION BLUES

Annual increase in CPI at year-end



rand would be to *reduce* the price of imports, importables and exportables (so-called "tradeables") in line with the price of "SA-bound" assets, such as labour, real estate, derived services, etc (so-called "non-tradeables")

2. — The second, more likely, route involves no change in the nominal exchange rate; that is to say, no appreciation in the rand.

A recovery of the *real* exchange rate then implies *raising* the price of SA-bound goods and services to bring them in line with the price of imports, importables and exportables.

Both routes involve exactly the same realignment of prices: namely the price of tradeables *vis-a-vis* the price of non-tradeables. Yet the first route comes out in the wash as a *reduction* in the inflation rate, whereas the second route emerges as an *increase* in the inflationary rate

Why do I think that a recovery, when it occurs, will come out predominantly via the second (more inflationary) route? Recent experience (since 1979) amply demonstrates that the Reserve Bank dislikes an appreciating rand much more than a depreciating rand (although the recent

more than 17% will reflect a failure of the economy to recover.

A central assumption I am making is that government can do very little to effect a recovery. Abracadabra solutions to the political problems are not around the corner.

Attempts to stimulate the economy by money creation, if effective, will prove to be short-lived — and, if sustained, will aggravate inflation and depress the exchange rate further.

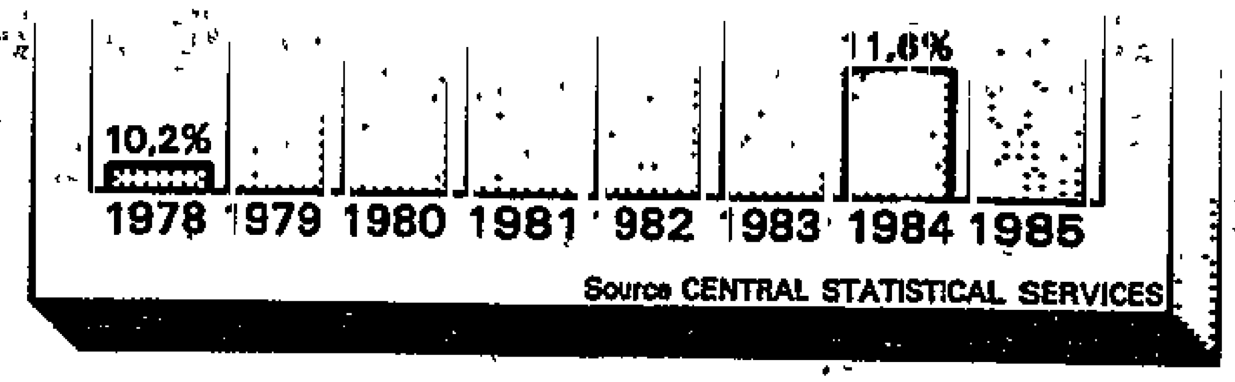
Fundamental adjustments and re-assessments mentioned above will eventually permit a recovery.

When it occurs, the sole power of the Reserve Bank will be to choose between routes 1 and 2 — namely, to allow or disallow an appreciation of the rand.

If it largely disallows it — as I think it will — the recovery will be accompanied by a massive but short-lived jump in the price of non-tradeables.

It is undoubtedly a pity that the disinflationary route of exchange rate appreciation will not be followed. Nonetheless, with or without inflation, when a genine recovery occurs, there will be much reason to rejoice.

In the last 18 months, SA has experienced an extraordinary deterioration in its *real* exchange rate. We all know that it has been caused by political factors and the fall in the dollar-price of gold.



What is not so obvious is that depreciating currencies as such do not necessarily imply a fall in the real exchange rate. Rapidly-inflating countries — such as Israel, for example — have experienced precipitous declines in the value of their currencies, but much of the time inflation kept up so that purchasing power over imports remained largely unaffected.

Weighted

A 100% increase in the number of shekels per dollar was often matched by an equal percentage inflation of prices for the period concerned

That has not happened in SA. From June 1984 to August 1985, the number of rands per dollar increased by roughly 100%, but inflation for the period emerged in the region of only (!) 20%.

Most inflation measures (e.g., the CPI) are a *weighted average* of *all* prices, including both highly-inflated imports and lowly-in-

ness of loans to this country?

Is it not possible that foreign investors over-reacted in the heat of the crisis? Sooner or later, foreign lenders will either regain their confidence or the debts will be paid off. SA's indebtedness as a percentage of its GDP — 43% — is within acceptable and manageable limits.

When this happens, the haemorrhage on the capital account will close. The need to sustain such a poor real exchange rate in order to promote exports in order in turn to repay our debts, will vanish.

The real exchange rate will then recover. It may happen in 1986 or 1987, but sooner or later it is bound to happen. One of the critical questions is *how* it will happen.

There are two possible routes to a recovery in the *real* exchange rate:

1. — The less likely route involves an unsuppressed appreciation of the rand against most foreign currencies. The scope for that is fairly limited.

The effect of an appreciating

Bank's wishes).

An appreciating currency hurts the exporters, whereas a depreciating currency helps them.

Our Reserve Bank clearly desires to mollycoddle this sector, although its motives are not absolutely clear to me. It could be the political clout of the exporters, who chiefly comprise the farmers and the mining houses.

It could also be the mercantilist spirit that pervades government thinking in this country.

A peculiar "twist" arises when a recovery takes place via the second route. The recovery then inevitably spells an increase in the inflation rate!

Distaste

Economists and politicians may wring their hands in despair at the news of the rising inflation even as it signals the end of the recession.

Of course, rising inflation *need not* signal a *genuine* recovery. It could merely reflect additional excessive money creation. Perhaps the point can be made another way: given the Reserve Bank's distaste for an appreciating rand, an inflation rate of no

Consumers angered by high cost of living

Petrol decision could be crucial

STAR 23/1/86 (153)

By Jackie Unwin

Consumer bodies, angry and alarmed at the runaway inflation rate announced yesterday — at 18,4 percent, the worst in 66 years — are appealing to the Government to help the man in the street.

The Government's decision on an increase in the price of petrol in February could have a crucial effect on whether the inflation rate will drop or go even higher

The Government is coming under mounting pressure to decrease rather than increase the petrol price

President of the Housewives' League, Mrs Joy Hurwitz, said. "We are expecting the price of petrol to drop now the rand is in a better position

"Tax on petrol is about 20 percent of the price We feel it is unfair to tax us on such an important commodity when it costs so much "

The league plans to ask the Government to remove the 12 percent GST from all food

Mrs Hurwitz said she planned to arrange a meeting with the Minister of Agriculture to discuss

- The increase in the price of milk.
- Statements that meat prices will remain high
- The maize price rise which is in the offing.
- A possible increase in the price of bread related to petrol costs

Mismanagement

"It has been a crisis situation for a number of years and yet our inflation rate continues to escalate," said Mrs Hurwitz

PFP MP Mr Brian Goodall said "We now begin to pay the price for political and economic mismanagement

"The Government has not taken its exhortations to the public about inflation seriously and has allowed administered prices to rise at very rapid rates.

"We are beginning to find ourselves in a vicious inflationary cycle If our inflation rate is 18 per cent while that of our major trading partners is between 2 and 4 per cent, the rand will depreciate even further in value in the long term

"This makes the cost of imported goods more expensive which, in turn, leads to even higher inflation in South Africa.

"I think it is vital the petrol price does not rise. The Government should use the massive surplus on the pipeline to help contain the petrol price

"Unless the Government sets an example by restricting its own expenditure we will end up with a considerably lower standard of living than we enjoy now," he said.

Inflation will dip soon — Barend

STAR 24/1/86

153

By David Braun,
Political Correspondent

CAPE TOWN — South Africa can look forward to a downward trend in the inflation rate within a few months, says Minister of Finance Mr Barend du Plessis

And there is good news for those who live on fixed incomes and investments Mr du Plessis has indicated that there could be further tax relief on individual savings and investments during the year

Dismissing talk of hyper-inflation as unfounded, he said in an interview yesterday that he expected the effects of the rand's depreciation — a major contributor to the current inflation rate of 18,4 percent — to peter out soon

"Since one cannot say that all the forces which have contributed to the present inflation rate have peaked, it may still move marginally higher, but then, after a few months, one may expect a downward trend," he said

He added that the challenge to the Government in managing the economy was to make sure that demand did not increase so rapidly that it outstripped supply, or that people did not enter too many credit transactions

Both of these held the danger of contributing to demand-led inflation

He dismissed the possibility of a price and wage freeze, on the basis that it had never proved to be successful in combating inflation over a period

"It merely bottles inflationary pressures that sometime or another have to be released"

Referring to savings, he said that last year he had indicated that he favoured greater tax advantages for those who saved, by allowing tax-free interest

Last year this concession had been very modest, and although expensive in terms of lost revenue, had certainly been worthwhile

"We would like, if at all possible, to pursue this line further"

There's a lot of scope for comet watchers

Halley-mania has hit hard here a
are rigging up their own telesco
comet when it becomes more cl
star gazer, Mr Ian Tripney of Ran
his home-made telescope in tin
scribes himself as "strictly an am
ed in astronomy for some time a
telescope for the past five years

Inflation will keep SA interest rates high

STAR 25/2/86 153

By Dave Canning

DURBAN — The latest inflation increase will tend to keep interest rates relatively high, with costly implications for house-owners with mortgage bonds and consumers It also will hurt pensioners and people on fixed incomes.

Inflation of 20,7 percent also erodes the international competitiveness of South African business, and in time will further depress the rand which now is struggling to break above the 50 US cents

The latest inflation figure means that South Africa's cost of living is 10 times greater than that of major trading partners like West Germany and Japan, which last year recorded increases of two percent.

In 1985 Britain's inflation rate was six percent, United States' 4,4 percent, Australias' 8,5 percent, Frances' 4,8 percent and Italy's 8,3 percent

In sharp contrast, South Africa has had a full decade of double digit inflation

Today's rand has the same purchasing power as 25c in 1976, and it takes R1 to buy what could be had for 10c in 1960.

The latest inflation figure is bound to lead to renewed calls for a wage and price freeze — a policy which the government has steadfastly rejected Instead it is said Pretoria will rely on strict monetary and fiscal policy which critics claim has had little impact.

Critics also say the danger is that South Africa could face runaway inflation when the economy begins to pick up.

Govt challenged to cut fuel price

153 STAR 25/2/86

Political Correspondent

CAPE TOWN — Opposition finance spokesman Mr Harry Schwarz called on the Government today to reduce the petrol price immediately as a contribution to bringing down the rate of inflation.

"The most important step the Government can take now in its fight against inflation is to reduce the petrol price," Mr Schwarz said.

"This will demonstrate to the public that prices can go down and it will have a ripple effect throughout the economy I believe it could account for an immediate reduction of about 1 percent in the inflation rate"

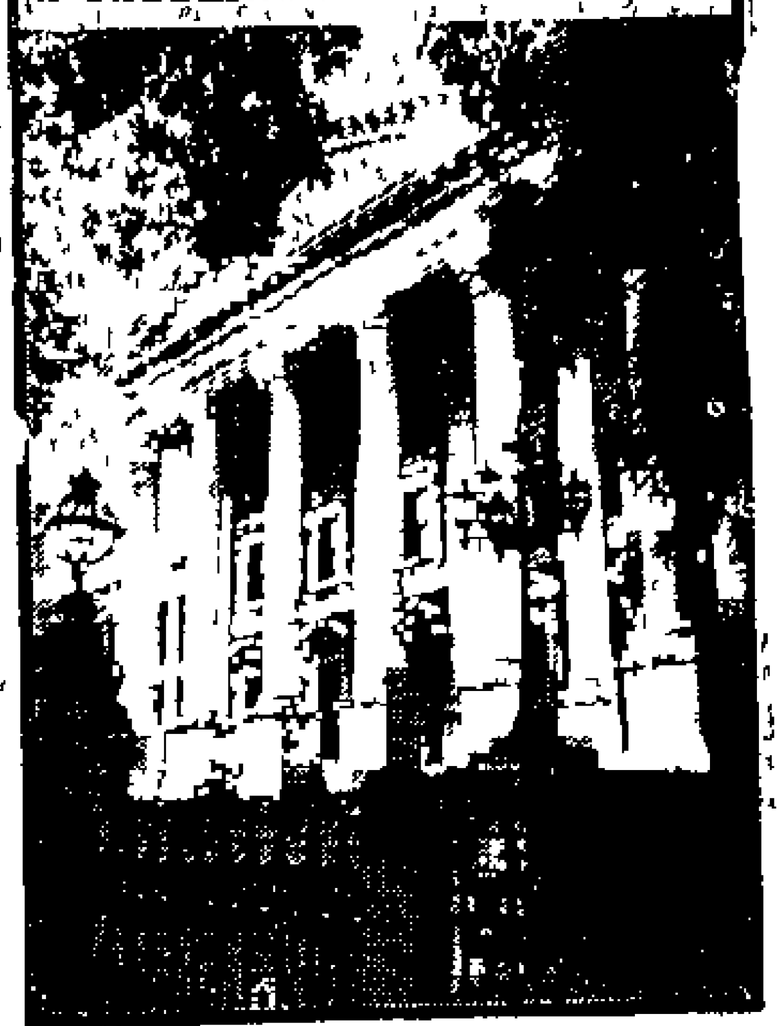
Reacting to yesterday's additional budget in which Finance Minister Mr Barend du Plessis asked Parliament for an extra R1 500 million in funds for the Government in the current year, Mr Schwarz said it was clear inflation had affected the Government.

"Once again, promises to keep control on government expenditure have not been kept," said Mr Schwarz. "To blame the need for relief of the poor and the unemployed is not valid because we warned the Government at the time that the budget did not adequately provide for this.

"In any case, the amount of money devoted to these issues has been a relatively small proportion of the overall extra spending."

● See Page 8.

PARLIAMENT '86



'Aspects of SA life add to inflation'

PARLIAMENT — Aspects of South African life made certain "unique contributions" to the rate of inflation, Mr Pat Poovalingam (Solidarity, Reservoir Hills) said yesterday 25/2/86

He was speaking in the debate on the Transport vote in the Additional Appropriation Bill.

It was true that inflation was a major reason why the State required an additional R24,5 billion for the current year, he said

However, aspects of South African life made unique contributions to inflation.

Clerks administering the Group Areas Act were earning money without productivity and, due to duplication and triplication in Parliament, money was spent unnecessarily. — Sapa

Tucsa slams high inflation rate

BUSDAY 29/11/84 (155)

GERALD REILLY

THE Trade Union Council of SA yesterday condemned the authorities' inability to control inflation.

The criticism came after an announcement this week that inflation hit a record 18,4% last month.

Tucsa stressed the progressive impoverishment of workers in a situation where pay adjustments fell far short of compensating for the price spiral. It added that it was "horrified" at the statistics

"The figures represent a catastrophic decline in living standards, and workers can no longer have any confidence in the financial management of the country," Tucsa said.

Artisan Staff Association general secretary Jan van der Merwe said the record inflation level would strengthen the railway unions' struggle for adequate pay rises. SA Society of Bank Officials assistant general-secretery Graeme Rowan called for urgent action to slow down the inflation rate.

half mast

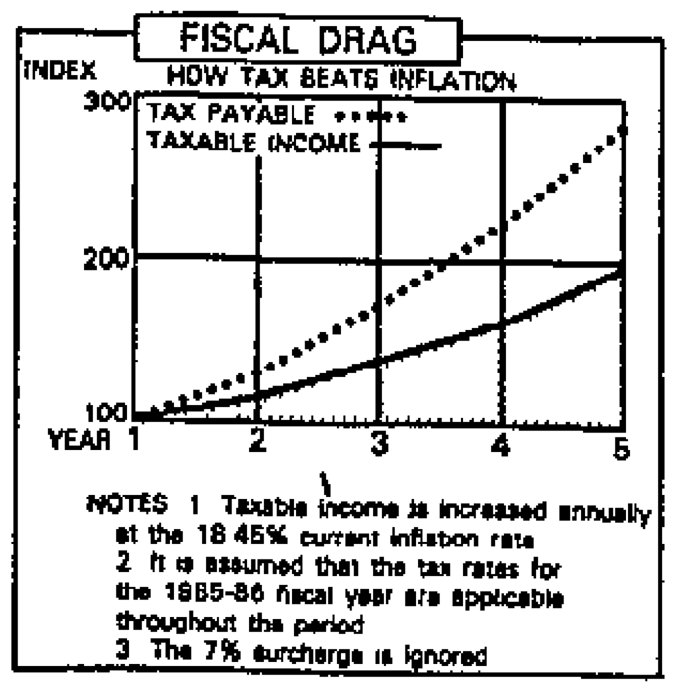
heart-stopping achievements — the

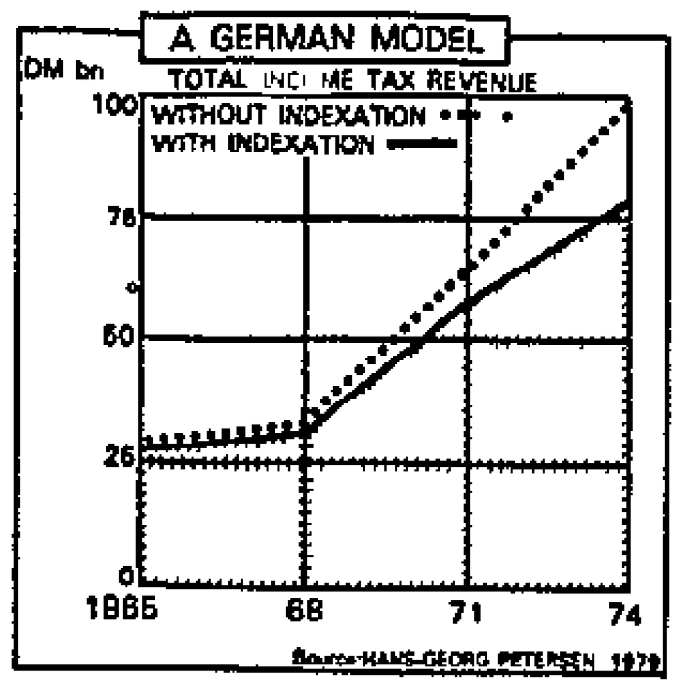
storm about their country's pioneering spirit. Less vainglorious, the vast

Air and Space Museum to know that this is so

Is inflation the most sinister tax invented?

BUS DAY (153) 31/1/86





BARRY SERGEANT

PERHAPS the most sinister form of taxation ever invented is that omnipresent economic monster — inflation. With the latest inflation rate in excess of 18% the inflation/tax issue has assumed alarming proportions in a country paying its highest tax bill ever.

One of the more basic concerns is that yields from savings — interest, dividends, rent — are taxed at the taxpayer's marginal rate without any recognition of inflation whatsoever. The results are reflected in chronic low national savings levels.

Historically, tax systems have come to benefit in countless different ways from inflation. Because most taxes are expressed as a percentage of the tax base, the higher the inflation rate, the greater the cash flows into government's hungry coffers. Seen in a broad context, it is not only tax law which has failed to recognise the incidence of inflation in SA. The legal system as a whole is at fault, by implication, of course, the legislature. There is also a dreadful dearth of academic or official research on the matter — despite double digit inflation since 1974.

Endemic inflation allows for higher tax collections without an official increase in tax rates. That is very good for governments and very bad for taxpayers.

Distorted

Fisher Hoffman Stride's Solly Gerber, in a paper prepared on behalf of the SA Institute of Chartered Accountants for submission to the Margo Commission on tax, drew the following conclusions on SA inflation:

- Inflation pushes more taxpayers into the top marginal rate of the income tax bracket;
- Inflation increases substantially the value of tangible assets, making greater numbers of taxpayers liable to pay estate duty — which previously affected only the wealthy;
- Inflation forces taxpayers to pay an increasing proportion of their pre-tax income in tax, and
- Inflation distorts tax collection patterns by placing an increasing proportion of the tax burden on individuals.

The most effective way for a government to profit from inflation in the tax system is to exact a tax in percentage terms. This way tax is levied at a proportional rate, as a fixed percentage of the tax base. This method is self-adjusting as regards inflation.

Examples in the SA tax system abound: the 12% GST, the 5% transfer duty for company property acquisitions, the 50% company tax rate, the 15% non residents shareholders' tax, the 10% non-residents tax on interest, and the stamp duty on shares transferred.

When the tax rate varies according to amounts expressed in nominal monetary terms, distortions increase disproportionately as the inflation rate increases. SA examples of this nature are the personal income tax tables, the block rates of donations tax and estate duty, and the split rate of transfer duty on immovable property bought by natural persons.

Examples of taxes extracted as a *fixed amount of a transaction or item* — where the taxpayer pays a constant amount until rates are adjusted by Parliament — are as rare as hen's teeth in SA. As inflationary pressures increase retail prices, so proportional taxes, such as GST, cut deeper into the taxpayer's pocket. Over the past year the petrol price has increased by 60% (January-January), with the extra flow into state coffers from GST measured in terms of hundreds of millions of rands.

In the personal income tax arena, inflation is a difficult concept to grapple with — hence, perhaps, its continued use by the authorities. Its effect on tax liabilities is known either as fiscal drag or bracket creep. These catch phrases mean that as pay is increased to compensate for inflation, the tax tables take a bigger proportionate bite of pay as the taxpayer moves into a new bracket.

Governments also benefit from the effect of inflation on the corporate sector. When an allowance is claimed on the acquisition of capital equipment, for example, the main cash-flow benefits may only be manifest 18 months down the line — substantially eroded by inflation.

Generally speaking, examples of foreign experience in legal systems show that there are no legal impediments to adapting the law to the devaluation of money. Australia, Canada, France, the Netherlands, the UK and US have indexed various tax rates to inflation now or in the past. In Switzerland the obligation of government to adjust federal income tax for individuals is entrenched in the constitution, although it must be implemented in each canton. West Germany and New Zealand, like SA, mainly ignore inflation.

The graph (above, right) shows the effect indexation would have had on tax receipts in the Federal Republic of Germany. In 1974 income tax collections indexed for inflation would have been DM78bn. The actual take was 20% more than this at DM95b. But no relief is possible without the political will on the part of government to acknowledge the inflation problem.

The solution is double-edged: tax rates are expressed at a fixed rate per item or transaction (for example, 10c on each 250ml beer sold) and tax rates expressed in percentage terms are indexed to the inflation rate.

Regarding the effect of inflation and taxes on savings yields, Vito Tanzi, in the 1984 "Taxation, Inflation and Interest Rates" released by the International Monetary Fund, concluded that interest should only be taxed to the extent that it exceeds the inflation rate — for obvious reasons.

Incentive

With an adjustment scheme for the impact of inflation on taxes many problems are diminished. Politicians would be forced to openly increase tax rates if they want to increase public expenditure. But then taxpayers' resistance to taxation will most likely reduce public expenditures.

Taxpayers are encouraged to save. And government has a further incentive to tackle the inflation problem, since its tax collections decrease in real terms without an increase in rates. The responsibility of indexing tax rates lies exclusively with the legislature. Hirschberg argues that so long as the legislator remains passive, the only way to bring about long-overdue reforms is through pressure from below. That implies a tax revolution, or something close to it.

Indexing tax rates is a very realistic approach to the inequities caused by high inflation rates. Crimes of omission in the tax/inflation field contribute to the severity of monetary crises. With the inflation rate set to continue its gallop in the year ahead, the curative must be announced.

23 000 jobs axed in metal industry

STAR 7/1/86

153

By Mike Siluma

About 23 000 metalworkers lost their jobs in 1985, underlining the continuing downturn in an industry battered by depressed domestic demand, inflation and reduced spending

This is according to the Steel and Engineering Industries Federation's (Seifsa) review of economic activity in the metal industry last year

It said the number of jobs in the industry had dropped from 454 000 at the end of 1981 to 352 000 last year

Seifsa said the political and social situations in South Africa had aggravated the strong recessionary conditions in the industry, leading to a decline last year in production volumes of 6,4 percent compared with 1984 and 17 percent in contrast with 1981

The industry's automatic components sector was expected to record a drop of 30 percent compared with 1984, the machinery sector 22 percent, transport equipment 20 percent and electrical machinery 13 percent

It was expected, however, that the reduced production would be offset by increased export efforts in the iron and steel industries

The Seifsa review predicted depressed conditions would continue to plague the construction engineering sector through most of 1986, with heavy engineering experiencing a recovery only in the second half of the year

No recovery in shipbuilding was expected this year

Turning to labour relations, the review said the recession and inflation had hindered stable collective bargaining and made annual wage negotiations extremely difficult

It said taking into account the instability associated with political and social change, the slowing down in public and private sector expenditure and the high inflation rate, Seifsa did not anticipate a turnaround in the metal industry's overall performance until late in the year last year and was apparently so impressed that he initiated the tie-up

was probably the most innovative commercial banker the country has seen

Price shocks for consumers in 1986

9/1/86 BUS DAY 153

SHOCKS galore await consumers during the course of 1986 And motorists in particular can expect their costs to escalate at an even greater rate then last year

The year ended for them with a 6c/l petrol price increase in November.

They were hit with another shock increase of two cents from January 1, and unless there is a swift and dramatic improvement in the exchange value of the rand, another increase of between 4c and 6c can be expected within the next six weeks

Department of Mineral and Energy Affairs has put the "break even" exchange rate level at 43 US cents to the rand

And although the rand has slipped through the 40c barrier it is still a long way from 43c under current market conditions, say economists.

Director-General of Mineral and Energy Affairs Louw Alberts told *Business Day* if the rand continued to strengthen a reduction in the expected further price hike might be feasible — or it might even be possible to avoid an increase altogether.

The department was watching the performance of the rand closely, together with the international oil market where a price reduction seemed to be in the offing

GERALD REILLY

Another factor which had to be taken into account when determining the next price rise was that oil companies were still under-recovering.

However, if the rand continued to improve against the dollar, and oil prices continued to sag, the under-recovery could disappear, Alberts added.

And from May 1 the petrol price is expected to be loaded with another 2c a litre when the third party fuel levy system is introduced

Yesterday Deputy Director of Transport Ronnie Meyer said a plan for the handling of claims in terms of the proposed new scheme had been submitted to Transport Minister Hendrik Schoeman

Economists expected pressure on all consumer goods prices to continue unabated.

Still to affect prices were the higher fuel price, the 15% hike in rail tariffs and the effects of the battered rand on imports, as well as the 10% surcharge on certain imports.

They expected, too, that the inflation rate as measured by the CPI would rise above 17% for December.

It reached a record level of 16,9% in November

NAL

Argus 28/1/86 153

Unions 'horrified' by 18,4% inflation

Labour Reporter

ORGANISED labour today added its voice to the outcry about the inflation rate reaching 18,4 percent — its highest level in 66 years

The Congress of South African Trade Unions and the Trade Union Council of South Africa, which represent about 700 000 workers, both blamed Government policies

Tucsa said it was horrified The statistics demonstrated that the workers of South Africa were being impoverished by the day

"CATASTROPHIC DECLINE"

"The figures represent a catastrophic decline in living standards and workers can no longer have any confidence in the financial management of the country," said Tucsa

"The public sector cannot delegate its corporate responsibility to the whims and fancies of individual decision-makers who have narrow sectional interests and are functioning in an economy as concentrated and regulated as that of South Africa"

Mr Jay Naidoo, general secretary of Cosatu, said the inflation rate was a symptom of a crisis directly attributable to a mess created by the Government and big business

"There can be no superficial solutions, the only solution is a fundamental change," he added

(7) (a) and (b) Yes, the accused will appear in the Regional Court on 4 April 1986

(8) No

Q CQL 699
HANSARD 25/3/86
Vigilantes 351

*25. Mr K M ANDREW asked the Minister of Law and Order:

(1) Whether any vigilantes were operating in Zolani Township near Ashton in 1985, if so,

(2) whether the South African Police took any action in respect of these vigilantes; if so, (a) what action, (b) when and (c) with what result; if not, why not;

(3) whether these vigilantes operated with the (a) knowledge and/or (b) co-operation of the South African Police; if so, (i) why, (ii) what was the nature of this co-operation and (iii) who authorised the South African Police to co-operate with them,

(4) whether any (a) fire-arms were and (b) ammunition was issued to such vigilantes by the South African Police, if so, why,

(5) whether the South African Police received any complaints from residents of Zolani Township concerning any (a) councillors and/or (b) vigilantes, if so, (i) how many, (ii) on what dates and (iii) what was the nature of these complaints,

(6) whether any residents of Zolani Township laid any charges against (a) councillors and/or (b) vigilantes, if so, (i) how many, (ii) on what dates and (iii) what was the nature of these charges;

(7) whether the South African Police investigated these (a) complaints and (b) charges; if not, why not, if so, what were the findings in each case,

(8) whether he will make a statement on the matter?

The MINISTER OF LAW AND ORDER:

(1) Yes

(2) No, because at that stage the police had no knowledge of the existence of a vigilante group.

(3) to (5) No

(6) (a) Yes

(i) Four

(ii) 12 and 20 November 1985 and again on 3 and 7 December 1985

(iii) Three charges of assault and one charge of attempted murder

(b) Yes

(i) Four

(ii) 4, 12 and 20 November 1985 and again on 7 December 1985

(iii) Four charges of assault.

(7)(a) and (b) Yes, with regard to the councillors, prosecution was refused in three cases The remaining charge is still being investigated With regard to the vigilantes prosecution was refused in two cases, in another case the Attorney-General's decision is being awaited and the last case is still being investigated.

(8) No.

Q CQL 700
HANSARD 25/3/86
Tendered goods/supplies

*26. Mr K M ANDREW asked the Minister of Transport Affairs

(1) Whether (a) the South African Transport Services and (b) any specified divisions thereof have followed the same procedure over the past year in regard to all tendered goods or supplies originating (i) partly or (ii) wholly from foreign countries, if not,

(2) whether a different procedure has been followed over the past year in regard to such goods or supplies originating (a) partly or (b) wholly from certain foreign countries, if so, (i) what was the nature of this procedure, (ii)(aa) when and (bb) why was it introduced, (iii)(aa) in respect of which foreign countries was it applied and (bb) to what extent in each case and (iv)(aa) since when and (bb) why has this procedure been applied in respect of each such foreign country;

(3) whether the South African Transport Services obtained Cabinet approval for allowing this procedure in respect of certain foreign countries, if not, why not, if so, when?

†The MINISTER OF TRANSPORT AFFAIRS

(1) (a) and (b) No.

(2) (a) and (b) Yes

(i) Tenderers were erroneously advised that offers incorporating supplies from Sweden would not be considered by Transport Services

(ii) (aa) 7 January 1986

(bb) Due to an administrative error

(iii) (aa) Sweden

(bb) Please refer to reply in respect of part (2)(i) of the question.

(iv) (aa) 7 January 1986.

(bb) Please refer to reply in respect of part (2)(i) of the question

(3) No. The procedure introduced was due to an administrative error.

Q CQL 702
HANSARD 25/3/86
Report of Education Committee

*27. Mr R M BURROWS asked the Minister of National Education.

(1) Whether he has been furnished with a copy of the Report of the Education Committee on Recommendations for National Education Policy Objectives and Strategies submitted to the Minister of National Education of South West Africa; if not, why not; if so,

(2) whether he will furnish the House with information contained in this report, if not, why not; if so, what recommendations are contained in the report in regard to the structure of education in South West Africa;

(3) whether a dissenting minority report was submitted in regard to this matter, if so, what was the purport of the minority report;

(4) whether he will make a statement on the matter?

The MINISTER OF NATIONAL EDUCATION:

(1) No

(2) Falls away.

(3) Falls away

(4) Falls away.

Q CQL 702
HANSARD 25/3/86
Ekangala Co-ordinating Committee

*28. Mr P G SOAL asked the Minister of Constitutional Development and Planning

(1) Whether his Department recognises the Ekangala Co-ordinating Committee, which is also known as the Representative Authorised Committee; if

Postal rise increases scepticism

SML 153

The latest increase of 20 to 50 percent in postal tariffs has increased the market's scepticism about the authorities' attempt to combat our high inflation rate, according to Trust Bank economists

"All eyes are now on the Minister of Finance to see whether his budget can come up with a credible formula to curb the accelerating growth rate of government expenditure, which is essential to halt the spiralling inflation rate," says the bank's latest rand report.

The rand, supported by the Reserve Bank at current levels, is forecast to maintain its current stability. It traded very steady at around 50,45 US cents yesterday against 50,20c for most of last week, and should maintain its level, says Trust Bank

In the longer term, the rand can come under further pressure because of uncertainty about our balance of payments and the tumultous political situation, says the report

If the economy improves, however, and inflation is brought under control the rand may well strengthen in the medium term.

The liquidity eased in the market as the shortage narrowed to R1,733 billion The R500-million repurchase aid to the market was extended yesterday.

The key BA rate remained at Tuesday's level of 12,25 percent against the 12,40 percent of a week ago

The market is thin and no cut in the bank rate is anticipated before the budget speech on March 17.

The capital market is quiet but it seems that the President's speech earlier this week and the firmer gold price ($342,60) improved the sentiment as rates were softer on Tuesday morning.

The 2005 RSA traded at 17,07 percent against the 17,34 percent last week

Deposit rates (percentages). Call 12,50 — 60 days — 12,50, 32 days — 12,25, 88 days 12,75, prime — 15,50 — Sapa.

to Question No 338 on 12 March 1985, statistics on commissioners' courts are now being kept by his Department, if not, why not; if so, how many cases were heard in each specified commissioners' court in 1985,

(2) whether any of the defendants appearing before these courts in that year were legally represented; if so, how many;

(3) (a) how many persons were found (i) guilty and (ii) not guilty, and (b) what was the total (i) amount imposed in fines, and (ii) number of days imposed by way of sentences, by these courts in 1985?

The MINISTER OF JUSTICE:

(1) No The honourable member is referred to my answer to written Question No 35

(2) and (3) The information is not readily available

QCu 794 **Executions** HANSARD 26/3/86 (252)

270 Mrs H SUZMAN asked the Minister of Justice:

(a) How many (i) males and (ii) females of each race group were executed in the Republic in 1985 and (b) for what crime or crimes had each death sentence been imposed?

The MINISTER OF JUSTICE:

(a) (i) 96 Black men were executed after having been convicted and sentenced to death for crimes committed against the following victims:

28 Black men
17 Black women
4 Coloured men
2 Coloured women
22 White men
27 White women
4 Indian men

35 Coloured men were executed after having been convicted and sentenced to death for crimes committed against the following victims.

12 Coloured men
7 Coloured women
1 Black man
1 Black woman
5 White men
3 White women

5 White men were executed after having been convicted and sentenced to death for crimes committed against the following victims:

5 White men
2 White women
4 Black men

(ii) A Black woman was executed after having been convicted and sentenced to death for a crime committed against a White woman

(b) (i) Murder

Black men	78
Black women	1
White men	5
Coloured men	30

(ii) Rape

Black men	4
Coloured men	2

(iii) Robbery with aggravating circumstances

Black men	3

(iv) Numerous offences—

Murder (two counts), housebreaking with the intent to rob and robery with aggravating circumstances

Blackmen	2

Murder and robbery with aggravating circumstances

Black men	6
Coloured men	3

Murder and rape

Black men	1

Robbery with aggravating circumstances and rape

Black men	1

Murder (two counts, robbery with aggravating circumstances, housebreaking with the intent to rob and robbery with aggravating circumstances

Black men	1

QCu 793 **Natalia Development Board** HANSARD 26/3/86

277 Mr R A F SWART asked the Minister of Constitutional Development and Planning:

(1) (a) What was the total revenue generated through all channels for each specified township falling under the control of the Natalia Development Board in respect of the 1984-85 financial year, (b) in what manner was each specified amount of this revenue generated and (c) what was the total expenditure on (i) administration, (ii) development schemes and (iii) any other specified items in respect of each of these townships,

(2) how much of this amount was spent on (a) the building and/or renovation of (i) schools and (ii) houses, (b) the building and/or maintenance of roads and drains, (c) the provision of electricity, including street lights, and (d) other specified amenities and services?

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

The information required is of such an enormous extent that it cannot reasonably be given in reply to a question. It consists of virtually the entire revenue and expenditure accounts of 21 townships and the reply would comprise approximately 50 typed pages in each of the official languages

Criminal Procedure Act HANSARD 26/3/86

322. Mr A B WIDMAN asked the Minister of Justice: QCu 794 (252)

In how many cases in 1985 (a) were persons referred for inquiry in terms of section 77 or 78 of the Criminal Procedure Act, No 51 of 1977, and (b) did the court find that persons were not capable of understanding the court proceedings or were not criminally responsible for their act as a result of mental illness or mental defects?

The MINISTER OF JUSTICE:

(a) 1 399

(b) 340

26/3/86 **Mgwali** HANSARD QCu 794

330. Mr P R C ROGERS asked the Minister of Education and Development Aid:

(1) (a) What is the estimated population of Mgwali and (b) in respect of what date is this information furnished;

(2) whether any persons moved voluntarily from this area during the latest specified period of 12 months for which figures are available; if so, (a) when, (b) how many and (c) where did they settle;

(3) whether any persons are currently moving voluntarily from the Mgwali area; if so, how many persons is it anticipated will move voluntarily from this area?

The MINISTER OF EDUCATION AND DEVELOPMENT AID

(1) (a) 1600 families

(b) April 1984.

Stalemate in strike at Noristan

BUSDAY 152

CLAIRE PICKARD-CAMBRIDGE

A STALEMATE in negotiations between Noristan pharmaceuticals in Pretoria and 290 dismissed workers has not yet been resolved, with workers claiming management cannot prove its claim of irregularities in the packaging section.

Most of the black workforce was dismissed nearly two weeks ago after staff went on strike to demand the reinstatement of 60 workers fired for allegedly tampering with labels.

Noristan set a deadline of March 21 for the SA Chemical Workers' Union (Sacwu) and the workers to propose terms by which an acceptable working relationship could be restored.

But a union spokesman said little progress had been made, because workers were demanding their unconditional reinstatement and believed the dismissals were unfair. The union said community organisations had agreed not to buy Noristan products.

Management said it was essential that workers acknowledged that the dismissals were fair, in the interests of protecting the future quality of Noristan products and the safety of the public.

Petrol: Too little but not too late

153

CITY.P.
2/3/86

By SINNAH KUNENE

THE GOVERNMENT'S announcement of the 8c to 10c cut in the petrol price has received a lukewarm reaction from commuters, motorists and taxi operators.

Energy and Mineral Affairs Minister Danie Steyn announced in Cape Town this week that 93c octane petrol (super) would cost 10c less from midnight on Sunday, while 87 octane (regular) would cost 8c less.

Steyn said the actual reduction in the petrol price was 15c, due to the firmer rand and cheaper oil. He said the Cabinet had agreed that 10c be passed to the consumer, while 5c a litre would go to fuel levies – including the new Third Party insurance system.

He called on the private sector to pass on the fuel price reduction to consumers by lowering the prices of goods and services "because fuel prices have always been cited as a reason for price increases".

● Soweto Taxi Association spokesman B Xulu warned consumers not to get too excited about the reduction because "it is minimal".

He added, however, that the news had come when the association was considering an increase in taxi fares. The last increase was in July 1983.

● Pick 'n Pay executive director Alan Gardiner criticised the Government for "protecting" oil companies and added that the drop in price could have been greater.

He said his company would continue its fight to have the petrol price deregulated.

● National Federated Chamber of Commerce treasurer Sy Kutumela said he hoped the price of goods would go down.

Hikes will negate fuel cut benefits

BUSDAY

153

Inflation stays as prices rise again

3/3/86

GERALD REILLY

IMMINENT government-administered price rises would, economists predict, more than cancel out any anti-inflationary benefits from the 10c/l petrol price cut.

Price rises threatening are

- Higher across-the-board postal tariffs, expected to be announced by Communications Minister Lapa Munnik in Parliament today;
- A maize price increase of at least 10% from May;
- A bread price rise likely to be announced in the Budget on March 17 by Finance Minister Barend du Plessis;
- A sugar price jump within the next two months

The impact of higher SA Transport Services (Sats) tariffs from April 1 will further add to inflationary pressures.

Acting head of the economic Research Bureau (BER) at the University of Stellenbosch, Ockie Stuart, estimated the direct and ripple effect of the lower fuel prices would knock a maximum 1% from the consumer price index — provided benefits are passed on to consumers

The impact of the expected administered price rises, however, would more than neutralise this limited benefit, other economists claimed

They pointed out that most manufactuers and retailers would use the reduced fuel price benefit to compensate for other cost rises in their operations

Economists forecast it would take more than a 10c/l fuel price cut to make a significant dent in SA's record 20,7% infaltion rate.

Pick 'n Pay boss Raymond Ackerman agreed fuel price benefits would be negated by administered price increases

Psychologically, however, the fuel price decrease was important It gave consumers some hope that other prices would come down, he said.

Ackerman said suppliers were quick to raise prices in line with fuel price increases, and he pressed them now to now pass on benefits of the lower price to consumers.

A few had responded, but benefits to consumers would be marginal, he said

Meanwhile National Maize Producers' Organisation GM Piet Gous said it was clear consumers would get little benefit from the fuel price cut

There was also justification for further cuts in diesel and petrol prices, he stressed

Milk price set to rise

BUS DAY 4/3/86. .153

GERALD REILLY

AN INCREASE in the producer milk price is expected to be approved by the Dairy Board next week. The fresh-milk price was last raised — by 3,5c/l — in June.

The SA Agricultural Union's National Dairy Committee chairman J H Grey claims a huge backlog has developed in producers' prices. Fresh-milk producers are averaging 39c/l, before transport costs, which is virtually a break-even price.

Most farmers are getting no return on their production, Grey claims, and the committee has asked for an increase of about 10%.

The lower petrol price would save the industry only 0,1c/l, it is claimed, but a firmer rand could lower the cost of importing materials for making milk cartons

Steel prices increase by another 11%

BUS DAY 4/3/86 153

DAVID FURLONGER
Industrial Editor

STEEL producers have increased the price of their products by up to 11% — the second time they have put up prices since controls were abolished in July.

The increase will cause a price ripple throughout the industrial sector. Toyota chairman Albert Wessels said the rise would increase the carmaker's production costs by between 2% and 3%. He estimates the effect would hit car prices about mid-year.

Iscor, which controls 75% of the local steel market, confirmed yesterday that it had raised prices in stages since the beginning of the year.

Official spokesman Piet du Plessis said the corporation had increased the price of its flat-rolled products, such as steel plate and sheet, by an average 9,5% on March 1. Prices of other products had increased on January 1 and March 1.

Highveld Steel marketing GM Robert Herbertson said his company had also increased flat-rolled product prices on March 1 by between 9,5% and 10%, and other products between 9,5% and 11% on February 1.

Customers, however, claimed that prices rose by up to 10% in the second half of last year — producers insist the increases were less — and that by abandoning the old system of discounts and rebates, Iscor and its competitors hade effectively pushed up prices by as much as 30% since July.

Escom officials were still absorbing the increase last night. Dick Drollinger, MD of mining equipment manufacturer Harnischfeger, said the increase would harm his company's ability to export to its US parent.

'This is not the way to combat inflation'

Big postal tariff increases shock consumer groups

9/3/86 STAR (153)

By Maud Motanyane and Jackie Unwin

Consumer groups expressed surprise, shock and disillusionment at the announcement of the postal tariff increases of about 20 percent from next month.

"After the good news of the petrol price reduction, this comes as a cruel blow to consumers in the service sector," says Consumer Council director Mr Jan Cronje.

The council feels that inflation cannot be combated in this way.

According to Mr Cronje, a general price freeze now seems to be the only answer.

Price increases of "this nature are exhorbitant" and did not bring the solution to the economic problems any closer

"It is clear that there is no question of supply and demand and healthy competition in this instance and the time has now arrived to seriously consider privatisation of this industry," he said

Mr Eldridge Mathebula, director of the National Black Consumer Association (NBCA), said· "It is shocking to learn that, in spite of the ever-soaring cost on basic items, the Minister of Communications, Mr L A P A Munnik, will increase the postal rates on April 1

"After the 10 c reduction on petrol, we expected to see prices of basic items being cut down To our amazement we are still being bombarded with more increases on essentials The NBCA is much disillusioned by the increase in postal rates.

"We are particularly worried about workers, who are far from home and have to communicate regularly with their families through the post."

Inflation rate

Mrs Joy Hurwitz, president of the Housewives' League, commented "We are never going to bring our inflation rate down if administered prices are not contained.

"We thought the Post Office department was to have introduced a new productivity scheme. It must have over-expended somewhere to require these massive increases.

"The Government seems to have forgotten its battle against inflation There doesn't seem any effort to contain it at all."

Mr Clive Weil, managing director of Checkers, said "It is just disgusting The Government should be sending the right signals to the consumer of South Africa"

Mr Richard Cohen, director of Pick 'n Pay, said· "The increases will affect us like everyone else. But they will not be passed on to the consumer.

	NOW	FROM APRIL
Telephone Call Units	10c	12c
Direct Dialling Overseas (per min)	R4,10	R4,20
Telephone Rentals (residential)	R9,00	R11,00
Telephone Rentals (business)	R10,00	R12,00
Installation Charges	R75,00	R90,00

	NOW	FROM APRIL
Telex Call Units	10c	12c
Monthly Rentals	up R5,00 to R10,00	

	NOW	FROM APRIL
Postage Std Letter	12c	14c
Non-Std Surface	19c	22c
Airmail	26c	30c
Telegrams (local) per word	6c	8c
Telegrams (overseas) per word	8c	10c

	NOW	FROM APRIL
Inland Parcels	up 15c under 100g	
Post Box Rentals	R10,00	R15,00

"An increase of 20 percent seems to be a very high figure — especially when the Government is trying to reflate the economy. It is another aspect it is not coping with

"The postal authorities use a lot of trucks Have they passed on the impact of the lower petrol price?" he asked

'Too big'

The National Consultative Committee on Post Office Affairs described the increases as excessive and inflationary.

Mr Brian Page, the New Republic Party's postal affairs spokesman, said the 16,6 and 20 percent increases on standard mail and telephone tariffs, coupled with other increases, would aggravate the inflationary spiral

● If you want to save money it will soon be cheaper to telephone from a public call box instead of a private telephone The unit basic rate of a private telephone goes up to 12c from 10c But the unit basic rate from a public telephone remains unchanged at 10 cents. A spokesman for the Post Office said to change the callbox units it would have been necessary to increase the cost on public telephones to 20 cents,

"But it was felt an increase of 100 percent which would have hit people not having access to a telephone was not right," he said.

Pensions reviewed on regular basis

4/3/86 SMAL 153

By Frank Jeans

Pension fund managers are becoming more and more aware of how much inflation is eroding the income of existing pensioners, with no fewer than 90 percent of participants reviewing benefits regularly.

The average annual increase granted to pensioners is more than 8,5 percent.

These facts emerge from the Sanlam group's biennial survey of pension fund structures

Other points revealed by the survey are:

- There is a shift towards bringing the retirement age for women into line with that of men;
- There is little discimination on grounds of race and sex regarding eligibility for membership About 88 percent of pension funds allow all employees to become members of the same fund,
- Many employees give little thought as to how much money is actually spent on their behalf by their employers No matter how good benefits are, they cannot be appreciated if they are not understood by the members.

Mr Desmond Smith, general manager of Sanlam, says: "A retirement age of 65 now applies to 77 percent of the men and 40 percent of the women (two years ago, it was 72 and 27 percent respectively).

"The trend towards equal treatment for all, makes a common retirement age for both sexes more desirable"

On the communication aspect, Mr Smith believes employees should be made aware of the value of their benefits and so create a better employee attitude towards the employer.

"The one area which does not appear to be receiving much attention is the preservation of benefits or transfer of accrued rights," he says

"This is probably due to the additional cost of such amendments It is, however, an area which will have to receive attention over the next few years"

(153) STAR 4/3/86.

MD says glass prices are now at a realistic level

By Jackie Unwin

Glass has risen in price by 46,3 percent over the past 13 months Independent glaziers and glass merchants blame a monopoly in the flat glass industry after the merger in 1983 between Plate Glass and Pilkington.

But the managing director of Glass SA, the holding company of the merged operation, Mr Rod Fehrsen, claims the price levels have recovered in rand terms to the levels they were at in 1984 before the glass war, which forced prices down.

Dr Stef Naude, chairman of the Competition Board, said although the board had conducted a preliminary investigation into aspects of the glass industry, "investigating the supply of glass is not on the programme

"Breaking up a monopoly is a drastic action which has never been taken in this country," he said

Mr Fehrsen told *The Star* that in 1984 the glass industry was embroiled in a vicious price war European suppliers had dumped large quantities of glass in South Africa because of the world surplus

"We were forced to drop the prices to meet imported prices and protect our market share "

He said the situation had changed There was little surplus in Europe, the rand had weakened significantly and glass was no longer available from Europe at low prices.

"Pilkington has used the opportunity to let prices recover to proper economic levels," he said

But glass merchants complain there is a monopoly

Said one merchant "When the merger was allowed, Minister of Trade Dr Dawie de Villiers said he could always control the situation by removing the 20 percent duty that had to be paid on imported glass But instead a further 10 percent surcharge was imposed by the Minister of Finance"

Situation unfair, say angry merchants in wake of merger

Government criticised for allowing a 'monopoly'

By Jackie Unwin

Glass merchants have expressed anger over an alleged monopolistic situation which they claim the Government has done nothing to prevent in their industry.

Prices for flat glass have risen by 46,3 percent since December 1984

Some merchants who have contacted *The Star* say they are not happy with the Competition Board's findings on the glass industry

However, the managing director of Glass SA, the holding company of the merged operation involving Plate Glass and Pilkington, Mr Rod Fehrsen, has defended the price increases He said soaring inflation, wage increases, the poor rand-dollar exchange rate and the effects of the price war involving imported glass had resulted in artificially low prices These prices were now recovering to normal marketing levels

One irate merchant said "Everybody in the industry gripes about the situation," he said

"It seems anomalous," said another, "that a profitable local monopoly should still require protection from import competition, despite the present low value of the rand "

With regard to increased costs, he asked "What price the much-publicised rationalisation and retrenchment of staff resulting from the merger?"

He said the structure in which the one company which manufactured glass, had a wholesale division, retail stores and also glazing operations — thereby competing with everybody — was wrong The Government did not allow it with with the liquor industry

"They could squeeze the independent guys out," he said

An angry glazier told *The Star:* "I have been forced to raise my prices — the increases have been extremely unreasonable, but I want everybody to know why

"When I fit even the smallest piece of glass, the minimum I can charge is R48, and people say 'You are mad, mister'."

He said that just over a year ago, a small opening window sized 435 mm by 1 150 mm would cost R23,40 to replace, plus R13 transport costs Now it would cost R34,80, plus transport charges of R15.

The retail price of glass cut, but not fitted, was now R36 a square metre, exclding GST. This was retailing at about R22 just over a year ago

Commenting on the fact that Plate Glass competed throughout the industry, Mr Fehrson said he had made it "a point of faith" to have an open door to all of his competitors in the glass industry — "particularly in areas of what they may consider unfair activity. They should come forward and make clear specific allegations and I am sure we could solve their problems".

Mr Fehrson said the fact that some people had lost their jobs had nothing to do with the merger, but the economy "It is a fact of life in South African industry," he added

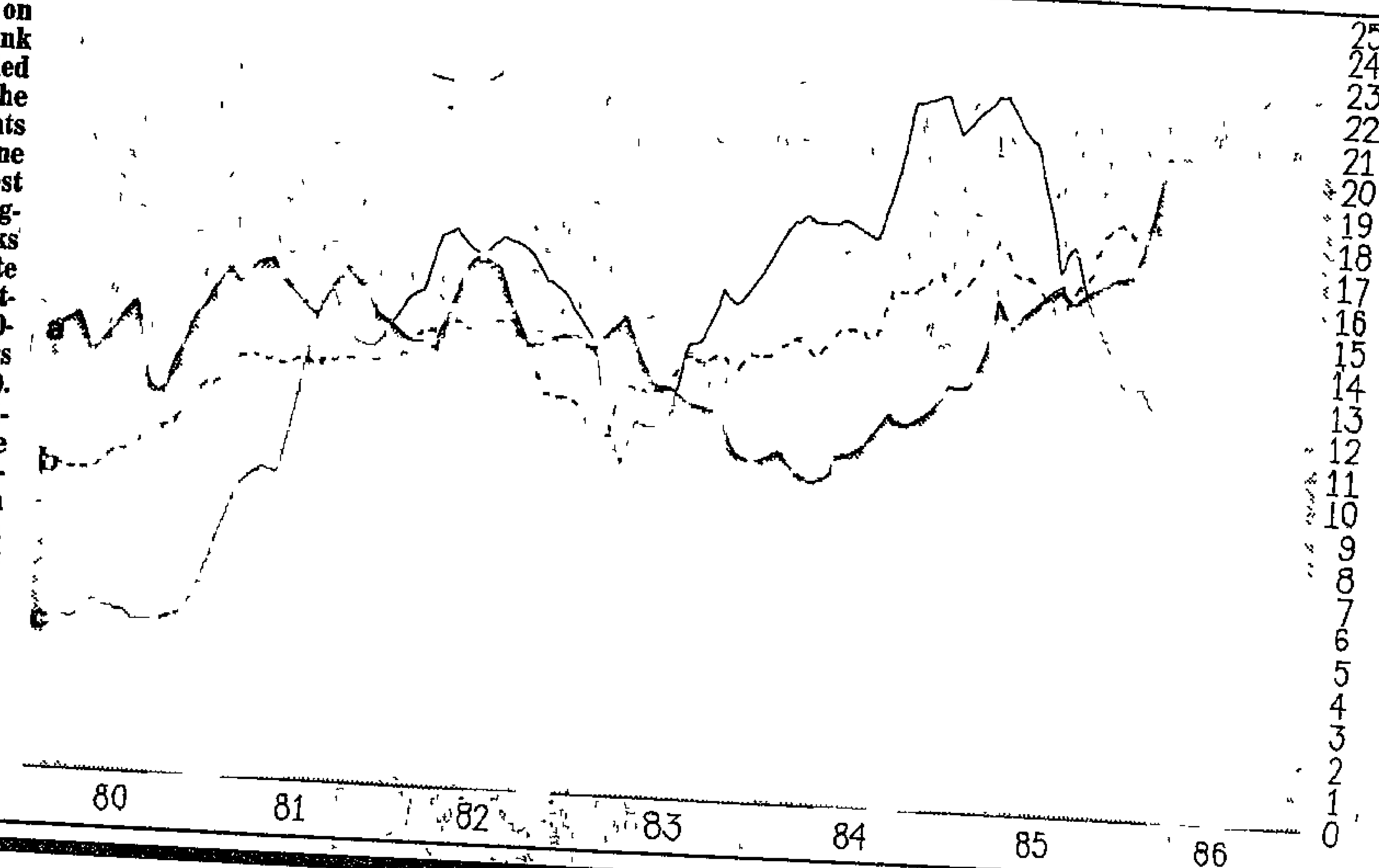
Dr Stef Naude, chairman of the Competition Board, said. "We have had preliminary investigations into various aspects of glass Investigating the supply of glass is not on the programme "

He said the building industry would be affected "very significantly" by the prohibition of collusion, market sharing and collusive tendering which comes into effect on May 2

"There is a fundamental difference between a cartel on one side and a monopoly on the other," said Dr Naude. "Where you have one supplier, it is an entirely different situation "

Interest rate developments are shown on this Standard Bank graphic. The shaded portion topped by the A graph represents the inflation rate. Line B is the interest rate pattern for long-term Escom stocks and C the interest rate pattern for short-term investments (90-day bankers acceptances).

The current position indicates that the best return on money can be got from putting the cash away for very short periods, a few months only, and that the long-term area — the 10 to 20 year period — should be avoided if return on investment is the main criterion.



Dealing with inflation

153 Mercury 4/3/86

Your Money

Finance Editor Jon Beverley looks at inflation at 20 percent and poses some questions.

THERE are two stories about inflation in the Germany of 1920 which give a wry insight on how some people might tackle the problem. They also hold a grain of truth which is why they are worth re-telling.

Especially now that South Africa's inflation has gone over 20 percent and the effect of the petrol price cuts do not appear to be having a major influence on the upward spiral of rising prices.

The stories from an era when prices of food and other goods changed by the hour and workers were eventually being paid daily in millions of marks are:

First — the worker who took his wheelbarrow to work to collect all the bits of paper which were being paid as wages.

On his way home he stopped at his local *weinstube* leaving the wheelbarrow outside and when he returned to it the almost worthless peices of paper were dumped on the pavement and his wheelbarrow was gone!

Second story concerns the brothers who inherited the family estates still wealthy from the 19th century.

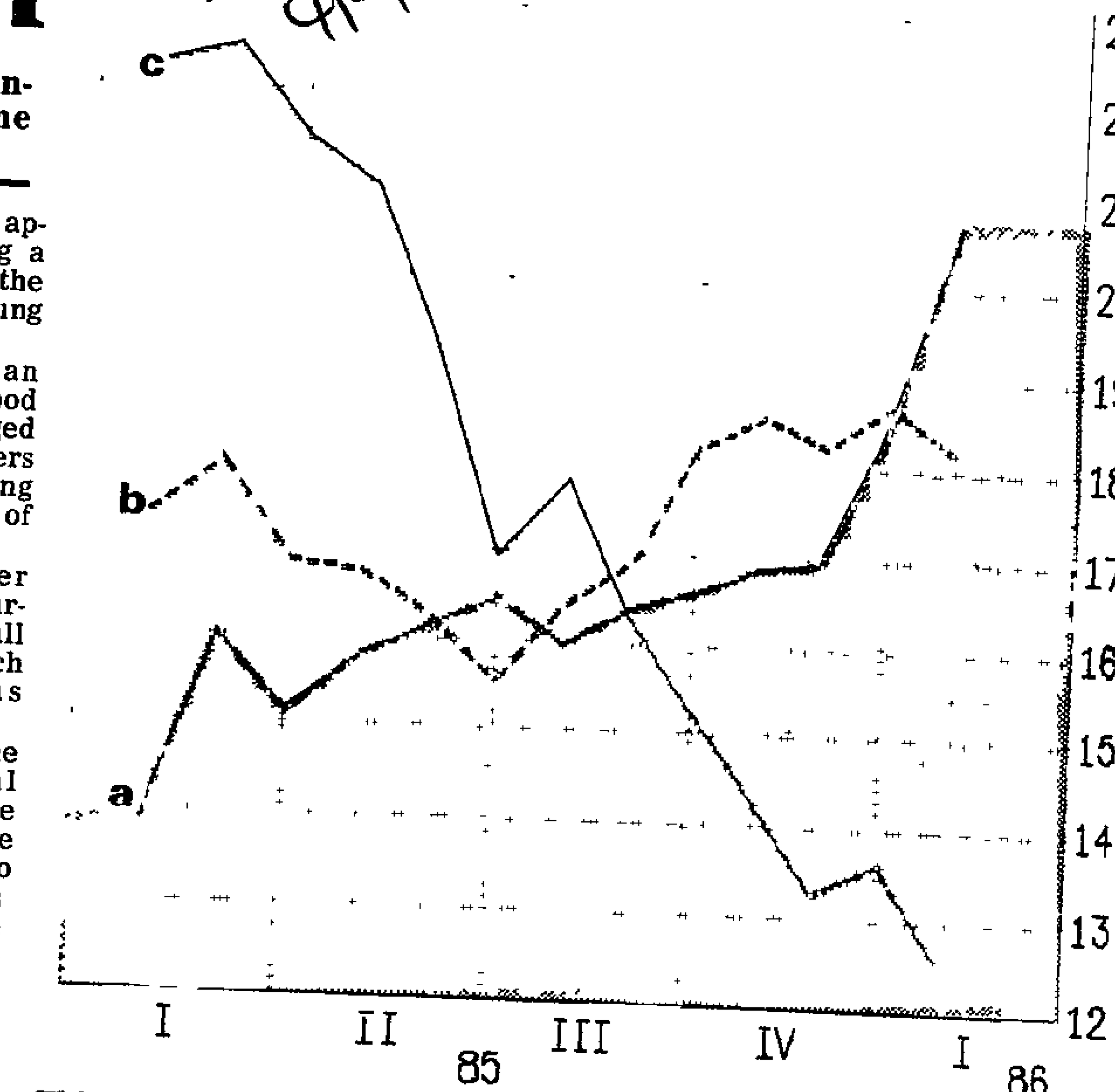
Fritz took a cautious view and liquidated his share of the estate and put it in a bank.

Franz decided to live for the day dissipating his inheritance — but throwing the empty wine bottles into the cellar.

Came the inflation when prices changed by the minute and Fritz saw his bank balance rapidly losing all its purchasing power.

Franz sobered up rapidly in the inflation — and restored his fortunes by selling his stock of empty bottles.

The answer points to hard assets. Sadly in an age when many governments are unable, or unwilling, to get inflation down it is almost pointless to save.



This enlargement of the graphic on the left shows a situation in which the interest rate on long-term stocks (C) plunged during last year while short-term rates (B) have risen to the 18 percent area. And it shows the damage that inflation (A) is doing to the encouragement of savings.

And yet those savings are needed, in South Africa any rate, for the growth of the country.

Instead the public pour their money into things — such as property — which show increasing value as inflation rages.

Those with spare cash look at a range of investments such as stamps, coins, carpets, paintings, art and antiques. They burnt their fingers last time round when the diamond investment bubble burst.

There is a very simple rule in saving: are you earning more (after paying tax) than the inflation rate?

But there is an implicit warning: if the interest rate is very high, how safe is your investment?

Remember Sidarel, and many others since, when the interest rates were very attractive but investors lost all when the round-about stopped.

There have been several comments in the financial press recently about the value of retirement annuity funds (RAF) and whether one can achieve a better deal by putting your money into the stock market, unit trusts, or subscription shares.

The comparison is difficult because it is usually done with hindsight - today's investor has no real idea of how today's shares will perform over the next 20 years.

Assurance companies, while naturally conservative, have the advantage of having a massive fund to invest which can absorb mistakes and benefit by surprises.

Few private individuals have this sort of safety net. And few have the discipline of regularly investing which is why so many go for the rather pedestrian returns on most RAFs.

Postage and telephone calls to cost more

PO Budget slammed as inflation booster

STAR 4/3/86 (244) (203) 153

Political Staff

PARLIAMENT — Moans, groans and mocking interjections from opposition MPs greeted **Dr L A P A Munnik's** announcement that Post Office tariffs were to be increased

Dr Munnik, the Minister of Communications, announced increases of up to about 20 percent in telephone, postal and other communications tariffs when he introduced a record R5 400-million Post Office Budget

The Budget was introduced at a joint sitting of the three Houses of Parliament yesterday afternoon

In a statement afterwards, **Mr Alf Widman (PFP, Hillbrow)**, Opposition spokesman on communications, said he was "shocked and disappointed"

"The Minister and the Government are obviously insensitive to the economic situation in the country," he said The current 20,4 percent inflation rate was the highest for more than 60 years Notwithstanding this, the Minister had seen fit to increase Post Office tariffs by a considerable amount

Postage of 14c for ordinary letters was a 16,5 percent increase Telephone calls at 12c a unit was a 20 percent increase

Mr Widman said the substantial across-the-board tariff increases would affect trade, commerce and industry as well as the private individual It would increase the rate of inflation further

It was appreciated that the Post Office rendered a vital service to the public, but nevertheless its expenditure should be kept down to a minimum,

It was now the third successive year that there had been tariff increases Last year there was a 14,8 percent across-the-board increase The year before there was a 9 percent across-the-board increase, and this year the average increase was about 15 percent

The New Republic Party's communications spokesman, **Mr Brian Page (NRP, Umhlanga)** said in a statement "The Minister shows little imagination in again increasing tariffs to balance the Budget"

The increases, coupled with various other rises, would aggravate the spiral of inflation

The cause of the inflation spiral had to be laid "fairly and squarely at the door of this Government's maladministration of the political and economic affairs of our country", said Mr Page

Dr Lapa Munnik . record R5 400-million Post Office Budget

Mr Alf Widman .. 'State is insensitive to country's economic situation'

Price of water up by 10 pc in April

STAR 6/3/86

153

The Rand Water Board has announced a 10 percent increase in water tariffs from April 1.

Johannesburg residents would not pay more for water until the new financial year in July, because the City Council had budgeted for the increase, said management committee chairman Mr Francois Oberholzer.

Tariffs in Sandton are likely to rise immediately, said a council spokesman

An increase in water prices was unavoidable because of "higher prices for raw water bought from the Government, electricity, coal and chemicals, some of which have been increased by as much as 30 percent, as well as the present high cost of borrowing and servicing loans", said a Rand Water Board statement released today.

The board was absorbing a large portion of its cost increases, the statement said

Ironically, the board's price increase would have been much higher — about 17,5 percent — had it not been for the big penalties paid by consumers who exceed their water quotas, according to the statement.

DISASTER

The present penalties — a charge of 1,5 percent for each percent over quota — would remain unchanged

Mr Oberholzer told *The Star* the present water restrictions would remain in force because important dams were still at critical levels.

Consumer bodies said although the 10 percent increase in water tariffs was understandable, it would be a disaster if municipalities passed on the whole amount to the end user

Mrs Betty Hirzel, chairman of the Consumer Union, said the water increase would hit hard at the consumer, who was already struggling.

The chairman of the Randburg management committee, Mr Thys Sutherland, said it was likely that about 5 percent of the 10 percent increase would be passed on to the Randburg consumer from April 1.

SPAN 6/3/86 153

Battered buyers 'just have to wait'

By Jackie Unwin

Consumers, battered by waves of price hikes, are unlikely to see immediate benefits from the strengthening rand and the drop in petrol prices.

But the peak of spiralling inflation might have been hit at 20,7 percent in January, say bank economists.

This is small comfort, however, because it is still the highest for 66 years. Consumers will still have to keep their belts tight because salaries and wage increases are far below the inflation rate, and increases on basic food items are still in the offing.

The reasons for there being a "fair chance" that January's inflation rate being the levelling-off point are:

- The rand has strengthened
- The economy is not showing any signs of excessive demand

WAGES RISING

- The money supply growth is under control
- Wages and salaries are rising at about half the rate of inflation and not exerting an upward pressure

"Most of the recent price rises reflected a hangover from last year's weakness in the rand exchange rate," said a bank economist. "The recent improvement in the exchange rate, if it holds good, should be reflected in a moderation in price rises later this year

"But in the interim . the inflation rate is likely to remain at reasonably high levels, buoyed by administrative price increases the SATS rises and Post Office tariffs on April 1.

"In the second half of the year we should see the improvement in the rand beginning to filter through into the rate of inflation

'ILLOGICAL'

"But manufacturers' profit margins have been squeezed so much there is a lot of reluctance to pass on any benefits."

He estimated that this trend would continue for another year at least

Mrs Joy Hurwitz, Housewives' League president, said "We cannot bring down our inflation rate as long as we have the never-ending increases in administered prices, such as railway, petrol and electricity increases

"We have the curious situation that manufacturers can increase their prices in a recession when they are faced with decreased consumer spending It is completely illogical"

COFFEE PRICES 7/3/86 FIN MAIL (153)

A big stir

Coffee drinkers had better begin hoarding because prices of ground coffee could double in the next few months.

The primary cause is the protracted drought in Brazil, which has halved the harvest to 15m 60 kg bags. Auction prices rose at one stage to $2,60/lb in New York and the London futures market has quoted £3 200/ton for delivery in March. These are the highest prices since 1977. The price of Robusta has jumped by between 120% and 180% since October last year.

Johan Cronje, chairman of the SA Agriculture Union's National Coffee Committee, tells the *FM* that the potential for SA producers is strengthening. Annual production is 1 800 t — mainly Arabica in spite of the fact that the bulk of SA's demand is for Robusta.

Liptons MD Derek Varnals says price increases have been exacerbated by the fall in the rand and SA's non-membership of the International Coffee Organisation (ICO). Under normal circumstances SA can buy at 50%-70% of the ICO member price, but with supplies under strain, a premium is now being demanded. Thus, prices on the shelves have climbed more than 25% in the last nine months. Brands such as Nescafé, which is pure high grade Arabica, make up 10% of the market and will be hardest hit. Some 90% of SA coffee drinkers make do with lower grade chicory blends, which will blunt the blow.

Varnals says the industry is keen to increase the use of SA Arabica now that production costs are in line with world prices. This could benefit Kofkor and its Barberton pulping plant.

Lionel de Roland-Phillips, a director of tea and coffee brokers I & M Smith, believes consumer prices are likely to rise until June.

Although ICO coffee exports soared from 12,3m bags to 15,5m bags in the December quarter of 1985, a stock shortage is forecast because of the low crop. Last year's global crop was 98,6m bags, against world consumption of 93m bags.

The ICO decided in London in January to suspend export quotas from February 19 because the price had stayed above $1,50/lb for 45 consecutive days. The price subsequently rose to $2,24c/lb, but has settled around $2/lb. If the price falls to $1,33/lb, quotas will be re-imposed, but this looks unlikely.

I & M Smith is forecasting a 100% increase in the price of Arabica ground coffee in SA which would take the cost of a 250 g pack to R7-R8. Good quality 50/50 mix instants are set to rise 60%, but the rise in lower quality blends will be lower.

De Roland Phillips says the SA coffee industry has treated the consumer fairly. The full impact of rising prices has been partly absorbed, but price rises in combination with exchange rate factors and doubled finance costs for raw material stock has made the burden unsustainable. ■

PETROL PRICES

FIN MAIL 7/3/86

Short change

The drop in petrol price by almost 10% from March 3 was welcome — though it's no surprise that juggling with the books left the consumer well short of his due. Reef 93 octane, for example, was reduced by 10c/*l* to 92c/*l*. Yet landed cost, the basis for price calculations, fell no less than 21,6% to 51,1c/*l* That would imply a saving of just over 14c/*l*.

So who got the difference?

The national road fund received an extra 2c; the third party insurance levy was introduced, at 2c, while another new item titled "fire protection," amounting to 0,6c, crept in

Otherwise, the consumer would be benefiting from a fuel price of 86,2c/*l* And there's still the little matter of applying gst to all the tax and levy items. As it is, the lower pump price also reflects a saving of 1,1c/*l* on gst Applying the tax more equitably would save another 1,7c/*l*.

No less than 20 items now make up the petrol price structure, many decided not in the market place, but behind closed doors It's strange government has augmented existing levies by further imposts, given its desire to reduce inflation

The government's heated scrap over Pick 'n Pay's attempts to offer discounts on petrol must also support growing scepticism (see box).

Tony Twine, consultant to Econometrix, says a 10% cut on the pump price should reduce inflation by almost 2,5 percentage points over a nine-month period "This assumes the multiplier effect following lower running costs for transport and so on. This multiplier works when prices are on the up, but may not when prices are falling The problem is you get 'ratchets' behind prices. I doubt, for example, if Putco would now reduce its prices, while things like bread prices are unlikely to go down."

The petrol price cut is a weak response to dramatic events over the past few months The rand has appreciated no less than 45% since August, while the crude oil price has collapsed Compared to a ruling rate of around $27/barrel last year, prices for delivery this April are quoted at $13

The landed cost reflected in the new pump price assumes an average rand-dollar exchange rate of US47c and, it is believed, an average crude oil price of $23,50. So if favourable trends continue, consumers can look forward to further and large cuts in the petrol price.

But, alas, there are still a few administrative snags. Just over half a cent saved from the lower landed cost seems to have gone to reduce the "under-recovery" rate This refers to the industry "slate," a price-balancing mechanism

In co-operation with the authorities, the oil companies use it like a bank account to absorb minor fluctuations in landed cost During December, for example, the oil companies were owed around 6,2c for every litre sold It is apparent from the latest pricing structure that there is still an under-recovery of some 5,6c/*l*

Financial Mail

FIN. MAIL 7/3/86

204

153

PETROL PRICE FIASCO

Symptom of a broader malaise

When Energy Affairs Minister Danie Steyn said he hoped businesses would react as quickly to the (inadequate) cut in petrol prices as they did to earlier increases, he displayed a naivete that may be deplorable but is hardly surprising in a Cabinet whose grasp of economic reality is hazy at best.

The objective of business is not to cut prices for the sake of cutting prices — even Raymond Ackerman doesn't do that — but to maximise profits, which, in a competitive capitalist society, are considered the mainspring of social welfare. Whether lower cost inputs are passed on to the consumer depends, firstly, on competitive pressures within particular sectors and, secondly, on firms' needs (and ability) to restore their own profit margins.

Considering the battering corporate profits have taken in the recent past (not least because of government's economic mismanagement), it is not surprising that so many firms consider the latter point more important right now. Having said that, it has hardly been edifying to watch the procession of businessmen lining up behind the apologia that, of course, a lower petrol price won't actually enable us to *cut* our prices, but we will be able to *delay* or *moderate* the next increase.

Interestingly, virtually the only sector that claims lower cost inputs *will* be reflected in lower retail prices is the liquor trade, which remains highly competitive despite government's misguided efforts to curb its market power (motivated by the excessive political clout of the wine lobby).

But why should the private sector react any differently from government itself? Have any prices in the State sector been cut as a result of lower fuel prices? Has Sats announced downward adjustments to its recent round of price hikes (the second this year)? Has the Post Office, which less than a week after the petrol price cuts announced a swingeing average 20% increase in tariffs?

The Postmaster-General himself has admitted that his tariff increases will add 0,5% to the overall inflation rate. While administered prices are rising at such rates, what chance can there be of a significant fall in inflation?

The trouble is, too much of our price-fixing mechanism is immune to market forces. When times are hard, the private sector draws in its horns and may be forced to run at a loss for a while. Even De Beers passed its dividends for several years after the slump in the diamond market in the Thirties.

Our State and parastatal enterprises do not accept that discipline. True, they may strive to cut back on uneconomic services and use labour more efficiently. Sats is a good example. But, enjoying monopoly or near-monopoly market control, and feeling the need to avoid losses at all costs, their pricing policies fly in the teeth of market realities.

Even apart from the general question whether the public sector absorbs too great a share of productive resources, there can be no doubt that its pricing policies alone are a significant contributor to endemic inflation and retard the revival of activity in the private sector. They do not help to smooth out the adverse fluctuations of the economic cycle; they exaggerate them.

If our privatisation policy ever gets off the ground, it is to be hoped that it will be accompanied by the realisation that a measure of genuine competition is vital. Otherwise, we will just be replacing harmful State monopolies by equally harmful private monopolies.

A high degree of price determination is incompatible with an efficient market economy. Because it not only affects everybody's pocket, but is highly visible, the petrol price is one of the most obvious manifestations of this All power, therefore, to Raymond Ackerman's continuing efforts to compete.

But the succession of economic blundering over the past week must be put in a broader context. SA's economic problems do *not* reflect the failure of the market mechanism. As is coming to be increasingly understood, they reflect far more our political masters' failure ever to allow that mechanism to work properly. ■

QUOTABLE

Ambassador Herman Nickel, from a speech delivered at the Industrial Relations Seminar of FSA:

Our (United States) policy rests on a number of fundamental propositions (which include):

☐ Apartheid is not only a moral affront. It is a prime source of internal and regional instability in an area of great importance which opens up targets of opportunity for our global adversary;

☐ We oppose violence from whatever source. This goes for official repression as it goes for terrorist activity. It was the *Washington Post* which put it well in a recent editorial: "A new rule needs to be engraved in everybody's mind: Nobody who uses terrorism as a means is entitled to have his political purpose taken seriously as an end."

☐ We realise that South Africa is inextricably intertwined with, and indeed is, the powerhouse of the rest of the southern African sub-continent. Therefore, we recognise the need for regional stability and security in southern Africa. Improved relations between South Africa and her neighbours and the internal reform process are mutually interdependent;

☐ We realise that the principal impetus for change in South Africa is and will continue to be internal...

man, Sir Michael Edwardes, was brought in. In the subsequent shakeup the entire Dunlop board resigned. (A few months later Dunlop was taken over by the conglomerate, BTR.) Hence the belief among some City commentators that Lord — who laid stress on his role as an administrator — may find running the bureaucracy at Lloyd's more suited to his talents than industry.

As to his toughness, Lord answered the press by saying: "Perhaps you would care to address that question to the 8 000 people who left the tyre business in four years." ■

BOND RATES

Reserve pressures

Strange things are happening in the building society industry. Despite interest rate declines and most societies reporting neither excessive demand for bonds nor any shortage of finance, it now seems bond rates will not drop Indeed, according to some, they could actually increase.

The SA Perm, NBS, Allied, Eastern Province, and UBS all report normal bond loans, good inflows and no pressure to increase deposit rates. Despite this, none plan cutting bond rates.

UBS economist Hans Falkena notes inflows have been encouraging and expects "sufficient mortgage finance to satisfy demand during 1986." He is convinced that a further round of Reserve Bank rediscount rate cuts will enable societies to drop bond rates.

But Hendrik Sloet, Saambou MD and president of the Association of Building Societies, disagrees. "An increasing demand

FIN MAIL (68) (153) 7/3/86.

IN MY OPINION

RONNIE BETHLEHEM

Inflation snag for the Budget

Ronnie Bethlehem is group economics consultant at JCI.

This is the fourth in our series of pre-Budget commentaries.

Before the publication of the January cpi figure, I had felt that room existed for a measure of relaxation in the forthcoming Budget.

This was because the Leutwiler rescheduling agreement had solved — at least for the time being — the problem of foreign debt repayment; the balance of payments was still in substantial surplus on current account and the domestic economy was sufficiently depressed for the Minister not to have to worry too much about any destabilising or troublesome resurgence of internal demand.

But January's inflation rate of 20,7% must weaken the position to such an extent that more caution is called for. If the Minister now signals too strongly in the direction of stimulation, all the good work directed to the solution of the foreign debt problem and in effecting an internal economic adjustment so painfully, could be wasted.

The last thing that SA can afford is a rerun of the 1983-1984 mini-boom, which resulted in the total wiping out of our net reserves.

The trouble is the high linkage between changes in domestic expenditure and imports. There can be no significant increase in such expenditure without imports increasing also, especially when anxieties about future inflation are high, and rising. They are likely to remain high despite the petrol price decrease, because most of this will go towards improving corporate profit margins and will not work its way through to prices at the retail level.

My calculations, before the cpi disclosure, indicated that, assuming no material changes in taxation, the Exchequer deficit in 1986-1987 would have been in the region of R3 900m, or 2,6% of nominal gdp. This would have compared with about R3 360m in 1985-1986, or 2,7% of nominal gdp.

If one assumes that private sector spending in real terms is going to be subdued this year for reasons already given, then for real gross domestic expenditure (gde) to grow by around 3% would require a fairly high rate of increase in real consumption spending by general government of about 6,5%.

In nominal terms this would translate into an increase of such spending of around 21,5%

What happens to real gdp in 1986-1987 will depend on the change in both real gde and the real balance of exports and imports, including payments for invisibles and nonfactor services Assuming an unchanged average gold price of $335/oz and an average exchange rate of US45c, surplus on BoP current account should be about R5 billion This gives an increase in real gdp around 3%

While one can still look to a surplus on BoP current account for 1987-1988, if growth is going to improve the surplus will get smaller. Indeed, the main factor in growth is likely to be the domestic economy rather than the payments surplus. The constraints on the Finance Minister, therefore, are fairly well defined.

For these reasons I would argue that the March 17 Budget must be a holding operation. But there is another reason why the Minister will be cautious. He will be thinking of structural adjustments to the tax system to improve the economy's efficiency and also to improve revenue gathering However, the Margo Commission will not yet have reported.

Enough of a breathing space has been created for him to await its recommendations and ponder them before coming to Parliament in March 1987, or perhaps a bit earlier, to announce carefully considered and significant reforms. These comments are of particular relevance to whether gst should be cut and whether a capital gains tax should be introduced.

In the long run, SA must move towards a tax system biased towards indirect rather than direct taxes. This would spread the tax burden better, improve tax collection, and assist in controlling inflation. For the Minister to submit on the basis of short-term expediency to calls for a cutting of gst would therefore be inappropriate.

It would also be unfortunate if short-term political expediency were to result in his announcing a tax on capital gains. There are well-founded objections to such a tax in a country in which risk-taking and entrepreneurship require encouragement. It is not an efficient tax. It is unfair to the extent that it taxes gains resulting solely from inflation, and it reduces the efficiency of capital markets because it discourages the sale of assets whose prices have been distorted upwards.

Given that something has to be done about unemployment and the limitations made clear above that exist with respect to fiscal policy, what then should be the approach of the Minister?

I would argue that now is the time for a switch in emphasis towards monetary policy. Were the deficit before borrowing to be held to the 2,6% of nominal gdp, the burden on the capital market would not be excessive and scope would exist for a further reduction in interest rates

But here the January inflation rate returns to spoil our calculations. It must be a factor which will hold back any decline in rates at the long end However, if I am right that private sector demand for credit is going to remain weaker than most people expect, and if the BoP current account can be relied upon to remain in substantial surplus, short-term interest rates will fall They should be allowed, if not actively encouraged, to do so In time, and if I am right, too, in believing that inflation will peak during the first quarter and then start declining, long-term interest rates will follow, albeit only slowly. A lower interest rate structure is what is needed to encourage the economy cautiously back to recovery and the authorities must not be deterred by what happens to money supply.

High tariffs hurt development

7/3/86 S.DAY 153

Economics Reporter

HIGH tariffs slow technical progress, hamper the expansion of exports and make the SA consumer put up with inflated prices and lower quality says economic adviser to the Development Bank, Manfred Reichardt.

He said that protectionism had existed for several decades in SA and had some of its roots in the educational system.

Knowledge as presented by teachers had to be accepted and often memorised so that children were not encouraged to analyse or criticise and were largely protected against ideas and influences outside the classroom.

Similarly, he continued, industry had been protected against outside competition

Protection could be justified in the early stage of an industry's development

However SA was experiencing an on-going protectionism.

Without equal foreign competition firms became complacent and little faults crept in.

Reichardt said that although lower tariffs meant lower revenue this could easily be recovered by higher direct sales tax.

and Federated in an unusually complex arrangement. The first phase was to split the relevant companies under Kirsh Industries into three major components: AAMI, AA Mutual Life and AA Mutual International (the UK-based short-term company).

Explains Johannes Hamman, MD of Federated Investments: "Both sides agreed a price for each of the three. Since neither knew who would buy what at that stage, it was a very fair method of valuation."

AAMI lost R9m on underwriting for the year to April 1985, while Federated Insurance lost R2,6m to December 1984. By all accounts, Federated will report much higher losses for 1985. The new company will have a common year-end for December 1986.

Federated-AA now embarks on the difficult task of rationalisation, though Hamman stresses there won't be any lay-offs. Federated's bits and pieces are being moved to the new Diagonal Street office where staff will begin the costly and lengthy process of adding Federated's records to the sophisticated computer system run by AAMI. In time, full computerisation should give the enlarged group a competitive expense ratio.

The advantage for Kirsh is that he has been able to shed a cash-strapped short-term insurer which will benefit from the expansion in capital as a result of the merger. The shareholding of the new group is Federated Life (30%), Fedrated Investments (40%), the AA (26%) and staff (4%).

Growth rates

Says Hamman: "Some five years ago we split our life and short-term operations as we felt that growth rates, management and capital needs were diverging Through this transaction we went one step further by pushing our short-term company more to the side, so to speak, rather than directly subject to control by the life company."

Before the merger, Federated Life owned Federated Insurance 100%. The authorities had "intimated a preference for the two to be more at arm's length"

In the next phases of the merger, apparently, more rationalisation is to take place, as it is "still not a neat structure"

Federated decided to purchase only the local short-term company, AAMI. Says Hamman: "All life companies are capital hungry animals, and we felt that we had enough on our hands with our existing life company, Federated Life."

The cash that changed hands is a closely-guarded secret and will probably remain so until Federated-AA publishes its first annual report. In referring to a recent press report suggesting Kirsh ended up with R10m in cash, however, a market source says: "He got a lot more out of it than that"

This is in addition to Kirsh now holding AAM Life and AAM International He also still has Constantia, a little-known and oft-forgotten acquisition dating back to 1981 But according to sources, this small short-term company, "on the basis of a gentlemen's agreement, won't be expanded as a competitor over the next three years."

One area of difficulty could be the Automobile Association connection. Though Federated-AA now has access to 600 000 motorists as a marketing opportunity, so has AAM Life. It could become a little tricky if Federated Life begins to nudge its short-term brother to tout for long-term business. ■

PETROL PRICES

153 7/3/86

FIN MAIL

Short change

The drop in petrol price by almost 10% from March 3 was welcome — though it's no surprise that juggling with the books left the consumer well short of his due Reef 93 octane, for example, was reduced by 10c/*l* to 92c/*l*. Yet landed cost, the basis for price calculations, fell no less than 21,6% to 51,1c/*l* That would imply a saving of just over 14c/*l*.

So who got the difference?

The national road fund received an extra 2c; the third party insurance levy was introduced, at 2c, while another new item titled "fire protection," amounting to 0,6c, crept in.

Otherwise, the consumer would be benefiting from a fuel price of 86,2c/*l* And there's still the little matter of applying gst to all the tax and levy items As it is, the lower pump price also reflects a saving of 1,1c/*l* on gst Applying the tax more equitably would save another 1,7c/*l*.

No less than 20 items now make up the petrol price structure; many decided not in the market place, but behind closed doors It's strange government has augmented existing levies by further imposts, given its desire to reduce inflation.

The government's heated scrap over Pick 'n Pay's attempts to offer discounts on petrol must also support growing scepticism (see box).

Tony Twine, consultant to Econometrix, says a 10% cut on the pump price should reduce inflation by almost 2,5 percentage points over a nine-month period "This assumes the multiplier effect following lower running costs for transport and so on. This multiplier works when prices are on the up, but may not when prices are falling. The problem is you get 'ratchets' behind prices I doubt, for example, if Putco would now reduce its prices, while things like bread prices are unlikely to go down"

The petrol price cut is a weak response to dramatic events over the past few months. The rand has appreciated no less than 45% since August, while the crude oil price has collapsed Compared to a ruling rate of around $27/barrel last year, prices for delivery this April are quoted at $13.

The landed cost reflected in the new pump price assumes an average rand-dollar exchange rate of US47c and, it is believed, an average crude oil price of $23,50. So if favourable trends continue, consumers can look forward to further and large cuts in the petrol price.

But, alas, there are still a few administrative snags. Just over half a cent saved from the lower landed cost seems to have gone to reduce the "under-recovery" rate This refers to the industry "slate," a price-balancing mechanism.

In co-operation with the authorities, the oil companies use it like a bank account to absorb minor fluctuations in landed cost During December, for example, the oil companies were owed around 6,2c for every litre sold It is apparent from the latest pricing structure that there is still an under-recovery of some 5,6c/*l*

FIN MAIL 7/3/86

DISCOUNT BATTLE LINES UP

Raymond Ackerman's Pick 'n Pay, the oil cartel, and government are about to collide head-on following the chain's latest attempt to bring free market forces to play in petrol retailing

Neither the oil companies nor Ackerman seem certain whether any law is broken by Pick 'n Pay's offer of a 4c food discount at its stores for each litre of petrol bought at its pumps. But government thinks the deal is a contravention of the Petroleum Products Act.

Sources at the Department of Energy Affairs (DEA) quote amendments to the Act, intended to stop petrol discounting, effective March 1, as prohibiting any refund arrangement.

Ackerman, however, says the scheme is in line with appeals by Agriculture Minister Greyling Wentzel for commerce to pass on savings related to lower fuel prices to consumers. Ackerman adds that his legal opinion suggests the scheme does not fall under the Petroleum Products Act, but instead the Trade Coupons Act, with which it complies.

"We will charge the price laid down by government at the pumps of our 12 garages, but our coupons will help the man in the street — which government has also urged us to do."

Early reaction from at least one oil company was sympathy for Ackerman, but word from DEA is that supplies should be cut. This leaves the oil majors in a quandary. There have already been disputes between them over whether they should deliver to the chain's garages. In many cases, one company acts as agent for another. What happens, for example, at the Brackenfell hyper, where Shell pumps are supplied by BP? Should BP continue to supply until told not to by Shell?

7/3/86 STAR

(153)

Confidence in currency needed to counter leads and lags

Stronger rand could help in the battle against inflation

By Roger Gidlow

The rand's dramatic improvement against other currencies since about mid-December has been a welcome development in some ways. It could help to moderate imported inflationary pressures and in due course could serve to initiate a meaningful decline in inflation.

The extent of the rand's rise has been surprising, but the reversal in the downward trend of the currency should not have been a surprise since the monetary authorities had consistently argued that the rand should start to improve around the beginning of this year.

One comment on the rand's recent performance is that the improvement can be mainly ascribed to the tightening in the exchange control measures which were introduced last December. But such a conclusion is entirely wrong.

The proximate cause of the resort to a partial standstill on foreign debt repayments by the authorities last year was the downward pressure on the rand which was being exerted by large capital outflows.

Leads and lags

One short-term aim of the standstill was to relieve these pressures.

Indeed, it was widely expected that the value of the rand would rise in terms of other currencies in the wake of the standstill arrangements.

This did not happen chiefly because of the incidence of leads and lags.

Far from reversing the adverse leading and lagging by importers and exporters which had been present, the debt standstill arrangements made matter worse in the sense that foreign credit facilities became even more restricted.

As a result, many importers were called on to pay cash to foreign suppliers.

At the same time the flow of dollars into the spot market were reported to have remained somewhat limited. This could partly have reflected the practice by some exporters of keeping their dollars offshore by means of an extension of credit terms.

The authorities repeatedly emphasised that these negative leads and leags influences should have worked themselves out of the system by early 1986, and in the process remove a major source of downward pressure on the rand.

That's exactly what happened with the improved sentiment in the market also aided by a substantial decline in the value of the dollar against other currencies, a higher dollar price of gold, and signs of improved conditions in the agricultural sector, and therefore higher exports of maize.

Exchange control measures introduced in December 1985 were designed partly to furnish a demonstration effect on the foreign exchange market.

Against a background of vague but persistent insinuations concerning malpractices by certain foreign exchange dealers, the Reserve Bank wished to make it clear that it was determined to ensure, as far as possible, that the existing exchange controls were fully complied with by the foreign exchange dealers and their clients.

The new measures were also designed to emphasise the concern of the Reserve Bank with the relatively low value of the rand at that time.

Restore confidence

It was recognised that the new exchange control measures by themselves would exert a very limited impact on the market. Any benefits which could be derived from such measures, apart from being marginal, would most probably prove to be temporary if the root problems surrounding the rand remained unchanged.

The only way adverse leads and lags can be completely countered is by restoring confidence in the currency, a task rendered onerous as the rand's predicament is largely a political phenomenon.

Any reversal in adverse leads and lags which helps the rand could quickly be negated by new adverse influences.

Among measures enacted the restrictions on position taking by foreign banks were largely symbolic since these banks had in any case considerably scaled down their involvement in the local foreign exchange market in the aftermath of the debt standstill.

The decision to pay the mining houses in rands rather than in dollars for gold bullion exports made no difference at all to the total supply of dollars which emanated from that source.

The decision to compel exporters, who conduct business on a credit basis, to sell their future foreign currency proceeds in the forward rand-dollar market within seven days of shipment of the goods has exerted some influence.

It has accentuated the upward movement in the rand, but it can be argued that new distortions have been introduced into the market since importers are under no compulsion to buy dollars in the forward market.

Nevertheless, even the control measures affecting exporters have limited applicability since the bulk of the country's exports are sold on a spot basis, and the foreign currency proceeds therefore sold in the spot rand-dollar market.

'SA's low postal tariffs must increase to provide services'

STAR 11/3/86 (153)

PARLIAMENT — South African postal tariffs were too low compared with those of the country's trading partners, Mr Con Botha (NP, Umlazi) said yesterday

Speaking during the debate on the Second Reading of the Post Office Appropriation Bill, he said the low tariffs in South Africa could only be justified by the large percentage of the population that was still developing.

Tariffs had to generate enough income to provide the required level of postal services and there was no alternative to increasing rates, he said

A Government subsidy was not a reasonable alternative as this would seriously curtail the post office's ability to determine its own policy.

Another suggested alternative was privatisation but indiscriminate privatisation would limit expansion in all but the most profitable areas

This policy worked in major Western nations, where the necessary infrastructure had already been supplied and additional requirements could be met from tariff income

In South Africa, however, the basic infrastructure still had to be provided in many rural areas and strategic communications had to be installed and maintained in the border areas

Mr Botha said the Post Office Savings Bank should aim to increase its share of domestic savings to between five and 10 percent but that substantial tax incentives would have to be offered to encourage savers — Sapa.

Price rises due on milk, maize, flour

STAR 12/3/86

By Jackie Unwin

Consumers hoping food prices will come down following the petrol price drop and strengthening of the rand, face expected hikes in the cost of sugar, maize, flour and milk

Nampo meets today with its price recommendations for maize Sugar price increases are usually announced in March The Dairy Board this week considers its recommendations for the producer price of fresh milk Flour prices are traditionally announced in September All these have ripple effects on other foodstuffs

Supermarkets are fighting — without much success — to bring the prices of goods down However, they are hopeful the brakes are on price hikes

"Nobody can afford to put prices up now and manufacturers who do are totally unfeeling," said Mr Richard Cohen, director of Pick 'n Pay

Mr Ralph Horwitz, director of OK Bazaars, said he had received a unanimous "no" from his buyers when they were asked whether there were any decreases in products because of the lowered petrol price

Mr Clive Weil, managing director of Checkers, said "We have seen very few drops in prices A tea company and a cereal manufacturer have dropped prices because of the improvement in the exchange rate and this should be an example to all other manufacturers"

B-DAY 13/3/86

153

Milk and bread price hikes loom

GERALD REILLY

THE price of milk and bread is expected to rise soon

And a maize price increase is certain from May 1.

The Dairy Board will meet in Pretoria this week to discuss a pressing demand from producers for a higher price.

Producers claim their costs have risen by at least 10% since the last price rise of 3,6c/l last June.

Half a cent was levied to reduce losses on surplus exports, and the levy for the board's administration costs was raised leaving producers with less than a 2c/l increase.

SA Agricultural Union dairy committee chairman J H Grey says most producers are merely recovering costs at the current price of fresh milk.

The Dairy Board will make its price recommendation to the national marketing council later this week.

Meanwhile Finance Minister Barend du Plessis will announce in his budget speech on Monday the extent to which the Cabinet will subsidise the bread price.

The original R200m subsidy ran out in October, and the additional R45m subsidy will run out at the end of this month.

The Wheat Board estimates that it will cost at least R300m to maintain the bread price at current levels for the rest of the year.

Next week the Maize Board meets to consider a price increase. The National Maize Producers Organisation is expected to recommend a 16% increase.

Police to investigate Tuesday's shootings

2278 3251 3 ·DAY 13/3/86

PETER WALLINGTON and BARRY STREEK

POLICE are to investigate the shooting incident at Kabokweni, near White River, in which at least one person was killed and 80 injured

A senior police spokesman said yesterday it was normal police policy to have an inquest and an investigation when a person was killed during police action.

The police statement followed yesterday's call by Kangwane Chief Minister Enos Mabuza for a full investigation into Tuesday's shooting incident outside the Kabokweni Magistrates Court

The Progressive Federal Party's director of special projects Peter Soal sent a party official to conduct an on-the-spot investigation yesterday. Soal said he expected to receive the report today.

A police spokesman in Middelburg said none of the injured pupils was under guard in hospital, as was previously reported. A spokesman at Nelspruit's Rob Ferreira hospital said one or two pupils were still being kept for observation. They had suffered birdshot wounds

Mabuza said yesterday he had received information from five independent sources that hundreds of pupils converged at the Kabokweni Magistrate's office where a group pupils, who were involved in earlier incidents of unrest, were due to stand trial on Tuesday.

"The pupils, who are said to have been peaceful, requested to be allowed to hear the proceedings Although the authorities closed the gate, the pupils made their way into the yard of the Magistrate's office and sang freedom songs."

He said it was not clear what "prompted one policeman to shoot, whereafter the other policemen started shooting at

● To Page 2

GDP has risen 1,1% in five years

B·DAY 13/3/86

GERALD REILLY

THE low level of economic activity since 1981 is reflected in an increase of only 1,1% in the real GDP in the five years to 1985, according to Central Statistical Services (CSS).

After decreases of 0,8% and 2,4% in 1982 and 1983 respectively, total real GDP increased by 1985.

A drop of 1,5% in the real production of the non-agricultural sector in 1985 was caused mainly by a decrease in domestic demand.

The largest decrease in production was recorded by manufacturing (-5,3%), construction (-3,8%) and trade, catering and accommodation services (-4,9%)

Mining production, on the other hand, showed a slight increase of 0,5%

Agricultural production declined to a very low level in 1983, but then improved in 1984 and 1985

The increase in 1985 was 14,9%

Bold action needed economist

B·DAY 13/3/86

LESLEY LAMBERT

BOLD action is needed to contain the inflationary pressures of the poor rand and widespread price and wage increases, Old Mutual economist David Mohr says in an assessment of what Monday's Budget should address.

He adds that failure to address inflation will materially damage the longer-term prospects for the South African economy

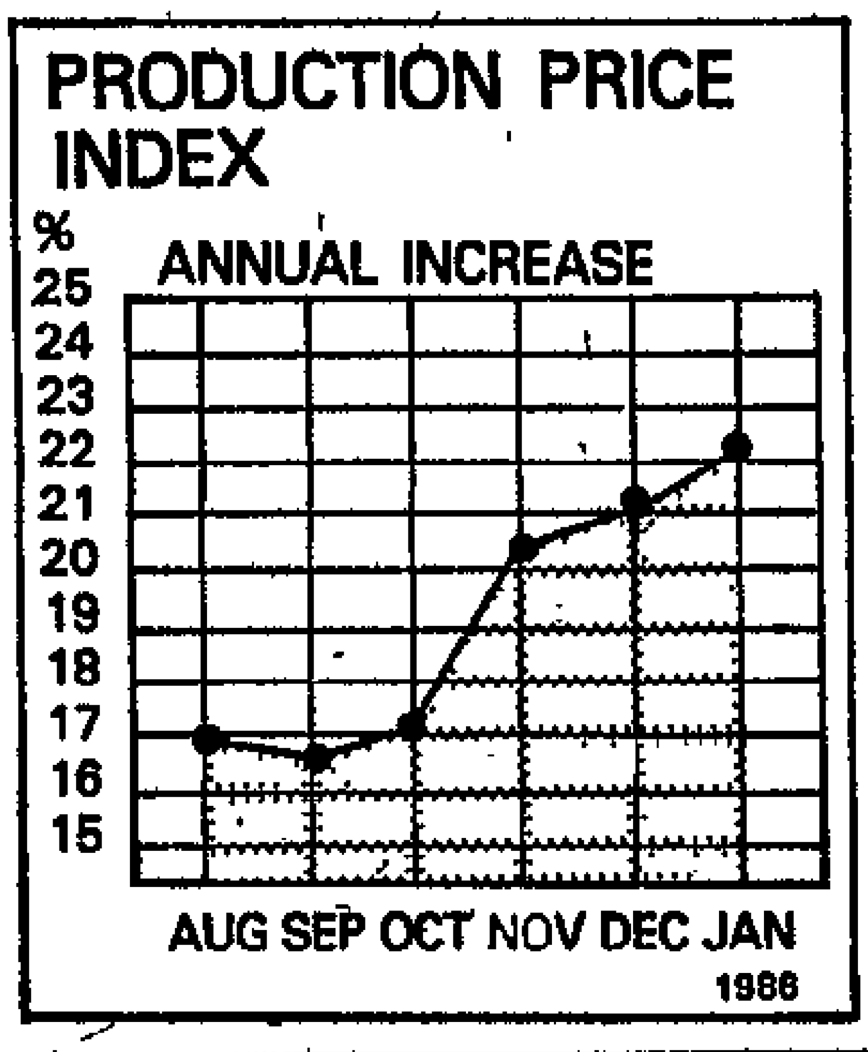
The authorities should attempt to restrict the rise in overall government spending to below the annual guestimated 16%-17% rate of inflation, to allow more room for expansion of the private sector, Mohr says

In attempting to restrict government spending, careful consideration should be given to the increase in the salary bill of the central government

"While some rise in government wages seems inevitable with the current rate of inflation, the authorities must recognise the central role public-sector wage levels and pay rises play in the South African economy"

Rapid growth in government spending has been the main reason for the consistent budget-overshooting in past years, and has led to a rapid rise in the government's share of the economy over the past five years

Mohr adds that longer term targets for the public sector's share of the economy must be reviewed



Production costs 22,2% up

19/3/86 (153)

GERALD REILLY

HOPES for a decline in the inflation rate soon received a severe setback yesterday when Central Statistical Services released figures showing the Production Price Index was 22,2% higher in January than a year earlier.

The PPI measures costs faced by producers and manufacturers and increases are only felt by consumers two to three months later Producer prices have increased rapidly since November 1984, when the annual rate of increase was 11,4%.

This continued in January, when it rose by a year-on-year 21,3% in December. The January monthly increase of 2,1% (1,7%) represents an annualised increase of over 25%.

The year-on-year increase for locally produced commodities was 19,2% and for imported commodities a huge 32,7%, the latter reflecting mainly the unfavourable rand exchange rate.

Volkskas economist Adam Jacobs said the index was "bad news". He said about 60% of the products in the index were included in the Consumer Price Index.

Barend's Budget is certain to make John Citizen pay more

STAR 17/3/86 153

By David Braun, Political Correspondent

CAPE TOWN — The man in the street is almost certainly going to be asked to pay more towards the running of the country when Minister of Finance Mr Barend du Plessis tables his Budget in Parliament this afternoon

But the good news is that personal income tax levels, particularly for the higher-income bracket, are likely to be reduced in order to counter the ravages of inflation.

The Government will also be trying to stimulate the economy. If this works, it can only benefit the public eventually in terms of economic growth and more job opportunities

President Botha met his Cabinet in Cape Town this morning in an extraordinary session to give last-minute approval to the Budget.

Most observers expect that Mr du Plessis will not be announcing any major changes to the taxation system because the Government is still waiting for the Margo Commission to report But the Minister is likely to increase the extent of rebates, particularly for the elderly

He is also expected to make it more attractive for people to save, most probably by increasing the amount of interest which can be earned tax-free from R250 a year to R350 or more.

Increases in social pensions will also be announced, and for the second year running the Government is expected to announce equal increases for all the population groups This means white pensioners will receive lower percentage increments than their coloured, Indian and black counterparts.

The Government is under enormous pressure to increase its social and security spending.

Education services, housing and welfare are likely to get above-inflationary boosts in what should amount to a total Budget of at least R36 000 million

In order to pay for this, Mr du Plessis will be looking at precious few options His ability to borrow abroad is almost nil, while if he takes up too much money from the domestic market, interests will be under sharp pressure to go up again

Observers believe that the Minister will have no choice but to raise revenue from taxes, which means that he is likely to look at GST and duties on tobacco and alcohol, among others.

● Full details of Mr du Plessis' 83-page Budget speech will be carried in later editions of *The Star* today. Tomorrow *The Star* will publish a special 20-page Budget Supplement.

Anti-inflation policy needed to boost rand

STAR 17/3/86 153

By Frank Jeans

An effective anti-inflation policy by the government is imperative if the rand is to strengthen against world currencies and while the prospects of recovery this year are bright, in the long term, inflation along with continuing political instability remain the obstacles

In its latest *Economic Opinion*, Senbank says:

"A firm and stable rate of exchange requires two major conditions — a stable political environment and effective economic policies.

"South Africa has a long road ahead before these conditions can be fulfilled"

The bank also maintains that the South African foreign exchange market can be characterised as a speculative market which is highly unstable and, therefore, not conducive to the development of our foreign trade unless it is efficiently managed.

While Senbank has no doubt that the weakness of the rand lies primarily with the country's poor inflation performance and balance of payments problems, it still sees good potential for improvement.

"The rand is the most undervalued currency in terms of real effective exchange rates," it says.

"Moreover, the rand value has recovery potential because the spot rate against the dollar is trading below the purchasing power parity rate

"The present recovery phase of the rand has probably not run its full course and exporters are therefore encouraged to sell their long-term dollar proceeds forward against the rand."

Exporters are, of course, compelled to sell their foreign currency proceeds forward against the rand.

Importers, on the other hand, will be wise to delay the forward buying of dollars.

purchaser furnishes the seller with a declaration on the prescribed form (Form VB52). This measure was aimed at tightening up control in regard to the application of the exemption relating to the sale of goods which are exported from the Republic In addition, the matter of motor vehicles sold in the Republic to purchasers who allege that they are ordinarily resident in Bophuthatswana formed the subject of discussions on an inter-governmental level and certain measures have been proposed in order to put a stop to malpractices in that regard

HANSARD 18/3/86 GCSL 567

Gold

*4 Mr L F STOFBERG ~~asked the Minis-~~ ter of Finance †

Whether his Department exercised any control over the actual gold production of gold mines in the period before exchange and export control in respect of gold, if not, (a) why not and (b) what agency exercised such control, if so, (i) what was the nature of the control and (ii) how did he determine (aa) when and (bb) at what price gold was sold?

The MINISTER OF FINANCE.

The function of buying bullion from the gold mines in South Africa was delegated by the Minister of Finance to the South African Reserve Bank as early as 1925

This gold becomes the property of the South African Reserve Bank, and is sold on overseas markets in an orderly manner to the best advantage of South Africa in terms of the policy which has been in force for a number of years

Any profits or losses incurred during such transactions are for account of the Treasury as provided for in section 17A of the South African Reserve Bank Act, 1944 (Act 29 of 1944) as amended

A detailed statement of the "gold price adjustments account" is furnished to Treasury monthly in which are also set out the prices at which the gold transactions have taken place

The South African Reserve Bank itself exercises a strict control on purchases and sales of gold, and a computer printout containing full particulars regarding each individual transaction is furnished daily both to the Governor and to the Deputy Governor in charge of gold and foreign exchange transactions The dialy price of gold is determined by supply and demand on the different markets and there can thus be no meaningful average price for the thousands of transactions taking place over the years

HANSARD 18/3/86 GCSL 568

Consumer ~~price index~~

153

*5 Mr L F STOFBERG ~~asked the Minis-~~ ter for Administration and Economic Advisory Services †

Whether he will furnish the items making up the so-called basket used in the calculation of the consumer price index, if so, (a) what items make up the basket, (b) how was the basket adjusted over the latest specified period of 10 years for which information is available and (c) how is the course of inflation calculated on the basis of these data?

The MINISTER OF ADMINISTRATION AND ECONOMIC ADVISORY SERVICES (Reply laid upon the Table with leave of House)

Yes The so-called basket of items (i e the different goods and services together with their relative importance or weights) which is used in the calculation of the consumer price index was published as a special article in the September 1978 issue of the Bulletin of Statistics and copies of this article are freely available on request A summarised form of the basket is in fact published in each Statistical News Release on the consumer price index These news releases are issued free of charge on a monthly basis

(a) The basket contains those consumer goods and services purchased by an average urban household As the consumer price index is separately calculated for the lower, the middle and higher income groups as well as for all income groups, virtually four baskets exist.

In a summarised form, the basket for all income groups compromises·

Food	24,98%
Cold drinks and alcoholic drinks	2,60%
Cigarettes, cigars and tobacco	1,69%
Clothing and footwear	8,77%
Housing and household fuel and power	19,67%
Furniture and equipment	5,98%
Household operation	4,96%
Medical care	2,08%
Transport	14,94%
Communication	0,99%
Recreation, entertainment and reading matter	4,16%
Education	0,82%
Personal care	2,95%
Other consumer goods and services	5,41%
	100,00%

I have a copy of the detailed four baskets for the disposal of the hon member

(b) The consumer price index is calculated on basis of the Laspeyres method of index calculation, which means that the relative importance of the goods and services or the weights is kept constant for a number of years Up to now the weights of the consumer price index have been revised approximately every ten years without interim adjustment The weights currently in use are based on the 1975 survey of household expenditure which will be revised on basis of the 1985 survey I have already approved the revision of the basket (i e including the weights) on a five yearly basis in future

(c) The consumer price index measures the change in prices of consumer goods and services over time. The rate of change of an annual basis of this index is usually defined as the annual rate of inflation. It is calculated by expressing the increase in the consumer price index of a particular month since the same month of the previous years as a percentage of the value of the index for the month concerned in the previous year In calculating the average inflation rate for a year the arithmetic mean of the indices of the twelve months is compared to that of the previous year

Johannesburg, Wolmarans Street: building purchased

*6 Mr D J N MALCOMESS asked the Minister of Transport Affairs.

(1) Whether the South African Transport Services purchased a building in Wolmarans Street, Johannesburg, if so, (a) from whom, (b) at what price and (c) when,

(2) whether the South African Transport Services did a valuation of the building at the time of purchase, if so, what was the valuation, if not,

(3) whether a valuation of this building was done by a body other than the South African Transport Services, if so, (a) on what date, (b) by what body and (c) what was this valuation?

The MINISTER OF NATIONAL EDUCATION (for the Minister of Transport Affairs)

(1) Yes

(a) Netherlands Properties (Pty) Limited

(b) R11,75 million

(c) 31 January 1986

(2) Yes R13 million.

De Kock says new targeting system aimed at inflation

18/3/86 · Macaum (153)

CAPE TOWN—The new targeting system introduced yesterday was an attempt by the Government to control the money supply and to keep inflation under control, the Governor of the Reserve Bank, Dr Gerhard de Kock said.

Dr de Kock, who was chairman of a Commission of Inquiry into the Monetary System, said at a Press conference that the targeting system was designed to prevent inflation exceeding the present level of 21 percent and to force it to a lower level

He said that while it was accepted that an increased money supply caused inflation, the increase in inflation last year had to be attributed to other factors such as 'capital flight and political perspectives'

He said the targeted margins of 16 to 20 percent in the money supply had been decided upon to ensure a freeze and eventual decline in the inflation rate while at the same time assisting an increase in the growth rate

While not predicting an inflation figure for 1986 he said 15 percent would be 'reconcilable' with the targeting system Other factors such as the value of the rand and capital withdrawal from the country would, however, affect this figure.

Central to the new targeting system will be a newly defined M3 — a comprehensive aggregate consisting of all bank notes and coins in circulation plus all deposits (including building society shares) of the domestic private sector with banking institutions, building societies and the Post Office.

The target for 1986 is set in the form of a tolerance range for the rate of increase in M3 of between 16 percent and 20 percent between the fourth quarters of 1985 and 1986.

Thus, Dr de Kock said, the fourth quarter 1985 total for M3, R71,2 billion, would be targeted to grow only to a lower limit of R82,6 billion or upper limit of R85,4 billion by the last quarter of 1986

The commission recommended the redefinition of the monetary aggregates M1, M2 and M3 and added a new concept, M1(a) for which aggregates would be published for the first time in the June edition of the Quarterly Bulletin.

Deposits

According to the redefinition M1(a) would consist of coin and banknotes in circulation, cheque and transmission deposits with banking institutions, building societies and the Post Office Savings Bank.

M1 would add to M1(a) other demand deposits with banking institutions, M2 would add other short-term deposits and all medium-term deposits (including savings deposits and 'shares') with banks, building societies and the Post Office Savings Bank.

M3 would add to M2 all long-term deposits with these institutions.

Money supply target set

BDAY 18/3/86

153

HAROLD FRIDJHON.

IN a move to curb inflation, a money supply target for 1986 has been set by the Reserve Bank for the newly-defined monetary aggregate, M3.

The target range is based on an increase in the money supply of between 16% and 20% from fourth quarter of 1985 and the fourth quarter of 1986.

This sets the lower limit of the new M3 this year at R82,6bn with a ceiling of R85,4bn.

Money supply target, recommended by the De Kock Commission, was formally accepted by Finance Minister Barend du Plessis in his Budget speech yesterday.

Reserve Bank Governor Gerhard de Kock said in a full explanatory statement that, although the fourth quarter of last year might be a relatively low base from which to start the exercise, it should be compared with the growth of money supply between the fourth quarter of 1984 and the target range set for the fourth quarter of 1986.

On this basis, it provides for a growth rate of 14% to 16% a year over the two-year period.

Targeting, which will have an influence on both interest rates and foreign exchange rates, will be applied with a measure of flexibility.

The monetary authorities will decide what combination of money supply, interest rates and exchange rates is suitable in any given set of circumstances.

In order to keep M3 growth within the target limits, monetary policy will involve public debt management, open-market operations, discount policy and intervention in the foreign exchange market.

These "tools" may be supplemented by varying the cash reserve requirements of the banks and the building societies.

The rationale for the introduction of monetary targeting is:

☐ To curb inflation by controlling an ex-

● To Page 6

153

	MILK	COLOUR TV	SMALL CAR	20 CIGS	1 DOZ EGGS	HOUSE	1 KG STEAK	1 KG HAKE	NEWSPAPER	MATCHES	
NOW	83	1 200	14 000	1,05	1,35	98 000	9,89	2,92	40c	4c	NOW
5 YRS	2,06	2 985	34 836	2,61	3,36	244 000	24,60	7,26	99c	10c	5 YRS
10 YRS	5,14	7 430	86 684	6,50	8,35	606 000	61,23	18,07	2,47	25c	10 YRS
15 YRS	12,78	18 488	215 697	16,17	20,79	1 509 000	152,37	44,98	6,16	62c	15 YRS
20 YRS	31,82	46 005	536 724	40,25	51,75	3 757 000	379,15	111,95	15,33	1,53	20 YRS

Cosy living in the 21st century: a modest home for R4m

Finance Minister Barend du Plessis has come under attack over the failure of the Budget to launch a major assault on the inflation rate, now running at its highest in 66 years MICHAEL CHESTER looks at what might happen if the consumer price index stays in orbit at 20 percent or worse

You were shaken rigid when young Peter started high school a couple of months ago and you discovered that the bill for decking him out in a single uniform came to R147,85 — blazer, trousers, socks, shoes, jersey, shirt and tie.

Brace yourself for bigger jolts when the time comes round 10 years from now when little Paul — now out in the garden making mud pies to throw into the swimming pool — reaches high school age.

If inflation stays wedged at the current annual 20 percent level, the identical uniform will carry a price tag of more than R1 000

Of course, economists snort at such nonsense Inflation, they insist, cannot possibly sustain such tempo Hmmm .

It is a depressing but none the less hard fact that most of them have expounded similar theories ever since the cost of living first broke the double-digit barrier more than a decade ago.

By all means, let's be optimistic and assume that South Africa will find the solutions, as most of the advanced Western industrial nations have managed to do in the past year or two

But if only as an academic exercise, let's consider what lurks ahead if forecasts about a slowdown prove fruitless, and indeed inflation *does* hold at 20 percent a year

Twenty years from now, young Peter may think about marriage and branching out to sweep his bride into a home of their own.

Today, the sort of modest suburban house you may visualise costs about R98 000. When young Peter talks to the estate agent the price will be a staggering R3 757 000.

Naturally the young couple will want their own car in the drive Nothing extravagant, you understand Small and on the inexpensive side The sort of car that at the moment costs about R14 000.

Except that 20 years on, if inflation sticks at 20 percent, the price label will be more like R536 724

And a TV set will be needed as well, of course, though heaven alone knows what kind of gadgetry will have made the present generation of telly no more than a quaint museum piece Today the usual colour TV that dominates the sitting-room costs R1 200 Peter and his wife will be looking at R46 000.

In case you decide it is a fantasy too distant — or improbable — to prickle the ulcers that inflation has already caused, consider the prospects in the interim

The kilogram of porterhouse steak that goes on the table for the family's Sunday lunch costs R9,89, give or take a few cents.

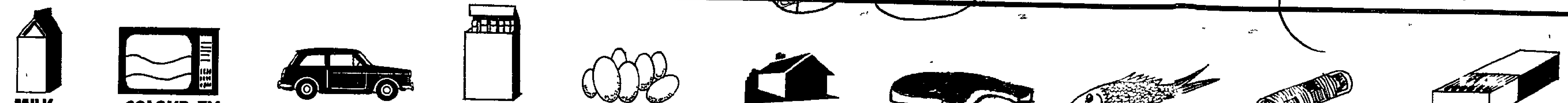
Five years from now it will cost R24,60 In ten years time, R61,23 (Peter and his wife will pay R379,15)

Pessimists thrown into a fit of depression may decide to think about possible alternatives to facing the calamity

If you buy a .38 Special now it will cost about R799 A small box of ammo will be R29,99

Don't delay buying until Peter and his bride call around, cap in hand By then, the gun will cost R30 631

153



	MILK	COLOUR TV	SMALL CAR	20 CIGS	1 DOZ EGGS	HOUSE	1 KG STEAK	1 KG HAKE	NEWSPAPER	MATCHES	
NOW	83	1 200	14 000	1,05	1,35	98 000	9,89	2,92	40c	4c	NOW
5 YRS	2,06	2 985	34 836	2,61	3,36	244 000	24,60	7,26	99c	10c	5 YRS
10 YRS	5,14	7 430	86 684	6,50	8,35	606 000	61,23	18,07	2,47	25c	10 YRS
15 YRS	12,78	18 488	215 697	16,17	20,79	1 509 000	152,37	44,98	6,16	62c	15 YRS
20 YRS	31,82	46 005	536 724	40,25	51,75	3 757 000	379,15	111,95	15,33	1,53	20 YRS

Cosy living in the 21st century: a modest home for R4m

Finance Minister Barend du Plessis has come under attack over the failure of the Budget to launch a major assault on the inflation rate, now running at its highest in 66 years. MICHAEL CHESTER looks at what might happen if the consumer price index stays in orbit at 20 percent or worse.

You were shaken rigid when young Peter started high school a couple of months ago and you discovered that the bill for decking him out in a single uniform came to R147,85 — blazer, trousers, socks, shoes, jersey, shirt and tie.

Brace yourself for bigger jolts when the time comes round 10 years from now when little Paul — now out in the garden making mud pies to throw into the swimming pool — reaches high school age.

If inflation stays wedged at the current annual 20 percent level, the identical uniform will carry a price tag of more than R1 000.

Of course, economists snort at such nonsense. Inflation, they insist, cannot possibly sustain such tempo. Hmmm ...

It is a depressing but none the less hard fact that most of them have expounded similar theories ever since the cost of living first broke the double-digit barrier more than a decade ago.

By all means, let's be optimistic and assume that South Africa will find the solutions, as most of the advanced Western industrial nations have managed to do in the past year or two.

But if only as an academic exercise, let's consider what lurks ahead if forecasts about a slowdown prove fruitless, and indeed inflation *does* hold at 20 percent a year.

Twenty years from now, young Peter may think about marriage and branching out to sweep his bride into a home of their own.

Today, the sort of modest suburban house you may visualise costs about R98 000. When young Peter talks to the estate agent the price will be a staggering R3 757 000.

Naturally the young couple will want their own car in the drive. Nothing extravagant, you understand. Small and on the inexpensive side — the sort of car that at the moment costs about R14 000.

Except that 20 years on, if inflation sticks at 20 percent, the price label will be more like R536 724.

And a TV set will be needed as well, of course, though heaven alone knows what kind of gadgetry will have made the present generation of telly no more than a quaint museum piece. Today the usual colour TV that dominates the sitting-room costs R1 200. Peter and his wife will be looking at R46 000.

In case you decide it is a fantasy too distant — or improbable — to prickle the ulcers that inflation has already caused, consider the prospects in the interim.

The kilogram of porterhouse steak that goes on the table for the family's Sunday lunch costs R9,89, give or take a few cents.

Five years from now it will cost R24,60. In ten years time, R61,23. (Peter and his wife will pay R379,15).

Pessimists thrown into a fit of depression may decide to think about possible alternatives to facing the calamity.

If you buy a .38 Special now it will cost about R799. A small box of ammo will be R29,99.

Don't delay buying until Peter and his bride call around, cap in hand. By then, the gun will cost R30 631.

Blacks attack Budget

BLACK political organisations and trade unions have slammed the budget announced by the Minister of Finance, Mr Barend du Plessis, in Parliament, this week.

The organisations include the United Democratic Front (UDF), the Azanian People's Organisation (Azapo), the Congress of South African Trade Unions (Cosatu), the Azanian Confederation of Trade Unions (Azactu) and the Council of Unions of South Africa (Cusa)

The UDF's publicity secretary, Mr Murphy Morobe, slammed the proposed rise in the price of bread and the maintenance of the GST He described them as a continuation of assaults on the already severely eroded standard of living of blacks

Inflation

The Budget would lead to inflation, higher interest rates and increased unemployment

Azapo's publicity secretary, Mr Muntu Myeza, said the budget would hit the poorest people hard

"A bankrupt regime cannot make any real attempt to alleviate the dire economic plight of the black majority Only when freedom dawns will we see a just distribution of welfare and resources," he said

Cosatu's general secretary, Mr Jay Naidoo, in a statement said that the Budget was drawn without any consultation with the democratic majority and will be unable to solve "the economic, social and political chaos into which this government has plunged our country"

Sowetan 20/3/86

Bread

He said the provision of R235 million to alleviate unemployment was "a drop in the ocean"

The decrease in the bread subsidy would "hit hard at the millions of under-paid workers and erode their already declining standard of living," while the increase of 13,7 percent in the defence budget meant a "diversion of vital resources of our country to bolstering the repressive organs of the apartheid regime"

The allocation of a sixth of the total education budget to blacks, "makes no step to meeting the basic demands made by millions of black students," he said

In a joint statement, Azactu and Cusa said until such time that blacks were able to make decisions in Parliament, "this type of meaningless charade will continue to govern the people"

153

Tel (011) 331-3331

Bermuda 17 19 clear; Bogota 10 19 ...; Cairo 10 21 clear; Calgary -05 08 cloudy; Caracas 20 28 cloudy; Chicago 04 18 cloudy; Copenhagen 01 07 clear; Curitiba 17 27 cloudy; ... 23 31 clear; Dublin 03 ... cloudy; Helsinki -03 ... 20 clear; Istanbul

153

Bread price hike 'possible'

GERALD REILLY

A STATEMENT on a possible bread price increase is expected from Agriculture Minister Greyling Wentzel before the weekend

Sources pointed out yesterday the R150m bread subsidy announced by Finance Minister Barend du Plessis would have to be supported by a price rise if it was to be stretched to the October start of the new wheat season

Last year's R200m subsidy was exhausted by October and had to be supplemented by a further R45m.

The R150m would thus run out before October and the wheat price was also expected to increase then,

Sources said government would "lean over backwards" to avoid a price increase, but having committed itself to the R50m subsidy cut, there appeared to be little alternative to an early price adjustment.

PRODUCTION PRICES 153

Prodding inflation

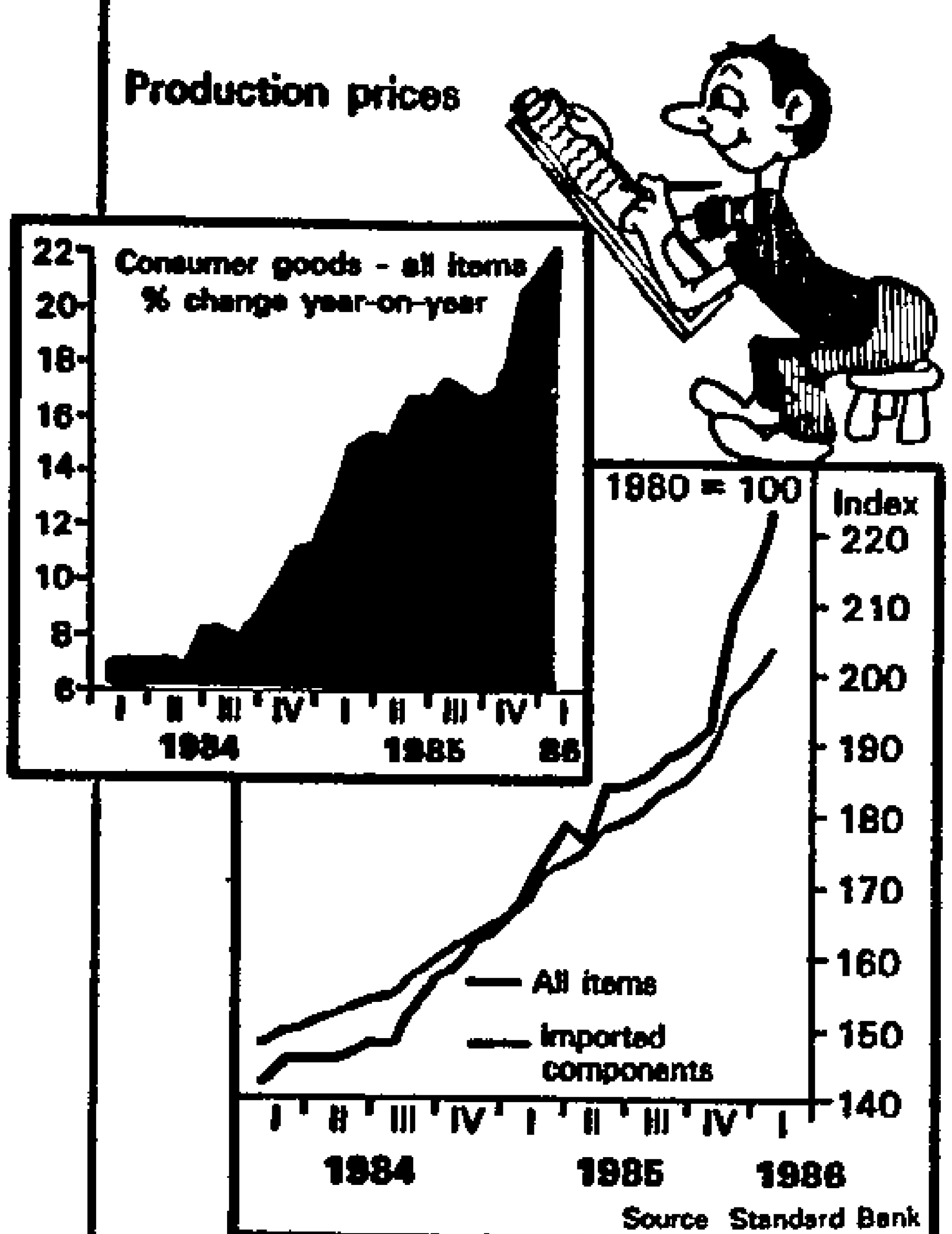
FIN MAIL 21/3/86

The January figure for the production price index (ppi), a record 22,2% year-on-year, continues to store up shocks for inflation. Growth in ppi has increased every month since 1984, the plunging rand bringing acceleration since October.

The prime culprit, of course, is the cost of imported goods, as has already been pointed out (for example, *FM* February 14). For January the year-on-year increase in imported price component of ppi was 32,7%, following a previous record 30,7% for December 1985.

It is clear, however, that the lag effect on the inflation rate is getting shorter. Says one economist. "The lag has shortened because of much-reduced stock levels. Going back a few years, one expected a six-month lag between ppi and inflation. Now the lag is

INFLATION BACK-LOG



Source Standard Bank

down to around three months."

Although the rand has been rising since December, it is not yet deflating the imported price component. The rand has appreciated across all currencies, but the rate of appreciation against the dollar has not been matched elsewhere.

For example, savings on imported costs of luxury hi-fi equipment and videos, costed in Yen, have been limited. Retention of the import surcharge in the Budget will also affect the future course of ppi.

The inflation rate is likely to go below 20% for February, however, since the year-on-year rate will be based on a high increase in February 1985. But any downward trend will only be maintained if the rand holds above US50c, reversing the trend in ppi — and that is by no means certain Initial reaction to the Budget took the currency below that barrier again. ■

was caused by the collapse of the rand with the mass exodus of capital (R8 billion in the last two quarters of the year) and the foreign debt standstill "

A key to the policy is that the Bank will be able to operate directly on the money supply to control inflation. M3 will be the controllable throttle influencing the variables of inflation, gdp growth, and the rand exchange rate through: public debt management, discount policy, forex intervention, and possible variation of bank and building society cash reserve requirements.

"We won't allow demand inflation to get up steam," De Kock says. He emphasises, however, that he does not envisage hands-on instant reaction on monthly M3 variations as was the case in the US a few years ago.

Obviously, if the targets are not being reached over a sustained period of several months, policy will have to be adjusted or the target changed. The onus is on the Bank to come up with explanations for what it is doing. M3 growth has already dropped below the planned "tunnel" which should keep it in a 16%-20% band for the year — but this is no cause for concern at this stage.

A relatively high inflation rate (say in the vicinity of 15%) is implicit in the tunnel growth parameters, but the alternative would be too little growth in gdp. Adjustments will be gradual with an eye to expectations that inflation is about to decline. The 16%-20% tunnel should allow for a calendar year gdp growth of 3% to 3,5%.

Inflation is eroding the profitability of the mines

21/3/81 STAR (200). 153

By Stan Kennedy

With endemic inflation at more than four times that of its main trading partners, South Africa's mineral exporters are in danger of pricing themselves out of the market.

Since the early Sixties, many Third World countries, with an abundance of cheap labour, had entered the export market. Consumers of minerals, finding the political situation in South Africa a handy excuse to diversify their purchases, were now buying from these countries.

In addition, selective sanctions and threats of disinvestment were other factors they had to contend with.

CURB INFLATION

Dr PJ Hugo, chief director, Minerals Bureau, told the Capex in Mining conference in Johannesburg yesterday that if trade unions persisted with their "exorbitant and even illogical demands", employers' resistance was sure to follow and capital intensive mining would come sooner than expected

To remain competitive, the eroding effect of South Africa's inflation must be curbed at all costs, he said, and he pinpointed the inflation elements as electricity, transport, stores and personnel.

"The industry can contribute to lower electricity cost by applying more efficient mining methods and, hence, the lower price of coal used by Escom.

"By increasing the added value component of mineral exports, the producer will be partly relieved of the costs of transporting unbeneficiated minerals over long distances.

DRAMATIC CHANGES

"The cost of labour has been soaring during the past 15 years. Unfortunately, wage hikes have seldom been accompanied by increases in productivity."

To cut costs, many labour-saving practices had been introduced in the past 20 years and it was reasonable to expect there would be dramatic changes in the labour/capital ratio in the gold, coal and platinum industries in the near future.

With the depth of the Witwatersrand gold mines going to more than 4 000 m, revolutionary mining methods would have to be introduced to limit the extremely high operatingcosts.

He foresaw the day when labour-intensive conventional stoping would be replaced by remote-controlled continuous robot miners. These would eliminate costly drilling and blasting and rockmoving procedures

UNSKILLED

Strenuous physical labour would be phased out and a small team of highly skilled equipment operators would be responsible for the entire underground operation.

With their 34 percent share of total production dropping to 25 percent by the year 2000, and as mechanised underground mining increased, opencast coal mines would see a continuous reduction in demand for unskilled labour

On platinum mines, where costs of labour were on the increase, Mr Hugo said the industry would soon step up mechanisation in its underground operations

21/3/86. WEEKLY M.

THE ECONOMY

153

Can reality face the Barend challenge?

BUDGET '86

Reg Rumney on the area Barend dodged: inflation

FINANCE Minister Barend du Plessis's Budget seems to have side-stepped the inflation trap

Economists say the Budget coped with the problem of trying to breathe life into the economy and of increasing spending on necessary social services like housing, in the face of South Africa's foreign debt crisis and the prospect of further boosting already high inflation

However, Progressive Federal Party MP Harry Schwarz has criticised the Budget for "the almost total absence of measures designed to combat inflation".

Then too, the government has in the past been consistently over-optimistic about its ability to stay within its Budget Why should spending estimates match reality this time round, ask sceptics?

In the Budget, Finance Minister Barend Du Plessis said the aim was to keep the deficit before borrowing to R3 944-billion, or 2,7 percent of the gross domestic product.

Total estimated spending for this financial year is 13,9 percent above the final level for 1985/86.

This is well below the worryingly high inflation rate of around 20 percent — too low to be true, say critics, who feel Du Plessis will be forced to increase spending during the year.

But with the Budget comes an important new anti-inflationary device: the adoption of money supply growth targeting.

The implication of this, in brief, is that the Reserve Bank will be, in a sense, indirectly monitoring government spending

If government spending exceeds the estimated amount, pushing money supply growth up, interest rates will have to be allowed to rise to bring money supply growth within the 16 to 20 percent target limits set for 1986. And high interest rates, in turn, are generally unpopular with voters

The Budget is "reflationary" rather than inflationary, according to Nedbank economist Ian McFarlane, and "seeks to rekindle economic activity, albeit in the context of the current account restraint and inflation".

The stress is on modest stimulation

"In itself the Budget will not aggravate inflation It's a cautious Budget."

The issue of only R893-million (R1 566-billion in 1985/86) of new government stock means that the feared "crowding out" in the capital market of both public and private sector borrowers will be avoided.

It had been feared that interest rates would soar as the government and public and private sector borrowers competed for scarce money, in the light of the drying up of foreign finance.

Faced with high capital market interest rates public sector borrowers like Escom, which would previously have gone overseas to raise loans, would be forced to raise tariffs instead — fuelling inflation

Bill Lacey, economist of the Associated Chambers of Commerce (Assocom), agrees Du Plessis did not address himself specifically to the inflation problem

"The prime objective was to get the economy off its back, and to address unemployment

"On the other hand, he could not afford to go on a spending spree while foreign bankers were waiting at the door to be paid."

Du Plessis did this by "putting more cash on consumers' pockets with tax concessions"

Disappointment has been expressed that General Sales Tax was not reduced, a move which would aid the lower income group and the unemployed

And a bread price hike seems unavoidable after the R50-million cut in the bread subsidy from R200-million to R150-million

Moreover the maize price subsidy has been more than halved — from R250-million to R120-million — this year, and this may translate into a higher price for this basic foodstuff.

Still, the Budget, while it is no fireworks display, is largely non-inflationary and, as Lacey points out, its aim of 3 to 3,5 percent growth will supply overseas bankers with one of the signs they want to see

It is up to President P W Botha to supply the political reforms they are pressing for, if he can

Inflation rate eases to 18,5%

22/3/86

CAPE TIMES

153

By AUDREY D'ANGELO

THE cost of living is not going up quite as fast as it did at the beginning of the year, according to figures just released by the Central Statistics Office in Pretoria.

The inflation rate for the 12 months ending in February slowed to 18,5 percent compared with 20,7 percent in January — the highest level since 1920

But the director of the University of Cape Town Graduate School of Business, Professor John Simpson, said he did not expect any further drop in the inflation rate for some time — "or if it does go down it will soon come up again to its present level".

Unemployment

He said the government could not tackle the inflation problem without causing higher unemployment, "which would be both socially and politically unacceptable"

South Africa's main trading partners, which had bigger and stronger economies and lower than normal unemployment rates, had been able to tackle inflation firmly

"But there are parts of South Africa where the normal rate of unemployment among black people is 40 percent or 50 percent."

Professor Simpson pointed out that even an inflation rate of 18,5 percent was high compared with that of South Africa's trading partners, which had inflation rates of about three percent

He said it was only the weak rand which made South African exports competitive on world markets, but this weak rand also pushed up the price of imports

It could, by increasing the price of imported inputs, make exports less competitive.

The President of the Cape Town Chamber of Commerce, Mr Andrew Peile, said he hoped that the inflation rate had peaked and would not rise above 18,5 percent again this year

He thought one reason for the drop since January was that the big increase in the petrol price in February 1985 had now worked its way through the system

Other reasons were the fall in interest rates and the rise in the value of the rand in February this year

But Mr Peile feared the fall in the value of the rand in the past few days might push the inflation rate up again

The mildly expansive Budget might have the same effect.

Economy

"You cannot inflate the economy and at the same time reduce the inflation rate"

According to the Central Statistics Office figures the higher-income group was hit hardest by inflation in the 12 months ending in February

The inflation rate for the higher income group was 18,2 percent, for the middle-income group 18,1 percent and for the lower income group 17,3 percent.

Increase in inflation rate slows down in February

STAR 22/3/86 (153)

By Gareth Costa

The drop in the year-on-year inflation rate from 20,7 percent to 18,1 percent to end-February is a technical distortion and not really worth getting excited about, but the mere 0,9 percent increase in February over January's rate is promising, say leading economists

The large year-on-year reduction is misleading because in February last year there was a massive 40 percent increase in the petrol price which caused the index to rise by over three percent That no longer figures in the index

These technical distortions occured frequently throughout last year whenever price rises were instituted, as in April when GST was increased by two percent, and they will continue to appear throughout this year as well

The index is going to fluctuate throughout the year, as old price increases of the previous year are dropped, forcing the index down Conversly, when ther are price rises the index will follow suit

Mr Mike Brown, economist for brokers Davis, Borkum Hare said that the index for the year to end-March was expected to rise because of the increase in transport tariffs but will fall in April when the effects of the GST increase last year fall away

In May the index will be forced up because of an expected rise in the maize price and that will be the pattern for the rest of the year

Distortions could arise from new price increases if, for instance, in the sorresponding month last year, there were few if any

Any significant drop in the rand/dollar exchange rate will certainly cause a major distortion.

January this year was another example of a distorted month, when the month-on-month increase was 3,1 percent, but the February increase of 0,9 percent over January is the smallest since July last year

This could indicate that there is an underlying slowdown in the inflationary spiral but it is still too early to confirm

One economist said that this sort of comparison was somewhat futile and an "exercise in semantics" and a more accurate way was to annualise the figures

The way to do this was to compare, say two-month periods by annualising the inflation rates and then plotting them on a graph The trend over the last six months was up, until January, but it has started to move down after peaking that month, although it has not fallen at the same rate as it has increased

Mr Ian McFarlane, economist for UAL, believes the type of inflation will change from cost-push to demand- pull around about the second half of the year At present cost increases are forcing inflation upwards out of control

On the other hand later in the year whenthe man in the street has more money to spend because of the expected uplift in the economy and income tax reductions, product demand will be increased

Mr Brown believes that the inflation rate will be about 16 percent for the year, as long as the exchange rate "does not fall out of bed"

However, he said that food prices could have a significant affect on inflation, since up until last September food price increases were lagging behind those of the Consumer Price Index He expects rises in the prices of meat, wheat and vegetables

" The maize price must increase because it is exported at a loss and so the South African consumer must pay the loss," he said

Mr Rudolph Gouws, group economist for Rand Merchant Bank, said that the 0,9 percent increase for February was encouraging and possibly we would never see 21 percent again He said that a low of 15 percent was now within reach

BDA 24/3/84 153

Big mid-year food price rises feared

GERALD REILLY

ALL government-administered basic-food prices would be substantially higher by mid-year to load living costs of poor people intolerably, consumer organisations have warned.

The increases would be due partly to slashed government food subsidies

The maize subsidy has come down by R130m to R120m, that for bread by R50m to R150m and for sugar by R17m to R4m.

On Friday SA Sugar Association GM Peter Sale announced a white sugar price rise of 13,5% and 15% for brown.

This week — probably today — Agriculture Minister Greyling Wentzel might announce a bread price increase of about 6c a loaf.

Wheat Board sources in Pretoria said it was possible the increase could be delayed until later in the year.

Also on the minister's desk are demands from maize producers for a price rise from May 1, and from the Dairy Board for a milk price rise — almost certain to be granted from June.

Sale said the price of a 2,5kg pack of white sugar would rise from R2,15 to R2,44, and a 1kg of brown sugar from 80c to about 92c

Sale said the increases were partly due to the subsidy cut from R21m to R4m.

On the bread price issue, sources said the R10-a-ton decrease in flour and meal prices and a remainder from last years R245m subsidy could avert an immediate price rise.

However, a big increase was certain in October when the new and higher producer wheat price would be announced.

Announcement on bread price

STAR 24/6/86

CAPE TOWN — The bread price is due to go up in terms of an announcement expected today

153

Government officials were preparing the announcement this morning

A price rise was heralded in the Budget last week when Finance Minister Mr Barend du Plessis cut the bread subsidy from R200 million to R150 million

Brown bread could increase in price by between 5 c and 9 c a loaf.

White bread is not likely to be affected as its subsidy has already been removed — Political Staff

24/3/86.

3DAY

153

Inflation drops but caution stays

JOHN TILSTON
Economics Editor

THE sharp decline in the rate of inflation in February to 18,05% from January's record 20,72% was largely a statistical phenomenon and should not yet assuage fears about SA's high inflation.

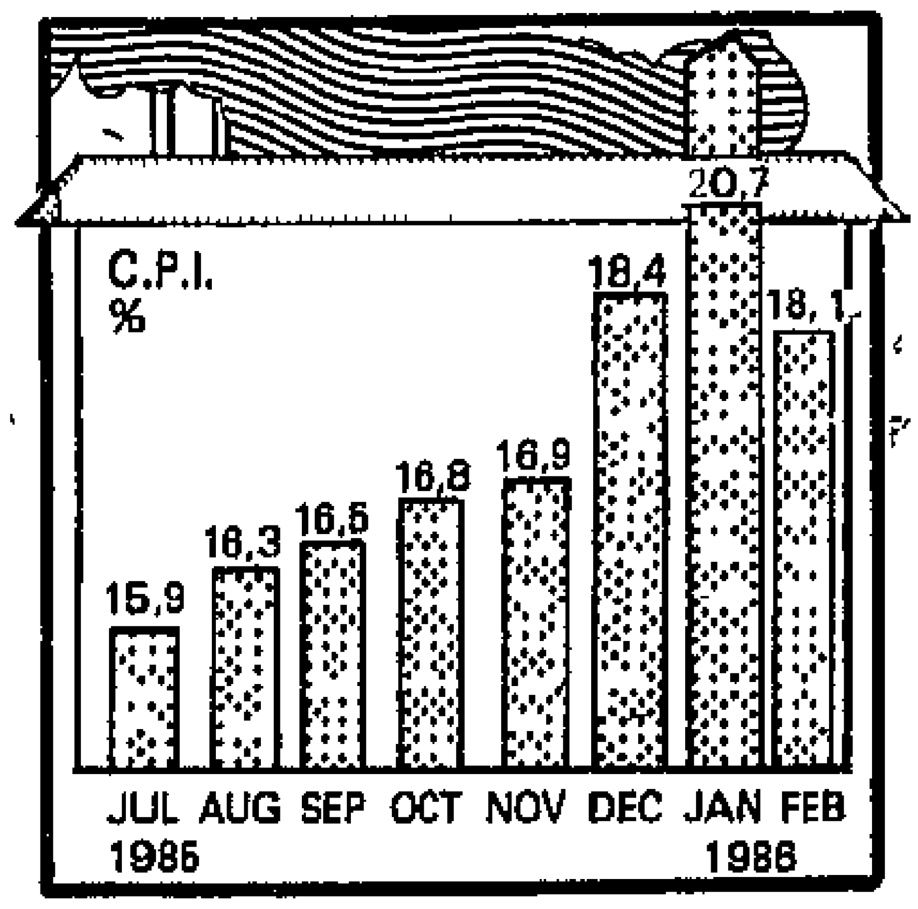
But there was some comfort from the significant fall in the monthly increase in the consumer price all-items index (CPI) to 0,93%. It was the lowest month-on-month increase since July last year. January's monthly increase was 3,09%.

On an annualised basis the February increase represents an inflation rate of just under 12%.

One reason for the slowdown in the increase was lower food prices in February, which Nedbank economist Ian McFarlane said was one of the most encouraging aspects of the latest figures.

But the economy is certainly not yet out of the grip of the upward inflationary spiral. Some statistical variations need to work their way out of the CPI calculations. McFarlane expects the year-on-year inflation rate in March to increase again, if only because the corresponding increase in March last year was a low 0,4%.

With the rand again under $0,50, cost-push pressures are still present and the moderate stimulation of the economy in last week's Budget may cause some re-kindling of domestic demand-pull inflationary fires. The latter will be moderated, though, by the money-supply



targeting announced by the Reserve Bank.

But the only possible short-term effect of the targeting will be on inflationary expectations, which may now have been curbed slightly.

Sapa reports that the index for food reached 213,5, down from 214,7 in January, and above the 180,8 for February 1985, while the commodity index rose to 212,9 compared with 211,2 in January and 177,5 in February 1985.

The year-on-year inflation rates by income groups for February are:

- Lower income group inflation rate of 17,3% (CPI: February 210,4, January 209,3, February 1985, 179,3),
- Middle income group: 18,1% (CPI: February 218,0, January 216,1, February 1985, 184,6);
- Higher income group: 18,2% (CPI: February 216,1, January 213,8, February 1985, 182,8).

Earnings increases outstrip the cost of living

153

Public sector pay rate zooms

24/3/86. BDAY.

PUBLIC-SECTOR pay is growing at a much faster rate than that of the rest of the economy.

This is despite claims that there has been no increase in public-sector salaries and wages since January 1984.

In the two years to September 1985, the average public-sector pay packet increased by 39,86% compared with general price increases over the same period of 30.7%.

With the recently-announced 10% pay increase, the average public-sector pay packet will be R985,19 a month, 53,8% higher than in September, 1983. The full restoration of annual bonuses for public servants will boost average remuneration levels even further.

These figures emerge from calculations based on data published by Central Statistical Services They include all races.

By comparison, the private sector has generally not managed to beat inflation.

JOHN TILSTON

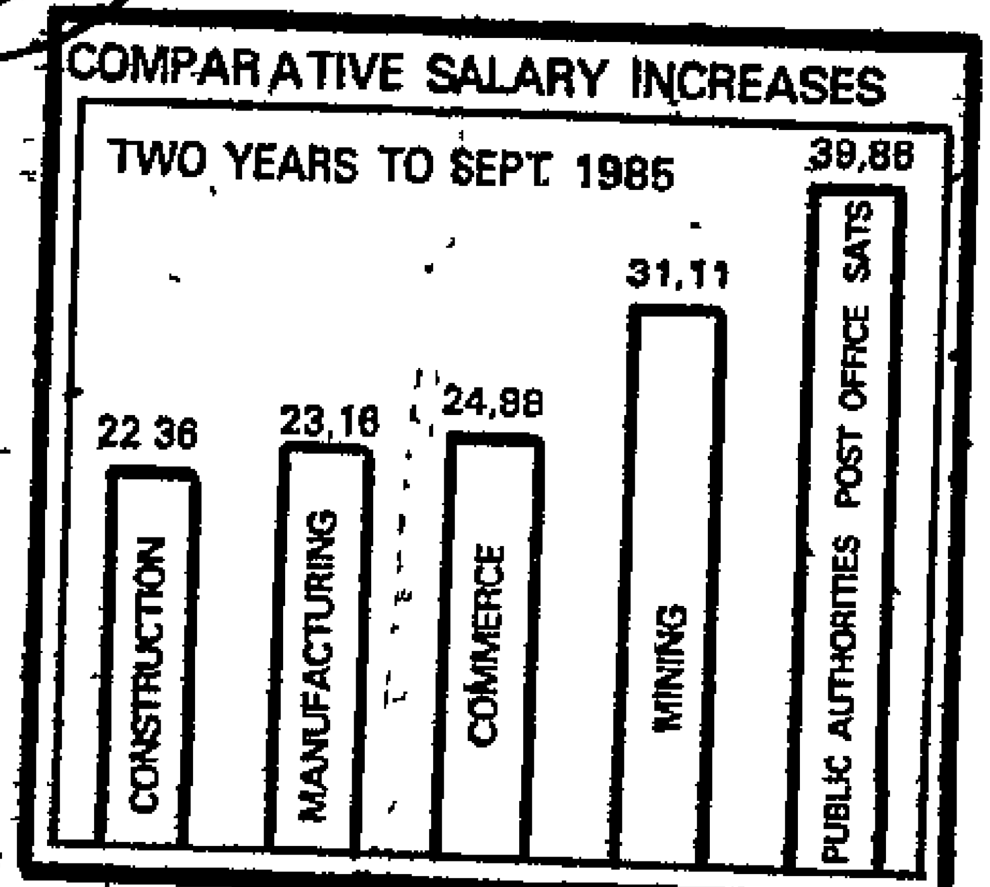
Average pay in the commercial sector increased by 24,88% to September last year. Similar increases were recorded by the construction and manufacturing sectors of the economy.

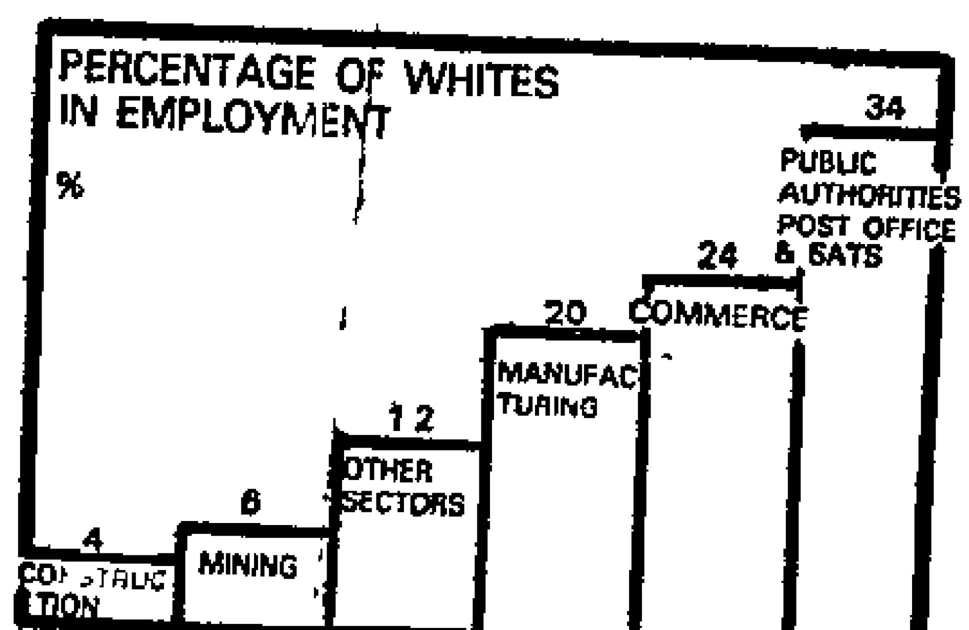
Even average wages in the buoyant mining sector have increased by only 31,11% over the same two-year period.

Nevertheless, public-sector pay still lags behind that of the rest of the economy in absolute terms. The average wage in the private sector — excluding agriculture — was R1 012,10 a month in September. This is likely to increase by 12%, the most common estimate of private-sector pay increases this year, to R1 133,55.

A sectoral analysis shows that the highest-paid sector of the economy is commerce, where the average wage is

● To Page 2





BDAY 24/3/86.

153

Public pay rate grows

R2 023,40 a month, twice as high as average public-service rates.

Commercial pay rates have grown by only 24,88% in the two years to September, way below the rate of inflation, and by 15% less than public-sector pay. Average monthly pay in the manufacturing sector was R806,40, in the construction sector R628 and in the mining industry R562.

Between September 1983 and September last year the number of people employed by "public authorities, the Post Office and SA Transport Services (Sats)" declined by 0,75% to 1,198-million.

During the same period the total wage bill, the gross remmueration of employees but excluding any payments in kind, increased by 38,82% to reach R3,2bn a quarter. The average wage, therefore, is R895,63 a month. The recently-announced 10% increase takes this figure to R985,19.

The higher average pay rates in the public sector and in commerce (R2 266,29, assuming the generally-sup-

● From Page 1

posed 12% increase), than in other sectors of the economy, are the result of significantly higher proportions of whites in them.

Of the total workforce in each of these sectors, 42% are white. In the construction (13%), mining (16%) and manufacturing sectors (23%) the proportion of white to other employees is much lower.

Despite the decline in employment, the public sector is still the largest employer of whites at 34% of the total. Employment of all races in the construction industry dropped 3,85% over the two-year period, in the manufacturing sector it declined by 3,52% and commerce shed 1,05% of its workforce. Only the mining sector took on more people (5,16%).

In last Monday's Budget speech Finance Minister Barend du Plessis said that 71% of State employees earned less than R10 000 a year (R833,33 a month) in 1985, and 94% under R20 000 (R1666,66 a month).

Funds stave off bread pri e rise

BDM

153

25/3/86

A BREAD price incre... ...as been averted — for the present — Agriculture Minister Greyling Wentzel said yesterday.

Last year's R220m bread subsidy had been reduced to R150m, but it was possible to avoid an immediate price increase because of funds made available by the Wheat Board.

The price-rise reprieve is expected to last until the start of the new wheat season on October 1, according to Pretoria sources.

Wentzel said government's aim remained to keep the bread price as low as possible during the economic slump.

The phasing out of the bread subsidy was in keeping with government's initiative to grant more direct assistance to those suffering hunger.

The reduction in interest rates was taken into acount in the payment of the Wheat Board's financing costs on stocks. Millers' and bakers' margins would also be reduced from April 1 because of lower interest rates.

Bus Day 27/3/86

153

Researcher foresees further rises

Car prices to beat CPI

ALAN RUDDOCK

CAR-PRICE increases will stay slightly ahead of the consumer price index this year, despite optimistic noises from some car manufacturers.

"We expect car prices to rise slightly higher than a CPI average of 21% for this year and we would not be surprised to see price increases of 25%," says Tony Twine of economic research consultants Econometrix

Last week market leader Toyota issued a statement saying that "runaway increases in car prices are at an end and increases for the rest of the year could be held at between 8% and 10%"

Toyota's Bert Wessels based his prediction on "an improvement in the value of the rand and production strictures that have been implemented"

However, on his estimate for the rest of the year, Toyota's increases for the December 1985 to December 1986 period would be 21-23%

Toyota's prices increased at the end of December and at the beginning of March

Twine, however, does not hold out a great deal of hope for the rand and says it will not maintain a level of $0,50 to the year-end He says the recent gains of the rand have been largely offset by the strengthening of the yen against the dollar and Japanese-sourced car manufacturers have experienced little relief.

Toyota, as market leader, does have a large influence over other manufacturers' price increases, but Twine says most manufacturers suffer from roughly the same cost pressures and it is unlikely that Toyota could avoid increases required by other manufacturers

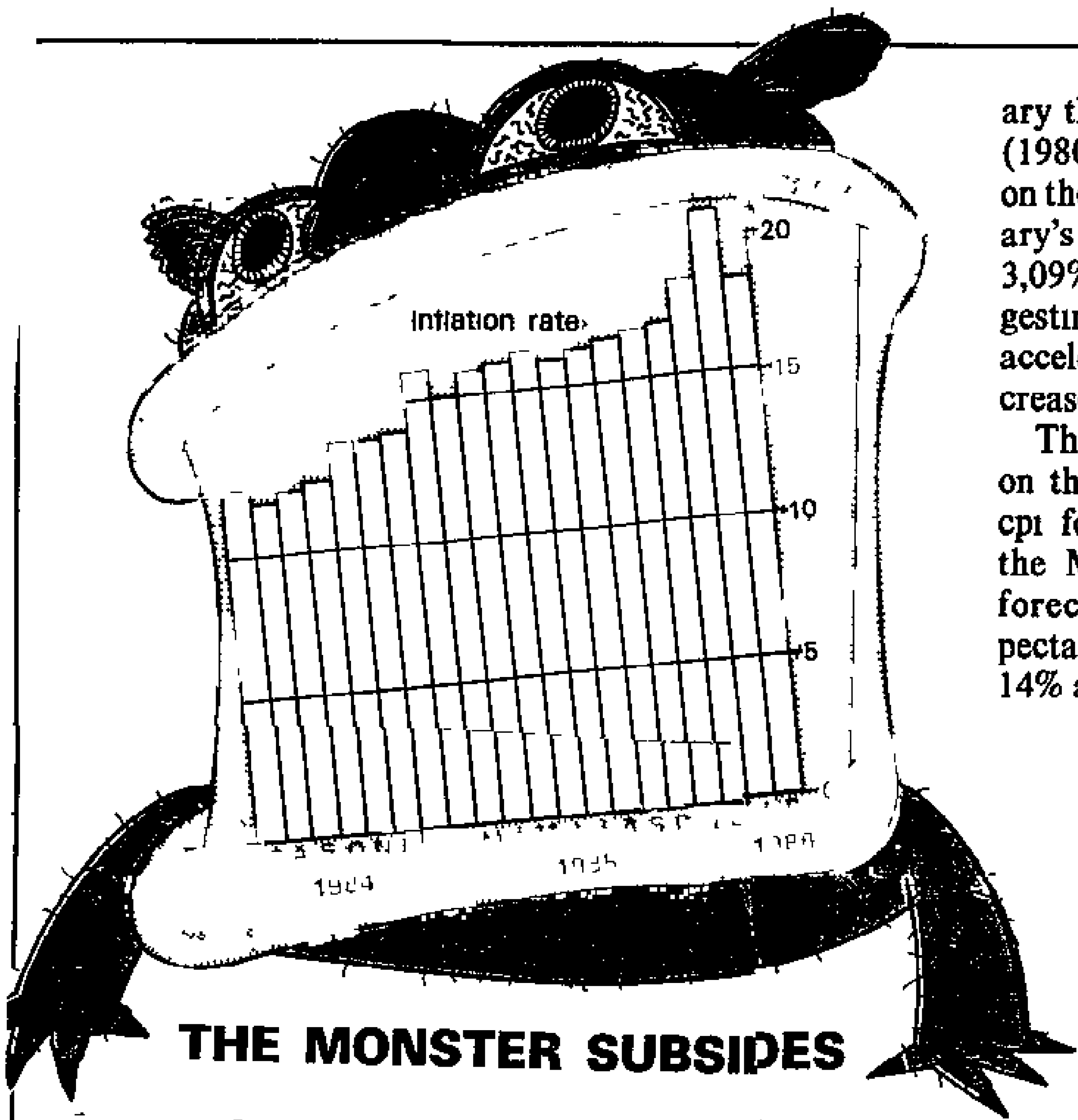
Sluggish sales in the first quarter of the year have also put a strain on manufacturers' cost structures and unless volumes pick up significantly, that strain will increase and could affect car prices

INFLATION FIN MAIL 153

28/3/86.

Down but not out

As expected, the year-on-year inflation rate for February was considerably below the previous month's record At 18,05%, cpi may give the distinct impression it's on its way



THE MONSTER SUBSIDES

down, being almost three percentage points below January's 20,7% peak.

However, as already pointed out, the latest figure was bound to fall for technical reasons. Last year the inflation rate leapt from 13,9% in January to 16% for February, after the record 43% rise in the price of petrol

Looking at the index itself does reveal a sharp drop in the rate of inflation. In February the index reached 215,8 (1980 = 100), just 0,93% up on the previous month January's index at 213,8 was 3,09% up on December, suggesting a sharp fall-off in the acceleration of price increases for February.

There is little consensus on the outcome for average cpi for 1986 According to the March *FM Blue Chip* forecast, economists' expectations range between 14% and 18%, and for 1987, 16,5% and 20%

Says Leon Steenkamp, economic consultant for stockbroker Senekal, Mouton & Kitshoff "I believe the general trend will be down, though I don't see it much below 17% by mid-year"

He says March's cpi could increase, again because of technical factors, being compared with a low March 1985 increase

"But the decrease in the petrol price will come through next month, while I expect there will be a softening of food prices. Last week farmers in the eastern Transvaal were giving vegetables away." He believes food prices have risen too sharply in recent months, probably through seasonal factors; now, for the same reason, he doesn't expect the same degree of acceleration

But there are more "ifs" because administered prices are still in the pipeline. Last week sugar went up by as much as 15% and bread could go up 6c a loaf.

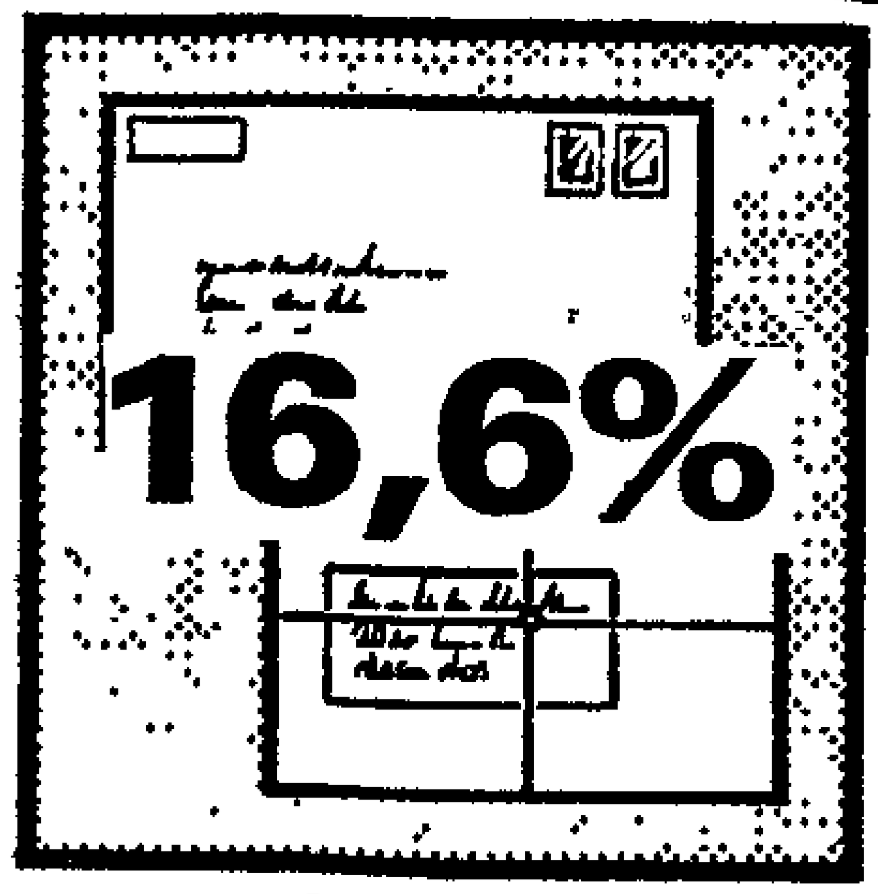
Steenkamp says the first R500m foreign debt repayment next month is undermining the rand Vulnerability on this score may add to the upward pressure on cpi, while it puts further cuts in the petrol price in doubt.

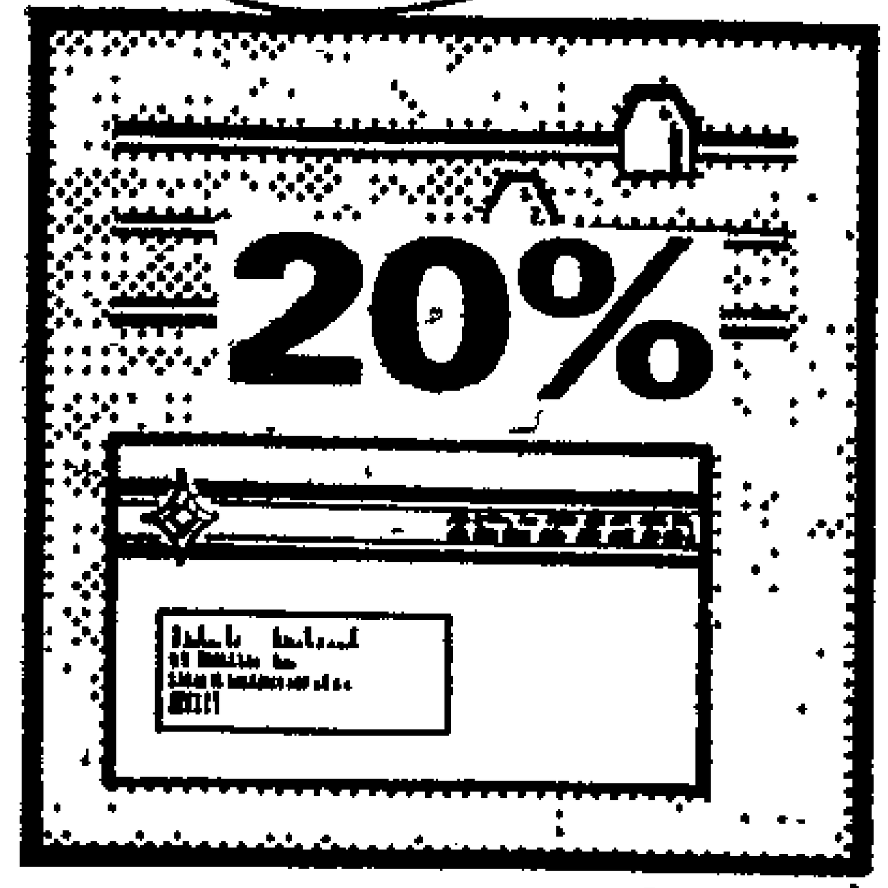
Writing in George Huysamer's *Economic Perspectives* for March, Louis Geldenhuys says "Should the exchange rate not suffer any severe setback, a modest deceleration of inflation will set in during 1986. The Budget will not add to inflationary pressures" However, "an average of less than 18% for 1986 is unlikely"

The actual for 1984, incidentally, was 11,7%, and for 1985 18,4%. The average for the past 10 years was 12,7%. ■

BUS DAY 1/4/86

153





Post Office tariffs increase today

Business Day Reporter

POST OFFICE tariff increases of up to 50% come into effect today

The increases, ranging from 13% for telegrams to 50% for post office box rentals, are intended to head off an expected R511m Post Office deficit in the 1986/87 financial year by bringing in an additional R475m.

Here is a list of the new charges you will be paying from today

TELEPHONES: Calls — basic rate up 20% from 10c a unit to 12c Public phone box rate unchanged at 10c.

Rentals — residential services up 22% from R9 a month to R11; business services up 20% from R10 to R12; shared services up 20% from R7,50 to R9; weekend services up 21% from R7 to R8,50

Installation charges — up 20% from R75 to R90; indoor extensions up 25% from R40 to R50.

TELEX AND TELEGRAMS: Telex and teletex — call-unit rate up 20% from 10c to 12c.

Telegrams — handling charge up 13% from R1,15 to R1,30; rate for first 10 words up 33% from 60c to 80c

MAIL: Letters — inland postage rate for standard letters and postcards up 16,6% from 12c to 14c; non-standard letters up to 100g increase 15,8% from 19c to 22c.

Parcels — parcels up to 100g increase by about 15c each; 1kg parcel up 16% from R1,25 to R1,45.

PO boxes — rentals up 50% from R10 a year to R15

1/4/86 (153)

Single digit prices in offing as oil falls to $11

By John C Given

NEW YORK — Oil prices hit their lowest levels in eight years yesterday (Monday), plunging more than a dollar a barrel to less than $11 on the New York Mercantile Exchange

Analysts think that a continuing fall into single-digit figures is likely

"There's nothing holding the market up," said Andrew Lebow, an analyst at the Shearson Lehman Brothers Inc securities firm

In Abu Dhabi, United Arab Emirates oil minister Mana Saeed Oteiba was quoted yesterday, as saying that oil prices would drop to "eight dollars to five dollars a barrel" without co-operation among producers inside and outside the Organization of Petroleum Exporting Countries

But US energy secretary John Herrington disagreed with that view

"I think we're getting near the bottom," Mr Herrington told reporters in Washington

In November the price was over $30 a barrel

Last December, Opec announced it would increase production to preserve its "fair market share," abandoning previous attempts to support the market price through restrained production

The decision sent prices into a tailspin, leading Opec members to call for renewed cuts in output by both the cartel and non-Opec members such as Britain and Mexico

But at a nine-day-long meeting in Geneva that ended March 24, members of the 13-nation cartel could not get agreement from non-members on production cuts and they failed to devise a strategy for cutting their own production

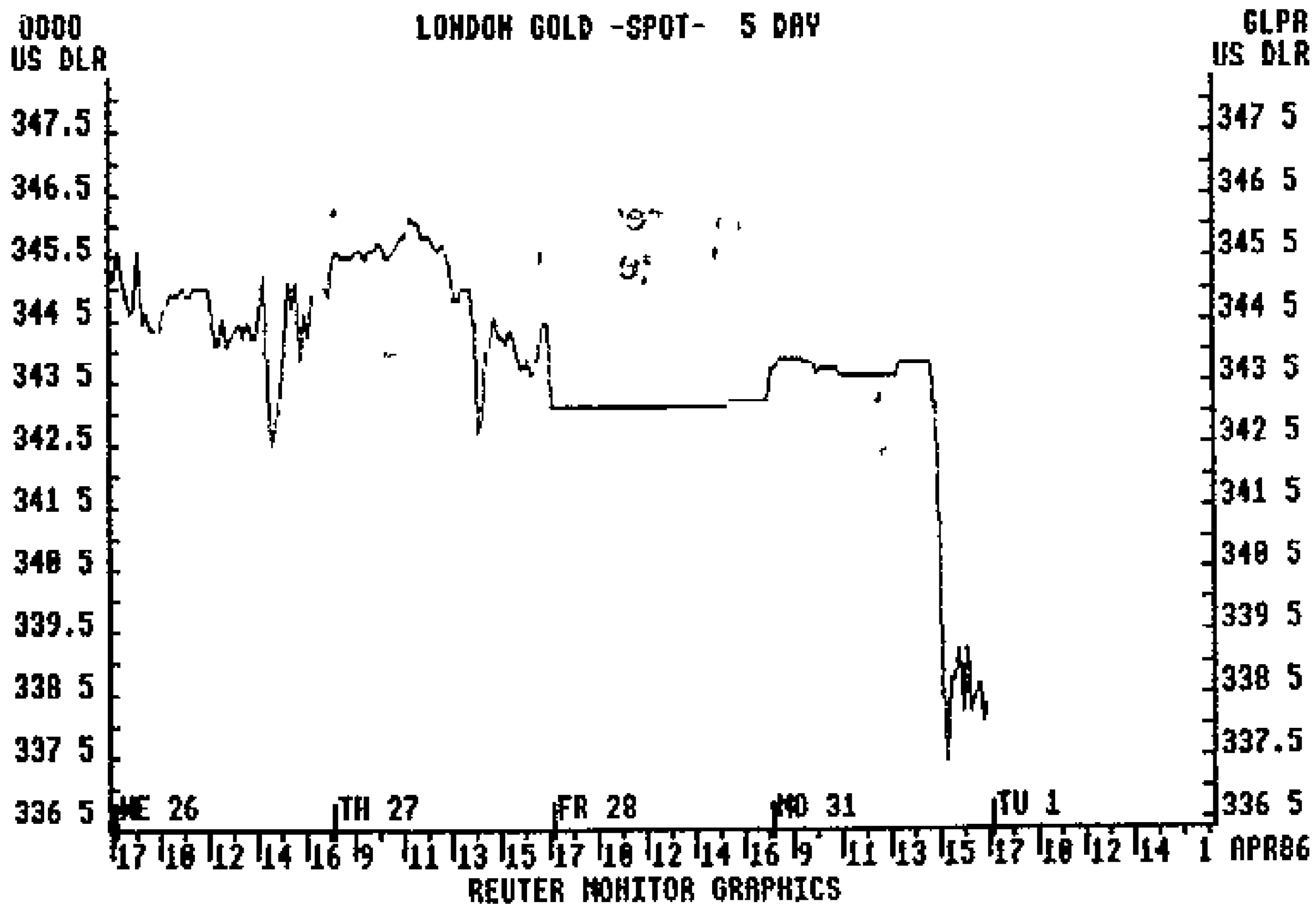
The Opec members agreed that they would only reconvene April 15

"Traders don't see anything to hold back prices from falling There's just too much oil out there," said Peter Beutel, an analyst with Rudolf Wolff Futures Inc, a New York commodities futures firm

CRISIS MEETING

"It looks like we're getting ready for an inferno here," said Nauman Barakat, an energy analyst in New York with Smith Barney, Harris Upham and Co brokerage house

Saudi Arabia and other Gulf nations are trying to drive prices as low as possible by April 15," when Opec meets on the crisis, he said — AP



Gold tumbled overnight in the US as oil prices came close to testing the $10 a barrel level and investors stampeded out of the metal

One bright light ahead: petrol price could drop again

(53)

1/4/86 - STAR

Price rises hit today

Staff Reporters

Consumers take a hard knock today as stiff postal and rail tariff increases come into effect. The rises — from 10 to 50 percent — are certain to cause further price ripples through the economy.

But a sudden slump in world oil prices to almost $10 a barrel — the lowest in eight years — has raised hopes of another cut soon in the petrol price. Some believe such a cut is inevitable, even though the rand-dollar exchange rate has fallen again

The Deputy Director of Mineral and Energy Affairs, Mr H T Burger, said the possibility of a further petrol price cut "in the near future" was becoming a very real possibility, but he could not predict a definite date

It needs to be remembered that because of South Africa's need to ensure long-term supplies of oil in a hostile world, the country is probably having to pay a premium over the free market price for its imports

So the prevailing world oil price cannot be related directly to the local market

Besides the rise in postal and transport tariffs today, Public Service salaries and wages go up by 10 percent, with other factors pushing the increases even higher in some cases

The postal tariff rises range from 13 percent for telegrams to 50 percent for post-box rentals The average increase is about 20 percent

Telephone calls

The detailed increases are

- Basic telephone call unit rate up from 10c to 12c; calls from public telephones are unchanged at 10c a unit
- Direct dialling overseas up to R4,20 from R4,10 a minute
- Telephone rentals (residential) up to R11 a month from R9
- Telephone rentals (business) up to R12 a month from R10
- Telephone installation charges up to R90 from R75
- Telex call units up to 12c from 10c
- Telex monthly rentals up to R10 from R5
- Postage standard letter up to 14c from 12c
- Non-standard surface mail up to 100 g increased to 22c from 19c
- Airmail letters up to 30c from 26c
- Local telegrams per word up to 8c from 6c
- Overseas telegrams per word up to 10c from 8c
- Inland parcels up by about 15c for 100 g
- Post box rentals up to R15 a year from R10

The increases are expected to increases total Post Office revenue by about R475 million

When the increases were announced by Minister of Communications Dr L A P A Munnik, he said that although the adjustments would not completely wipe out the estimated R511 million deficit estimated for the new financial year, they were "the minimum that can reasonably be introduced"

Railway fares

Rail passenger fares on inter-city services go up by 15 percent and on commuter services by 12,5 percent

A first-class inter-city rail fare from Johannesburg to Durban rises from R88 to R102, and to Cape Town from R171 to R197

Monthly commuter tickets from Johannesburg to Naledi go up from R48,50 to R55, to Krugersdorp from R54 to R61, and to Pretoria from R88 to R99

The increases are expected to net an extra R27 million for South African Transport Services (SATS), but rail passenger services are still expected to lose an estimated R1 100 million in this financial year

Mr John Malcolmess, the Progressive Federal Party spokesman on transport affairs, recently criticised the increases as unnecessary and inflationary He said they were made against the background of declining crude oil prices

SATS increased rail, road and harbour goods tariffs by about 15 percent on January 1, and last month fares on SAA's domestic service rose by 10 percent

See page 13.

135 6901 Lugano 1
Manager:
Gabriel Cohen
Tel: (091) 239019
Telex: 843224
) 286550/
86435
3247

RCLAYS

YS BANK SA

AFRICAN NON
COMPANY
ARD

& Co and the Wits Business School,
to the best non-listed company of 1986.
not listed on the Johannesburg Stock Ex-
judges, has best demonstrated creativity
the challenges facing business.
factors as growth in sales, market share and

Business School, the final selection will be
Andy Andrews, Dean of the Wits
of Business Administration, University of
executive president of the Johannesburg
of Seardel Investment Corporation,
Investments and Toyota South Africa, and
of Assocom.
will be sent to selected companies.
Throughout the judging process your company
will be known only by selected personnel from

criteria may enter:
may have been made to date.
in South Africa.
owned the business for at least three years
financial statements, the company must have
characteristics

---

the Argus company to share fa

Prices of wines pop up

BUSDAY 2/9/86

CHERILYN IRETON

PRICES of local wines and spirits have been increased.

The latest adjustments, effective from yesterday, pushed locally-produced spirits up by between 4% and 6% and wines by between 8% and 8,5%.

Prices of sparkling wines, sherry and noble wines have been increased by 8,5%, brandy by 5,3%, rum by 4,3% and liqueurs by 6%.

Retail price rises are expected to follow.

But the wholesale price of whisky is to drop by R10 a case.

This is the second time wine and spirits prices have increased in two months.

Wholesale wine prices rose between 10% and 14% at the end of January and prices of spirits by 8,5%, according to Benny Goldberg's MD Dave Botha.

All major suppliers are believed to have changed their prices, but it will be several days before new price-lists are released.

Union Wines and Gilbeys confirmed the price increases.

Rising input costs were blamed for the increases.

Rebel MD Trevor Pearman told *Business Day* the latest increase was unexpected.

3/4/86

THE STINGER DEBATE

Unita Stingers split US opinion

WASHINGTON — President Ronald Reagan's decision to send Stinger anti-aircraft missiles, and other US weapons, to rebels in Angola and Afghanistan has delighted conservative supporters.

Opponents fear it could intensify conflicts in those countries.

● REAGAN

Provision of weapons to what Reagan describes as anti-communist freedom fighters also marks a shift towards a higher level of US involvement in those embattled areas.

Opponents say the action threatens the remaining credibility of Washington's role as an impartial broker for a peaceful settlement to conflict in southern Africa.

Until now the US has tried to distance itself from the Afghan rebellion. It restricted arms help for the forces fighting the Soviet-backed government to simple weapons made anywhere except in the US and widely available on international markets.

Sophisticated weapons such as the Stingers "have US fingerprints all over them", said one arms expert.

They dramatically increase rebel strength against modern Soviet equipment such as helicopter gunships.

In Africa, implications of the US policy change are clear as far as intensification of the conflict between the Soviet- and Cuban-backed Angolan government and Unita rebels is concerned.

A Senate aide said "The more we pour in there, the more the Angolans rely on Soviet and Cuban assistance."

Washington says the Angolan government is backed by about 35 000 Cuban troops and $2bn in Soviet equipment.

Another House staff member said provision of such weapons to rebels in Afghanistan would intensify the fighting.

Conservative supporters of what has become known as the Reagan Doctrine — the President's pledge to halt what he calls Soviet expansionism — welcomed the decision.

"I am very encouraged that President Reagan is giving flesh to his words," said Howard Phillips of the Conservative Caucus.

An aide to Congressman Mark Siljander, a Republican who supports open military aid to Unita, said "It's going to equalise things and make a communist victory a whole lot more difficult."

Congressional and private sources said the administration made the decision to provide the US arms late last month, after a group of Republicans overcame objections by Secretary of State George Shultz.

The State Department has favoured the undercover supply of non-US weapons.

A House source said the Stingers "are definitely a step-up" from the level of supplies provided by Washington over the past few years to the Afghan Mujahideen rebels.

US groups supporting the Mujahideen have complained that the Reagan administration gave the rebels only enough weapons for fighting and dying and not enough to win the war.

On Angola, one Senate aide on the Foreign Relations Committee said Reagan's decision earlier this year, to resume military aid to Unita after a 10-year gap, had already encountered strong opposition from many African countries.

Raising the stakes by sending Unita sophisticated US weapons, the aide said, "only makes the signal already sent to black African nations worse."

The US decision to deliver Stingers to Unita would "certainly drive the Luanda government further into the Eastern bloc," the *Zambia Daily Mail* said yesterday. — Sapa-Reuter-AP.

Sweden attacks US backing for rebels

STOCKHOLM — Sweden yesterday accused the US of resurrecting the Cold War era by backing Angolan and Nicaraguan rebels.

It said the rebels were deeply involved in terrorism and that they systematically attacked defenceless civilians.

Deputy Foreign Minister Pierre Schori said Sweden had documented proof of the killing of women and children by Unita guerrillas to which Washington has promised aid.

Schori, speaking at a monthly briefing for the Swedish Press, said "The new US doctrine of giving support to so-called freedom fighters is a reflex from the Cold War epoch."

He warned that US military aid for the SA-backed Unita and for Contra rebels fighting the left-wing Sandinista regime in Nicaragua would only worsen the situation in those countries.

"The US clients in these countries are deeply involved in terrorism," said Schori.

"It is difficult to get the Angolan government to give information, but we have pictures documenting the terrorist methods of Unita, with its systematic attacks on defenceless civilians and the killing of women and children."

The foreign ministry declined to release the pictures, apparently taken by Swedish aid workers and diplomats in Angola.

Schori said the Contras used the same methods as Unita, but enjoyed less popular support than their Angolan counterparts.

Sweden has long been strongly critical of US policy in Central America. Schori accompanied then-prime minister Olof Palme to Nicaragua in 1984 on the first visit by a Western head of government since the Sandinistas took power.

The Swedish government has traditionally balanced its criticism of the US role in Nicaragua with attacks on the Soviet presence in Afghanistan. — Sapa-Reuter

'No end to unrest' until unemployment is eased

(153) Mercury 3/4/86

ORMANDE POLLOK
Political Correspondent

CAPE TOWN—Inflation and unemployment are the two biggest problems facing the Government, according to the Parliamentary Standing Committee on Finance, which has been studying the Budget.

Expressing its concern at the high level of unemployment, the all-party committee says in its report to Parliament that until the problem is more effectively dealt with 'the ability to end the unrest will be severely handicapped'

It recommends action to restore confidence in the population as a whole as a means of putting South Africa on the road to 'long-term solutions'

Critical

Steering clear of political issues, the committee is critical of some Government departments for not fully co-operating with it, calls for greater employment of all population groups in the public service, believes problems in the motor and jewellery industries justify further investigation and expresses concern at the effect the prescribed 2 percent cut in departmental spending could have on certain departments

The committee was clearly concerned with inflation and unemployment.

Investors

'The committee expresses its concern at the high level of existing and projected future unemployment and it notes the measures being taken by the Government to alleviate the situation,' it says

'Until the unemployment problem is more effectively dealt with the ability to end the unrest will be severely handicapped

'The committee is of the opinion that a growth rate of 3 percent in the GDP will not generate the necessary wealth creation, nor provide all the jobs required.

'It is necessary that there should be greater encouragement to savers and the creation of a climate which will promote investors' confidence

'The need to repay foreign loans in the absence of new foreign capital places severe strain on the economy and the requirements to service the shortage on the capital account of the balance of payments on the current account acts as a serious restraint on growth

'The committee also expresses its concern at the high level of inflation, which, in spite of the absence of consumer demand and current low levels of increase in the money supply, continues and appears to be substantially due to cost pressure '

Important

It supported the introduction of a money supply target and believed this could play an important part in controlling demand inflation.

While accepting the necessity for cutting public sector expenditure, the committee says it is concerned about the effect the prescribed 2 percent cut will have on labour-intensive departments

'The evidence of the Commissioner of Police that this could affect the strength of the police force by as many as 2 000 men, and the evidence of the Minister of Foreign Affairs on the effect on his department supports this view,' says the report.

Surcharge

The committee has also suggested that the effect of the import surcharge on cost of materials used in local manufacture should be considered It suggests it might be to advantage to distinguish between consumption imports and items used in local manufacture

'There is general agreement that at existing growth rates and high levels of inflation together with the levels of unrest and unemployment, action to restore confidence is required to put South Africa on the path to long-term solutions,' concludes the report.

3/4/86

April 3 1986 S/M3

Another liquor price rise

CAPE TOWN — Wholesale prices of wine and spirits rose by an average of eight and five percent respectively on Tuesday, confusing retailers who were only told of the increase last Thursday and have not received new price lists.

Mr Riaan Kruger, director of the Cape Wine and Spirit Institute, said whisky, which had dropped R10 per case and was imported, was exempted from the increase due to the improved exchange rate.

The rises follow increases of 7,4 percent on spirits and about 10 percent on wines in February.

Mr Kruger said the increase was caused by high costs and inflation, and added "It was decided to introduce an early settlement discount of five percent — if the retailer pays his account within 15 days of receiving a statement he gets the discount." — Sapa

Furniture prices to soar by further 20%

BUSDAY 8/4/86 153

MICK COLLINS

FURNITURE prices are expected to leap by 20% before the end of July — with a further 15% increase to follow in the third quarter.

As soaring costs and shrinking markets take their toll — 450 furniture factories closed in 1985 — manufacturers say they are being forced to pass on price rises to retailers.

Industry sources say that the increase of 30% in the first quarter was long overdue. A projected 20% is forecast before the end of July, with a 15% hike expected in the third quarter.

This means that a lounge suite which cost R599 in January will retail at R1 074 before the end of the year.

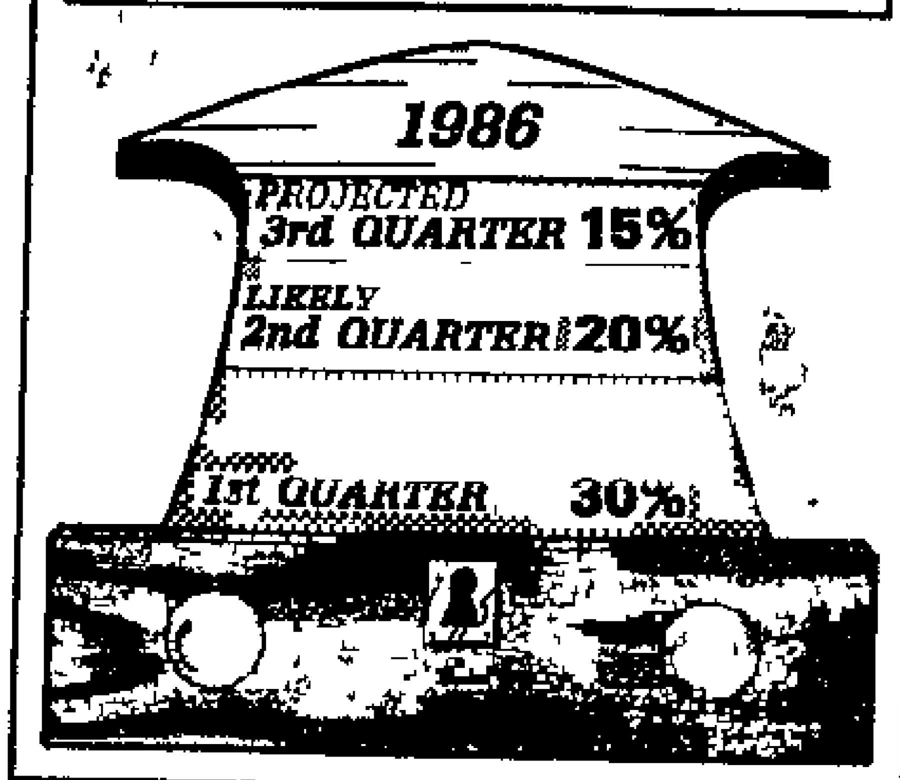
"Last year, I forecast that prices would increase between 25% and 30% in the first three months of 1986," says Arthur Solomon, GM furniture and appliances at the OK Bazaars.

"This has happened and the industry is now looking at further increases of between 10% and 20%."

Solomon blames the increases mainly on rising imported timber and fabric prices.

"Most hard woods used in the manufacture of furniture are imported. Recently we have had increases in the prices of imbuia, oak and maple. Along with this, major overseas fabric manu-

INCREASES IN THE PRICE OF FURNITURE



● To Page 2

Furniture price hike expected

BUSDAY 8/4/86 153

● From Page 1

facturers have been forced to up the price of their products

"Added to all this is a surcharge on imports, a weak rand and extra duty on fabrics."

Solomon says despite manufacturers turning to local fabrics they are still faced with rising costs in the form of wage bills and overheads.

"Of the factories that closed down, many were faced with a tight cash flow situation coupled with forex problems.

"My advice to the consumer is to buy as soon as possible and buy wisely. Purchase from reputable companies and be selective in quality of product. Ask yourself if the company you intend doing business with will still be around next year."

Grafton Everest marketing director Ed Billes says the plight of the industry is pitiful.

"We have had all these closures over the past year and expect many more. I envisage a situation where there won't be enough manufacturers left to service market demands.

"We are looking at ways and means of increasing efficiency, but even that course has a limit. Prices have gone up and will continue to do so."

Billes says prices of raw materials have gone up by between 25% and 120% over the past year.

"Prices of foam, fabric and wood have soared. If manufacturers continue to supply at current prices, then I forsee a lot more casualties."

Coal price set to rise 15%

ROY BENNETTS

DOMESTIC coal producers are expected to get a 15% rise in selling prices when government announces new domestic rates today.

Despite crashing international oil prices and a glut of world coal stocks, the authorities are expected to provide some comfort to local producers by increasing A-grade coal to about R20 a ton from the current price of R17,43 a ton.

Bottom-of-the-market D-grade coal is expected to enjoy a smaller increase, rising from R14,80 to R16,30 a ton.

SA uses about 11-million tons of coal, worth R174m, each month.

Mining houses operating Escom-tied mines have been complaining for some time that coal prices have fallen well behind the annual rate of increase in production.

Rand Mines' coal division deputy chairman Alan Cook says the industry supplying the SA market is now on its bones and that increases in the domestic price have been kept well below the inflation rate.

However, the latest increase will most certainly be borne by consumers of electricity, both domestic and industrial, with a resultant ripple effect throughout the economy.

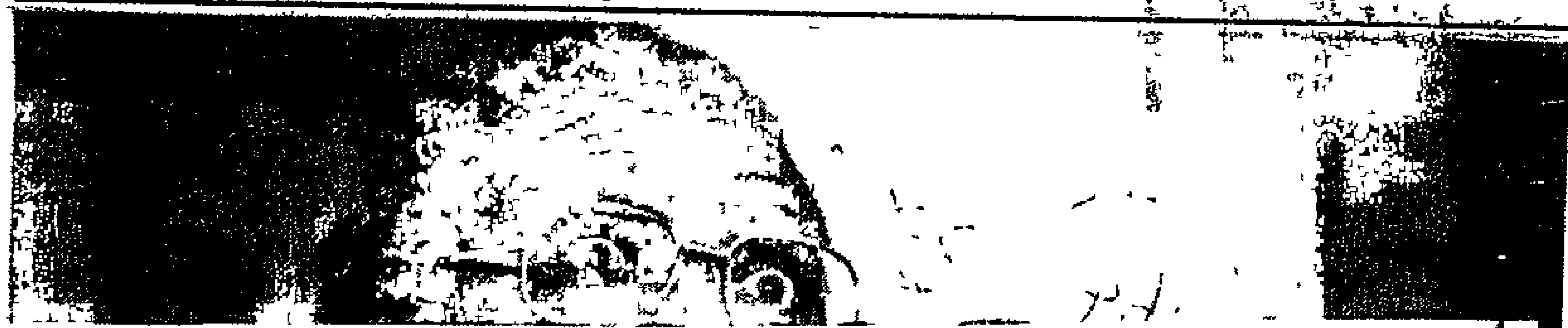
Major users such as Escom and Iscor are certain to pass on any increase, which, perversely, will affect operating costs of large consumers such as the mining industry.

This increase will partly offset falling coal-export sales, with prices down from highs of \$35 a ton to \$27,50.

□ It is reported from London that the British National Coal Board, faced with the threat of a major consumer conversion to oil, has — for the first time since the early 1970s — agreed to cut the price of some power-station coal

W. Mail 10/4/86 (153)

Win on inflation; lose on gold



By REG RUMNEY

NOT only JR Ewing had reason to weep this week when oil prices collapsed

Gold bulls saw the gold price fall to close in London at $330,50/$331,00 on Tuesday in the wake of oil's slip This compares to Thursday's $346,75/347,25, and around $350 just before that.

The continuing oil price slide was bound to hit the gold price, given the by-now firmly held belief the two are directly linked

The theory is that lower oil prices are deflationary, and that gold and other commodities will do better if inflation takes hold again in the West — or at least if more people expect inflation to rise, and buy hard assets like gold to hedge against it

Another theory has it that weak oil prices will in the long term aid gold because it raises the spectre of heavily indebted oil-producing nations defaulting on loans and producing a new world debt crisis. But until potential buyers of gold buy this theory as well, a weak world oil price equals a weak gold price.

So when news came that oil prices had fallen to $10 a barrel, gold was sure to fall. It fell below $10 a barrel at one point on Wednesday, but rose when the US expressed concern at the effect of the fall on its own oil industry

Oil had traded around $30 a barrel last year

The slight improvement in oil prices on Wednesday helped gold recover it closed at $335,00/50 in London

Yesterday afternoon in London it was fixed at $334,75

And gold's fall pulled down gold shares The JSE's all-gold index, the index of all the gold shares on Diagonal Street, fell by its biggest one-day decline this year to 1 251,5 on Tuesday from 1 188,7.

What made the gold price bad news on Wednesday was also good news for the South African economy in other ways A fall in the oil price translates into savings on foreign exchange, but as the information on SA's oil requirements are classified, how much is guesswork

And a cut in the price of petrol may be in the offing

The effect on the current account of the balance of payments of a drop in the gold price is easier to quantify

A senior economist says a $10 drop in the gold price translates into a $220-million drop in import earnings over a year.

Still, gold will have to suffer a sustained fall before panic bells start ringing

Fears should by now have been allayed of a strain on the Reserve Bank because of the lump sum immediate repayment of R500m to foreign banks, and the rand should be able to get up and dust itself off soon.

The rand closed at $0,4640/50 on Thursday

It fell to $0,4660/70 on Wednesday from $0,4680/90 on Tuesday.

Part of this fall may have been due to the easing of gold, but the rand, because most dealing in the currency takes place in the local market, is not normally wildly affected by the gold price.

Feeling is that the rand may stay around the $0,46 mark for a month or so before rising again.

How oil prices might also affect gold is through the dollar, which usually has a close inverse relationship to the gold price

For the moment, a lower oil price has been interpreted as being good for the US, and therefore for the dollar.

● Ben Temkin is abroad. His column will resume shortly.

STAR 11/4/86

Consumers fear inflation after coal price rise

By Jackie Unwin

Consumer organisations are concerned that the 19,9 percent pithead coal price rise will be inflationary and the deregulation of the industry might hurt the black community which uses coal for heating and cooking

Mrs Joy Hurwitz, president of the Housewives' League, said today "When price control was removed from milk, prices rose considerably Coal is such a vital item that one would not want that to happen

"It could also be inflationary for all industries that use coal as an input cost"

Mrs Betty Hirzel, chairman of the Consumer Union, said "We support deregulation wholeheartedly But there is the worry that the black people will be in trouble"

DELIGHTED

Members of the coal industry are delighted with deregulation and feel that it will result in lower prices

Mr Paul McNaughton, of Reef Coal, said "It is probably the first step in implementing the recommendations of the Competition Board

"The most efficient mechanism to control coal, or any other, prices is competition

"Now the Government has taken this step it needs the encouragement to deregulate coal and petrol totally These are two major inputs in our economy

"Consumers are best served if the prices for both these commodities are dictated by market forces"

153

Hoteliers hit at liquor price hike

The latest liquor wholesale price increase is "once again a case of the little guy being hammered by the big guy," according to Mr Mike Kovensky, chairman of the Federated Hotel, Liquor and Catering Association's (Fedhasa) liquor committee

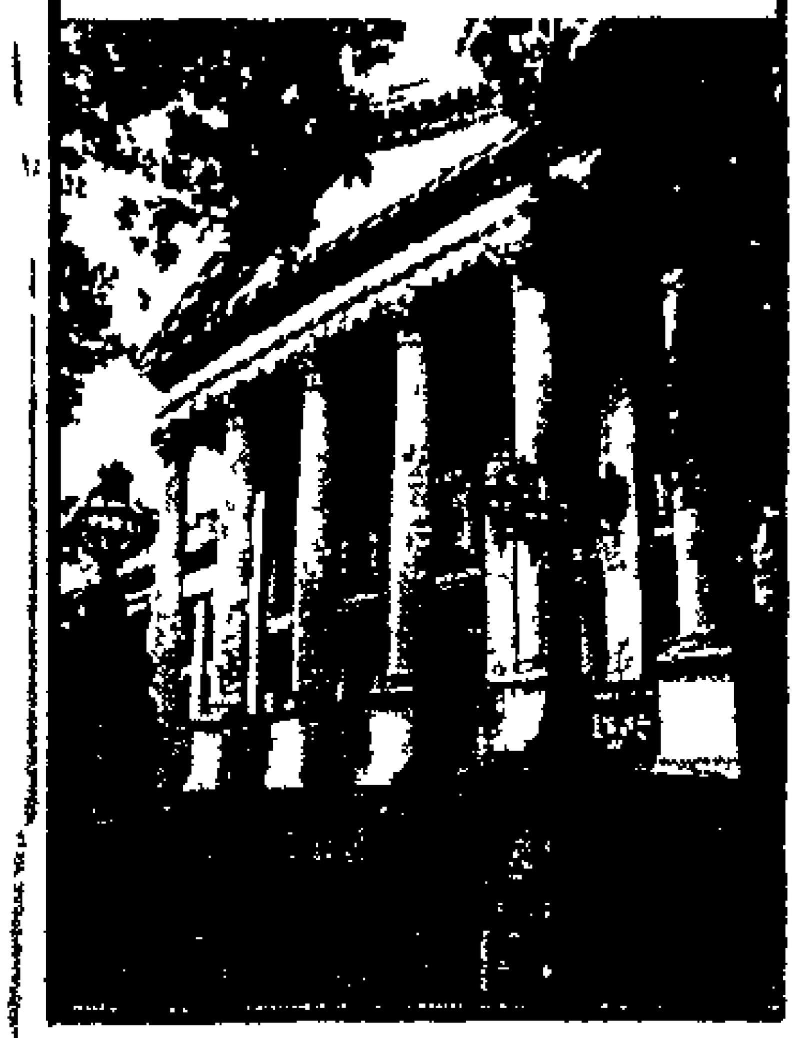
The latest increases are eight percent for wines and five percent for spirits Whisky, however, dropped in price by 10 percent

Mr Kovensky said liquor retailers and hoteliers were dismayed by the price increases shortly after Easter, only eight weeks after previous increases

They were announced by the Cape Wine and Spirit Institute, described by Mr Kovensky as a "cartel" of producers and wholesalers

He said "I find it impossible to believe the Cape Wine and Spirit Institute got its figures so wrong eight weeks ago that unforeseen circumstances made it necessary to raise prices again, particularly with a petrol price decrease in the offing"

PARLIAMENT '86



Budget fails on inflation, says Raw

STAR

Political Staff 153

11/4/86

PARLIAMENT — The Budget had failed to attack the crucial issue of inflation, Mr Vause Raw (NRP, Durban Point) told the Assembly

Speaking in the second-reading debate on the Budget, he said nothing in the debate had changed his party's view that the Budget had failed to go far enough in attacking inflation

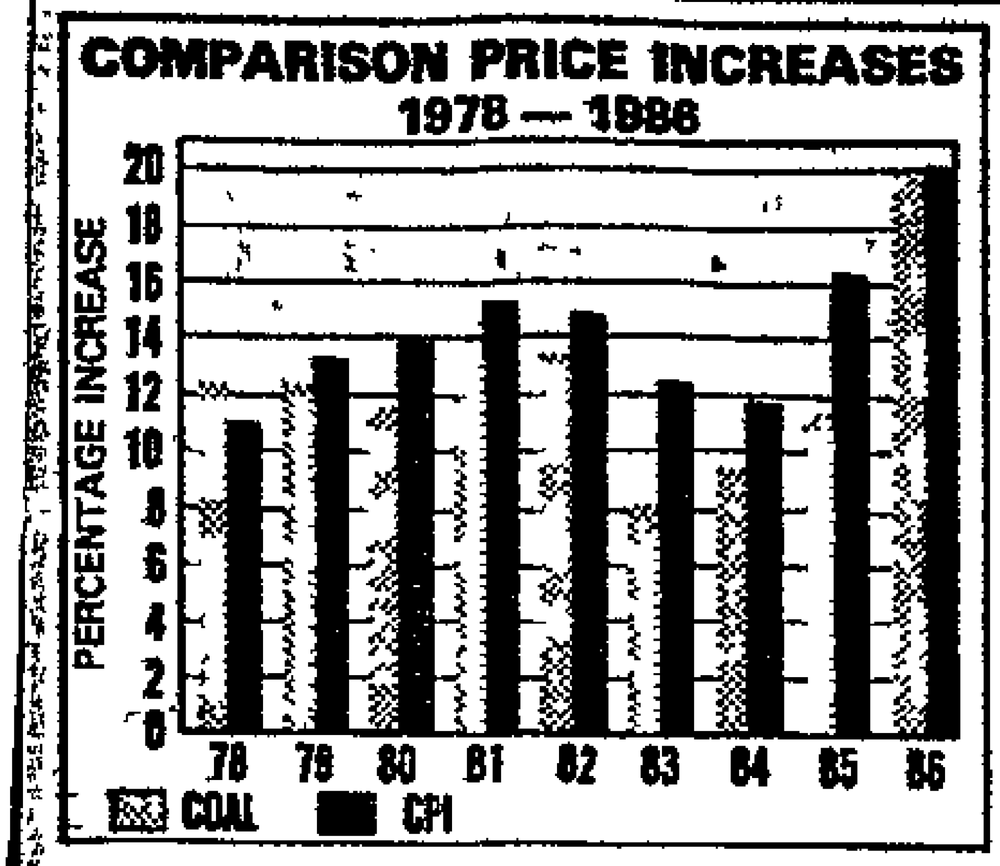
The two major threats to stability in South Africa were hunger and inflation

Mr Raw said that even those who had originally praised the Budget were now beginning to express doubts about it

The question being asked was whether the Budget would be able to produce an economy strong enough to attack the root causes of uncertainty in the country.

He criticised both the Conservative Party for its links with the Afrikaner Weerstandsbeweging, and the Progressive Federal Party for its "equally dangerous" links with the United Democratic Front and the African National Congress

He urged the Government to give concrete back-up support to responsible black leadership.



Govt raises coal price then scraps controls

BUSDAY 11/4/86 153

CHRIS CAIRNCROSS and LINDA ENSOR

GOVERNMENT increased the price of pithead coal by 19,9% yesterday and announced immediate deregulation of price control at wholesale and retail level.

Industry leaders welcomed both moves, but the Federated Chamber of Industries expressed disappointment that the increase was higher than the rate of inflation

The price increases — the highest in recent years — comes into effect today.

It is estimated the increase will contribute to an increase to the consumer of about 5,5% on the Reef and 3% in Cape Town. The pithead price is a small proportion of the retail price, which is made up mainly of transportation and distribution costs and retailers' margins

The Transvaal Coal Owners' Association (TCOA) — the marketing arm of major coal producers in the province — welcomed the price rise, saying it would help ease the accumulated burden of unrecovered costs which the industry is bearing, with minimal effects on inflation.

"The erosion of coal prices over the past decade had been reducing the return on domestic coal sales to an unacceptable level," TCOA MD Les Weiss said, adding that major investments for the exploitation of new coal reserves had become unviable.

The new price would not, he said, compensate fully for the shortfall.

Mineral and Energy Affairs Director-General Louw Alberts said that unless the continuous lag of production costs behind price adjustments were rectified to some extent, the long-term availability of coal, and thousands of jobs, would be jeopardised.

He said the decision was taken after recommendations by the Coal Advisory Committee.

Over the past 10 years, said Alberts,

● To Page 2

Govt scraps coal controls

11/4/86. BUSDAY. 153

● From Page 1

production costs had increased by 16% on average — due mainly to rapid escalation of labour costs — while prices had increased by an average of 12%.

Government would monitor the situation closely, he added, and if consumers were being exploited, it would not hesitate to re-instate price control.

Another feature of the new price structure is the larger differential introduced between high and low grades, intended — said Weiss — to encourage greater use of the low grades. SA's reserves of high grade coal are limited, he added.

The price of low-grade coal, used basically for cooking and heating, will rise by less than 15% at the pithead.

Price increases for Natal collieries — determined on a colliery-to-colliery basis — amount on average to the 19,9% average granted for the Transvaal and OFS collieries.

Crackdown on workers: 14 quit chamber

SNDL 12/4/86

153

Lowveld Bureau

NELSPRUIT — All the Indian and black members of the Nelspruit and District Chamber of Commerce have resigned as a result of decisions taken at an emergency meeting concerning a stayaway by black workers last week

The meeting, attended by representatives of the Afrikaanse Sakekamer, the Chamber of Commerce and large organisations such as municipalities and co-operatives, was held last week

Among the decisions taken were

- No employees, absent from work as a result of intimidation in the townships, will be paid for the time they were away
- All persons intending to return to work must inform their employers to prevent them from recruiting new staff.
- In the event of another stayaway, all employees not reporting for duty will be fired

The 14 Indian and black Chamber of Commerce members, however, did not agree to these decisions

According to one of the former executive Indian members, Mr Yusuf Vawda, the reason for the resignations was "the irrational attitude of the chamber and other bodies towards the workers who were faced with a situation completely beyond their control — who, despite the risk of losing their lives, were expected to commute to their places of work."

"We wish to denounce, categorically, these decisions taken at a meeting where we and the black community were not represented," he said

Crackdown on workers: 14 quit chamber

STAR 12/4/86 153

Lowveld Bureau

NELSPRUIT — All the Indian and black members of the Nelspruit and District Chamber of Commerce have resigned as a result of decisions taken at an emergency meeting concerning a stayaway by black workers last week

The meeting, attended by representatives of the Afrikaanse Sakekamer, the Chamber of Commerce and large organisations such as municipalities and co-operatives, was held last week

Among the decisions taken were.

- No employees, absent from work as a result of intimidation in the townships, will be paid for the time they were away.
- All persons intending to return to work must inform their employers to prevent them from recruiting new staff
- In the event of another stayaway, all employees not reporting for duty will be fired

The 14 Indian and black Chamber of Commerce members, however, did not agree to these decisions

According to one of the former executive Indian members, Mr Yusuf Vawda, the reason for the resignations was "the irrational attitude of the chamber and other bodies towards the workers who were faced with a situation completely beyond their control — who, despite the risk of losing their lives, were expected to commute to their places of work

"We wish to denounce, categorically, these decisions taken at a meeting where we and the black community were not represented," he said

Railmen to seek action on prices

153

GERALD REILLY

RAILWAY workers are to make demands for urgent government action to slow down the vicious price spiral

The demands will come from the Federal Council of South African Transport Services Trade Unions — it represents 120 000 workers — and from the annual congress of the 24 000-strong Artisan Staff Association (Asa)

Chairman of the federal council and president of the Asa, Jimmy Zurich, told *Business Day* yesterday government had shown itself powerless to slow down the country's rampant inflation rate.

At the rooot of the problem was government-administered food and other price rises and excessive State spending

Zurich said not only were the living standards of railwaymen depressed by inflation, but their overtime and incentive bonus earnings had also been severely trimmed

It would be made clear that railway unions had not accepted this year's 10% rises as final

They would seek further pay adjustments

More airfare hikes likely

DAVID FURLONGER

INTERNATIONAL airfares from South Africa may soon increase again.

Airlines are applying for increases of between 3% and 7% — at a time when the oil price is at a 10-year low and the rand has partially recovered from its previous depths.

A British Airways spokesman said yesterday an application to put up fares between SA and the United Kingdom in mid-year was "in the pipeline".

Confirming this, an SAA official said there was also the possibility of a fare increase on the US route.

Officials of other major international airlines operating in SA would not comment on the possibility of increases on their routes.

International fares from SA rose 15% in January in a currency adjustment caused by the rand's weakness.

The rand has since partially recovered and fuel, which makes up 40% of flight, is going for a song.

According to the SAA official, the previous increase did not absorb all the losses caused by the rand's weakness.

He said increases applied for ranged between 3% and 5% to Britain, and 3% to 7% to the US.

153

Big users miss coal price rise

BUSDAY 19/9/86

153

GERALD REILLY

COSTS of the big parastatals — Iscor, Escom and the SA Transport Services — are virtually unaffected by the 20% increase in the price of pithead coal.

It would have no effect on Iscor costs, a spokesman said. The corporation had its own collieries and contracts with private suppliers of coking coal.

Asked if steel price rise were in the pipeline, he said that since the pricing system had been deregulated, Iscor had raised its prices — some in January and others in February — by about 9,5%. Further rises were unlikely before July.

An Escom spokesman said they did not buy coal at controlled prices but from collieries contractually tied to supply specific power stations. Only real colliery cost increases affected the price of electricity, he said.

A Sats spokesman said Transport Minister Hendrik Schoeman had budgeted for the spending of R16m in the 1986-87 financial year on coal.

In 1985-86 coal cost Sats R15m.

General raises tyre prices from today

BUS DAY 14/4/88 153

STEYN

MICK COLLINS

MOTORISTS celebrating the reduction in fuel prices were brought back to earth yesterday with the news that tyre prices are to be increased.

The shock announcement by General Tyres CE Tony Versfeld comes in the wake of petrol price reductions announced last week by Mineral and Energy Affairs Minister Danie Steyn.

Versfeld confirmed at the weekend that his company would raise tyre prices by 9,75% from today.

"Costs have increased by about 40% in the past year, but price hikes — including the present one — add up to only 30%," Versfeld said

"Our suppliers are required to have strategic raw material stocks.

"All stocks now being held by these suppliers were bought at a rand price of $0,40 and exchange rate benefits since then have not had a chance to work through our system."

He said a price reduction would be considered once this had happened.

Firestone MD Peter Morum said his company would also have to raise prices by a similar amount soon.

"A price increase is very much on the cards I can't say that it is going to be next week or next month but increases are definitely in the pipeline.

"We have not got back anywhere near our investments in raw materials. And if we don't get that back, we may as well shut up shop

"For the past few months, we have taken cognizance of the depressed state of the market and we did not feel it right to increase prices in one major move.

"We felt that the consumer was already reeling from a soaring inflation rate and a sluggish economy. But now we will have to increase prices. I can't say when, but it is coming."

Morum said that the major reason for the price increase was the rocketing cost of imported raw material.

(153)

More tyre giants to raise prices soon

BUSDAY 15/4/86

MICK COLLINS

FIRESTONE, Goodyear and Dunlop are to follow the lead of General Tyre which announced a 9,75% increase in the price of tyres.

Lloyd Zaayman, a spokesman for Dunlop Tyre in Durban, said "Our prices will rise from May 1 and increases will vary from 9,25% to 10,7%.

"Even with the drop in oil prices I cannot see any way of staving these increases off. Oil price benefits will only be felt when local suppliers pass them on to us and we in turn can allow the consumer to score."

A spokesman for Goodyear said cost pressures would "force prices up fairly soon. Escalating tariffs of raw materials will force the price increase on us."

He said that over the past eight months prices of raw materials had risen considerably. Synthetic rubber had risen 40%, carbon black 25%, bead wire 14%, nylon 32%, paraffin 23%, coal 13% and steel cord 42%.

"Added to this we have had considerable increases in wages, rail tariffs, fuel and electricity," he said.

A spokesman for a retail tyre outlet said prices had increased by 30% (see graph) over the past eight months.

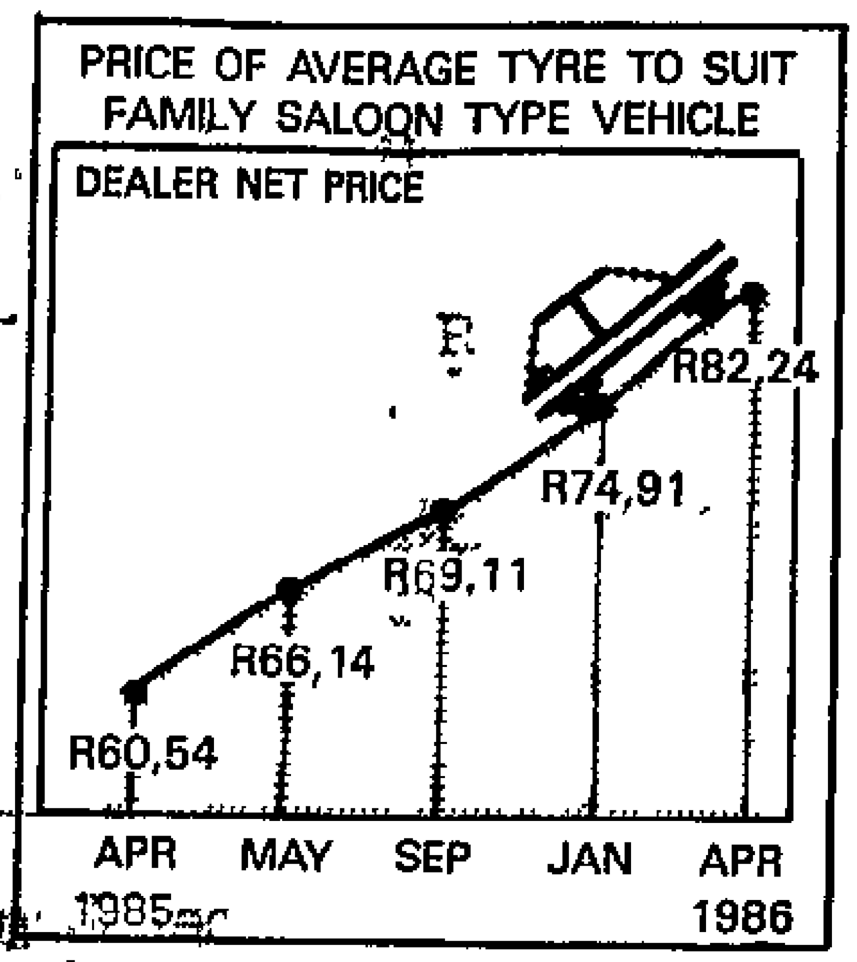
"In April 1985 the price of a tyre for an average-sized family saloon was R60,54. Since then we had an increase in May 1985 of 9,25% and another increase of 4,5% in September of the same year. This year we saw an increase of 8,4% in January, and with the latest hike of 9,75% the same tyre now costs R82,24." Firestone MD Peter Morum said: "Increases are on the way. I can't say when but they're going to come."

He said in terms of price increases manufacturers were nowhere near recouping costs.

"It's impossible to expect the public to absorb all the cost increases. The only way manufacturers can survive is to improve efficiency."

General Tyre MD Tony Versveld said oil price movements, either up or down, had been taken into consideration.

● Comment: Page 6



BUS DAY. 15/4/86 153

More tyre giants to raise prices soon

MICK COLLINS

FIRESTONE, Goodyear and Dunlop are to follow the lead of General Tyre which announced a 9,75% increase in the price of tyres

Lloyd Zaayman, a spokesman for Dunlop Tyre in Durban, said: "Our prices will rise from May 1 and increases will vary from 9,25% to 10,7%.

"Even with the drop in oil prices I cannot see any way of staving these increases off. Oil price benefits will only be felt when local suppliers pass them on to us and we in turn can allow the consumer to score"

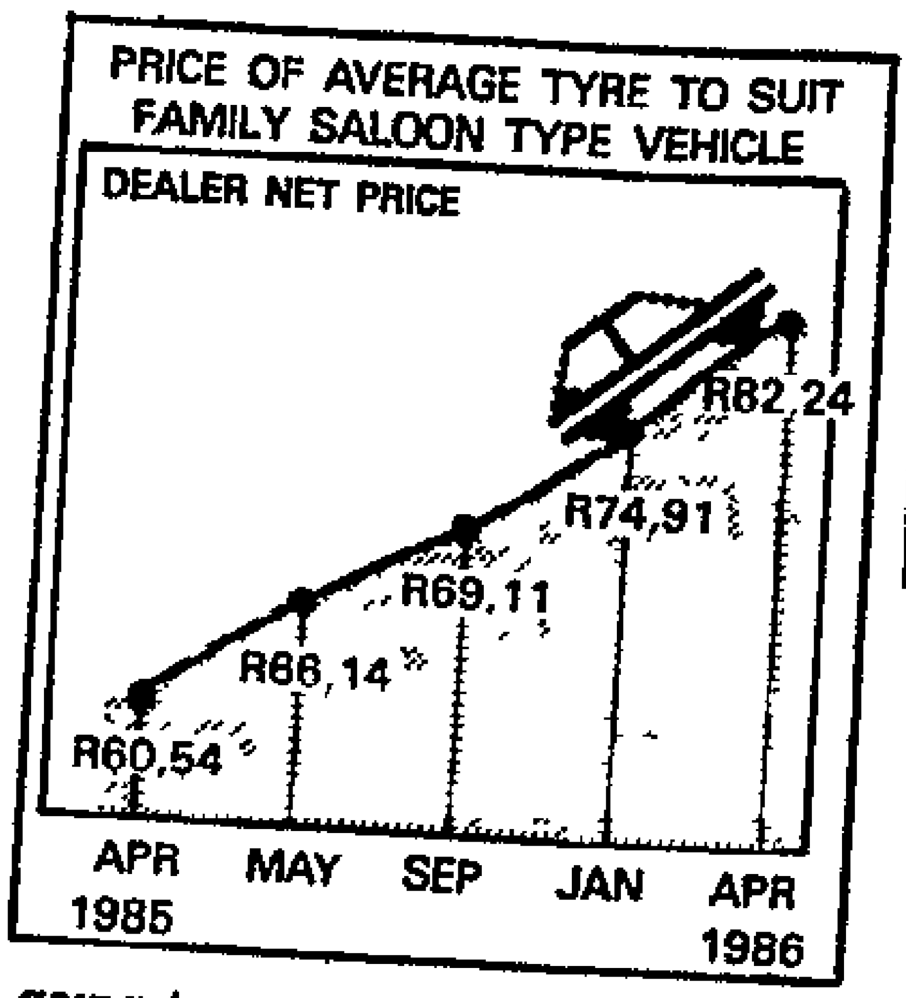
A spokesman for Goodyear said cost pressures would "force prices up fairly soon. Escalating tariffs of raw materials will force the price increase on us"

He said that over the past eight months prices of raw materials had risen considerably Synthetic rubber had risen 40%, carbon black 25%, bead wire 14%, nylon 32%, paraffin 23%, coal 13% and steel cord 42%

"Added to this we have had considerable increases in wages, rail tariffs, fuel and electricity," he said

A spokesman for a retail tyre outlet said prices had increased by 30% (see graph) over the past eight months

"In April 1985 the price of a tyre for an average-sized family saloon was R60,54 Since then we had an increase in May 1985 of 9,25% and another increase of 4,5% in September of the same year. This year we saw an increase of 8,4% in January, and with the latest hike of 9,75% the same tyre now costs R82,24" Firestone MD Peter Morum said: "Increases are on the way. I can't say when but they're going to come."



He said in terms of price increases manufacturers were nowhere near recouping costs.

"It's impossible to expect the public to absorb all the cost increases. The only way manufacturers can survive is to improve efficiency"

General Tyre MD Tony Versveld said oil price movements, either up or down, had been taken into consideration.

● Comment: Page 6

BUS DAY 15/4/86

153

Inflation — the potent hidden tax

BARRY SERGEANT in the second of two articles

One of the most elusive concepts in taxation is the definition of tax itself The income tax of employees is easy to understand with the regular pay-as-you-earn (Paye) deduction, sales tax is paid over-the-counter and company tax comes off corporate profits (albeit that book and tax profits rarely coincide)

Then the grey areas The definition of income itself is notoriously difficult — as a perusal of reported law cases show About 90% of all tax cases involve extraordinarily complex arguments about whether a designated chunk of money is income or capital.

Some species of cash are so slippery to categorise that the tax system ignores them completely A houseowner who has discharged bond/s he had on his property, in theory at least, earns "rent" from the property — for not having to pay rent. This is a species of income which is simply not taxed.

When a tax system is not absolutely certain about what it is taxing, then it is not too difficult to see that it will also be unsure about the nature of tax itself So the question of whether we are overtaxed assumes new proportions

It was shown in a previous article (*Business Day* April 15) that compared to their counterparts in the UK, Australia and the US, South Africans pay more tax. Yet that analysis was confined to income and income-related taxes; indirect taxes such as sales tax were ignored

Also ignored in the analysis were what may be referred to as "hidden" taxes Probably the most potent hidden tax is inflation which also, perhaps, qualifies as the most sinister tax ever invented. Consider that when the latest inflation rate increase is announced there is no simultaneous announcement of an increase in tax rates.

But this is exactly what happens. Inflation erodes a taxpayer's spending power — and to keep pace his salary must be increased. If this is done he creeps into a higher bracket on the progressive tax tables and pays more tax. And rising production prices force retail prices upwards: sales tax, because it is expressed as a percentage, takes more cash from the taxpayer

☐ MALCOMESS . pointed out hidden taxes

Tackle the inflation/tax issues any way you may, inflation is a tax In their tax systems governments have come to benefit from inflation in countless ways Indeed, in increasing revenues, governments have a vested interest in not decreasing inflation. There are many simple solutions to the problem but the impetus for change in SA is low

Michael Katz, a member of the Margo Commission on tax, has said that indexing tax rates (which would solve the inflation/tax problem) would institutionalise inflation. He is saying, in other words, that by indexing and allowing the tax system to recognise that inflation actually exists is not a good idea.

Perhaps inflation heads the list of hidden taxes but others are vying for the top notch. Last week in Parliament John Malcomess (PFP, PE Central) said that in 1985 government collected R3 664m in tax from the sales of cars, petrol and other levies related to the industry He bemoaned Inland Revenue collecting sales tax four times (on average) from the same vehicle, as it is subject to sales tax each time it changes hands

And Malcomess raised that classic feature of many hidden taxes, the collection of tax on tax. This process is (perhaps) just as sinister as inflation but its application can be said to be less arbitrary So, as argued by Malcomess, sales tax is calculated on retail prices which already embrace one or more imposts

Part of the petrol price before the 12% sales tax is imposed are customs and excise and levies for the national road fund the central energy fund, and the equalisation fund The only sense in collecting taxes on taxes is that more tax is collected, the process is impossible to justify or countenance in economic terms.

So the bottom line for the taxpayer who knows or senses he is overtaxed purely from an income tax viewpoint is also affected by a plethora of taxes which lurk behind virtually every fiscal vestige But there are yet deeper hidden taxes waiting to raid the pockets of the beleaguered taxpayer

Government's deficit financing is a form of hidden tax cancerous in at least two senses. When government expenditures exceed revenues it borrows from the capital and money markets where its demand swells interest rates across the economy Taxpayers who also borrow pay higher interest rates than before. So their income is eroded by tax and inflation — and the increased margin on interest

☐ KATZ no to recognising inflation

rates added by government.

Secondly, deficit spending must be financed. As state debt accumulates, the interest bill grows and taxes are raised to discharge (at least part of) the liability This particular form of hidden tax has now reached massive proportions in SA

The third largest single item on this year's spending programme is for "state debt costs" The amount estimated is R5,2bn — more than the budgets for welfare and health combined. Government also raises hidden tax from the prescribed asset requirements of financial institutions

Although rates on prescribed assets are nearing market rates, traditionally the yields have been low, and pensioners, life insurance policy holders and investors have lost out. And an incalculable amount of hidden tax is raised by government via the extra-normal profits of government monopolies.

Escom, Sats, SABC TV, Posts & Telecommunications and their ilk fall into the category of institutions (possibly) charging prices which are in excess of prices that would be charged were circumstances more competitive..By the same token government-sanctioned private sector monopolies and oligopolies also eat into the taxpayer's pocket.

The so-called "TV industry" is a classic example, and to some extent at least, beer, tobacco, diamonds, glass, finished paper, all the commodities marketed by the single-channel fixed-price agricultural control boards, and so on. The tangible merits of the argument that monopolies and their close relatives are an impost on the taxpayer are, in the nature of man, open to sleepless debates.

It may be of interest that Charles Stuart's study of the (very high-rate) Swedish tax system led him to a simple conclusion. "Increases in hidden taxes constitute the major portion of total tax increases The crying rejoinder is that the higher a country pushes visible taxes, the more it will attempt to wrest invisible taxes

Taxpayers may live with the perception that they are overtaxed by visible taxes. When they analyse the further effects of invisible taxes on their earnings, they may wax suicidal. If they can cope with pre-suicide depression they should not review the size of SA's underground economy

It is likely that high visible tax rates (and the unseen but felt effect of invisible taxes) has produced an underground economy generating no less than R40bn worth of taxable economic activity That is worth billions of rands of ungarnered taxes

The taxpayer who can accept Deputy Finance Minister Kent Durr's statement that we are not overtaxed most likely escapes sleepless nights In the context of being overtaxed the most the Margo Commission has implied is that its central problem is the reduction of high tax rates

If by tax rates the Commission means to ignore the myriad invisible taxes, it would not have begun half its work.

BUSDAY. 15/4/86

153

More tyre giants to raise prices soon

MICK COLLINS

FIRESTONE, Goodyear and Dunlop are to follow the lead of General Tyre which announced a 9,75% increase in the price of tyres

Lloyd Zaayman, a spokesman for Dunlop Tyre in Durban, said. "Our prices will rise from May 1 and increases will vary from 9,25% to 10,7%.

"Even with the drop in oil prices I cannot see any way of staving these increases off Oil price benefits will only be felt when local suppliers pass them on to us and we in turn can allow the consumer to score."

A spokesman for Goodyear said cost pressures would "force prices up fairly soon. Escalating tariffs of raw materials will force the price increase on us"

He said that over the past eight months prices of raw materials had risen considerably. Synthetic rubber had risen 40%, carbon black 25%, bead wire 14%, nylon 32%, paraffin 23%, coal 13% and steel cord 42%.

"Added to this we have had considerable increases in wages, rail tariffs, fuel and electricity," he said.

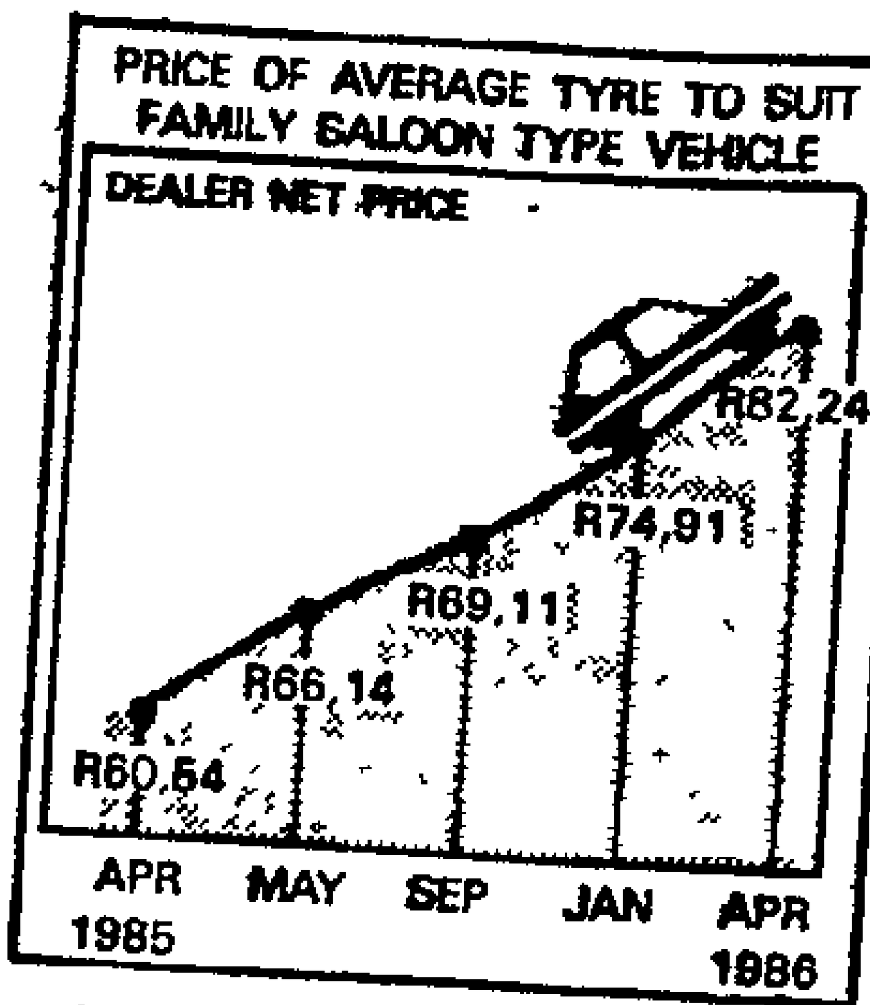
A spokesman for a retail tyre outlet said prices had increased by 30% (see graph) over the past eight months.

"In April 1985 the price of a tyre for an average-sized family saloon was R60,54. Since then we had an increase in May 1985 of 9,25% and another increase of 4,5% in September of the same year This year we saw an increase of 8,4% in January, and with the latest hike of 9,75% the same tyre now costs R82,24" Firestone MD Peter Morum said "Increases are on the way. I can't say when but they're going to come."

He said in terms of price increases manufacturers were nowhere near recouping costs.

"It's impossible to expect the public to absorb all the cost increases. The only way manufacturers can survive is to improve efficiency."

General Tyre MD Tony Versveld said oil price movements, either up or down, had been taken into consideration



● Comment: Page 6

Inflation seen to ease

JOHN TILSTON 16/4/86

THE rate of inflation as measured by the producer price index eased in February to an annualised rate of 20,78% from January's 22,21%

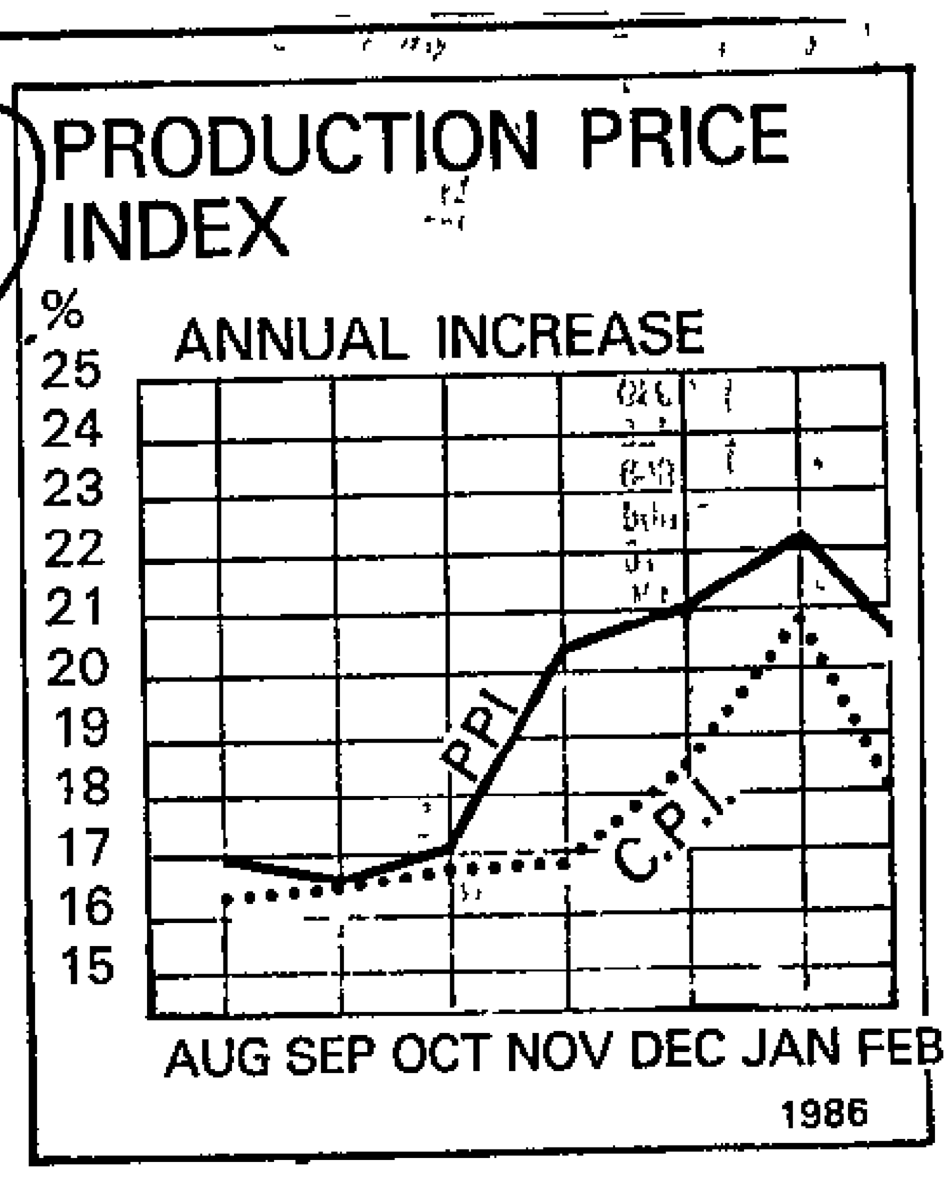
In the past, the rate of increase in the index has been a pointer to future price increases for consumers.

However, the extremely low level of inventories in the economy and the poor profit margins faced by manufacturers who immediately pass on price increases means that the index is soon reflected in consumer prices.

But the index is still uncomfortably above February's consumer price inflation of 18,05%.

Louw says the coming months should see the the deceleration of increases in the rate continue, especially as the impact of lower oil prices is felt. He expects consumer prices to be increasing by 15% by the end of the year.

According to Central Statistical Services figures released yesterday, the main impetus for the production price increase still comes from imported components.



In February, they imported commodities increased by a year-on-year 30,8%. But the trend appears downwards as the monthly imported component moved up by 1,9%, which gives an annualised rate of just over 23%.

The monthly rise in the index was 1,6% (which annualises to just over 20%), compared to the January increase of 2,1%.

Last February producer prices increased by 14,89%.

153 BUS DAY 18/4/86.

Build-up in prices of aluminium, sand and steel

THE prices of aluminium, sand and steel went up substantially between January and February this year, according to the Central Statistical Services

Aluminium sheeting went up by 13,9%, sand by 7,4% and mild steel angles by 9,3%.

According to the Aluminium Federation of SA, the main components of the aluminium price increase were the increasing cost of imports of alumina and petroleum coat products, which are paid for in dollars, and the recent electricity tariff increases.

STEPHEN CRANSTON

The SA producer Alusaf spends R100m a year on electricity to produce 170 000 tons and is very sensitive to increased electricity prices

The sand price was held down between February last year and January this year to less than 2%, but the quarries were beginning to make substantial losses After the New Year increases in fuel, which accounts for 50% of costs to the retailer, it was decided to implement the 7,4% increase.

Sand quarries have large fixed costs, so profitability fell considerably with the fall in demand

The steel increases reflected Iscor's decision to raise some steel prices by about 9,5% on January 1, and others by the same amount on February 1

About 23% of Iscor's costs is accounted for by raw materials and 14% by refractories, which were the main component of the price increase

White maize price goes up 13,9 percent from tomorrow

22/4/86 STAR

(2) MAIZE (153)

CAPE TOWN — The consumer price of white maize will be increased by 13,9 percent from tomorrow and that of yellow maize by 9,7 percent

The producer price of white maize will be increased by 10 percent to R240,35 per ton and that of yellow maize by five percent to R225,27 per ton from May 1

The Minister of Agricultural Economics and Water Affairs, Mr Greyling Wentzel, announced the increases today

The increases are likely to affect the price of livestock feeds

Mr Wentzel said maize producers have been experiencing sharp increases in the price of inputs From January 1985 to January 1986 the prices of farming requisites increased by 23,1 percent

The prices of some items such as tractors, trucks, fuel and pesticides had increased by more than 30 percent

Mr Wentzel said the Government had decided to increase by R17 million to R129 million the subsidy on the selling price of the Maize Board

After this subsidy had been taken into account the consumer price still had to be increased, he said

BUSINESS

153

Survey: salaries on a downward trend

DISPATCH 22/4/86

JOHANNESBURG — Salary increases for South Africans of all race groups are still on a downward trend and continue to lag behind the inflation rate

Figures published by the remuneration division of P-E Corporate Services in their April salary survey, show that the overall movement in basic salaries for all race groups from July 1985 to March 1986 was only 5,6 per cent while the movement in the Consumer Price Index from July last year to January 31 this year was 10,7 per cent

"The economic recession continues to mitigate against companies awarding high increases," said Miss Jane Ashburner, manager of the division. She added that whereas in the past the CPI was used as the primary measure to determine increases, this was no longer the case

"Forces of circumstance have dictated that companies' financial results be the only determinant of salary increases

"From the employee's point of view," Miss Ashburner said, "high inflation has made a mockery of most increases received over the past year as they don't come near the inflation rate In real terms, employees are worse off than they were five years ago due to the massive decline in the purchasing power of the rand in this country"

The survey, which uses data provided from more than 1 000 organisations employing 1 200 000 staff of all race groups, shows that whites have once again received the lowest increase at 5,3 per cent against the average 5,6 per cent

For the period January to December 1985, whites received a 9,9 per cent average increase against an average increase for all race groups of 10,8 per cent

Asians received the highest average increase at 7,0 per cent, blacks at 6,6 per cent and coloureds at 5,6 per cent Although all three groups received higher increases than whites, they too come in significantly below the inflation rate

For the five-year period from July 1981 to March 1986, the cumulative increase of 63,8 per cent awarded to whites lags behind both the cumulative CPI at 86,9 per cent and the cumulative increase awarded to blacks at 82,7 per cent For this period, whites are thus lagging behind the cumulative CPI by 23,1 per cent while blacks are lagging by only 4,2 per cent

In terms of salaries, cumulative increases for whites are lagging 18,9 per cent behind that for blacks for the past five year period The cumulative increase for Asians is 81,8 per cent and for coloureds 72,0 per cent However, Miss Ashburner pointed out that the higher percentage increases granted to blacks could be misleading as the increases awarded are invariably on lower average salaries and wages

"A 20 per cent increase on R300 a month will put an extra R60 in a man's back pocket while a 20 per cent increase on an average white salary of R1 200 is an increase of R240," she said, adding that the wage gap will realistically be closed only once non-whites move into better paid, higher skilled jobs and this is the direction in which companies' efforts should lie

Among whites, highest increases went to sales and marketing staff who received a 7,4 per cent increase against the average 5,3 per cent "This is encouraging as this category has received low increases over the past two years when companies were consolidating under the onslaught of the prolonged recession," said Miss Ashburner "The accent is once again moving towards capturing market share and pressure is being placed on sales and marketing staff to do this They are being compensated accordingly," she said

Lowest increases went to general administration staff at 3,5 per cent and it is interesting to note that data processing staff are also low down the ladder at 4,6 per cent "DP staff have received high increases over the past few years largely due to the continued shortage of qualified staff in an industry that is growing at a rapid rate The recession, however, has forced companies to bring them more in line with the general market rates," said Miss Ashburner For the period January to December last year, DP staff received the highest increase at 13,2 per cent against the average 9,9 per cent

Increases granted in the manufacturing and construction industries are also low with operations and management categories receiving an average 4,1 per cent increase These industries have been hard hit by the recession and the increases continue to reflect this

Among blacks, the highest increases went to clerical and secretarial staff at 7,8 per cent and this was also true for coloureds where this category received an average increase of 7,2 per cent "The past few years have seen an increasing number of non-whites moving into these positions and they are being compensated in line with their increased responsibilities," said Miss Ashburner

Employees are unlikely to find improvements this year Among the companies surveyed, 71 per cent are predicting increases for the year of between 7,5 per cent and 12,5 per cent

"Double-digit inflation will remain for some time to come and although it is almost certain to move down from its present high (February was 18,05 per cent), I predict that it won't come down much lower than 16 per cent for the year," said Miss Ashburner "This, combined with the fact that company profits will continue to be adversely affected by the prolonged recession, almost certainly means that increases will continue to lag inflation in the short term

"South Africans must thus accept that they are going to have to live with low increases for some time to come, which will obviously have a negative effect on general standards of living," she said — Sapa

Employees worse off than five years ago

21/4/86 (153) Mercury

JOHANNESBURG-—Salary increases for South Africans of all race groups are still on a downward trend and continue to lag behind the inflation rate.

Figures published by the remuneration division of P-E Corporate Services in their April salary survey, show that the overall movement in basic salaries for all race groups from July 1985 to March 1986 was only 5,6 percent while the movement in the Consumer Price Index from July last year to January 31 this year was 10,7 percent (The CPI figure for March has not yet been released, making an eight-month comparison impossible at this stage)

'The economic recession continues to mitigate against companies awarding high increases,' said Miss Jane Ashburner, manager of the division

She added that whereas in the past the CPI was used as the primary measure to determine increases, this was no longer the case

'Forces of circumstance have dictated that companies' financial results be the only determinant of salary increases

Mockery

'From the employee's point of view,' she said, 'high inflation has made a mockery of most increases received over the past year as they don't come near the inflation rate.

'In real terms, employees are worse off than they were five years ago due to the massive decline in the purchasing power of the rand in this country.'

The survey, which is the most comprehensive undertaken in the country with data provided from more than 1 000 organisations employing 1 200 000 staff of all race groups, shows that whites have once again received the lowest increase at 5,3 percent against the average 5,6 percent

For the period January to December 1985, whites received a 9,9 percent average increase against an average increase for all race groups of 10,8 percent.

Asians

Asians received the highest average increase at 7,0 percent, blacks at 6,6 percent and coloureds at 5,6 percent Although all three groups received higher increases than whites, they too come in significantly below the inflation rate. For the five-year period from July 1981 to March 1986, the cumulative increase of 63,8 percent awarded to whites lags behind both the cumulative CPI at 86,9 percent and the cumulative increase awarded to blacks at 82,7 percent. For this period, whites are thus lagging behind the cumulative CPI by 23,1 percent while blacks are only lagging by 4,2 percent In terms of salaries, cumulative increases for whites are lagging a massive 18,9 percent behind that for blacks for the past five-year period

The cumulative increase for Asians is 81,8 percent and for coloureds 72,0 percent.

Marketing

However, Miss Ashburner pointed out, the higher percentage increases granted to blacks could be misleading as the increases awarded are invariably on lower average salaries and wages.

'A 20 percent increase on R300 a month will put an extra R60 in a man's back pocket while a 20 percent increase on an average white salary of R1 200 is an increase of R240,' she said, adding that the wage gap will only realistically be closed once non-whites move into better-paid, higher-skilled jobs, and this is the direction in which companies' efforts should lie.

Among whites, highest increases went to sales and marketing staff, who received a 7,4 percent increase against the average 5,3 percent.

'This is encouraging as this category has received low increases over the past two years when companies were consolidating under the onslaught of the prolonged recession,' said Miss Ashburner

'The accent is once again moving towards capturing market share and pressure is being placed on sales and marketing staff to do this They are being compensated accordingly,' she said. Lowest increases went to general administration staff at 3,5 percent and it is interesting to note that data processing staff are also low down the ladder at 4,6 percent

Manufacturing

'DP staff have received high increases over the past few years largely due to the continued shortage of qualified staff in an industry that is growing at a rapid rate The recession, however, has forced companies to bring them more in line with the general market rates,' said Miss Ashburner.

For the period January to December last year, DP staff received the highest increase at 13,2 percent against the average 9,9 percent.

Increases granted in the manufacturing and construction industries are also low, with operations and management categories receiving an average 4,1 percent increase. These industries have been hard hit by the recession and the increases continue to reflect this.

Among blacks, the highest increases went to clerical and secretarial staff at 7,8 percent and this was also true for coloureds, where this category received an average increase of 7,2 percent.

'The past few years have seen an increasing number of non-whites moving into these positions and they are being compensated in line with their increased responsibilities,' said Miss Ashburner And if employees are looking to this year for any improvements, they can forget it.

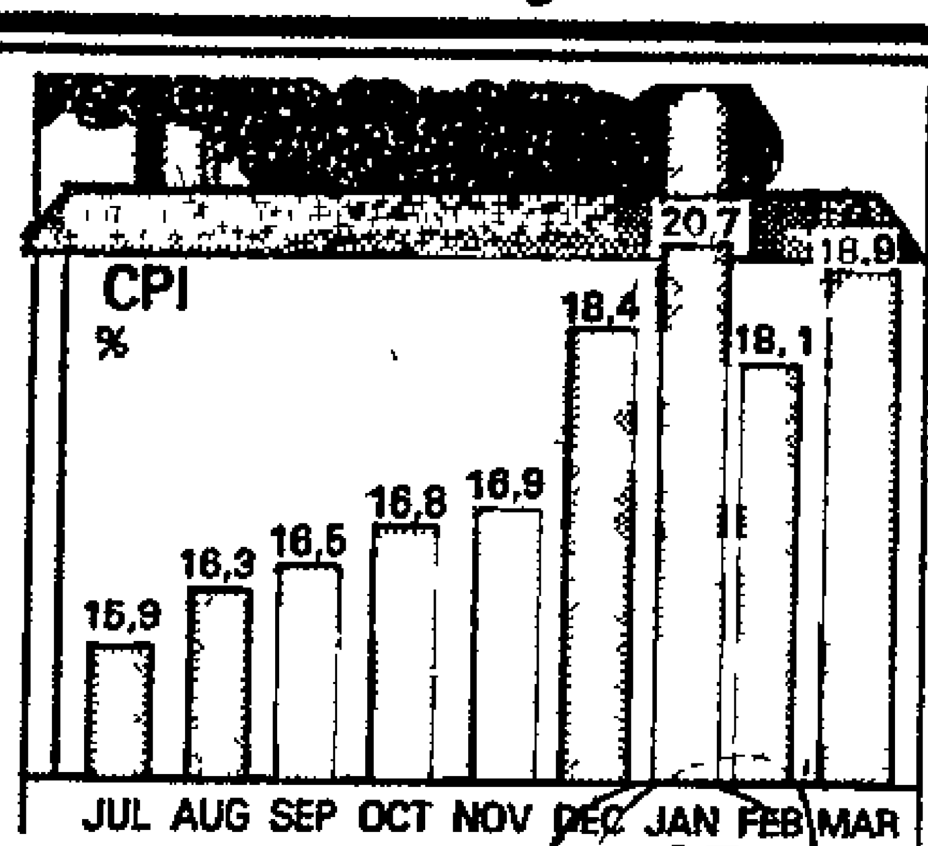
Among the companies surveyed, 71 percent are predicting increases for the year of between 7,5 percent and 12,5 percent.

Standards

'Double-digit inflation will remain for some time to come and although it is almost certain to move down from its present high (February was 18,05 percent), I predict that it won't come down much lower than 16 percent for the year,' said Miss Ashburner 'This, combined with the fact that company profits will continue to be adversely affected by the prolonged recession, almost certainly means that increases will continue to lag behind inflation in the short term

'South Africans must thus accept that they are going to have to live with low increases for some time to come, which will obviously have a negative effect on general standards of living,' she said. — (Sapa)

● See Page 6



Inflation rate up at 18,19%

BUDAY 22/4/88

153

JOHN TILSTON
Economics Editor

THE INFLATION rate increased to 18,9% in March, following its decline in February to 18,05% from January's record 20,7%

The high rate continues to act as a drag on economic recovery.

Capital market rates, the most immediately sensitive to the rate of inflation, firmed only slightly on news of the higher Consumer Price Index. The bellweather RSA 13% 2005 closed at 17,35% after trading down to 17,25% earlier.

The CPI gained 1,16% in March (an annual rate of just over 14%.) While that is encouragingly lower than the year-on-year increase of 18,9%, it is higher than the February monthly increase of 0,93%.

For the first time in over 12 months the food section index of the CPI was unchanged. It was largely food price increases that pushed January's inflation rate to 20,7%.

Old Mutual economist Rob Lee said the increase was as expected because of the small monthly increase in March last year, which effectively assured a higher March '88 rate.

The lower-income group index rose a year-on-year 18,12% in March, the middle-income group index rose 18,72% and the higher-income group index, 19,16%.

Bus Day

Another 8% rise in TV set prices looms

CHERILYN IRETON

153

THE price of domestic appliances and television sets is set to rise again.

Manufacturers warned yesterday that unless the dollar/yen cross rate improved these goods would go up by at least 8% in mid-year.

"Manufacturers are running about 8% behind on material costs and a mid-year price adjustment is expected," said Barlows manufacturing director Peter Dupin.

The retail price of a 51cm colour television set, which sold for R1 699 six months ago and was now selling for R1 799, was expected to sell at R1 999 by July, according to manufacturer Tek.

Tek MD Mike Bosworth criticised the share of costs he said were commandeered by government.

"Its take in white and brown goods is extremely high and has the effect of pushing up prices even more. Taking an exchange rate of $0,50, government's share of a set retailing at R1 799 is R543," he said

Bosworth said the favourable rand/dollar exchange rate was countered by the rand/dollar/yen cross rate, which was not likely to improve in the foreseeable future

Govt accused of misleading over maize

25/4/91 BUS DAY 153

GERALD REILLY

THE Federated Chamber of Industries (FCI) has accused government of misleading consumers on the actual extent of the maize price increase.

Minister of Agriculture Greyling Wentzel announced this week that the white maize price would be raised by 13,9% and yellow maize by 9,7%.

But FCI agricultural sub-committee chairman L K Japhet told *Business Day* yesterday the actual increase to millers and feed manufacturers would be 25,1%.

These higher costs would be passed on to end-users.

Japhet said the Minister's announcement ignored the fact that from June there would be a monthly price rise of R5/ton.

"Effectively, therefore, until the end of the season next April, there will be an additional increase of R27,50/ton on both types of maize."

The main cause of the big increase, Japhet claimed, was that maize was still marketed through a fixed price mechanism that threw surplus losses and carrying costs on to consumers.

The SA Poultry Association and the Animal Feed Manufacturers' Association (Afma) are also angry at the misleading information about the maize price.

After a meeting in Johannesburg yesterday, Afma's Roger du Toit said the dramatic real increase would impact heavily on production costs and pricing of poultry and poultry products, including eggs.

AIRLINE MOVEMENTS

Friday Air Schedule

Johannesburg to Cape Town

Dep
0100
0710
0730
0930
1145
1250
1430
1600
1630
1750
1800
1805

Arr
0305
1040
0935
1135
1350
1455
1635
1805
1830
2140
2005
2135

Flight
SA397
SA301
SA303
SA307
SA311
SA343
SA325
SA329
SA337
SA349
SA333

1725
1800
1930
2345

2040
1855
2125
0140

Johannesburg to Durban

0145
0245
SA595

SA346
SA326
SA330
SA398

0850
1000
1145
1300
1600
1735
2040

0950
1100
1245
1400
1700
1835
2140

SA506
SA512
SA516
SA518
SA522
SA524

Port Elizabeth to Joh

0140
0800
0900
1150
1415

0310
0930
1115
1320

(153) FIN MAIL 25/4/86.

FACE TO FACE

TREURNICHT DU TOIT

Behind the inflation statistics

Treurnicht du Toit is head of Central Statistical Services (CSS).

***FM:* Can you explain the reason why you introduced an embargo on the CPI recently?**

Du Toit: It is amazing how many people are suddenly interested in the consumer price index (CPI) and even the production price index (PPI) Many calls are received from brokers, lawyers and journalists on the day of the CPI's release, so we thought it better to embargo the figure

Why do so many doubt the accuracy of the CPI?

The main doubts are based on the weights and price information It can be proved statistically that even substantial weight differences have little impact on overall CPI. On price information, our sample of 600 items is much larger than other countries In the US and UK, for example, only 400 and 350 items respectively are monitored It must be remembered that the all-income group index — generally accepted as the inflation rate — measures the change in prices of goods and services for an average household and can thus not be rigorously applied to a particular individual or group.

Independent studies, such as those by Old Mutual and Volkskas, demonstrate that CPI reflects price changes accurately

Is there any political pressure to adjust the CPI?

None CSS releases all figures independently and without the knowledge of any other party. I suppose I might notice an alarming figure and feel I should inform the minister — but this has never happened, not even when CPI went to 20,7%.

How does the CPI take discounts into account?

Because actual net selling prices are filled in on the questionnaire, discounts are taken into account. Prices are not indicated or quoted prices, but actual selling prices Furthermore, discounts are generally negotiated on a regular basis, which means only substantial changes should significantly alter CPI

What other categories are included in the CPI?

The CPI is published according to three income groups (less than R7 000, R7 000-R21 000 and over R21 000), 12 regions and over 40 product groups. The lower-income group naturally spends relatively more on basic needs and weights are adjusted accordingly For example, 60% of their total expenditure goes on food, clothing, footwear, rent and public transport Middle and higher income groups spend 47% and 31% on these items.

Regional indices, of which the Witwatersrand has a weight of 41, do not reflect whether it is more expensive in one area, but indicate price changes in each area and enable a comparison of these since the base year

Yet the index is almost the same for these income groups. Does this indicate the indices are not weighted properly?

Price changes over the past five years were similar for each group

Why is direct tax excluded from the CPI?

The amount of tax paid is not connected to services used by the average household. Pension contributions and capital expenditure (such as housing loan capital repayments) are also excluded, but GST and other indirect taxes are included

Are all prices collected monthly?

We try to stagger them Grocery, fresh meat and fish, vegetables and fruit, milk, wood and coal, clothing and footwear are collected monthly These change most often Rent and domestic wages do not change that often, so are collected annually All other categories are collected quarterly For instance, cigarette and alcohol prices are collected quarterly from January, new car prices and petrol quarterly from February, and textile and furniture prices quarterly from March

How are respondents chosen?

From a survey every 10 years However, if big stores open we include them as they account for large trade and are thus important to CPI If shops "die," they are replaced It is, thus, flexible

How are the basket and the various weights of goods and services established?

On the basis of an expenditure pattern in a 1975 survey This is being revised following a survey last October-November of 5 200 white households in the 12 main metropolitan areas. A survey of other population groups (also about 5 200 households) is being undertaken by the Bureau of Market Research New weights should be introduced later this year The cost is around R500 000, so we cannot conduct a survey that regularly. However, we will revise weights every five years, instead of every 10, as in the past

AY, Friday, April 25 1986

155

Consumer confidence at a low level

Real retail sales may drop again

JOHN TILSTON
Economics Editor

INFLATION-ADJUSTED retail sales are expected to decline for the fourth consecutive month in April, highlighting the disappointing performance of the economy.

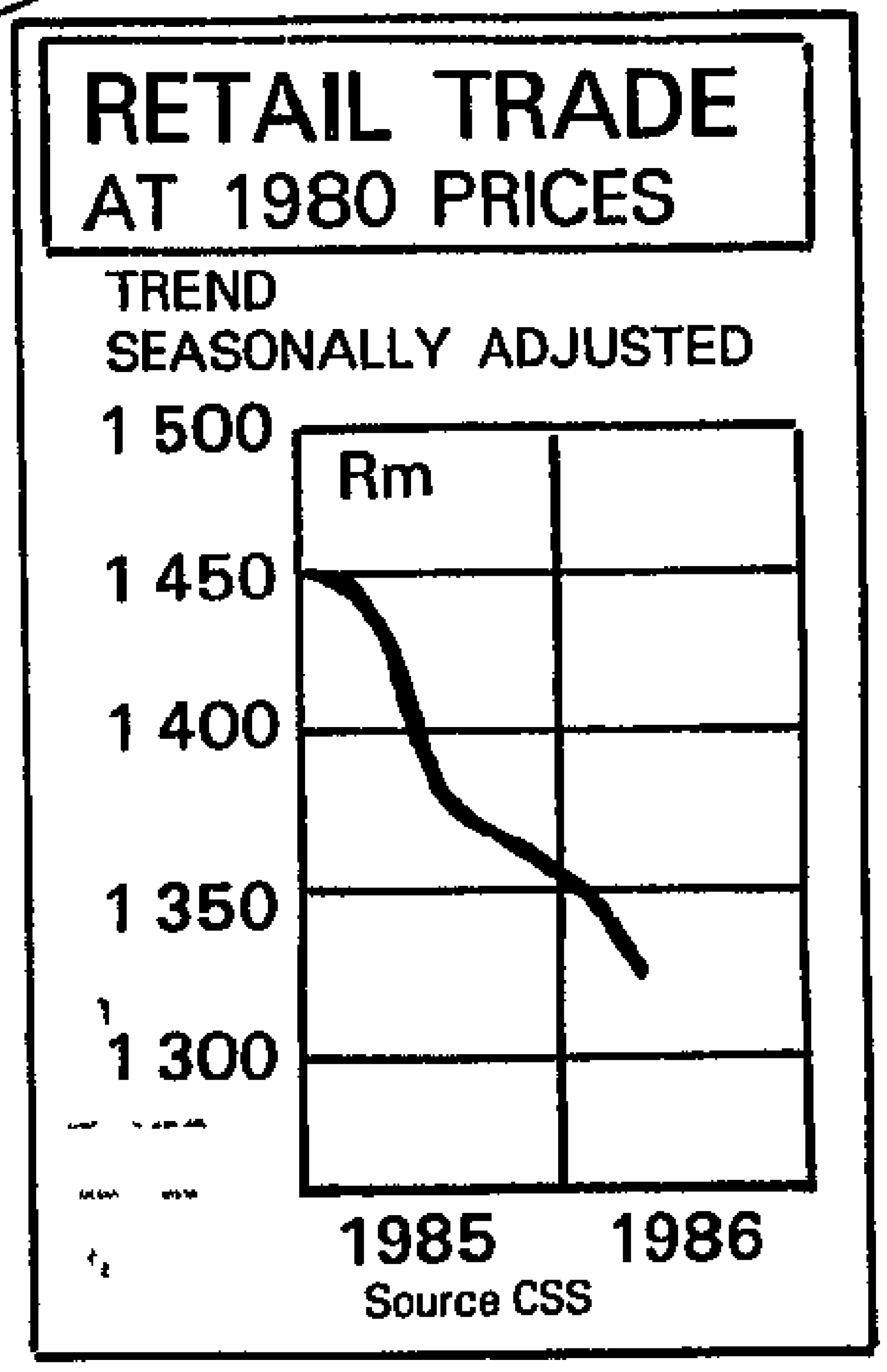
The optimism of the first two months of the year that rode on the back of the strengthening rand, apparently successful foreign debt talks and moderately promising political developments, appears to be dwindling rapidly. While it appears common cause that the economy bottomed in the final quarter of last year, it seems the economy is now moving sideways.

The expected real (ie inflation-adjusted) retail sales for April show a seasonally-adjusted decline of 2,6% compared with March and a 7,5% decline from the depressed sales of last April. Consumer spending must ultimately play its part in any meaningful upswing in the economy.

Southern Life economist Mike Daly says consumer confidence is still at a low level — lower than at the start of the economic recovery in 1978.

Factors making consumers loath to spend money include inflation at record levels, a collapsed exchange rate (compared to 1978) which has raised import prices to prohibitive levels (see car prices as an example) and political uncertainty.

In his latest *Economic Comment*



Daly says that unless there is a significant increase in the gold price, an anaemic economic recovery lies ahead.

pril 26 1986

news

Retailers and consumers join protest

26/4/86 · SMK

Growing anger at increase in price of maize

153

By Jackie Unwin

There is growing anger at the maize price increase — estimated by millers to be 25 percent by later this year — and what is claimed to be a Government cover-up to hide the extent of the increase

Mrs Ellen Kuzwayo, president of the Black Consumer Association, says a 25 percent increase in the maize price could result in death for many unemployed people

But a spokesman for the Department of Agriculture denied the Minister's announcement was misleading

He said the Minister of Agriculture had clearly stated on April 22 that the selling price of white maize by the Maize Board would increase by 13,9 percent and yellow maize by 9,7 percent the following day, and prices would increase by R5 a ton on a monthly basis to partially make provision for handling and storage costs.

"The eventual price increase for maize buyers will therefore depend on the time of purchase and quantity kept in storage

"A similar system has been successfully applied in the marketing of wheat for many years

"It must also be borne in mind that the prices of maize products are not controlled and consumers should shop around"

The Housewives' League has appealed to the Government to reconsider the price increase, although it supports the increase to the producer

The Federated Chamber of Industries, the South African Poultry Association and the Animal Feed Manufacturers' Association and major retailers have deplored the magnitude of the maize price increase and the "misleading way this has been conveyed to the public"

Cover-up claim

A Press statement issued jointly by the South African Poultry Association and the Animal Feed Manufacturers' Association states

"It appears as if a new system was used to cover up the real size of the increase"

Chairman of the FCI subcommittee on agriculture, Mr Lance Japhet, said the actual increased cost to the miller and feed manufacturer will be more than 25 percent

These costs would have to be passed on to the end user

He said the Government's announcement this week that the consumer price of white maize has been increased by 13,9 percent and yellow maize by 9,7 percent ignored the fact that from June 1 there would be a monthly price increase of R5 per ton

"As maize is a basic commodity in the diet of both man and beast, the substantial cost increases will have both a direct and spiral effect on the already unacceptably high consumer price index and in areas where they can be least afforded"

The SA Poultry Association and the Animal Feed Manufacturers' Association statement also said

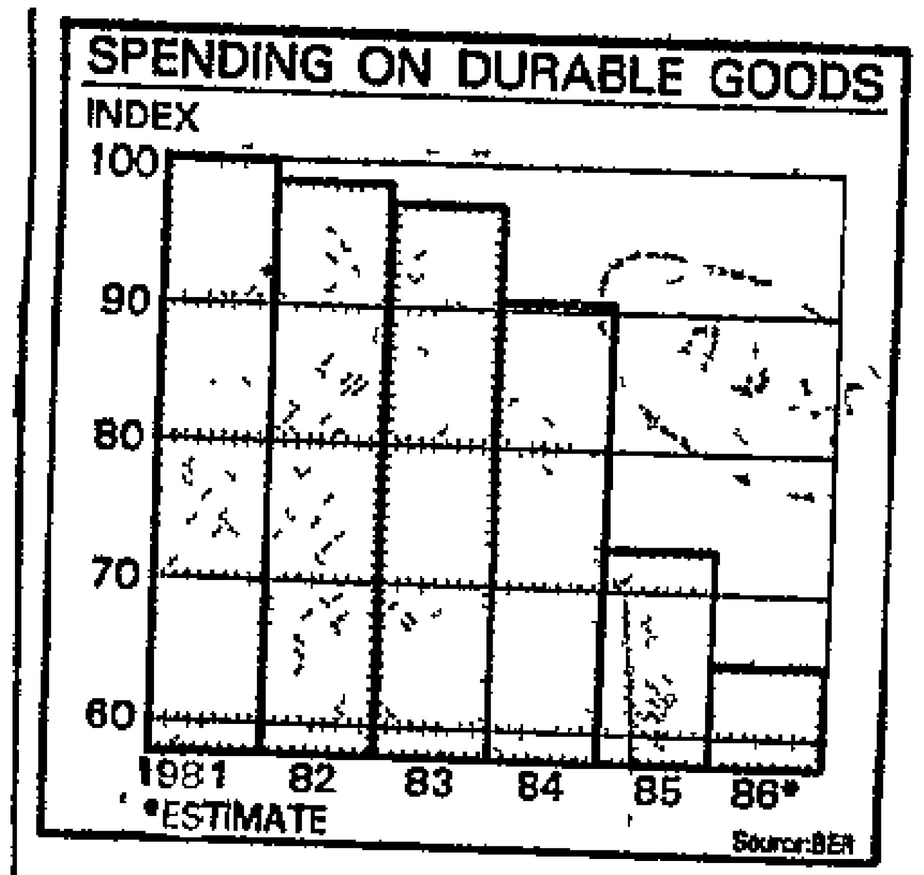
"The producer price was increased from R214,65 to R225,27 per ton The difference between the producer price and the consumer price is, therefore, R41 per ton

"This will be used to offset losses incurred in the export of surplus maize and the export of surplus maize and the consumers must now pay for this as opposed to the previous system where the producers carried this cost

BUSINESS DAY, Tuesday, April 29 1986

153

No short-term upturn in sight, says BER



JOHN TILSTON

SOUTH AFRICANS will remain under economic siege this year, says the latest issue of *Economic Prospects* of the Bureau for Economic Research (BER)

Its author, Ockie Stuart of the University of Stellenbosch, expects consumers to come under pressure from declines in real wages and higher tax rates in July when higher levels of perks tax take effect. Private consumer spending will drop by 1% from last year's depressed level.

Real spending on durable items is projected to show its sixth consecutive annual fall and be at the level of such spending in the late seventies It should fall 9,4% this year. Last year it fell 19,5%.

Spending on semi-durables should again be affected by boycotts,

Savings will fall, reflecting the difficulty many consumers are having in making ends meet.

The personal savings ratio (personal savings as a percentage of disposable income) should fall to 3,7% in the last quarter from the first quarter's 6,9%.

Fixed investment should continue in the doldrums.

It has fallen continuously since 1982 at an annual average rate of 4%. This year it is likely to decline by 7,0%.

Not even the public sector will boost investment. On average, capital formation is expected to decline by 4%. Major cutbacks by public corporations will result in a fall of 14% in fixed investment.

Much of the private sector, heavily dependent on state spending, will, therefore, feel the pinch.

Milk price set to rise 3c

30/4/88

BUS DAY.

153

GERALD REILLY

THE Cabinet is expected to approve an increase of about three cents a litre in the producer price of fresh milk from the beginning of June, according to Pretoria sources.

The producers' last increase, granted in June last year, amounted to between 3,2c and 3,5c a litre.

Half a cent, however, was levied to help meet the costs of "surplus removal".

Industrial milk producers' last increase was in December last year — 4,3% or R1,42 for 100kg

SA Agricultural Union (SAAU) national dairy committee deputy chairman Christie Burgers said yesterday that production costs in the industry had "gone through the roof".

There were few if any dairy farmers operating at a profit, he said.

Many were registering big losses.

However, when the price was fixed cognisance had to be taken of the effect of an increase on consumption.

Agricultural economists agreed that the price of milk and milk products had reached a sensitive level where even a slight price increase could have a significant effect on consumption.

They said that when the new price was determined, the huge surplus of butter — estimated at between 6 000 and 8 000 tons — would have to be taken into account.

Recommendations on how to reduce the surplus, among them big price reductions, are now with the National Marketing Council.

Milk price increase in the pipeline

STAR 30/4/86 DAIRY 153 324

A price increase in the producer price of fresh milk is in the offing but has not yet been approved by the Minister of Agriculture

A spokesman for the Department of Agriculture said the Dairy Board has asked for an increase in the price of milk and the request is still being considered by the National Marketing Council. He could not say what the increase would be

The last increase in the producers' price was in June last year of between 3,2c/l and 3,5c/l

Many ratepayers just can't pay

EP Post

Post Reporter

OUTSTANDING rates and services accounts with the Port Elizabeth municipality are increasing at such a rate that the City Treasury might have to take on additional staff to deal with the workload

The was disclosed yesterday by a treasury official who said it was clear from the number of summonses issued for outstanding rates that both individuals and businesses were battling to make ends meet

In the four months from December to March a total of 2 491 summonses were issued for outstanding rates.

What was significant was that the summonses were not only being issued to people who paid their rates annually in a lump sum but also to people who paid their rates on a monthly basis

It was clear that people were stretching out their payments as much as possible

Whereas in the past people who fell into arrears usually paid up as soon as they received a final notice — which was issued when monthly rates instalments were three months in arrears — they now stretched it out until they were summonsed

He said that people should avoid allowing matters to get to court because once judgment was obtained against them it affected their credit rating and might prevent them from gaining credit from a bank at a later stage

Another symptom of the dire financial straits in which people were finding themselves was the increase in the number of liquidation cases in which the municipality was one of the creditors.

This had stood at 110 cases in December and had risen to 280 this month

The municipality was also experiencing a lot of problems with people who failed to pay their water and electricity accounts.

"However, with them we have a lever because we can cut off the supply and mostly people do find the money to settle the bill"

The problem with a disconnection was that, apart from the reconnnection fee, people who might have paid their original deposits some years ago would find themselves having to pay substantial new deposits because these had to be twice the average monthly consumption

FIN MAIL 2/5/86.

153

GROWTH RATE

Little to cheer

If GDP rises around 3% in 1986, South Africans should content themselves with only a subdued cheer A sluggish 1,9% average growth rate between 1980 and 1985 — including gold booms — does not presage a scintillating performance in the near future

All last year's bugbears are still with us — if not to a greater degree. High inflation, rising tax burdens, weak rand, socio-political upheaval, capital outflows, lack of investment spending, a bloated State sector, and weak confidence are hardly conducive to growth and wealth creation

At constant 1980 prices GDP dropped 3,3% last year to R1 946 per capita, virtually the same as in 1972 and 8,5% lower than in 1981 Real gross domestic spending fell 7,8% Only a rise in export volumes of 8,3% and a fall of 14,4% in import volumes prevented an even worse performance

Senbank points out that "poor performance is directly related to a redistribution of resources in favour of low-growth alternatives " A low rate of capital formation has impacted on the real fixed capital stock — which grew only 2,5% in 1985

Scepticism abounds whether the slight "expansionary" measures announced in the Budget will alleviate stagnation Louis Geldenhuys, of stockbroker George Huysamer & Partners, says "The Budget won't do the trick We are faced with a Catch-22 on growth."

Geldenhuys cites two immediate stumbling blocks lack of confidence and lack of consumer spending capacity

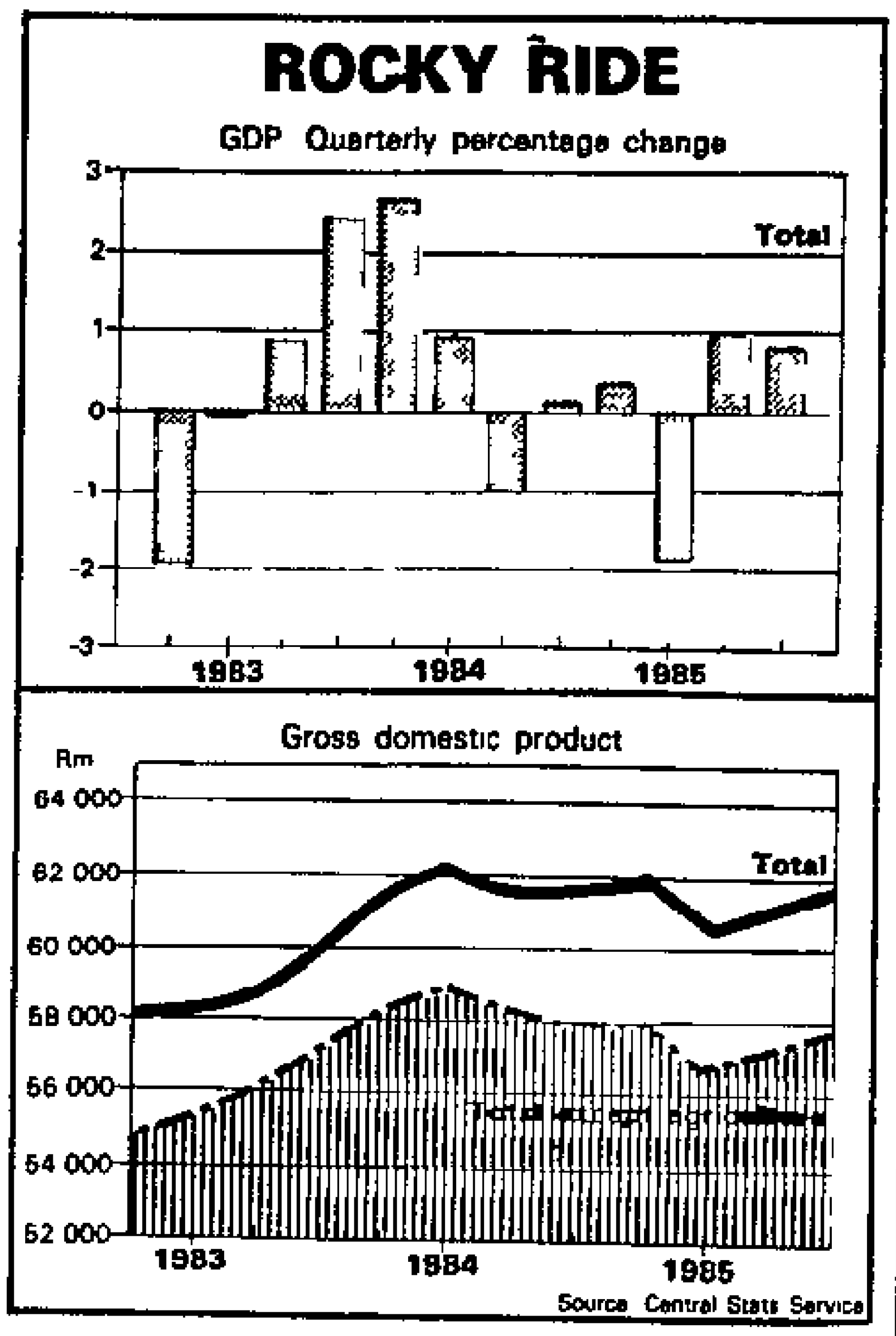
Economists naturally disagree as to the remedial strategy

Standard Bank's economists take the line that "to embark upon a growth phase with an inflation rate near 20% would be courting disaster It is necessary that monetary policy be tightened sooner rather than later If the present monetary stance were to be maintained, it would be conducive to too rapid a growth in credit and aggregate demand "

Resort to another round of the stop-go disease can only exacerbate the problem Andre Hamersma, the bank's group economist, suggests a gradualist approach, with a prerequisite of interest rates 2%-4% *above* the inflation rate In common with others, he believes politics is the key

Geldenhuys is more of the interventionist school He believes government should adopt a reflationary monetary and fiscal policy as a catalyst for greater capital expenditure "Tax cuts only benefit the least disadvantaged members of society."

But with real fixed investment having declined steadily since 1981 (it fell 2,1% in 1985), a substantial backlog has to be made up before the capital bedrock can sustain a recovery. There is also worrying evidence that because of low new investment in export capacity since 1980, SA can expect little boost from this quarter



A minimum of 5% real GDP growth is needed to support the growth in working population Indeed, 6m new jobs will have to be found by the year 2000, according to Gavin Relly, chairman of Anglo American With unutilised capacity in manufacturing running at 16% there's little chance of growth in employment there, either

With the infant recovery so fragile, based mainly on psychological factors stemming from budget measures, the risk of it being aborted is high ■

PRIVATISATION FIN MAIL 2/5/86

Timber!

Pretoria's recent decision to dispose of its timber interests signals this year's first major step to economic freedom What were words for so long have become deeds The timber decision, ironically, is the result of an investigation instituted by former PM and State President John Vorster

The next moves? According to insiders these will be made in August by proclamation in terms of State President P W Botha's recently announced executive deregulation powers

Observers, hinging their comments on what is "politically achievable," expect early proclamations to be on minimum standards conditions of employment and building regulations Another likely early area is licensing — where encouraging steps have already been taken in the liquor trade

The first moves on Zebras (Zero Based Regulation Areas) could also be made. And transport — on a policy level — is set for deregulation over the next year Another "obvious" area for privatisation is municipal transport

Two international privatisation experts have arrived to present conferences hosted by the Soweto Chamber of Commerce and

Says At Engelbrecht, chief economist at Volkskas "Uncertainty is very much in the limelight. The political situation and continuing unrest are clearly sticking points for the economy"

Engelbrecht believes that because of this only government is in a position to get the economy off the ground "Our problem is a lack of final demand With hindsight, I would have liked a larger deficit in the March Budget, with higher government spending to help generate demand"

He says if economic activity goes down then the deficit would go up anyway, so why not have more deficit first and try to boost the economy meanwhile? This must go hand in hand with stability. "But how do you handle unrest and so forth in such a way as to defuse uncertainty in the short term?"

It's an open question What is clear, as he points out, is that SA must avoid the "vicious circle" of depreciating currency and increasing inflation

Rob Lee, chief economist of Old Mutual, has warned in the latest *Economic Monitor* that SA could be on the brink of hyperinflation

Generally he takes a more optimistic view, in contrast to the Bureau for Economic Research (see Box) But some of his comparisons with countries that have trod the path toward hyperinflation hold a familiar ring Hyperinflation has tended to happen in countries with

- ☐ Small and open economies where "significant deterioration in the BoP outlook reduces scope for non-inflationary growth,"
- ☐ Increased foreign debt commitments The average inflation rate of some Latin American countries, for instance, leapt to 245% a year after the 1982 debt crisis, when they were required to repay some of their previous massive capital inflows;
- ☐ An export profile dominated by commodities, where "wide fluctuations in export prices can be very disruptive,"
- ☐ A "depreciating currency is the likely outcome," raising the possibility of a vicious circle of depreciation and inflation egged on by indexation, and
- ☐ Severe pressure on government finances, particularly when associated with persistent underestimates of future demands on spending Fearing unpopular tax hikes, such governments are tempted to monetise the resulting budget deficit

Lee also points out that SA did not share the disinflation trend of the industrialised world in recent years "Our inflation rate is four times higher than the average for the seven major Western economies

"The eventual inflation outcome will obviously be determined by the policies followed by the authorities," says Lee

Probably the key warning signal to hyperinflation would be the start of indexation Lee says the danger comes as inflation tends to discourage monetary savings A typical scenario would be. indexation of certain savings instruments to maintain sufficient cash flows to finance government, then broader-based "official indexation," followed by skyrocketing interest payments, rapid increases in government spending, finally, the budget deficit is monetised

So far, indexation in SA has reached no further than the informal level, mainly in wage bargaining But SA does have some of the ingredients: it is an open economy, has a weak currency, relies heavily on commodity exports — especially gold — and has large foreign debt commitments Government consistently underestimates its spending demands Also, if the economy does pick up, our BoP surplus could disappear.

But what really concerns Engelbrecht is "that every time we move into an upswing, we also move into an upswing in CPI" ■

21/5/86

INFLATION 153

Fate worse than. . .?

The faltering economic upswing may frustrate businessmen, but patience may be the only chance of avoiding hyperinflation Already danger signs are there

It was around mid-1985 that the inflation rate rose out of the 10%-16% range where it had remained since 1970 Significantly, it was the time of the State of Emergency, the Rubicon speech and the temporary closing of financial markets Political instability had moved into higher gear — and so had inflation

Now hovering around 20%, if nothing else it has made businessmen familiar with the term "hyperinflation" As if the political situation were not enough, hyperinflation could unhinge the most optimistic entrepreneur. So it is sad, but not surprising, that many businessmen and investors are sitting on the fence.

BER STAYS GLOOMY

The latest *Economic Prospects* of the Stellenbosch Bureau for Economic Research (BER) reiterates earlier messages of short-term doom and gloom.

Of prime concern is that SA will not attract net new foreign equity investment in 1986 On top of official sanctions and divestment, author Ockie Stuart warns of intensified informal sanctions by trade unions. Reform in itself will create uncertainty, thus perpetuating the lack of confidence

BER forecasts a current account surplus of 3,9% of GDP but a larger deficit on the services account Capital will continue to flow out but at a slower pace towards the final quarter To accommodate 3% GDP growth and stifle emerging demand inflation, BER sees the relatively high money supply targets as prudent.

For calendar 1986 an inflation rate of 17,5% is probable, but BER optimistically sees better use of productive capacity holding down unit price rises A rand appreciation is thought likely

Consumer spending will drop 1% on a depressed 1985. Spending on durables should fall 9,4% — it fell 19,5% in 1985. The savings ratio will also drop from 6,9% in the first quarter to 3,7% in the fourth, partly reflecting the forecast rise of 19,6% in indirect tax and 19,8% in direct tax

Following an average decline of 4% since 1982 in gross domestic fixed investment, a further decline of 7% is projected Capital formation is likely to fall 4% Parastatals will trim real fixed investment by 14,9% and the private sector by 5,2%, on average

GDP could rise 3,2% in 1986 after falling 1% in 1985, and GDE may rise 2,4%. This process will be helped by a real increase of 3% in export earnings, inventory replenishment, and a fall of 1,4% in import payments But this supply-side generated growth has limited ability to create jobs, and unemployment is expected to increase

Pick 'n Pay sit-in pay strike planned

STAR 7/5/87 153

About 8 000 members of the Commercial, Catering and Allied Workers' Union (Ccawusa) were expected to stage a sit-in strike today at 60 Pick 'n Pay concerns around the country after wage talks between the union and the company deadlocked yesterday

A Pick 'n Pay spokesman said today the group had received reports of work stoppages from stores, but that it was too early to gauge the extent of the strike Contingency plans had been made and would swing into action immediately.

Housewives had phoned to offer help School children, university students, casual employees and white monthly-paid staff would stand in for the strikers

Those expected to go on strike included packers, till operators, cleaners and warehouse staff

According to company estimates the strike is expected to affect 38 stores, warehouses and hypermarkets and will involve a maximum of 5 200 of its 13 100 black employees

The decision to stop work follows Pick 'n Pay's failure to meet Ccawusa's ultimatum to agree to a R90 a month across-the-board increase by yesterday afternoon Pick 'n Pay has offered the workers a monthly increase of R80, backdated to March 1, or a split rise of R60 from March with a further R30 in July

9/5/86

FIN MAIL 153

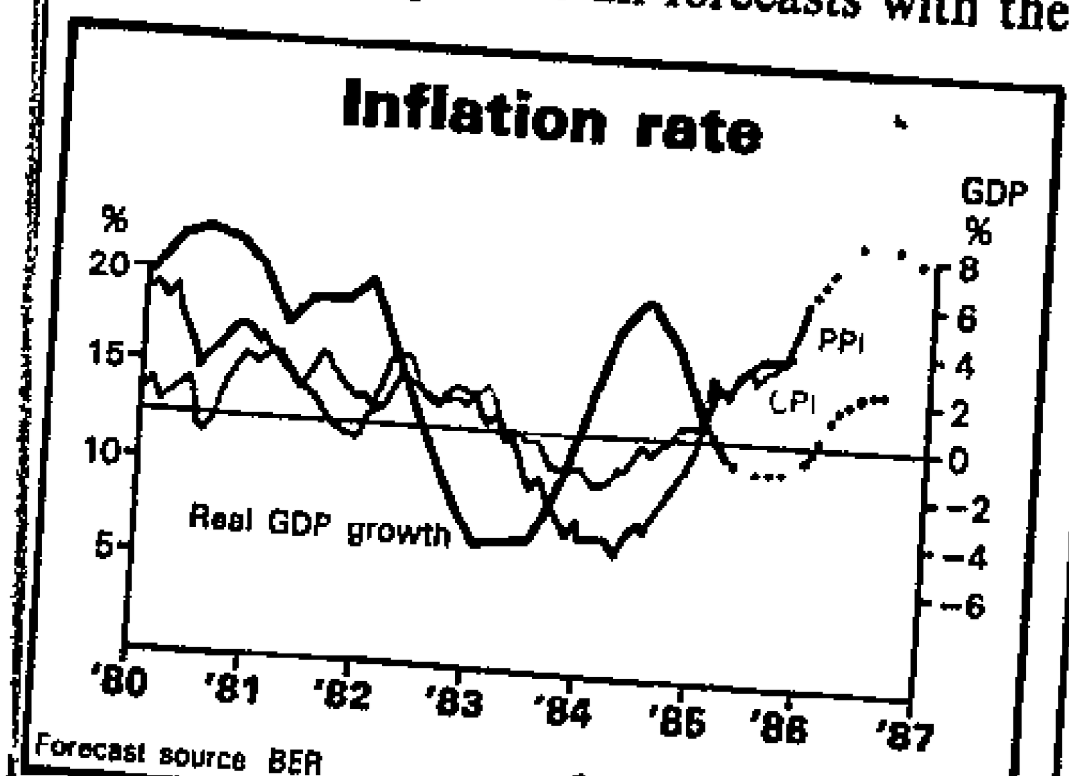
INFLATION AND THE RAND

Mirror, mirror . . .

The relationship between the rand and inflation has played a significant role in the economy and will continue to predominate for the coming year.

From the end of 1983 to the end of 1985 the exchange rate more than halved, mirrored by a doubling in the annual inflation rate The massive depreciation is clearly seen in the import component of the production price index (PPI), which accelerated from 3,5% in May 1984 to 32,7% in January 1986 Factors such as the surcharge on imports, administered price rises and food price increases have contributed to the most severe recession for 50 years

Economists preface all forecasts with the



Forecast source BER

Source FM Blue Ch...

proviso that stability of the rand is essential With the currency around US50c, inflationary pressures can be contained and could help restore confidence

Conversely, high inflation makes exports uncompetitive This will weaken the currency, leading to further cost-push pressure

Volkskas economist Adam Jacobs says that because of SA's "unique circumstances", emphasis must be placed on productivity to make South African goods competitive and justify a stronger currency "Equally important is price stability, since experience has shown that few developments repress growth as much and have as adverse an effect on the BoP as an inflation rate consistently higher than that of one's major trading partners "

Of relevance to this is the structure of SA's "big business" and uneconomic production runs in much of the manufacturing sector This, together with government stress on import substitution, has built an inflationary bias into the economy

The consensus forecast on the exchange rate is in the US45c-US50c range, with upside potential against sterling, the D-mark, and the yen However, with pessimism on the sustainability of higher growth, the rand could weaken during 1987

Ian MacFarlane of Nedbank says "I am pessimistic on the prospects for the rand, mainly because of the differential in SA's inflation rate with that of its trading partners Exporters are having to discount to remain competitive, so a lower exchange rate is likely in 1987 " MacFarlane believes we can look to an inflation rate in the 16%-17% range this year

A number of favourable factors will alleviate inflation, including high idle industrial capacity and low demand pressure, the fuel price effect, cost-push factors working their way out, and diminishing concern over foreign debt, which will give some support to the rand Observers also expect that long-term the dollar will continue to decline

"A critical factor is the gold price, to give some leeway on BoP," says Adam Jacobs "Any drop below $330/oz for long could be problematic for the rand and inflation, and pressurise the BoP "

The Reserve Bank has ruled out a pegged rand The new deal of prudent monetary and fiscal policy should be reflected in the rate of inflation and the rand during 1986

Of course, one must avoid the misconception that a rand appreciation is necessarily good and depreciation bad As Reserve Bank Governor Gerhard de Kock says "The basic consideration is that the exchange rate must at all times be realistic, and accepted as such by the markets "

Brian Kantor, of UCT, is optimistic on the outlook for the rand and inflation, as last year's supply-side shocks are unlikely to recur He sees an exchange rate of US50c for the year and an inflation rate of 15% at year-end, which he believes will fall to 10% or less in the first quarter of 1987

Rudolf Gouws, economist at Rand Merchant Bank, forecasts a slight rise in the rand, but with limited upward potential, and inflation at 15%-16% at year-end, falling to 14% or below by first-quarter 1987 Like other economists, he stresses the importance of exogenous factors in determining whether tentative forecasts are realised

But long term, most agree the rand is a declining currency Economists generally feel that the authorities have no more than tinkered with the economy's underlying problems Prices of primary commodities are going to deteriorate — a gloomy prognosis for the terms of trade As things stand, a "realistic" exchange rate — a maximum of 50c — is in SA's best interests, since this should boost exports and discourage demand for high-cost imports ■

Bread, fresh milk price rises on the cards

9/5/86 BUSDAY 153

GERALD REILLY

CONSUMERS can brace themselves for increases in the price of bread and fresh milk within the next few months.

A Dairy Board recommendation for a price rise for fresh-milk producers is now being processed by the national marketing council before being submitted to Agricultural Minister Greyling Wentzel.

An increase of at least 3c/l is expected to be approved by the cabinet food committee.

And the first move in what is certain to be a big bread price hike from October 1 will be taken early next month — a meeting between the Wheat Board and producers on the new wheat price.

The bread price was raised last October by 5c a loaf — white to 70c and brown 50c.

Wheat Board funds were used to avert a price rise from April 1 when the 1985/86 R220m subsidy ran out and the subsidy for the current financial year was cut by R70m to R150m.

The R150m will be exhausted by October and unless government agrees to further substantial subsidisation — an unlikely move according to sources — a bread price hike of as much as 10c a loaf is likely.

The Davin Commission last year recommended that the bread subsidy be abolished from October.

The price of wheat was raised by 8,7% last October.

Bomb blasts strike-bound Pick 'n Pay

By SINNAH KUNENE

STRIKE-RAVAGED Pick 'n Pay was hit by a bomb yesterday, which blew up part of its store near Sandton CTMP 11/5/86

The bomb exploded on two floors of a fire escape at Benmore Gardens shopping centre, which houses a branch of Pick 'n Pay

Four cars were damaged and three windows shattered by the blast, which went off at about 1 05 pm yesterday

The blast concided with a sit-in by over 140 Pick 'n Pay employees at the Benmore store, who heeded a Commercial Catering and Allied Workers' Union for national solidarity action over a wage dispute

Nobody was injured in the blast. However, a witness said a white woman was almost hit by flying glass.

The woman was treated for shock

"I was walking towards the building and I suddenly heard a loud bang and everything went dark," said the eyewitness

"I saw a dark cloud from the fire escape, which is used by people in the office block above the shopping centre."

153

Late yesterday afternoon, ballistic experts and police were still searching the area and it was rumoured that there was second bomb in the building

Police spokesman Lt Pierre Louw said they didn't know the cause of the explosion, or the make or origin of the bomb

He said "extensive damage" was done

● It is not known whether yesterday's blast had any connection with the Pick 'n Pay dispute.

A Pick 'n Pay employee said workers had sat-in inside the Benmore building, and those who were not on duty sat in the canteen He said it was a peaceful sit-in

About 8 000 workers at 60 Pick 'n Pay stores staged sit-ins throughout the country yesterday, threatening to go on strike for higher wages – demanding a R90 a month increase

● Although no-one has yet claimed responsibility for the blast, the African National Congress has – in the past – bombed companies involved in disputes with workers, including the Chamber of Mines

After 10 years, the Housewives' League has changed its leadership

12/5/86 STAR

153

By Jackie Unwin

The Housewives' League has come a long way from the time its members were described as "economic terrorists" and scorned as a bunch of women who spent hours discussing the price of toilet rolls

Now its opinions are respected and its voice powerful

After 10 years at the helm, Mrs Joy Hurwitz has handed over the presidency to Mrs Lyn Morris

Mrs Morris has been the League's national treasurer since 1977 and vice-president for eight years She intends combining the functions of president and treasurer until the end of the financial year

Mrs Morris said "We have been called names in the past I think that initially people were suspicious and wary of us because they didn't understand what consumerism was

"They felt threatened and reacted accordingly

"But over the years we have been particular to ensure that we have done our homework

Mrs Lyn Morris "Consumerism is an ongoing way of life."

When we talk to Government and business we have our facts behind us

"We have conducted lots of intensive investigations

"We have established for ourselves a reputation of knowing what we are talking about as well as of being fair

"Consumerism is ongoing and it is not always easy to show progress You achieve little bits which, when all added up, make a big picture

"People say we haven't brought prices down but it isn't our function to bring prices down It is the Government's function to cut our inflation

"We are here to highlight and make the responsible authorities aware of what we feel is a problem in the marketplace — and we keep trying until we get the problem solved "

She intends to visit all the League's branches to get to know members better and would like to recruit more younger women

"I know a lot of young women work and have hassles with children but I do feel the older members could pass on the benefit of their experience

"We need younger women They are our future "

Mrs Morris believes "all women work — the difference is some get paid for it"

She reads newspapers avidly and was encouraged to expand her interests by her late husband Malcolm, who signed her up as a League recruit

"He was keen to encourage me to do things and I made sure his home ran smoothly

"A woman has to have some interests or she becomes a cabbage I have always taken an interest in world affairs and feel it is very important to be up to date and know what is happening not only in one's country but in the rest of the world "

British-born Mrs Morris came to South Africa with her parents just before the war and later worked as a secretary in London, returning to work in Cape Town and Johannesburg before joining the British Colonial Service

She served in Nigeria then Swaziland, where she met her husband, who was also in the British Colonial Service.

They left Swaziland 13 years ago when Malcolm joined the British Embassy in Pretoria

Mrs Morris has three children and one grandson

She has always enjoyed immersing herself in the League's demanding work and the firm friendship of its members helped her withstand the shock of her husband's death three years ago.

Mrs Joy Hurwitz· "I enjoy a good battle."

The fight will still go on, vows Joy Hurwitz

By Jackie Unwin

Though Joy Hurwitz has retired as president of the Housewives' League after 10 years in office, she has no intention of hanging up her gloves — and certainly not in the current recession

She still enjoys a good battle and is willing to take on on anyone she believes is exploiting consumers

"I am tenacious and won't let the bone go When the battle starts it must continue The League's members are the same type of women — devoted to the cause of the South African consumer We have taken up the cudgels and fought at every level we could "

As immediate past-president and senior vice-president she will remain very active in the organisation

BUSINESSLIKE BASIS

"I will never leave the League It is part of my life, but I won't be so heavily involved," she said "I have devoted my life to consumerism — so much so that it became a full-time job I loved it and wouldn't have missed it for the world "

The first goal she set herself on becoming president was to put the League on a businesslike basis The sale of the League's first cookery book provided the capital to open a national office with paid employees to deal with the expanding work

"The League's strength comes from the backing of its members — the grassroots system which gives feedback and has been there since it started in 1935," she said

"When we started expanding, consumerism was a term that was looked down upon but the League's work has put consumerism on the map, though it has been an uphill battle

"Now most newspapers in the country have consumer reporters. Radio has helped considerably, though I cannot say the same of TV, which has done little on the consumer front "

FIRST CONSUMER-SUPPLIER CONFERENCE

Among the League's victories she rates

- Persuading Escom to reduce the surcharge put on electricity bills — many consumers are unaware this was ever done
- Ensuring the improvement in the quality of bread
- Calling the first consumer-supplier conference at which consumers, suppliers, manufacturers and retailers talked together for the first time about the compulsory price of all commodities
- A cheese and butter boycott in 1976, which achieved results
- The "quite remarkable" change in big business towards consumerism and recognition of the customer
- The standardisation of school uniforms, which was a direct result of a conference with the Minister of Education and manufacturers and retailers

Only now reaching fruition is its appeal against retail price maintenance and collusion with the banning of these practices and the investigation into control boards — "I hope the League was instrumental in bringing it about"

One of Mrs Hurwitz's most vivid and exciting memories was "speaking to the 3 000 irate farmers in Maritzburg who wanted to join hands with housewives to do something about the cost of their products"

But it isn't a total success story

She has failed to get a member of the League on a control board as a consumer representative or to get all food exempted from GST

But she's working on it

Two ways to beat inflation

12/5/86 153 STAR

This article attempts to illustrate two inflationary hedges available in the current market

Successive articles will discuss aspects of hedging other types of risk and a further article will discuss how these should be included in a portfolio

It should be noted that by definition a hedge implies that one is splitting the risk, such that if one "wins" on one investment it is almost certain that one will "lose" on the other

Therefore the purpose of a hedge is to provide a degree of certainty and to protect capital

During an inflationary time, that is, during a period of sustained increases in prices, it is preferable to be in a geared position, that is, become a debtor as opposed to a creditor

However in doing so one must ensure that assets purchased are likely to be more positively affected by inflation and that the assets acquired are liquid — they must be easily traded when necessary

At the moment the borrowing rate is less than the real rate after tax, that is, it is cheaper to borrow

So it is currently possible to achieve a positive real rate of return on an inflation-proof asset such as rental property with indexed escalation, particularly if one could obtain a fixed interest loan for a matching period.

You must however always ensure that you do

Investec Bank portfolio manager Ms JOY ADAMS continues her series on interest bearing instruments This article attempts to illustrate two anti-inflationary hedges available in the current market Previous articles have discussed aspects of hedging other types of risk

not enter a negative cash-flow situation in incurring liabilities

Now let us consider how inflation hedges are suited to the current situation Firstly one could borrow at a prime related rate of 13 percent

Let us examine this closely Specifically a property trust as opposed to property itself, is a better hedge against inflation for the following reasons

- Rentals typically escalate
- Property is generally a good hedge against inflation over a long-term period
- A property trust is liquid as it is traded on the JSE
- A property trust relieves one of the burden of administration and management of the trust and the property investment expertise required
- The property trust is in itself diversified in terms of location, nature of building and lessee.
- A property trust is closed in that the number of units cannot be increased without a rights issue This ensures that all units holders are treated equitably This is due to the strict legislative control

At present there is an aberration in the property market Replacement cost is currently significantly higher than market value but this should not endure given a stable to improving political environment

Continued population expansion pressures plus natural economic growth should arbitrage this out

Normally a completed property carries a premium and that premium relates to the certainty of seeing the building without having to incur the risk of the building process

To sum up, by borrowing funds to invest in a property trust one becomes a borrower of a debtor on the one hand, and has an inflation-hedged liquid asset on the other, both accepted inflation strategies.

In addition the cost of borrowing and the return on its investment in both before and after-tax terms and in cash flow terms is close to neutral, avoiding therefore the reverse yield or cash flow hiatus

The second inflationary hedge that is available in the market is to purchase assets which earn a certain return at the moment but which are convertable into an asset which performs well during inflationary times

An asset such as an optional convertible debenture would provide a reasonable income in the form of interest with the option to convert into an equity should the equity start to perform

This is the basis of some very succesful issues overseas where they alternate between interest and equities if various performance criteria have been met

This then gives one the opportunity of reaching a targeted debt level and of investing part of the portfolio in an asset which protects one from inflationary effects

Obviously a hedge should be looked at in terms of the whole portfolio Space does not permit discussing this, but if one already has an exposure in say property, one would not use a property trust as an inflationary hedge

SPAR 12/5/86

Our power's cheapest but ...

SA tops the list in electricity price increases

Electricity prices in South Africa showed a massive average increase of 19,7 percent for the year ended March 31, according to the latest survey conducted by the National Utility Services (NUS), the international energy and fuel consultants.

This increase was nearly four times higher than the next highest percentage of 5,3 in Sweden, which last year led the tables in percentage increases

Last year's 9 percent increase and this year's jump — predicted by NUS — stems directly from Escom's new financial planning

"Although Escom have little choice but to pass on their own increased costs, consumers should surely expect some stabilisation of tariff prices in order that they, in turn, can play their part in reducing the inflationary spiral," said Mr Peter Cornelius of NUS South Africa

Of the 12 Western countries included in the NUS survey, only five countries — South Africa, West Germany, Sweden, Britain and the US — had average increases

In the others, there was an actual reduction with the Netherlands taking the bouquet with a 22,5 percent reduction from 12,98 c to 10,06 c (US6,09c — 4,72c)

Despite the heavy increases, South Africa still maintained the lowest unweighted average of all the 12 countries The average of the four major cities, Cape Town, Durban, Johannesburg and Pretoria, at prices ruling on April 1, this year, was 5,81 c/kWh (US 2,73c)

The NUS survey, based on customer size of 1 000 kW and 450 000 kW per month, shows that Pretoria at 4,67 c is still the lowest non-hydro supplier in the world and is second only to Manitoba Hydro in Canada at 4,39 c Cape Town is the highest in South Africa at 7,73 c, with Durban second at 6,39 c — Sapa

Top firm warns of price hike on home appliances

A large distributor has warned the price of its domestic appliances and TV sets are to go up in June or July

Mr Mike Bosworth, managing director of Tek Electronics, said although the improvement of the rand has seen prices on certain goods drop it was a mistake to think they would drop further.

Prices rocketed last year as the rand fell dramatically against the dollar

Mr Bosworth said. "Prices have now stabilised and an increase can be expected in June or July on account of inflation which is running at an estimated 20 percent

"For example, the retail price of a Telefunken 51 cm TV set six months ago was R1 699 The same set now costs R1 799 and we expect it to go up to R1 999 in July

"Similarly, a Defy basic 419 stove was R799 six months ago. It now sells for R899 and will cost about R999 in three months' time"

He said the argument that a favourable rand-dollar exchange rate would bring down the prices was simplistic.

"It fails to take into consideration the adverse effect of the rand-dollar-yen cross-rate which is working against South Africa's interest and is not likely to improve soon. Nor does it take into account the inordinate amount of money collected by the Government on each item.

PANIC BUY

"The Government's take in white and brown goods is extremely high and has the effect of pushing up prices even more

"Taking a Telefunken 51 cm TV as an example and an exchange rate of 50c, the Government's share is R543 The set retails for R1 799, GST is R216, import duty on imported content R33, the 10 percent surcharge on imported content R40, and ad valorem duty R254

"Although the Government is to change the ground rules vis-a-vis the importation of white and brown goods at the end of the year, we question the wisdom of allowing wholesale imports which may be cheaper in price but which will offer the consumer no real service back-up and brand reliability"

Mr Fred Pearce, marketing manager (video) of SA Philips, said his firm did not envisage a price increase "just yet"

Retailer Mr Tony Factor said "Consumers must not panic buy. Over the last 18 months we have heard about tremendous price hikes for TV and video. They have gone up for five or six days and because of the lack of response prices were reduced again."

Pick 'n Pay strike ends in agreement with R85 increase

STAR 153 13/5/86

By Mike Siluma

The five-day sit-in strike by thousands of Pick 'n Pay employees has ended.

The strike, which cost the company at least R4 million in lost sales, ended today after agreement was reached in all-night talks between the company and the Commercial, Catering and Allied Workers' Union (CCAWUSA).

Company and union representatives agreed that workers would be given an R85-a-month increase, retrospective to March 1. The agreement would be in force until the end of February next year.

The strike, which began last Wednesday, affected about 6 500 CCAWUSA members at more than 40 Pick 'n Pay concerns in the Transvaal, Free State, Natal and Eastern Cape.

At its peak, violence broke out in some of the affected areas with fights between customers and strikers.

Sapa reports fists flew when irate shoppers clashed with strikers at the Kingsburgh Pick 'n Pay checkouts yesterday.

HUMAN CHAIN

Witnesses said the violence erupted after an irate customer barged through strikers who had formed a human chain at the checkouts.

The supermarket, in the usually busy Sanlam Centre, erupted as management staff tried to pull about 20 customers away from 40 strikers.

Bottles of tomato sauce and chutney were smashed in the aisles by the strikers and one of the working staff was cut in the face by a polish tin.

The strikers eventually fled. Stones and bricks were thrown at management cars and company vans by the strikers. A rock was hurled through a skylight and narrowly missed customers outside the CNA.

- No action will be taken against the 40 or so Pick 'n Pay strikers who destroyed R300 worth of tomato sauce and chutney in a pitched battle with customers demanding service at Kingsburgh yesterday.

The regional manager of Pick 'n Pay in Natal, Mr Derek O'Connor said today that it was difficult to pinpoint the main culprits.

BUSDAY (153) 13/5/86

Barclays sees inflation rate fall

GERALD PROSALENDIS

INFLATION'S momentum has been reduced considerably, says Barclays Bank.

Its *Economic Comment,* a cassette tape produced by Barclays' economic staff, adds that things are firmly in place for a lower inflation rate in the early phase of the business cycle

However, there will be only a slow erosion of the year-on-year rate of inflation this year.

Economic Comment adds that the danger of further cost-push inflation has been reduced by a more stable rand which is expected to trade between \$0,45 and \$0,52 for the year

It predicts that it is unlikely the recent downtrend in oil prices will be reversed A sluggish economy will dampen an early upturn in wages

Although the overall picture suggests a drop in inflation, there are a few pitfalls.

Full benefit of recent appreciation of the rand might not be passed on to consumers as importers increase profit margins

As the economy moves into a more mature phase of the business cycle, in 1987 and 1988, the balance of payments will be tighter The Reserve Bank will have less control in the foreign exchange market and the rand might again come under pressure

Demand for labour might cause wages to accelerate.

P'n P now counting the cost

BUSDAY 14/5/86 153

ALAN MURDOCK

PICK 'N PAY must now count the cost of the six-day strike that affected 55 stores throughout the country, spilled over into violent confrontations between strikers and customers in Natal and forced management to close stores around the country.

Pick 'n Pay lost about R7,5m in turnover, and the backdated R85 a month pay award will increase its wage bill by more than R13m this tax year.

The strike ended in the early hours of yesterday morning after a marathon 10-hour negotiating session in Johannesburg. Pick n' Pay and the Commercial Catering and Allied Workers Union (Ccawusa) agreed to an increase backdated to March 1.

A spokesman for the Ccawusa said the strike was the "most widespread industrial action to have affected the retail trade and the largest sleep-in to have been carried out in SA. We see the settlement as another step towards a living wage for workers."

Pick 'n Pay chairman Raymond Ackermann said the ending of the strike was "a victory for labour relations".

Director Peter Dove said the company "could have lost some customers because of the dispute — some people may have disagreed with the way we handled it — but we have to continue building good relationships with our staff."

He said the lost turnover would have to be made up through increased efficiency and productivity.

10 percent meat price hike looms

STAR (153)
16/5/86
MEAT

The price of meat is set to rise about 10 percent due to recent increases in the price of maize and farmers' input costs.

According to the Meat Board, however, the increase will be phased in gradually over the next year to 18 months.

A spokesman said the increase in the price of yellow maize was one of the major factors contributing to higher meat prices

Livestock farmers also had to deal with soaring input costs which had to be recouped.

He added that the board had successfully sold off the 37 000 frozen carcases it had recently bought up — without affecting prices. — Pretoria Bureau

153

N/M 15/7/86

Stores' prices to be probed

Labour Reporter

THE House of Delegates is to investigate allegations by unemployed people in Chatsworth that stores contracted to the Government to supply them with groceries have been overcharging

Mrs Devi Moodley, a voluntary social worker in Chatsworth, told the Mercury yesterday that many unemployed people were issued with grocery vouchers up to a certain value by the House of Delegates, but because of the inflated prices the goods they could exchange them for were insufficient.

Citing examples of the high prices, she said one supermarket which is contracted to the Government, was selling 5 ℓ cooking oil at R11,99 (excluding tax) for those presenting the Government vouchers, while the same oil was being sold at R9,99 to its cash customers

'Surely these people tendering vouchers are as good as cash customers — payment is guaranteed,' she added

Defeated

She said that because of the inflated prices, many families of the unemployed were still facing difficulties

'The whole idea behind the House of Delegates assisting the unemployed is actually being defeated. The only people who appear to be gaining are the businessmen,' she added

Dr J W J van Rensburg, chief director of Health and Welfare in the House of Delegates, said yesterday that he would order an immediate investigation into allegations.

'If this is in fact the case then the whole purpose of us assisting the unemployed is pointless,' he added

Former clothing factory worker and mother of four Mrs L Reddy said she had been given a voucher valued at R104 which she took to one of the nominated supermarkets in Montford but she received goods worth only about R84.

'I was not even given a cash sales slip The vouchers are as good as cash and payment is guaranteed. I cannot understand why we are being overcharged,' she said.

been resu...

Charo
Gr IV
Metho

MM 19/8/86

Waiting for council's final verdict today, residents of Dunelands, who were handed a 1 200 percent rent rise, are (from left) Judy Olding, Margaret Tunnell, D H Baggaley, N R Yorke, Bea MacIntosh, Rhita Feitelberg, Lorraine Yeats, Jean and Jack Stroud, Denis Yeats, Victor Shirley, Eddie Mazor, and Louie Feitelberg.

Manco hoping to satisfy residents hit by rent rises

Municipal Reporter

A SOLUTION to satisfy the elderly residents of Durban's North Beach flats — whose rents were increased by up to 1 200 percent in 1984 while other lessees' rents, including that of hotels, remained static — will be proposed by Manco in today's open City Council meeting

Of 65 council-owned beachfront leasehold properties, 32 are on 90-year-leases revised every 10 years and 33 on 65-year-leases with fixed ground rentals

In both cases land and buildings revert unconditionally to the council when the leases expire

It was the flats leased under the 90-year system that suffered the massive rent increases when their rents were revised

Rapid escalation of property values has made a mockery of the lengthy leases the council granted in the forties and fifties to develop the beachfront

Nothing can be done to bring the fixed rents into line with current market values until the year 2025 when the 65-year leases begin to expire

Manco's current offer, based on the proposals of the North Beach residents' association, gives people the option of converting their flats from leasehold to freehold at 35 percent off the market value

But residents will still be paying out more than the 38,09 percent which is the City Valuator's break-even point, says Mr Len Rabinowitz, a member of the group representing the 26 shareblocks on the North Beach

Under the proposed system, those who cannot pay for conversion must pay rents equal to 6 percent of the market value of the land or lose their properties.

Mr Rabinowitz said at the weekend that people could afford it

'It's tough on fixed-income people, but quite clearly, conversion means at least they will pay for an increasing asset as opposed to a diminishing asset which would ultimately be worthless'

The proposed increase in ground rents had meant people would lose everything whereas the conversion, said Mr Rabinowitz, 'might mean digging a little into their pockets but if they wish to dispose of their flats, they have a valuable asset'

Manco recommendations include the following

The price flat-owners will pay for the conversion from leasehold to freehold of their beachfront properties will be 65 percent of the market value of the land as assessed at the date of their application to convert

The land valuation will remain unchanged for six months from the date of the lessees' application, and the 65 percent of the valuation which the lessees must pay will remain static until it comes up for review by council in five years' time.

BUS DAY 19/5/87 (153) (BRAY) (2)

Producer milk price rise seems imminent

GERALD REILLY

AGRICULTURE Minister Greyling Wentzel is expected to announce a producer milk price rise of between 3c-5c/l this week.

He is also expected to announce the strategy to get rid of the 5 000-ton butter surplus.

There are two options: either the surplus can be exported at a loss or disposed of locally at cut prices.

The Consumer Council's Lou van der Merwe said the only reasonable option was to give people the benefit and sell locally at reduced prices.

He said butter consumption was dropping and the sale of cheaper butter locally would also assist the Dairy Board in promoting sales.

The producer price of fresh milk was last raised in June — from 42,85c/l to 45,13c However, the producer had to pay part of the increase into a levy to cushion export losses.

In February milk distributors raised their price to the consumer by 6c/l.

Bus fares to rise in June

DD 2/5/86

Dispatch Reporter

EAST LONDON — Municipal bus fares, except for scholars' weekly tickets, will increase by 5c for all stages from June 2

Scholars' weekly tickets will rise by R1 on the same date

The municipal transport manager, Mr Dennis Jenkinson, said the fare increase for scholars was irrespective of distance travelled

He said the budget had been reviewed and it was decided it was time for an increase The last increase was approximately a year ago but the increases were not fixed on an annual basis, he said

In spite of the huge fuel increases, which took place over a year ago, plus the subsequent additional fuel increase, the municipal bus fares stayed the same

If the fares had been increased each time there was a fuel increase, the present fares would have been much higher

He said although the fuel prices had come down, the tariffs could not be reduced because of the increasing costs of spare parts, particularly tyres, and maintenance costs

This meant that the tariffs did not necessarily come down because the fuel prices were reduced, he added

Rates, light, water all set for big hikes

(155) EVE POST 21/5/86

NEXT week the PE City Council will consider a 10% rates and electricity increase and a 13,5% water tariff hike

The Policy and Resources Committee yesterday spent seven hours debating PE's operating and capital budgets for 1986/87

Three options for the electricity increase were given to the committee by the City Treasurer, Mr Amandus Strydom, and the committee opted for a 10% increase from July 1 and a 10,91% increase from January 1

Consolation for home-owners is that PE is the third cheapest of SA's eight major cities Rates, sewerage, refuse, electricity and water cost R149,93 a month for a 225 square metre house on a 1 050 square metres plot compared to costly Cape Town at R206,31 a month for the same formula

Escom tariff rises 'will be kept below inflation'

22/5/86

By Kym Hamilton, Pretoria Bureau

Escom tariff increases for 1987 and onwards will be kept at about 1 or 2 percent below the inflation rate

Speaking at an Engineering conference in Pretoria, Escom's senior general manger, Mr I C McRae pointed out that in the last 20 years, electricity tariffs have been constant in real terms

Research shows that electricity usage in South Africa should be about three percent above the gross domestic product, which should be 1,5 percent more than the population growth, he said

The present situation showed the GDP was not keeping up with the population growth

Mr McRae said this situation was unacceptable and Escom had started a programme to supply sufficient electricity to support an acceptable GDP growth rate while keeping electricity tariffs reasonable

These approaches include

- Off-peak and interruptable tariffs,
- Promoting energy-efficient equipment,
- Extending the life of power stations, and
- Purchasing power from outside sources

These measures, plus the new bulk and rural tariffs, will reduce electricity prices and stimulate growth, said Mr McRae

390- BRUSH AND BROOM MANUFACTURING INDUSTRY, CERTAIN AREAS

Superceding w.d. no : 341

AREA A : Oudtshoorn

AREA B : East London

AREA C : Bellville, The Cape , Goodwood, Kuilsriver, Port Elizabeth, Simonstown, Wynberg, Durban, Alberton, Benoni, Boksburg, Brakpan, Germiston, Johannesburg, Kempton Park, Krugersdorp, Nigel, Oberholzer, Pretoria, Randburg, Randfontein, Roodepoort, Springs, Vanderbijlpark, Vereeniging, Westonaria, and Wonderboom.

Weaker rand could push up petrol price

23/5/86 STAR

153

Pretoria Bureau

There is speculation that the price of petrol could rise as a result of the fall in the rand which followed this week's SADF raids

The rand slumped to about 42 US cents on Monday as a direct result of the raids but intervention by the Reserve Bank helped the ailing currency recover slightly to just over 44c

A strong rand/dollar exchange rate is vital if South Africa is to buy oil at reasonable prices

The authorities have been taking advantage of recent low oil prices to stockpile and a spokesman for the Department of Mineral and Energy Affairs said it was hoped that this would act, for a while, as a buffer against a higher petrol price

153

Inflation down, food prices up

STAR 23/5/86

By Jackie Unwin

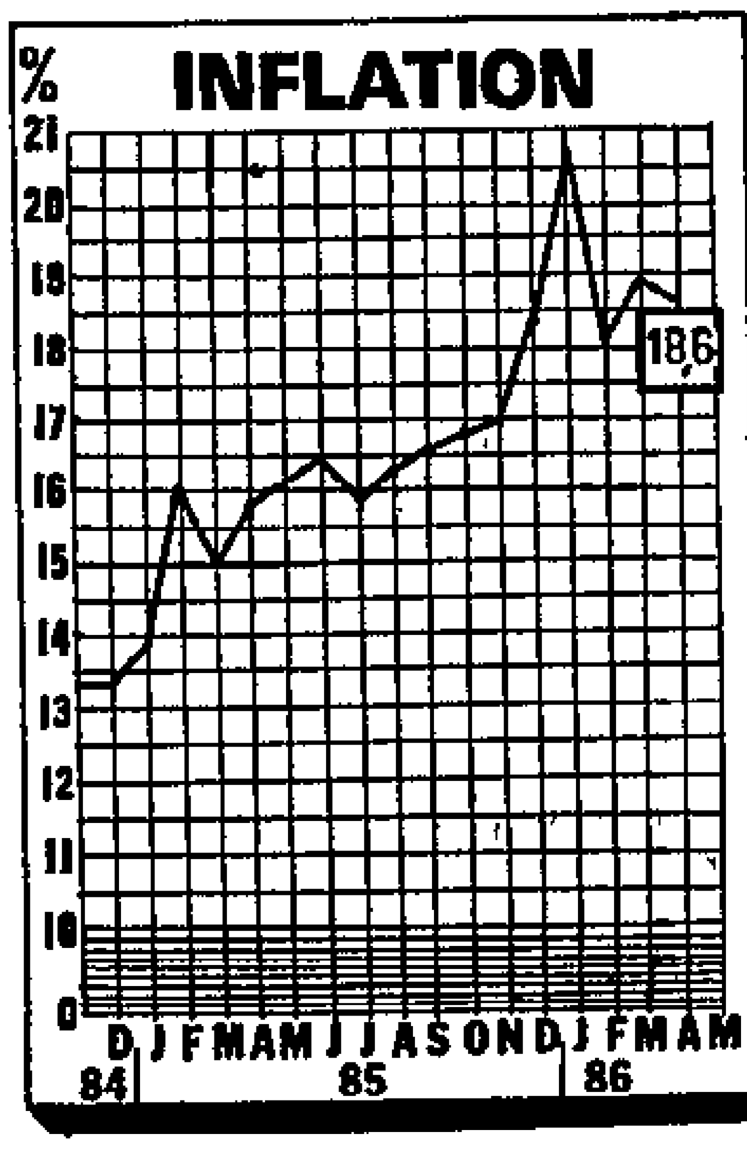
The year-on-year inflation rate for April dropped to 18,6 percent from March's rate of 18,9 percent — but the drop was expected by economists due to technical reasons. Food prices, however, showed an above-average rise

The statistical distortion was caused by 1985's monthly CPI for April rising 2,1 percent as a result of the increase in GST

Figures released by Central Statistical Services in Pretoria yesterday show the food-only index rose to 218,7 from 213,5 in March and 182,7 in April 1985 — a monthly rise of 2,4 percent and 19,7 percent year on year. There were increases in grain products, meat and fats and oils during April.

Market comment was "The food index rise is probably attributable to the delayed effects of the non-appearance of the rains this year.

"Since September last year, the food index has shown a trend to accelerate



"I don't think the food rise was caused by the rand, which appreciated in the first quarter. It was probably because of drought rather than excess demand."

Mr Rudolf Gouws, group economist of Rand Merchant Bank, said· "The impact of the petrol price reduction of April is not yet included in the CPI 'If it had been included, the fall in the year-on-year rate of change would have been quite a bit larger

"The rise in the CPI was very broadly based among many subject categories, which shows that inflation is very much with us. But I do believe the basic trend of the inflation rate this year is slightly downwards. An average rate of about 17 percent is quite possible with the year ending at 15 percent"

Dr Hans Falkena, chief economist at the United Building Society, said "The April inflation rate is higher than expected.

"We have very low real interest rates at the moment. If you subtract the inflation rate from the ruling interest rates this must be extremely inflationary. I am not very optimistic The inflation rates may come down for technical reasons, but we will have high inflation for quite some time ahead."

Capital's rates to go up 15 percent

153

NM 24/5/86

Pietermaritzburg Bureau

MUNICIPAL rates in the capital are to go up by an average of 15 percent this year to enable the city council to balance a record budget of R170 million

Presenting the estimates for 1986/87 yesterday, the chairman of the Finance Committee, Miss Pamela Reid, said steps would be taken wherever possible to save money, and this included the immediate 'freezing' of all posts within the municipality

Miss Reid said vacancies would be filled only after special motivation had been made by heads of departments No retrenchments were envisaged 'at this stage'

Severe restrictions are to be placed on all municipal departments and the worst hit will be the bus service, which is expected to run at a R2 500 000 loss this year

Miss Reid said the city's Transport Director would be asked to look at ways of rationalising the service as ratepayers could no longer afford to keep subsidising the losses

Apart from the overall rates hike, monthly service charges are to be increased Domestic refuse removal charges will go up from R3,85 to R4,43 and domestic sewerage charges from R4,80 to R5,52

Price of eggs goes up 12c a dozen

24/5/78

153

Egg prices in the Transvaal and the Free State are to be increased by an average of 8,7 percent or 12 cents a dozen, with immediate effect, South Africa's largest egg producer, Golden Lay Farm, announced yesterday.

Golden Lay said the monthly maize price increase and higher costs announced for oil cake — the source of protein in layer feeds — necessitated the increase in egg prices.

The company stressed that the increase had been delayed for as long as possible.

Executive secretary of the SA Poultry Association Mr Zach Coetzee described the increase in the egg price as "reasonable", but Housewives' League president Mrs Lyn Morris called it "massive".

...ed neatly under her ...r KAY HOLT tootles ... for surfing practice. ...s leaving for Califor- ...ember of the Spring- ...ture, by Mike Holmes

Racial notice opposed

EVE POST 27/5/86

Post Reporter

A PETITION circulated by the Thornhill Farmers' Association, opposing an apartheid sign and the erection of a gate at the Gamtoos River Mouth camping grounds, has been handed to the Dias Divisional Council.

Confirming this yesterday, the council's secretary, Mr Niegel Anderson, said the petition called for free access to the beach for all, and the removal of a "whites only" sign

The sign was erected "at the request of certain people in the vicinity"

It is believed there are almost 600 names on the petition

For generations, people of all races have enjoyed facilities at the Gamtoos River Mouth camping area

The petition calls for decisions on the area to the discussed with the association, or with the councillor for the area, Mr Jack Engelbrecht, of Hankey

Dias Council votes for 15% rates increase

EVE POST 27/5/86

By KIN BENTLEY

THE Dias Divisional Council approved a 15% rates increase, from July 1, at a meeting held in Port Elizabeth today

The increase was approved by 13 votes to one The only Port Elizabeth representative, Mr J P Alberts, opposed the motion He got no seconder for his proposal of a 10% increase

Mr Alberts said due to the city's economic conditions — "10 to 15 businesses are closing every month" — its residents could not afford this additional burden

The chairman of the council's Finance and General Purposes Committee, Mr D Saks, said the average rates increase over the past few years was still well below the inflation rate

He said the total estimated operating expenditure for the 1986/7 financial year was R22,9 million, of which 59% was derived from subsidies, 28% from rates and 13% from tariffs The total capital expenditure was put at R5,7 million

Mr Saks reported that the Cape Provincial Administration had increased the council's nature conservation subsidy For example, the subsidy for the Van Stadens Flora Reserve this year would be 49%

He said it had also been decided not to increase tariffs at any of the council's resorts this year

Mr Saks said that due to a lack of funds, "considerable problems" with the roadworks programme would be faced by the council this year. An action committee, which held its first meeting on May 13, had been formed as a result

BUSDAY 28/5/86

Car prices set for 6% increase

HAMISH McINDOE

THE year's third round of vehicle price increases is set for June 2, with market leader Toyota expected to up prices by 4,5%-6%.

National Automobile Dealers Association director Bob Thomas said he viewed the impending June increases with alarm "It is vital government grants the industry fiscal relief in the current climate of low new vehicle sales "

A Toyota spokesman said the average June price increase "could be around 5% if the excise duty on imported motor parts is reduced".

Ford yesterday informed its dealers of a 5%-6% rise in Sierra, Bantam, Husky and Triton prices from early June

And MMI prices for the Mazda 626, Rustler and Mitsubishi L300 will rise by the same margin.

A Volkswagen spokesman said no definite price increase had been fixed

General Motors marketing director Hal Carpenter said "We are waiting to see what the competition does, not government "

Nissan has no plans to increase prices next month after a 5% hike on certain models this month. BMW was working on new prices, unlikely to be implemented in June, a company spokesman said

Car prices rose 8% at new year and 5% at the begining of March, making total increases for the past 12 months to June nearly 30%

Trade and Industry Minister Dawie de Villiers is expected to make a formal response to the industry's representation early next week. Board of Trade and Industry officials could not be reached for comment yesterday

DD 21/5/86

EL's rates, tariffs to rise?

Dispatch Reporter

EAST LONDON — Residents can brace themselves for an all round increase in municipal tariffs when the city council holds a special meeting tonight to finalise the estimates for the 1986-1987 financial year

Although the method in which the city's house-keeping account will be kept for the ensuing year is a closely guarded secret, municipal rates and tariffs are set to rise

The city's 12 000 ratepayers face a possible five per cent hike while the 58 000 electricity users face a possible 15 per cent hike

In view of the R30 million sewerage system under construction, increases for these charges are likely to be the highest and are expected almost to double

The increases are set to come into effect on July 1

Municipal housing scheme tenants can also brace themsevles for a rent hike ranging from R1 a month to almost R6

DD 29/5/86 (153)

Help sought for Milner Estate rents

Dispatch Reporter

EAST LONDON — A total of 169 Milner Estate families face rent hikes of about 50 per cent — but moves are under way to get a government subsidy

The city council has agreed to the rent hike proposal from the property department with suggested subsidy relief measures to be submitted to the government

The council has also decided to send a three-man deputation to Cape Town if necessary to outline the case for the sub-economic scheme

The chairman of the action committee, Mr Donald Card, said the increase was the result of extensions being built onto the houses

"The area's rents were assessed against the background that the buildings cost about R800 each when they were built more than 30 years ago Now kitchens are being built onto the old structures at a cost of about R6 000 each

"This has necessitated a major hike in the rentals, but council realises that many of the occupants are pensioners and lower income earners This is why council decided that some sort of government relief must be sought to try to ease the burden on the people of Milner Estate," Mr Card said

Mr Card said a similar subsidy request for Buffalo flats had been rejected and as a similar reply was expected, it had been proposed that as the existing rentals in Milner Estate were being subsidised, application should be made to further subsidise the interest and redemption on the difference between the present rental and the new increased rental

It had also been proposed that the hikes be phased in to ease the burden

U'hage rates, water up

Post Reporter

RATES, water and refuse removal charges are to be increased in Uitenhage, and sewerage tariffs are to be restructured

The effects of the 1986-87 budget, presented to the Uitenhage Town Council last night, include

- Rates will increase by 13,6%.
- Water tariffs will rise by 9% with householders paying 60c a kilolitre up to 50 kilolitres, an increase of 5c on last year
- Refuse removal tarrifs have been increased by an average of 17%.

EVENING POST, THURSDAY, MAY 29, 1986

Council to debate the budget today

29/5/86

153

Post Reporter

THE Port Elizabeth City Council will have two meetings this afternoon — the normal monthly meeting as well as the special budget meeting at which it is expected to approve a 10% rates increase

The budget meeting, at 4pm in the City Hall, is being held to approve the R267,21 million operating budget and a capital budget of R54,29 million for the 1986-87 financial year starting on July 1

Apart from the rates increase it has also been proposed that the water tariff be increased by 13,5%

Although the electricity tariff will not be increased, consumers' bills will increase by 10% in July and again in January, 1987, due to the withdrawal of the State subsidy and the reintroduction of the cost of energy surcharge which was suspended for April, May and June

The monthly council meeting will follow the budget meeting, at 5pm

The proposed 10% rates increase will mean that the rates on all non-residential property will be 4,3687c per rand of valuation The 23% rebate on single residential and sectional title properties means that the new rate for these properties will be 3,8535c per rand of valuation

The draft capital budget provides for R29,1 million to be spend on the rate and general service, including R14,15 million on roads The capital provision for housing is R9,62 million, electricity R8,88 million, gas R197 000, market R25 000 and water R6,38 million

The agenda for the monthly meeting proposes a number of tariff and charge increases, including

- Surcharges ranging from 5,52 to 14,67% on the gas tariff to meet cost increases resulting from an increase in the pithead price of coal and in coal railage
- Increased library charges, including increasing the fines for overdue books to 30c for the first week and 40c for every subsequent week up to a maximum of R3,50 a book
- Increased hire charges for library halls
- A 15% increase in the charges for sewer connections and clearance

Other items up for consideration include

- The expropriation of land in Cape Road and First Avenue, Newton Park, Aragon Road, Durban Road and Kempston Road for the proposed construction of Langenhoven Drive to link Kempston Road with Cape Road
- The appointment of consultants to undertake the detailed design and preparation of tender documents for the construction of headland extensions at Humewood and Hobie beaches as a means of combating beach erosion

Firms will face tougher demands

STAR 29/5/86

153

By Sheryl Raine

Companies will face tough demands for salary increases this year due to the high rate of inflation and to militant trade unions, according to a leading industrial relations consultant

Mr Steuart Pennington of Steuart Pennington and Associates noted in the company's May 1986 wage negotiations pack that the relative sluggishness of the economy had been reflected in lower pay increases granted to salary and wage earners at the end of last year and beginning of this year

Salary increases had lagged significantly behind the consumer price index of 18,8 percent for the 12-month period from February 1985 to February 1986

INCREASES

Overall salary increases amounted to 11,1 percent, artisan wages rose by 9,2 percent and non-white hourly-paid wages by 12 percent

Predicted pay increases for this year included 11 to 12 percent for general staff, 12,5 to 14 percent for black hourly-paid staff and 12 to 13 percent for specialist or middle management

The inflation rate for February was 18,1 percent and economic predictions indicated that it was unlikely to drop significantly Companies would therefore be hard pressed to keep pace with increasing pay demands

Information about the economy, wages, salaries, and cost of living factors would play a vital role in the bargaining process this year.

The wage pack is designed to assist management with wage negotiations

0D 30/5/86 153

COMPARISON OF EXISTING TO PROPOSED INCREASED TARIFFS						
INDUSTRIAL RATES	**SEWERAGE**	**REFUSE**	**ELECTRICITY**	**WATER**	**TOTAL P/M**	**% INCREASE**
GATELY	R c	R c	R c	R c		
22 551,59 (Existing)	2 142,00	—	578 101,20	15 112 80		
1 879,30 (Existing p/m)	178,50	—	48 175,10	1 259,40	51 492,30	
23 697,17 (Proposed)	3 855,60	—	644 582,84	17 335,89		
1 978 [illegible] (Proposed p/m)	321,30	—	53 715,24	1 444,66	57 454,46	11,57
FLEET ST						
4 484,72 (Existing)	325,00	—	25 533,36	724,20		
373 72 (Existing p/m)	27,08	—	2 127,78	60,35	2 588,93	
4 708,96 (Proposed)	585 00	—	28 469,70	830,73		
392,41 (Proposed p/m)	48,75	—	2 372,48	69,23	2 882,87	11,35
BUFFALO ST						
7 013,65 (Existing)	878,00	286,00	5 148,48	232,56		
5[illegible]4,47 (Existing p/m)	73,16	23,83	429,04	19,38	1 129,88	
7 364,33 (Proposed)	1 580,40	314,60	5 740,56	266,77		
613,69 (Proposed p/m)	131,70	26,22	478,38	22,23	1 272,22	12 60
CBD						
10 511,87 (Existing)	1 905,00	1 996,80	9 696,84	—		
875,98 (Existing p/m)	158,75	166,40	808,07	—	2 009,20	
11 037,46 (Proposed)	3 429,00	2 196,48	10 811,98	—		
919,79 (Proposed p/m)	285,75	183,04	901,00	—	2 289,58	13,95
UPPER OXFORD						
4 696,71 (Existing)	483,00	249,60	2 887,80	79,56		
391,39 (Existing p/m)	40,25	20,80	240,65	6,63	699,72	
4 931,55 (Proposed)	869,40	274,56	3 219,90	91,26		
410,96 (Proposed p/m)	72,45	22,88	268,33	7,61	782,23	11,79
NAHOON						
2 517,87 (Existing)	404,00	124,80	4 203,36	91,80		
209,82 (Existing p/m)	33,67	10,40	350,28	7,65	611,82	
2 643,76 (Proposed)	727,20	137,28	4 686,75	105,30		
220,31 (Proposed p/m)	60,60	11,44	390,56	8,78	691,69	13,05
DOMESTIC RATES						
VINCENT						
1 070 22 (Existing)	72,00	43,20	1 671,32	513,32		
89,19 (Existing (p/m)	6,00	3,60	139,32	42,78	280,89	
1 123,73 (Proposed)	129,60	48,00	1 864,10	588,83		
93,64 (Proposed p/m)	10,80	4,00	155,34	49,07	312,85	11,38
S/WOOD						
445,32 (Existing)	72,00	43,20	485,08	101,32		
37,11 (Existing p/m)	6,00	3,60	40,42	8,44	95,57	
467,59 (Proposed)	129,60	48,00	540,86	116,22		
38,97 (Proposed p/m)	10,80	4,00	45,07	9,69	108,53	13,56
CAMBRIDGE						
298,52 (Existing)	72,00	43,20	454,92	102,68		
24,88 (Existing p/m)	6,00	3,60	37,91	8,56	80,95	
313,45 (Proposed)	129,60	48,00	507,24	117,78		
26,12 (Proposed p/m)	10,80	4,00	42,27	9,82	93,01	14,90
BEREA						
223,95 (Existing)	72,00	43,20	272,00	79,56		
18,66 (Existing p/m)	6,00	3,60	22,67	6,63	57,56	
235,15 (Proposed)	129,60	48,00	303,28	91,26		
19,60 (Proposed p/m)	10,80	4,00	25,27	7,61	67,28	16,89

A table showing existing and proposed increased tariffs for East London's industrial and domestic consumers

DD 30/5/86

153

Q'town rates up

Dispatch Reporter

QUEENSTOWN — Local residents will have to dig deep into their pockets during the coming year to meet an anticipated R1,5 million deficit in the municipal budget.

Presenting his budget speech at a special Town Council meeting last night, the chairman of the finance committee, Mr Ernest Littleford, said the past year had been "traumatic" for the town

An eight-month consumer boycott, the severe economic depression, threatened overseas sanctions and the falling rand—dollar exchange rate had had a severe impact on the finances of the town, he said

Despite rigorous pruning of the estimates for the financial year, the total estimated expenditure on the revenue account was R19,2 million This involved a net deficit of R1,5 million, which would have to be made good

He proposed that the deficit be met by

- Increasing the general assessment rate from 1,75 cents in the rand to 2 cents in the rand This would result in additional revenue of R180 000,
- Raising sewage rates to about R60 per year or R5 per month per houseowner This would bring in additional revenue of R140 000 per annum,
- In Grahamstown, the general rate goes up to 3,228c in the rand, an effective 10 per cent. Water and electricity rates have been hiked by 20 per cent

Rates rise of 10% approved

Post Reporter

PROPERTY rates in Port Elizabeth will go up by 10% on July 1, but the increase needed to finance the city's R267,16 million 1986-87 budget was not approved without debate

The budget was, however, approved without amendments at the City Council's special budget meeting yesterday afternoon

The security of the city's property, which is worth about R1 billion, and staff was the issue that caused the debate and prompted veteran councillor Mr Graham Young to propose a cut in the budget

The question of spending about R1 million on security — an amount that is equivalent to a 2% rates increase — was raised by Prof Les Simpson, who opposed the inclusion of amounts in the budget without the council knowing in detail what it would be spent on

In addition to the R1 million on the operating budget, R500 000 will be spent annually on capital works over the next three years for security

However, the chairman of the Policy and Resources Committee, Mr H van Zyl Cillié, said it had been agreed at the committee meeting the money would not be spent before details of the proposed projects were approved by the committee

His explanation that, if unspent, the money could be used for various other purposes, prompted Mr Young to say that it appeared the Policy and Resources Committee simply wanted to build slack into the budget

The City Treasurer, Mr Amandus Strydom, warned, however, that the council was experiencing serious problems obtaining re-insurance for its assets with Lloyds of London It was imperative that the security arrangements at municipal buildings and installations be improved

Mr Strydom pointed out that the original draft budget would have necessitated a 32% increase in rates "By trimming the budget down to a 10% rates increase, it meant cutting many essential items"

The budget also provides for a 10% increase in electricity charges on July 1 with another 10,91% increase likely to follow on January 1, 1987

The water tariff will go up by 13,55% on July 1

The council expects to end the current financial year on June 30, with a surplus of R1,6 million, a saving of 1,8%

The council's expenditure had been contained by strict control over staff levels, greater use of computers and general financial and budgetary discipline

He said the decision to increase rates by only 10% had been determined primarily by what the council believed the ratepayers would be able to afford

The budget provided for a 13,6% increase in staffing costs However, no provision had been made for a general salary adjustment Instead salary grades would be restructured to bring them into line with the market related rates and remove certain anomalies

Capital spending in the next financial year will amount to R54,3 million

'Commonwealth group has no option left but sanctions'

SADF raids destroyed EPG effort, says ANC

STAR 31/5/86

Mr Oliver Tambo

By Peter Sullivan

The Commonwealth Eminent Persons Group's hopes of initiating dialogue were shattered by the SADF's triple strike, and the only alternative left to the EPG was to recommend sanctions against South Africa, according to African National Congress headquarters in Lusaka.

But ANC negotiators are still willing to talk to the EPG should the group return to Lusaka

These ANC positions emerged after interviews in the Zambian capital with the banned organisation's president, Mr Oliver Tambo, ANC external affairs advisor Mr Johnny Makatini, and the number three in its military wing, Mr Joe Slovo

MOMENTUM

All three — none of whom may be quoted in South Africa — feel the EPG initiative is doomed All believe the Commonwealth group has no option but to impose sanctions on South Africa when the six-month mandate given to the EPG ends in two weeks

The major fear in the ANC is that the EPG will turn into some sort of Namibian Contact group, thereby derailing the momentum already achieved towards imposing Commonwealth sanctions on South Africa

In Namibia the Western Five contact group was appointed to find an internationally-accepted solution The appointment of the group temporarily halted a planned campaign for sanctions.

VIOLENCE

"The EPG is beginning to sound like a rerun of the Contact Group in Namibia where the whole process was deliberately protracted over a period of time so that the regime could be left free to deal with domestic matters on the pretext that international negotiations were taking place," an ANC spokesman said

Meanwhile the South African Government is still apparently balking at promised ANC acceptance of a suspension of violence, insisting on the ANC totally renouncing violence

The ANC view is that it cannot decide on a firm policy until its jailed leaders have been unconditionally released so that the party can take a joint decision binding on all its members

HURDLE

The difference between "suspend" and "abandon" appears to the EPG to be the single major obstacle left to hurdle before negotiations can get going.

Report restricted

Mr Tambo, Mr Makatini and Mr Slovo may not be quoted in South Africa

June 16 general strike could 'get out of hand'

STAR 31/5/86

LUSAKA — A general strike called by the ANC to mark the 10th anniversary of the Soweto uprising on June 16 could get "out of hand" and continue indefinitely, according to an African National Congress spokesman.

He said: "June 16 is an explosive day at the best of times. We have called a general strike. We will appeal to our people to make it one of the biggest strikes we have had.

"Once it starts the momentum could carry it beyond June 16. If that is so, we wouldn't complain," the spokesman said.

In a series of interviews at ANC headquarters it became apparent a major fear of the banned organisation is losing the support of the aggressive township youth.

'NOT PEOPLE'S PUPPETS'

There was a feeling that the youth might find the ANC too mild or old-fashioned and be unwilling to obey ANC leadership

One spokesman said: "We are not the people's puppets. They follow us because they believe we are showing them the right path to democracy.

"If, in their view, we abandon the right path, they will abandon us and follow whomever they consider to be the true leaders "

Mr Joe Slovo, Chief of Staff of the banned military wing of the ANC, Umkhonto we Sizwe, expressed fears of the organisation being hijacked by extremists to the Left of the communist party.

Report restricted

Love is jus

NEW YORK — People aged 60 sex in a relationship as their childr fall in love in much the same way, a

According to an article in the J older people get all the physiolog saults of teenagers when they fall in

These include a heightened sense ing of awkwardness, inability to c from the loved one and heart palpi by two University of Minnesota rese

The researchers interviewed 45 p 92, all of whom live in a Midwest actively dating.

The article quotes a 71-year-old w "You can talk about candlelight d fireplace, but I still think the most to go to bed with her."

Weak rand causes increase in air fares

STAR 3/6/86

Currency surcharges on air fares out of South Africa are to rise from July 1 — some by as much as 20 percent.

It was decided to raise the surcharges at a meeting in Johannesburg last week of all international airlines operating into and out of South Africa.

The increases will range from five to eight percent on normal fares, between 10 and 15 percent on promotional fares and around 20 percent on certain special fares exempt from a previous surcharge.

A South African Airways statement yesterday said the adjustment to all tickets paid for in rands had become necessary because of the disparity between air fares to South Africa and similar fares out of the country.

The increase will not affect passengers who have tickets issued before yesterday for travel up to and including July 31.

The adjustment means an economy class Johannesburg-New York return flight, previously R3 765, will now cost R4 386 — up 16,49 percent.

An Apex Johannesburg-London return ticket will rise by 10,59 percent to R2 937, and a similar business class ticket to R3 977, an increase of just over two percent.

Beacon Bay rates up 13,8 pc

Dispatch Reporter

BEACON BAY — Combined rates and tariffs here are to go up 13,8 per cent, the chairman of the town council's finance committee, Mr P G Cooper, has announced

Delivering his budget speech on the 1986/87 estimates, Mr Cooper said sewerage would go up 9,1 per cent, refuse 9,1 per cent and rates 16,15 per cent

"The combined effect of these increases will mean an average increase of 13,8 per cent and this must be seen against an inflation rate of 18 to 20 per cent"

Mr Cooper said it had been difficult to draw up the budget because of rising inflation and the effect on council's depleted" accumulated funds of Main Road subsidy overpayments

The R5 150 660 revenue and the capital estimates of R1 280 535 were within the state treasury limit of a 15 per cent ceiling

Mr Cooper said the value of the electricity account had been demonstrated again by the fact that the service would make a contribution to the rates and general services account of an equivalent of six per cent of the rates.

"This enabled the council to restrict the tariff increases to well below the current inflation rate," Mr Cooper said

DD 3/6/86

153

Petrol set to rise again

GERALD REILLY

A PETROL price increase within the next two weeks threatens unless there is a spectacular improvement in the rand's dollar value

PFP energy spokesman Brian Goodall says a situation has developed in which, under current price-formula conditions, another fuel-price rise could be unavoidable.

Much would depend on the extent of under-recovery by oil companies in recent weeks, the state of the Equalisation Fund, and whether government is prepared to reduce pipeline charges and forsake some of its tax revenue from fuel

Goodall says there is little likelihood that the price of crude on world markets will fall to an extent where it could compensate for the higher costs of oil imports

The crude price seems to have stabilised at about $18 a barrel, and there is little hope of relief from another decline on world markets

Mineral and Energy Affairs spokesman Theuns Burger says oil companies are currently under-recovering The department is watching the performance of the rand anxiously, and the next two weeks would be critical as far as price decisions are concerned

The price has been cut twice this year on March 3 from R1,02/l for 93-octane on the Witwatersrand to 92c, and from 92c to 83c on April 14

Union: No bid to talk 3M out of SA

CLAIRE PICKARD-CAMBRIDGE

THE Commercial, Catering and Allied Workers' Union (Ccawusa) has rejected claims that it had tried to persuade US firm 3M to close its SA operation

Ccawusa member Joseph Mokoena said he had been invited to the US by the Oil, Atomic and Chemical Workers' Union, which was organised at the 3M company in New Jersey

"I told people Ccawusa had not yet adopted a clear position on disinvestment and would discuss it at its conference in July."

3M said from the US it was not considering a pullout

Prices of electrical imports are set to soar

N/M 5/6/86

(153)

Mercury Reporter

THE prices of imported electrical appliances, including radios, VCRs and television sets, are to go up next month by between 12 and 20 percent

Some manufacturers have notified retailers of price rises averaging 12 to 15 percent from July 1, and others are expected to follow suit within days

Manufacturers' new price lists show that video recorders now selling in the shops for R1 699 will go up to R1 899

Hardest-hit will be fully imported products, with microwaves going up by R80 for the smallest, and R200 and upwards for the largest models

TV sets are to go up by between 15 and 20 percent.

Mr Syd Trickett, joint managing director of Durban's Price Furnishers, announced yesterday that the chain intends spending 'millions' on a crash buying programme before the new factory prices take effect.

'We intend buying enough stock to enable us to hold current prices until September, and if the rand rises again by then, we might be able to stave off increases completely,' he said.

But Mr Terry Millar, managing director of National Panasonic, yesterday blamed the Government, rather than the devaluation of the rand, for the spiralling cost of electronic home entertainment products.

His company claims 40 percent of the VCR market and a 30 percent share of the television market.

Mr Millar said the Government slice on a VCR, now selling for about R2 500, was close on R800

This was made up of import duty, excise duty, an import surcharge and GST, and amounted to almost as much as the distributor and retailer earned together.

He said if the Government abolished excise duty and the import duty the retail price of the VCR would drop by R777 to R1 750, since the distributor's margin, the retailer's mark-up and GST would be proportionately reduced on each unit.

'Most consumers,' he said, 'don't realise that, in effect, they are paying GST on taxes levied at the point of entry or manufacture '

The 10 percent surcharge on imports was 'madness' in the current situation as the rand was so weak that there was no longer any need for a punitive tax to discourage imports.

He said the Government should also reassess its attitude to the imposition of excise duty which was ruthlessly applied to certain goods deemed to be luxuries whether they were imported or locally assembled.

Tumbling rand threatens new price rises

153 EVE POST 6/6/86

Business Editor

THE rand's tumbling value will soon force up the price of a wide range of goods, especially those from Japan.

The currency was trading steadily at $0,40 today after a hectic time yesterday, but bankers believe that this slight strengthening could be brief and the currency could plunge below the $0,3895 mark it reached at one stage yesterday

Goods affected by the drop could range from cars to computers and from household appliances to petrol.

Japanese-sourced companies are hardest hit because not only is the rand dropping, but the US dollar is also tumbling against the yen, compounding the problem they face

Since December the yen has appreciated 13,4% against the dollar, while the German mark has appreciated by 5,3%

Mr Richard Ferrer, a director of a major supplier, Tek Electronics, said that although German-sourced products had been hit by currency depreciation, "the real problem has been the yen", the Post's Johannesburg correspondent reports

"We have no option but to push up prices because we have no excess stock to cushion the rand's fall," he said

"We costed for July at a rate of 75 yen to the rand and it is now 68

"It's almost impossible to do any long-term planning with such a volatile exchange rate.

"Foreign companies cannot get consistency from SA buyers and our reputation overseas has suffered "

Spokesmen for the motor industry said they were facing mounting cost pressures because of the drop in the rand

6/6/86 NM

Bus fares to rise 17,5% in Durban

Mercury Reporter

PUTCO and Durban Corporation bus fares are to go up by 17,5% before November

Mr Marshall Cuthbert, general manager of the Durban Transport Management Board, said fares on blue-line and green-line buses in the city would be increased by an average of 17,5% alongside increases by Putco

The increase is one of the biggest The last one was a 15% rise in February

Putco has applied for the bus fare rise of 17,5% by November 1 to cover general cost increases

The company said it did not include any subsidy that might be paid by the Department of Transport for passengers

'As Putco operates bus services under the jurisdiction of the Local Transportation Boards in Durban, Johannesburg, Pretoria, KwaNdebele and Bophuthatswana, separate applications have been submitted to each of the respective boards,' a Putco spokesman said

Mr Cuthbert said the high cost on maintenance, increased costs of spare parts because of the rand-dollar exchange rate, and other expenses had to be passed on to the commuters

Fares on most Indian-owned buses in the city were expected to go up as well, a spokesman for the Durban Bus Owners' Association said yesterday.

He said no decision had been taken on the percentage increase, but it would be done soon

Trains

THE timetable for commuter trains between Durban and Pinetown has been amended

Seven SAAF men die in car smash

PRETORIA—Seven South African Air Force servicemen were killed on the N1 near Hammanskraal yesterday when their car smashed into a bridge

The accident occurred in the early hours of the morning and the wreck containing the bodies was only discovered next to the road 6 km south of Hammanskraal after day-break.

A serviceman who had miraculously survived the accident attracted the attention of passing motorists

It is not known if the men were killed on impact or whether they died during the night in the freezing cold.

The car, a Volkswagen Passat into which the eight men had crammed, left the road and ran on the island in the middle of the highway for some distance before it smashed into the bridge at high speed

Firemen had to prise the bodies from the wreck.

The injured serviceman is in a satisfactory condition at 1 Military Hospital at Voortrekkerhoogte

An SAAF spokesman said the men's names could not be released until their next of kin had been informed — (Sapa)

Wheat-grower costs a major factor

Bread price set to rise

GERALD REILLY

THE chances of government finding the money to avert an increase in the bread price from October are slim, say Pretoria sources.

Wheat producers meet in Paarl next week to recommend what is expected to be a substantial increase in the new season's wheat price

The recommendation will be discussed at a Wheat Board meeting in Pretoria on July 23 before a final recommendation is made to government.

The last producer price increase of 8,7% to R325 a ton last October was well within the production cost rises of the previous 12 months

Wheat Board general manager Dennis van Aarde said yesterday input inflation since then had been substantial and would be a major factor in determining the new price

Last year's subsidy was R220m Had it not been for R40m contributed by the Wheat Board and the trade, the price of bread would have risen far more than the 5c a loaf of last October

To accommodate the expected wheat price rise and this year's fast dwindling R150m subsidy, a price increase is considered certain

If government did raise the subsidy, it would be contrary to a commission recommendation that the subsidy be abolished from October 1

Van Aarde said that of the 300 000 tons of wheat to be imported this year, 55 000 tons had been ordered from Canada and 90 000 from Australia

Tenders would close on June 11 for another 90 000 tons

He said that because of glutted world markets, SA could import wheat without loss even at the current rand value of about $0,39

Indices point to inflation climb

GERALD REILLY

THE production price index accelerated during April, triggering fears of a new spurt in the inflation rate.

According to Central Statistical Services the all commodities index rose from 174 in April 1985 to 208,9 in April this year — an increase of 20,1% compared with 19,6% in the year to March.

The index for locally produced commodities, rose from 173,3 to 203,9 — an increase of 17,7% against 17,1% in the year to March. The imported commodities figure accelerated by 28,3% — from 176,5 to 226,4 in the 12 months to April.

Volkskas economist Adam Jacobs said that, against the background of the April figures, he expected the inflation rate to be between 17% and 18% at the year's end. "This is really bad news."

Reasons for spiralling costs of motor cars

9/6/86 E Post

Business Editor

NEW car buyers are paying up to 13% more for their vehicles today than they were at the beginning of the year — and 50% more than at this time in 1984.

The latest rounds of increases — introduced, say manufacturers, mainly to recover foreign exchange losses — have pushed the least expensive cars up to close to R12 500

When general sales tax is added, this means that the man in the street will need just a few rands short of R14 000 to buy a basic economy model

At the other end of the scale, a locally manufactured luxury car will cost R38 580 — or R43 210 when GST is added — with several costing twice as much as that

Medium-sized cars — the norm in South Africa only a decade ago — start at about R16 000 (R17 920 with GST added) and go up to R22 000 (R24 640 with GST added.)

Latest manufacturers to increase their prices are Volkswagen and Samcor

Volkswagen increased its Golf, Jetta and Passat prices by 4,6% last week.

Audi prices — increased by 8,5% in January and 5,5% in April for a total of 13,5% — remained unchanged

Samcor introduced "selective increases" of between 4,5% and 7% on several of its Ford and Mazda models on Friday.

Market leader Toyota also recently increased its prices by 5% on Corollas and 7% on Cressidas

Other manufacturers — General Motors, Nissan, Mercedes and BMW — are expected to follow suit during the course of the month.

Reason for the increases, say manufacturers — who are anxiously awaiting a relief announcement from the Government after intensive lobbying — is mainly the plummetting value of the rand

"Costs of imported components have doubled in the past two years, while local parts are costing 40% more," said the public affairs manager of Volkswagen, Mr Ronnie Kruger.

"That means the industry's costs have risen by 70% in that period

"But price rises have been kept down to 50% as manufacturers have tried to absorb as much as possible and not pass all cost rises directly on to the man in the street."

Movie tickets will cost more

SOWL 12/6/86 (153)

Cinema admission prices are to go up, Ster-Kinekor and UIP-Warner have announced.

Admission prices at UIP-Warner Metro outlets will rise from R4,50 to R4,90 on Friday Ster-Kinekor prices will go up to R5 from R4,50 on June 20

Prices for students and scholars will rise from R3 to R3,50

Pensioners still pay R1 at Metro outlets and Ster-Kinekor's weekday price for pensioners stays at 50 cents

Saturday morning junior club showings will rise to R1,50 for children and R3,50 for adults.

Metro's Monday night budget scheme price of R2,50 remains unchanged

The distributors are to seek an urgent meeting with the Minister of Justice, Mr Kobie Coetsee, to ask him to review his ban on Sunday cinema

On Friday Mr Coetsee announced that he would not allow cinema on Sundays

Questionable prospects

BUSDAY 17/6/86

THE high inflation rate and intensified political unrest is impacting heavily on industry and contributing to inflated claims, as well as increased incidents of fraud and fire damage This is the view of Protea Assurance chairman Cedric Walton

He says: "Political strength, expressed through trade union movements, is making it difficult for us to differentiate between politically motivated strikes and normal fire casualties."

And he says there is a new problem for insurers — the hijacking of motor vehicles, a growing trend among youths. Unfortunately, with their resources stretched to the limit, police involvement in crime prevention and investigation is wanting, Walton believes

Commenting on reinsurance, he says capacity has been and continues to be drastically reduced, allied to a tightening of underwriting requirements and commission levels.

Several large risks have been shown to the market recently, and despite significantly increased rates and stiffer terms and conditions, substantial portions have been left unplaced.

On the collapse of AA Mutual, Walton points out that a company's solvency margin is the usually accepted standard by which the financial strength of a short-term insurer is judged — the ratio of net shareholders or free funds to net written premiums

"This is, however, by no means the only criterion," he says The strength of a company's insurance funding, its premium and claims reserves or technical reserves, is of equal importance "So, accepting the composition of portfolios differs from international norms, local reserving standards are still low".

From March 31, this year, Protea Assurance's technical ratio stood at 72%, one of the highest levels in the SA market

He concludes: "We do not believe market share should be sought at the expense of almost everything We like to husband our resources and opt for a development philosophy focused on profitable growth.

TV licence hike 'a pity'

Consumer groups have expressed disappointment at the increase in TV licence fees from R46,20 to R60 from October. STAR 9/6/86 153

Concession fees of R24 which applied to social pensioners and war veterans have been extended to include all people over the age of 70 as well as farm workers.

Mrs Betty Hirzel, chairman of the Consumer Union, said: "In this time of misery, depression and hunger, television is one of the few pleasures left to people and it is a pity the licence fees had to rise."

Mrs Lyn Morris, president of the Housewive's League, said the SABC should improve its services and "give listeners and viewers the type of programme they want"

SOWETAN, Thursday, June 19, 1986

Public can lodge objection

PUTCO BID FOR INCREASE

153

By MANDLA NDLAZI

PUTCO has applied for a 17,5 percent fare increase to come into effect from the beginning of November.

According to a statement by Mr Pat Rogers, the company's PRO, Putco has made applications to the Transportation Boards in Johannesburg, Pretoria, Durban, KwaNdebele and Bophuthatswana where it operates its buses

Once these have been published in the Government Gazette anyone wishing to lodge an objection may do so within a period of 21 days, following which a hearing of the application will be held' said Mr Rogers

He said the increase does not take account of any subsidy which might be paid by the Department of Transport on behalf of passengers Essentially, should the increase be approved, any matching subsidy in excess of the figure mentioned would result in a lesser amount payable by the passenger, a lesser subsidy or none at all would increase the passenger contribution "

Putco effected a 17,5 percent increase in the Transvaal in November last year, and in Durban in February this year Mr Rogers said these were to cover cost increases

He said the present application is to recover increased costs resulting from inflation experienced or anticipated for the period 1st July 1985 to 30th June 1986

2/6/86 Star

Inflation rate drops to 17,5 pc

153

The year-on-year inflation rate for May dropped to 17,5 percent from April's rate of 18,6 percent and January's record 20,7 percent, according to Central Statistical Service figures

The monthly increase of 0,2 percent May on April was the lowest since November 1976.

The decrease in the inflation rate was mainly attributed to the fuel price drop and the incorporation of third party insurance into the price of fuel.

NM 23/6/86 (153)

Price of milk set to go up at least 4c/ℓ next month

Mercury Reporter

THE retail price of fresh milk will rise by at least 4 c a litre on July 1.

The Dairy Board announced in Pretoria yesterday that milk distributors would pay 4 c a litre more while farmers would get 3 c a litre more, the difference of 1 c being a levy taken by the board

Milk distributors last night said they would pass on the increase without adding any extra margin But they warned that retailers might

'I would say you will find the retailer will pass on a little bit more,' said Mr Eric Hornby, Natal general manager of Clover Dairies

But both he and Mr Gerald Hunwick, general manager of Creamline Dairies, pointed out that since price control on milk had been abolished, different retailers charged a wide range of prices

The nominal retail price was about 81 c a litre

The Dairy Board said in its statement that producer prices had to be adjusted to prevent shortages of milk and dairy products in the near future

Milk production is declining at present and expected production this year will be 4% lower than last year,' it said

'The consumption of dairy products remains fairly constant and with the exception of butter, no surplus of cheese, milk powder or other dairy products exists at the moment.'

BUSDAY

~~DAILY~~

Milk price set to go up July 1

23/6/88

THE PRODUCER prices of fresh and industrial milk would be increased from July 1, the Dairy Board said in Pretoria yesterday

The board said distributors of fresh milk and industrial milk factories would pay 4c a litre or 9% more for milk, while producers would receive 3c a litre more

The difference of 1c a litre would be levied by the board

The board said that although consumer prices of fresh milk, cheese, milk powder and other dairy products were not determined by it, such prices were expected to go up as well

It said producer prices had to be adjusted to prevent shortages of milk and dairy products in the near future.

It said "Milk production is declining and the expected production this year will be 4% lower than last year" — Sapa.

64637

Days of lamb and coffee on the wane for most

SOWETAN 24/4/86 153

Own Correspondent

CAPE TOWN — Two South African traditions — lamb chops sizzling on the braai and mugs of steaming coffee — will be out of reach to all but the wealthy by the end of the year if trends continue.

Lamb chops are selling at between R8 and R11 a kg and are set to go higher

Coffee is expected to cost R26 a kg by November

"What happened to crayfish will eventually happen to mutton and lamb — only the rich will be able to afford them," said Mr A L Gaffoor, Press secretary of the Chamber of Muslim Meat Traders (Commtra)

INVESTIGATE

Last month Commtra asked the Minister of Agriculture to investigate the meat industry and to stop prices see-sawing.

This week the Meat Board wrote back, but "failed to address the problems raised", said Mr Gaffoor

Commtra wanted a maximum price "to protect the consumer"

"The board said that we were experiencing our worst drought for 200 years, that we were importing 70 percent of our meat and that if necessary we would get this meat from overseas."

DRASTIC DROP

Mr Gaffoor said sales of whole and half lambs had dropped drastically with prices at almost R7 a kg depending on quality

Beef, he said, was "not so bad"

Super lamb chops sold for R11,19 a kg and super leg of lamb for R9,29 at a city centre store today "Braai chops" were R10,19 and bulk lamb packs R7,69 a kg

Fillet steak was almost a bargain at R10,69

The coffee outlook was as gloomy From about R8,80 a kg retail two years ago, it is now selling at nearly R18

Mr John Penfold, buyer for Coffee and Tea Importers, said that prices had rocketed because of a drought in Brazil, the world's major supplier and the collapse of the International Coffee Organisation

SOWETAN, Wednesday, June 25, 1986

SOWETAN 25/6/86

MAGISTRATE TELLS OF BOP INJURIES

153

'I was concerned about number of people allegedly beaten by cops'

THE dismissal of 600 Metal Box employees and Putco bus fare increases were some of the causes of unrest in GaRankuwa, the Smith Commission of Inquiry heard yesterday.

A chief magistrate, Mr Abraham Carel Greyling, told the commission that most unrest related cases were brought before the courts after workers were dismissed from a Rosslyn can manufacturing factory and bus fares increased on the Pretoria/GaRankuwa route

He said most of the accused were severely wounded and claimed to have been assaulted by the Bophuthatswana police

"The victims were so seriously hurt that I had to report the matter to senior government officials I informed both the Attorney-General, a Mr Smith, and the secretary of justice, a Mr Mothibe, that I was concerned about the number of people alleging to have been beaten up by the police in the region," said the magistrate.

The witness said most of the victims were children aged from 12 years The majority resided in the GaRankuwa, Mabopane and Winterveldt areas

Although he had instructed that some of the injured be referred for medical attention, he said others made second appearances without having received treatment

Mr Greyling told the commission that he and his colleagues had earlier warned that raids on shebeens and squatters could spark off unrest, particularly in Winterveldt He said he often read in a newspaper that hawkers were unhappy about police behaviour

Violence

According to him, 2 000 people were arrested after the Winterveldt shootings on March 26 Scores of people were charged with public violence and others released after paying an admission of guilt

Among all the areas under his control, he said, Winterveldt had the highest crime rate Although there had been incidents of police assaults after the killings took place, he said the situation had gone back to normal

DURBAN TRANSPORT MANAGEMENT BOARD

Alice Street, Durban — Telephone. 321481

26/6/86 N/M

FARE INCREASE

(Blue Line Service)

The public is hereby notified that the following new fare structure will be introduced on the Board's Blue Line Service as from **TUESDAY, 1 July 1986.**

New priced coupons will be available from 25 June 1986 at the Transport Information Bureau, corner of Gardiner and West Streets and agents sale outlets from 27 June 1986.

COUPON (153)

(10 Journey Coupon)

STAGE	EXISTING	NEW FARE
1	R5,65	R6,50
2	R6,80	R7,80
3	R7 95	R9,15
4	R9,20	R10,60
5	R10,05	R11,55
6	R11 00	R12,65
7	R11,80	R13,60
Child	R5,65	R6,50
Scholar	R4,20	R5,00
Senior Citizen	R1,60	R1,70

CASH (2/80)

STAGE	EXISTING	NEW FARE
1	R0,82	R0,85
2	R0,97	R1,00
3	R1.07	R1,24
4	R1,18	R1,37
5	R1,33	R1,54
6	R1 43	R1,65
7	R1,58	R1,83
Child	R0,82	R0,85

Child's Fare: R0,85 Cash or Stage 1 coupon irrespective of distance travelled

Colour of new Coupons as shown below:

Stage 1	Turquoise
Stage 2	Brown
Stage 3	Pink
Stage 4	Gold
Stage 5	Mauve
Stage 6	Yellow
Stage 7	Green
Scholars	Red
Concessions 'P	Orange

Commuters are advised to pay particular attention to the validity period printed on the existing coupons, which are not refundable.
Old fare coupons are valid only up to and including **Friday 29 August 1986.**

M.G. CUTHBERT
GENERAL MANAGER

153 Bq DD 17/6/86

DC rates to rise by up to 15 pc

Dispatch Reporter

EAST LONDON — Rates in the Divisional Council of Kaffraria are to go up by as much as 15 per cent in some areas

This emerged in the draft estimates of revenue and expenditure released at yesterday's monthly meeting of the council

Expenditure of R5 757 121 is expected to be under the following categories general expenditure R1 543 338, roads R3 127 701, public health R405 065 and ambulance R666 286 There is a surplus of R14 731

Anticipated income of R4 26 822 is as follows general administration R481 655, roads R2 847 701, ambulance R666 286, public health R274 180 with the amount of R1 487 299 required from rates to balance the books

The general rate in rural areas is 0,340c in the rand while the rate in municipal areas is 0,115c in the rand

The general rate on all property in the King William's Town municipal area is 0,065c (0,05c last year), in the Stutterheim area 0,080c (0,065c last year), Komga and Kei Mouth 0,101c (last year 0,86c), Beacon Bay and Gonubie 0,215c (last year 0,02c)

Local areas rates are as follows (previous in brackets) Kwelera 0,70c (0,55c), Eureka 0,31 (0,24c), Reeston 0,40c (0,34c), Macleantown 1,71c (1,58c), Kidd's Beach 1,57c (1,41c), Haga Haga 1,62c (1,47c), Morgan Bay 1,15 (0,58c), Sunrise-on-Sea 0,35c (0,25c) Cintsa 0,66c (0,48c)

RAU prof warns of inflation at 30-40%

STAR 25/6/86 (153)

By Trevor Walker

The monetary authorities have failed dismally in their efforts to curb inflation, and unless some very unpalatable measures are taken soon inflation could well hit 30 or even 40 percent within the next year or two

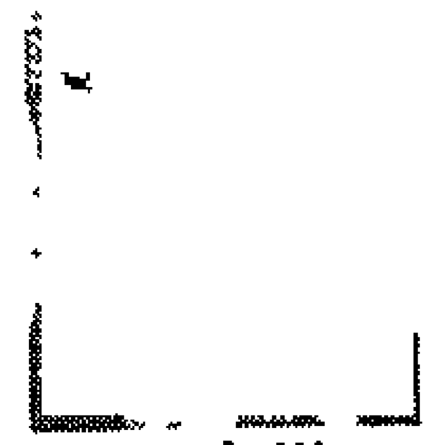
Speaking at a Martindale Stacey and Trollip seminar last night, Professor Geert de Wet of the Rand Afrikaans University said interest rates in South Africa were not market-related and in fact were yet another "controlled price" the mismanagement of which continued to bedevil the economy

"Labour or wages versus productivity, imported prices and controlled prices are the major causes of inflation"

By attempting to control inflation via the demand side for money rather the cash or supply side, the authorities placed a great deal of emphasis on public reaction or response

In 1983 and 1984 inflatonary expectations led to an ever-increasing demand for money. Ultimately, in order to "kill" this off, basic interest rates were bumped up by no less than three percentage points

The high rate of inflation and high level of internal interest rates led, with approval from the authorities, to high levels of foreign borrowings



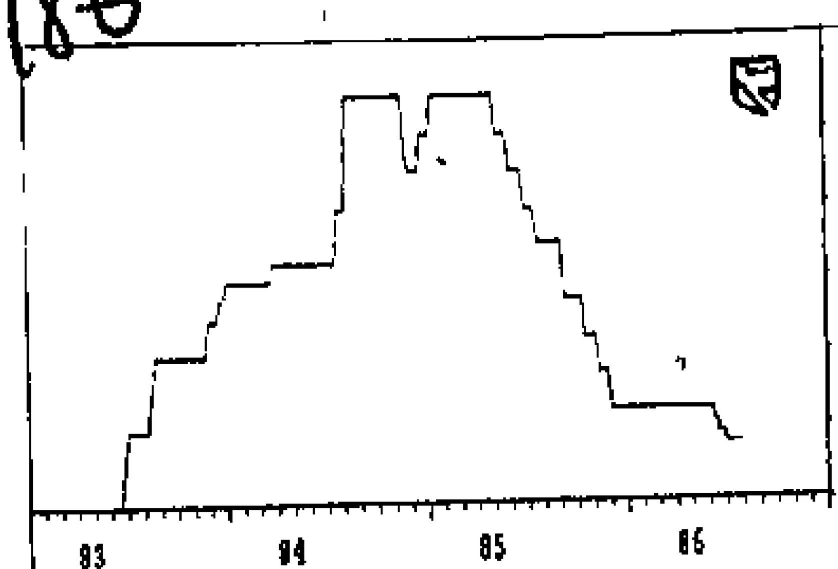
Geert de Wet

Professor de Wet said it was ironic that "the immediate factors which triggered off the debt problem may have been political in nature, but the fact that we were saddled with excessive short-term debt had to a large extent been caused by the high interest rates which finally did not succeed in bringing down inflation"

The pinnacle of the sledgehammer money policy was reached in August 1984 with interest rates at 25 percent

"Yet in order to cause a decline in the demand for money, interest rates have to cool down the entire economy and the measures did it so well that we are still battling to revive the economy to this day"

According to the De Kock Commission, the ultimate task of the monetary authorities was to ensure price stability, with an important intermediate aim being the control over the money supply



How the bank rate has fallen

But because interest rates have ceased to be normal economic variables, and have become crucial monetary policy instruments, tampering with them may involve the same dangers as those involved in other price manipulations

"The roundabout way in which monetary control is being sought, and the fact that interest rates which are key market variables are used, may very well introduce wide interest rate fluctuations and much economic instability"

Professor De Wet said the single most important factor in the economy at the moment was a widespread lack of confidence Because of this the latest package from the Treasury was on its own likely to be insufficient to really lift the economy

He said more fiscal stimulation would probably be necessary He hinted that the Afrikaanse Handels Instituut was in the process of preparing a paper for presentation to the Government in August

He declined to elaborate, but did say that for example future wage increases would have to be tied much more closely to productivity improvements "Wages are controlled or at least are not totally free, so if we control them then lets control them in the right way

"It is an open question whether the political instability would have grown to its present proportions if we had had a successful anti-inflation policy by the end of 1984 without high interest rates but with a buoyant economy

"I am afraid we may have missed the boat, since exports have been doing well for a considerable period of time now and in another year or two they may turn down cyclically, dragging the economy into a normal cyclical recession even bvefore it gets out of the present abnormal recession"

STAR 11/6/86

Visions of more consumer spending have turned out to be a myth

Breadwinners are worse off than ever

153

Breadwinners who thought the 1986 Budget would leave them better off may be in for a grave disappointment. MICHAEL CHESTER reports.

Visions of more consumer spending power that were created by announcements of tax cuts in the 1986 Budget have turned out to be myths.

Most breadwinners have found that in fact their income tax bills are still heavier — and nearly all of them find they are worse off than ever.

The cash harvest reaped by the Department of Inland Revenue from personal income tax in the current 1986/87 year will be the biggest crop on record

PAY INCREASE — 12 PERCENT
INFLATION — 18 PERCENT

	1985/86	1986/87
Basic salary	20 000	22 400
How spent:		
Pension fund contributions	1 500	1 680
Medical expenses	1 200	1 416
Taxation	2 027	2 366
Living expenses (the balance)	15 273	18 022
Total	20 000	23 484
Shortfall		−1 084
★ ★ ★		
Basic salary	40 000	44 800
How spent:		
Pension fund contributions	3 000	3 360
Medical expenses	1 200	1 416
Taxation	9 041	9 858
Living expenses	26 759	31 576
Total	40 000	46 210
Shortfall		−1 410
★ ★ ★		
Basic salary	60 000	67 200
How spent:		
Pension fund contributions	4 500	5 040
Medical expenses	1 200	1 416
Taxation	18 169	19 130
Living expenses	36 131	42 635
Total	60 000	68 221
Shortfall		−1 021

The slide in living standards has been illustrated by tables prepared by P-E Consulting Services showing how a family is still worse off than a year ago.

To ensure the validity of the comparisons, the experts have drawn a profile of a married man with a non-working wife and two minor children — battling the currents of the present 18 percent inflation rate.

Pension fund contributions equal 7,5 percent of basic salary and medical contributions and excess expenses were running at R1 200 last year. Tax rebates come to R1 155

It is assumed the family budget last year managed to scrape home in balance. Even if the breadwinner won a 12 percent pay increase for 1986 — better than average — the family budget will run into the red

The Catch-22 problem waits in hiding whatever the pay level — R20 000, R40 000 or even R60 000 a year.

"The apparent tax cuts announced by Finance Minister Barend du Plessis on March 17 were illusory," says Dr Azar Jammine, director of the Econometrix research unit.

"While it was intended to sound like a R1 billion giveaway — with the abolition of the 7 percent tax surcharge and the introduction of a 5 percent rebate — in fact tax collections will be the heaviest yet"

Econometrix estimates that overall personal income tax will still soar by as much as 22,5 percent, hoisting the total from R8 820 million in 1985/86 to R10 806 million

The sorcerer at work is inflation and the way it causes what economic boffins call "fiscal drag" or "bracket creep" — the mechanism that pushes more and more breadwinners higher and higher up the tax ladder every time they win increases in salaries and wages in their vain efforts to try to keep pace with the cost of living spiral

Econometrix takes as an example a taxpayer who last year earned R10 000 — about R833 a month If he started 1986 with a 10 percent pay increase (little better than half the rate of inflation but the sort of increase that was better than average), even with the tax cuts his actual tax bill is up from R935 to R1 024

Unaltered

The only scrap of consolation is that had the old tax rates stayed unaltered the taxman would be grabbing R100 more

If the identical taxpayer was lucky enough to be given a 20 percent pay increase, the tax sting would be worse — up from R935 to R1 230

True, if he received no pay increase at all his tax bill under the new rates would be lower, down from R935 to R877. But his spending power in real terms would be slashed by 18 percent or more by the vicious cut of inflation

So there was no escape from a shrinkage in living standards

Higher up the income brackets, a taxpayer who picked up a 20 percent pay increase to add to the R50 000 he earned last year is seeing his tax bill shooting up from R17 982 to R20 762.

And even if the basic income tax rate is not quite as bad as it was, the odds are that a taxpayer on this sort of salary now also has to confront more cuts from the perks tax on such items as running a company car or using company housing loans.

"The injustice of the tax system is magnified by trends that prove how fiscal drag is forcing private individuals to carry a more and more disproportionate share of the overall tax burden," says Dr Jammine

Load

The proof is set out in a set of Econometrix pie-charts

Five years ago, the share of total tax revenue shouldered by personal income tax payments was only 15,6 percent

By last year, private individuals were carrying 29,7 percent of the load

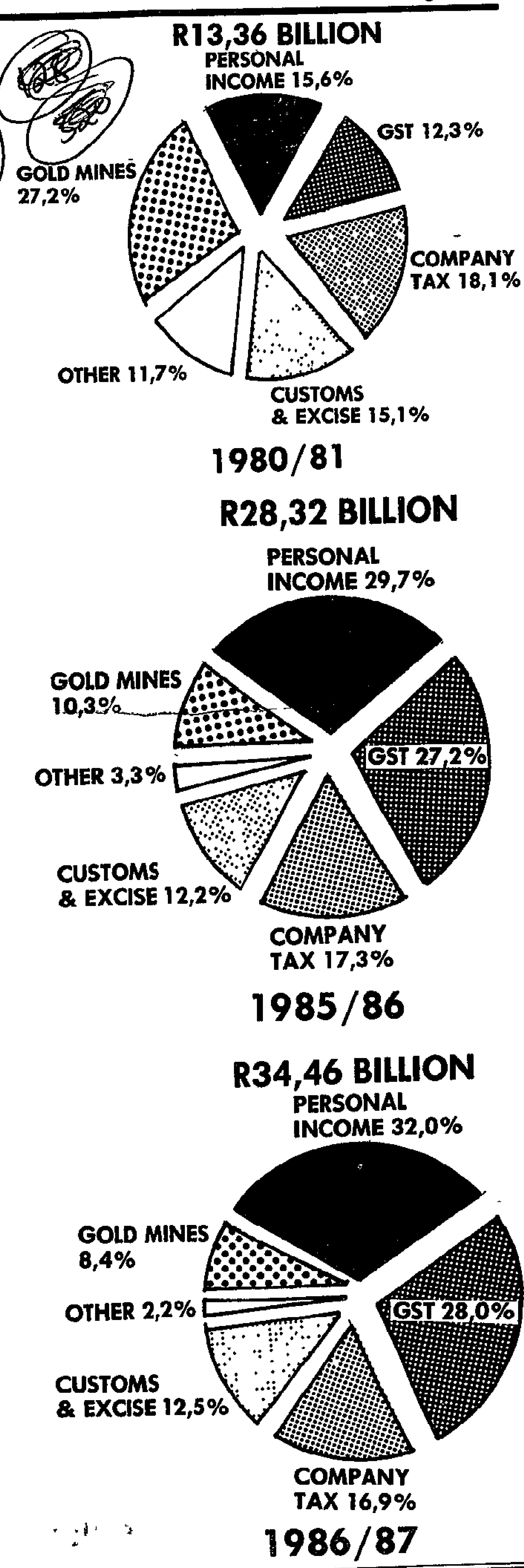
And this year — despite the tax-cut fanfare — they will be lumbered with as much as 32 percent of the burden

"The time has arrived for a really dramatic round of tax reductions," argues Dr Jammine

"No doubt the Government would argue the national economy cannot afford drastic tax cuts

"The governments of nearly all the Western nations are in the process of selling more and more state enterprises to the private sector, which almost invariably do a better job with them

"Their successes are enormous. South Africa must follow suit — or face calamity"



same quarter last year.

FIN MAIL

INFLATION 30/5/86 153

Waging a war

After April's inflation figure of 18,6%, economists are getting "a little nervous about their projections," as one put it. Compared with March, at 18,9% year-on-year, April does reflect a fall, but not as much as expected.

Big increases came through for food and clothing, while the petrol price cut was too late to be included. Public transport, however, was also up significantly — new tariffs began on April 1.

Certainly, domestic cost pressures appear more important, as pressures from imported costs ease. The wage settlement at Pick 'n Pay which, for some, increased basic earnings by around 22% could have far-reaching repercussions

"It's extremely difficult to pinpoint price rises following wage deals," comments one economist. "But if the trend spreads across the board, there's going to be upward pressure on CPI " He says this is a major reason why economists are increasingly pessimistic about inflation

The National Union of Mineworkers has asked for a 45% wage increase Though costs here relate largely to export orders, it could have a "demonstration effect."

Apart from this, the rand has weakened significantly this month and now makes a further petrol price cut unlikely "It's even possible we'll get a fuel price increase," suggests one

Political events

Jim Buys, economic consultant to Anglo American, now looks for a 17% CPI rise for 1986 as a whole, slightly above his earlier estimate "But political events dominate the situation, and we are living from day to day.

"Our forecasts assumed a fairly stable exchange rate for the rest of the year The currency has not only lost ground against the dollar, but against the background of a weak dollar the situation against other currencies, notably the D-mark and yen, is very unstable "

Despite the apparent lower rate for April, the monthly index shows a significant jump One has to be careful in looking at monthly figures in isolation, but the move from an all-income index of 215,8 in February, to 218,3 in March and then a big jump in April to 222,2, is significant

Annualising the February-March change gives 13,9%, annualising the March-April change 21%, a disquieting turn of events The food-only index was static through February and March, then leapt a monthly annualised rate of over 29%, presumably through a mix of statistical distortions and administered price increases

In its *Economic Survey* for March, Sanlam also predicts an average CPI of 17% this year, but says it could fall to about 13,5% for 1987

Factors that should contribute to a lower tendency include lower international inflation rates, the drastic slump in the oil price, lower financing and bond costs, moderate increases in wages, greater control over growth in money supply, and the fact that demand inflation will not be a force

Johan Louw, Sanlam's economist, points out that "although increases in CPI have been the decisive factor in wage increases in the past, labour remuneration over the past year or so has tended to be more based on the financial results of companies "

But, he says, demands for steep pay hikes could materialise in 1987 if the recovery in the economy gains momentum Strict discipline is obviously required to succeed in our battle against inflation ■

F Mail 13/6/86

INFLATION 153

Third currency bug

Gauging the value of the rand by looking at the dollar has certainly proved misleading For an explanation why the production price index (PPI) accelerated in April, third-currency positions offer the clearest answer

The rand plummeted to record lows against the yen and D-mark last Tuesday, lower than the abysmal trough of August 27 1985, the day the markets were closed The currency was also perilously close to a record low against sterling This was simply a continuation of a trend, masked by dollar weakness, and now seen in the PPI statistics

Undoubtedly, political pressures and the poor economic climate are reflected in increased capital outflows, despite Pretoria's attempts to plug the leaks So the rand plunges another notch, and fears of another rise in the rate of inflation are rekindled In turn this will encourage more capital outflows

The imported component of PPI rose again in April to 28,3% from 27,9% in March, year on year The all-commodities PPI increase rose to 20,1% year on year, up from March's 19,6% The most worrying aspect is that the locally produced commodity price index rose for the first time in three months In April it stood at 17,7%, compared to 17,1% the previous month

Says Jim Buys, economic consultant at Anglo American "Last week there was another car price hike, reflecting the weak rand which has been pushing up the cost of imported components Relative stability against the dollar for a while disguised our persistently underlying poor performance against third currencies Ultimately the imported component of PPI must work through to local goods Of total imports, about 18% comes from the US, but there are big chunks from Japan, West Germany and the UK"

The index for all-commodities rose to 208,9 in April, up from March's 206,9 — as it was also for February But this again disguised underlying trends the fall in the petrol price offset continual price increases in other commodities.

Clearly, our third-currency position is dreadful And with the never-ending roll call of administered price increases — both Sats and the Post Office raised tariffs recently, while others look set to follow — there's no hope for the consumer. Any tax concessions are likely to be mopped up by rising prices ■

(Pty) Ltd.

'Nasty looking cycle of inflation and currency weakness' may follow

18/6/86 STAR 153

The Star Bureau

LONDON — The rand's recovery on foreign exchange markets was caused as much by the "quiet" passing of the Soweto anniversary as South Africa's "see-no-evil hear-no-evil information policy", says the *Financial Times* Lex column.

It goes on: "The selling pressure that drove the discount on the financial rand wider last week than at any point since Soweto in 1976 has abated for the moment.

"However, there were not many City fund managers slapping themselves for not buying last week into one of the better short-term punts available in global markets.

"At Tuesday's commercial rand rate — which is the rate in which dividends are paid — a gold share bought last Thursday could have been sold ex-dividend next month for a total return of over 20 percent.

"Leaning out of this particular window is only for those with a head for heights. Leaving aside the wage negotiations at the mines, the momentum building up behind sanctions could well produce some sort of equal and opposite reaction in South African exchange control.

"For the moment, the South African authorities have no desire to deter foreign investors any further.

"The small package of financial measures announced yesterday shows that foreign capital is still first in the queue: Export-led growth is out while foreign bankers get all the export earnings, and it is the domestic economy that must be pushed.

"But with such cost pressures already built in from the falling rand, a stimulation of domestic demand could well be a recipe for a nasty-looking cycle of inflation and currency weakness."

F W Mail

INFLATION

27/6/86

Fruity puzzle

153

It's rare these days for the sun to shine out of Central Statistical Services, but for the month of May it did The consumer price index (CPI) dropped to 17,5% year-on-year, down from 18,6% in April

Main contributors were the cut in fuel prices on April 14, which was brought into the May statistics, and a surprising fall in fresh fruit prices Transport running costs, according to a spokesman, went down 6,1%, showing what dramatic influence a fall in fuel prices can have on inflation But for this, inflation would have held at 18%

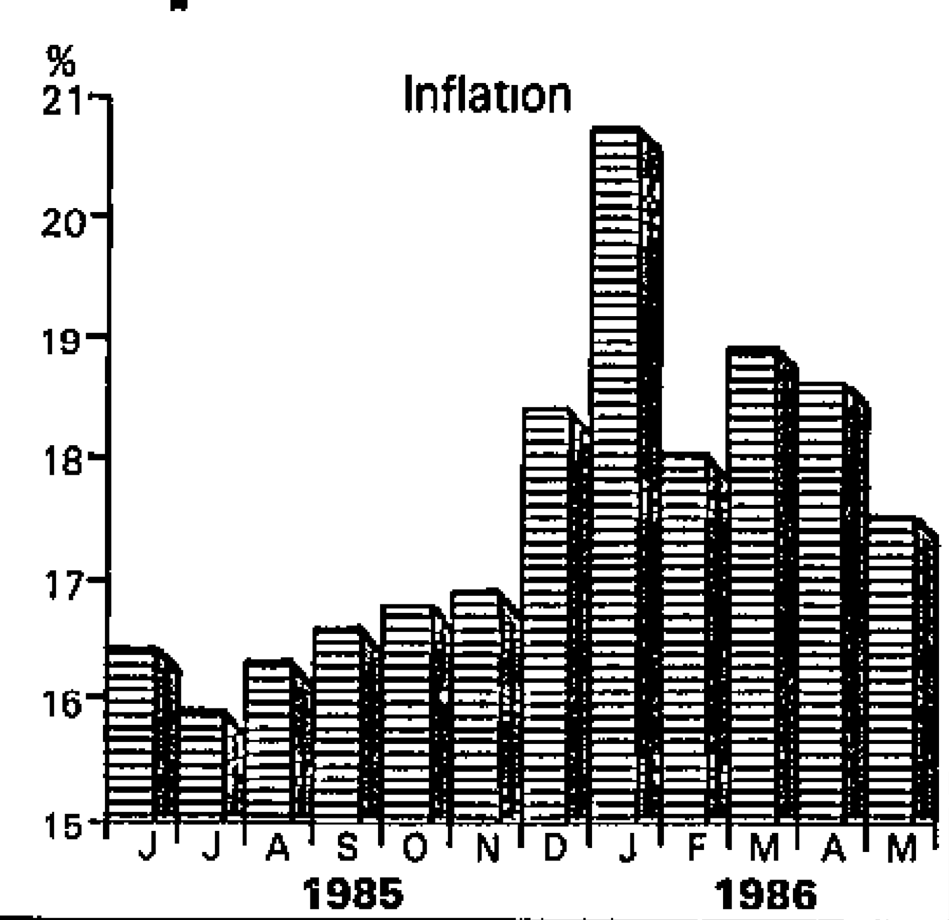
This is just the direct effect Under "normal" circumstances consumers would also look forward to follow-on effects as lower transport costs filtered through to retail prices, slashing as much as another 1,5% off CPI over the next six months

But this is doubtful For one thing, the rand has shown extreme volatility over the past few weeks, plunging to around US35c ahead of June 16, before rebounding no less han 7c in just six days, for another, government's latest stimulatory package relies on significant raping of fuel sales levies garnered for its central energy fund This could complicate fuel pricing strategy

Says Louis Geldenhuys, economic consultant to stockbroker George Huysamer "The fall was a surprise, given the environment we are living in "

More startling perhaps is that the monthly increase — just 0,2% — was the lowest since November 1976 Geldenhuys, however, points to the extreme price volatility of some commodities For example, the major fall, aside from fuel, was fruit, down 5,4% month

Hope for consumer?



on month — "I find this impossible to explain "

Overall Geldenhuys feels that inflation is bound to rise "Economic and political instability has escalated, time horizons are shortening, and there's the capital flight, while international pressures are still increasing "

Other month-on-month changes to May include fats and oils, down 2,5% The main increases were new car prices, up 3,9%, sugar, up 2,9%, and books, up 2,5% Third-party insurance is now included in the fuel price, of course, from May 1, which means its separate weighting falls away This also contributed to the statistical fall

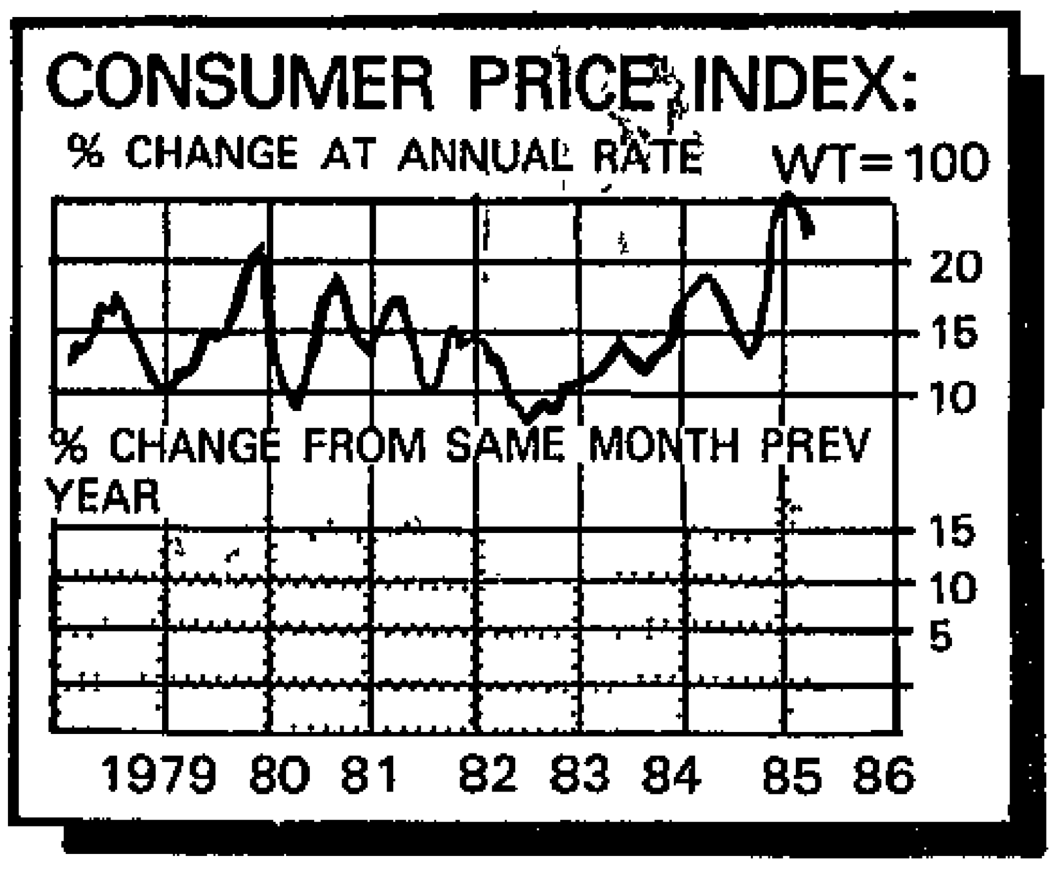
There are positive signs for inflation through lower interest rates, especially on bond accounts Existing bond rates fall on July 1 and then October 1 On the negative side, the fuel price is based on a 47c rand, and will have to be increased if the rand remains below this Milk prices are set to rise from July 1

But the fresh fruit price fall is unusual Maybe exports have gone down because of sanctions, increasing domestic supply Ironically, however, the Chernobyl accident may make "grown in SA" fruit a future attraction

Says an economist "I believe the May figure reflects a lot of coincidental low increases, and zero growth on some items. By the same token, January went up 3% because a lot of big increases came together It's better to look at trends longer-term, and I don't see food deviating from its normal 1% monthly increase For the year I'm still expecting around 18% inflation overall " ■

Chronic inflation remains a very real danger for SA

5/5/86 Bus Day 153



With the rand's recovery, prospects for some moderation in inflation now appear good. A study by Old Mutual economist Rob Lee, reports JOHN TILSTON, suggests that SA is treading a dangerous path very close to a precipice beyond which lies chronic inflation.

WE ARE constantly reassured that demand in the economy is so low as to be of no immediate threat to the rate of inflation

Inflation is fuelled by higher costs and, now that the rand has recovered, prospects for some moderation in inflation are good

A revealing study just completed by Old Mutual economist Rob Lee suggests that SA is treading a dangerous path very close to a precipice beyond which lies chronic inflation

The inexorable increase in prices has decisively moved out of its 10% to 16% band within which it has traded for the past 12 years Latest figures put it at 19%

Though Lee expects the SA monetary authorities to stay this side of disaster, he projects inflation this year dropping to around 16% by year end, but this, he cautions, will be largely a statistical reduction. The high increases of the last few months of 1985 will have the effect of reducing the year-on-year calculations.

For 1987 Lee sees inflation averaging just under 20%. The following year, he believes it will average just over 20%.

Lee's analysis identifies economic characteristics associated with rates of inflation of more than 20% in other developing nations

In relatively small economies heavily dependent on foreign trade the balance of payments is critically important to economic policy, and in turn inflation. A surplus on the BoP is essential for non-inflationary growth If the surplus is imperilled, corrective policy measures to depress imports have to be taken.

But if there is a major setback to the BoP, such as a dramatic fall in the price of a dominant export commodity, then the cost of corrective action in terms of unemployment becomes too great "In such circumstances," says Lee, "the inflation route is usually a more attractive alternative"

The classic BoP problem that has led to hyperinflationary situations is an increased foreign debt commitment, or a cut off in the flow of foreign funds into the country.

IMF statistics show SA had a debt service burden (interest and capital to be repaid in a certain period) of 19% in 1983. Says Lee "The domestic situation still seems compatible with the inflation range experienced over the past decade Events in 1985 however substantially worsened our potential debt burden and the ability to service that debt Given our historical dependence on a net foreign capital inflow, particularly in achieving a satisfactory growth rate, the net impact of the debt standstill agreement, and the scant prospect of attracting a net inflow of foreign capital in the foreseeable future, may have damaged our inflation outlook materially "

A weak currency is another factor associated with high inflation While a weak currency helps to "automatically" adjust BoP deficits, it can quickly feed inflation through to the domestic economy This often sets up a vicious cycle of inflation and currency depreciation Lee notes that SA has so far managed to avoid this, but he warns that it is essential that SA avoids a repetition of the exchange rate behaviour of the last two years.

High inflation has also afflicted countries when public finance is mismanaged The most common problems usually stem from an abnormal escalation in the demands on government spending Lee adds that "a rise in state spending becomes potentially even more inflationary when the size is consistently underestimated, and the appropriate financing policies are therefore not implemented"

Financing higher-than-expected spending can be easier when tax rates within the economy are low The higher the tax burden, the greater the likelihood that the government will resort to the printing presses

Lee also points to indexation within an economy as being critical to inflation

Indexation starts at an informal level with workers using the consumer price index in the wage negotiations to try and protect their real incomes and standard of living.

Inflation really gets a hold and quickly climbs to chronic levels when there is political backing for indexation In SA, according to Lee, informal indexation is widely practiced as most wage claims are effectively indexed to the CPI But, he stresses, there is no official backing for indexing and the authorities have in fact distanced themselves from such ideas

"The informal adjustment process appears to be about 12 months, indicating that indexation is at this stage a factor keeping inflation at present levels rather than being a driving force behind a much higher rate," says Lee

Milk price up by 4c

STAR 1/7/86

Consumers will have to pay an extra four cents a litre for milk — perhaps more

The producer price of fresh and industrial milk went up today by nine percent (four cents) and major milk distributors are passing it on.

National Co-operative Dairies and Dairy Belle say they cannot absorb the rise because of inflation and higher operating costs, but the increase will be no more than the four cents

However, the impact of the increased producer price on the retail price could vary from dairy to dairy as it is not controlled.

Major supermarkets, Checkers, Pick 'n Pay and OK Bazaars, have announced they will peg the milk price at old levels for a period.

Shift in emphasis to fighting unemployment

Inflation rates crucial to a gold price recovery

2\7\86: STAR (153)

Dr Gidlow

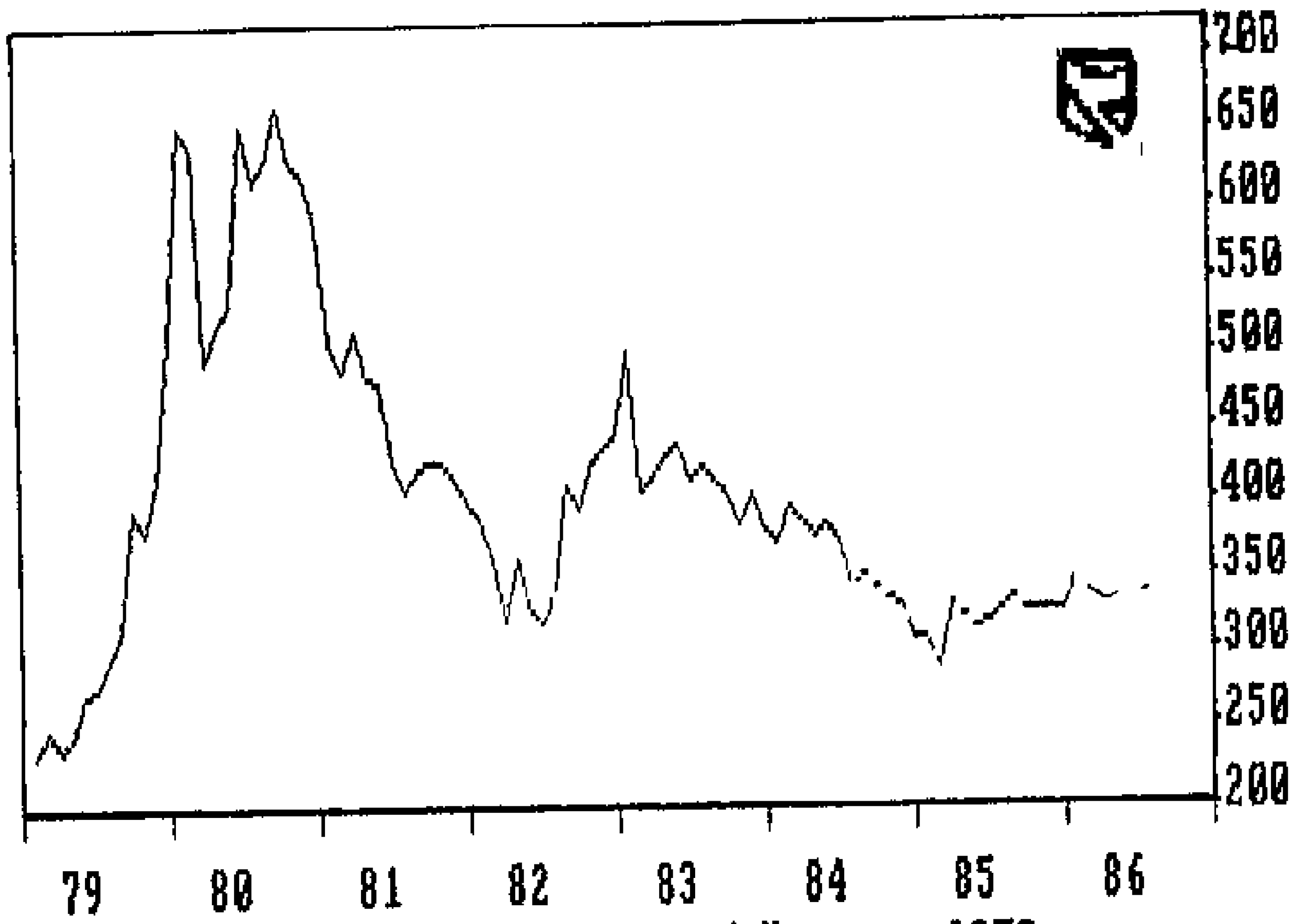
By Dr Roger Gidlow

Six years of positive real interest rates in most of the western countries and sluggish economic growth have combined to bring about a marked fall in the rate of inflation One by-product of these conditions has been a sharp decline in the dollar price of gold as investors downgrade the merits of the yellow metal as a hedge asset in a less inflationery world

Most analysts take the view that a sustained recovery in the price of gold will only occur if inflationary pressures begin to increase again in western countries

On this basis it is crucial to ascertain whether the very low level of inflation now prevailing in western countries is temporary or permanent

Only time will tell, but some insight on this question can be gleaned from recent developments in the British economy where the success achieved in reducing the rate of inflation has been particularly pronounced After rising above 20 percent in 1980 the rate of inflation as measured by the consumer price index fell to 2,8 percent in April this year, its lowest level for 18 years



The London gold price in dollars since 1979

Keen debate

The British government now faces a major challenge in trying to convince the public that low inflation is beneficial and here to stay The cost of bringing down inflation in terms of manufacturing output has not recovered to the levels prevailing back in 1979

A keen debate is now emerging about whether the present anti-inflationary policies will produce long-term benefits and, if they do, whether they will be enough to outweigh the costs incurred in bringing down inflation

In Britain today there is in any case scepticism about the durability of the present low inflationary environment Political pressures are perceived to be slowly inducing the authorities to shift their priorities from fighting inflation to fighting unemployment This perception partly explains why long-term government stocks still yield 9,5 percent while the rate of inflation is below three percent

This failure of long-term interest rates to follow in the same direction as inflation has been a disappointment It not only indicates a lack of conviction that inflation can remain low It has also deprived the public of one of the most important economic benefits expected from the low inflation

High interest rates played a key role in the original formulation of anti-inflationary policy Once inflation was conquered the low interest rates which were to follow were supposed to be the main stimulative force which would restore full employment

This has not occurred The longer these potential benefits prove elusive the greater the danger that political pressures in Britain will lead to a reversal in policy, and therefore the adoption of more expansionary economic policies This fear is deeply ingrained in British financial markets

Scepticism about the chances inflation remaining low is only strengthened by the present outcome of wage negotiations

Wages are rising at an annual rate of roughly 7,5 percent, and this is threatening to push up prices once the full effects of the recent fall in international oil prices have exerted their influence

The experiences in Britain in the past few years have convincingly revealed that inflation can be curbed by appropriate monetary policies Yet policymakers in Britain and elsewhere have failed to find the formula for rendering lower rates of inflation compatible with high levels of employment

Negative impact

The presence of exceedingly high real interest rates in the face of a collapse in inflation in Britain has been especially crucial If these rates do not fall the fears which sustain them may become fulfilled as the authorities resort to more expansionary policies and inflationary pressures become more visible

High positive rates of interest are not confined to Britain even though they are especially marked in that country

From the point of view of the gold market any continuation of such high rates of interest in western countries in general, although negative in the short term, may prove bullish in the longer term

This is because policy-makers could become more inclined to adopt less restrictive policies in an effort to counteract the negative impact of such high rates on employment in western countries as well as the Third World debt impasse

3 DAIRY 153

Butter price slashed

GERALD REILLY

THE Dairy Board has slashed the price of butter in an effort to eliminate a 5 000-ton surplus

The price drops immediately by R1,45/kg to R4/kg

Board manager Eddie Roux said, however, the cheaper butter might not be available at all stores immediately

The butter price will be subsidised from the board's stabilisation fund

Because of the slump, and because the board was not in favour of exporting butter, it had decided to offer cheaper butter to the local market

Butter consumption, said the board, had plunged from 54 000 tons a year in 1971 to 13 000 tons because of consumer resistance to the price and competition from substitutes

This had resulted in structural changes in the industry and the closing of factories

It was hoped the lower price would help butter regain its market share

Retailers are expected to add only 5% to the wholesale price

Consumers, said the board, should pay about R2,10 for 500g

The price reduction was one of the recommendations of the Butter Working Group appointed by the board to investigate the marketing of butter

Further recommendations were being considered

The board said consumers would have noticed that certain supermarkets were already offering butter at reduced prices.

The board had gratefully taken cognisance of this gesture to benefit consumers and encourage butter consumption.

It was hoped consumers would re-discover butter as a natural, quality product

BUS DAY 9/7/86

Bread price rise on the cards

GERALD REILLY

A WHEAT and bread price rise from the start of the new season on October 1 is considered a certainty

Producers expect an increase of about 15% Their recommendation will be discussed at a Wheat Board meeting next week, before the board submits its recommendation to the National Marketing Council.

Producers claim their input costs have risen by at least 16% in the past season. Last year government agreed to an increase of 8,7%, which was just more than half the inflation rate.

Consequently, producers say the profitability gap is closing. Whatever the producer-price rise is going to be, it will be loaded on the bread price

This year's R150m bread subsidy will probably be enough to maintain current prices until the start of the new financial year, provided the wheat price and millers' and bakers' margins remain unaltered.

So, unless government agrees to supplement the subsidy, an increase in the bread price is inevitable

The Davin Commission recommended that the subsidy lapse on October 1 However, the Wheat Board says if the subsidy is abolished, the price of brown bread will have to rise by at least 25%.

153 ~~240~~ ~~299~~

Medical-fees jump of up to 41% suggested

GERALD REILLY

PRIVATE fees of medical practitioners should have been raised by between 19% and 41% from the beginning of the month, says the Medical Association of South Africa (Masa).

It has issued a new set of private tariffs to be used by medical practitioners as a guide only.

"Because the private tariffs are meant to serve as a guide, it creates the opportunity for negotiation between doctor and patient," Masa said in a statement in Pretoria yesterday.

In considering the adjustments, Masa's federal council took into account the possible collapse of private medical services because of spiralling practice costs.

Masa regards the increases as reasonable. It claims the adjustments, based on the consumer price index, would not improve the real income of doctors.

"As in the past, the adjustments were based on the consumer price index, the reason being that practice costs will increase in accordance with CPI increases."

A Masa spokesman said the association realised everyone had to make sacrifices in the current economic climate.

"Doctors are, therefore, asked to take patients' financial circumstances into account when determining tariffs," he said.

The increases are: general practitioners and specialists 19,05%, anaesthetists 20%, radiologists 21,6%; clinical pathologists 20%; anatomical pathology 27%, ultra-sound 41%, and computerised tomography 41,7%.

"This is an average increase of 20,1% and represents an annual increase of 15,1%, which is more or less 4% lower than increases in the CPI over the same period," said Masa.

The last three services listed were seen as immensely cost-intensive. They depend on imports of sophisticated equipment and costly materials and are thus vulnerable to the rand's deteriorating exchange rate.

Masa added that, in terms of the Medical Schemes Act, doctors are not compelled to formally contract in or out. The Representative Association of Medical Schemes (Rams) determines the scale of benefits.

According to calculations by economists, there had been a decrease of between 5% and 10% in the real income of the population over the past 16 months.

"It is therefore accepted that, to maintain their relative position in the economy, doctors' incomes should also reflect this decrease," Masa said.

20% rise in doctors' fees is recommended

N/M 5/7/84

PRETORIA—The Medical Association of South Africa has recommended an average increase of 20,1% in doctors' fees as a guideline for medical practitioners.

Last night Durban doctors said that if the increase was accepted as proposed, a consultation in Durban would cost patients about R16,32.

One doctor said practitioners who did not charge tariff rates 'normally' charged about 25% more than the recommended fee.

In a statement in Pretoria yesterday, Masa said it regarded its latest annual adjustment of the tariff 'as reasonable compensation to doctors for their services'.

It emphasised the adjustment would not bring about an improvement in the real income of doctors.

'As in the past, the adjustment was based on the consumer price index, the reason being that practice costs will increase in accordance with CPI increases'

One Durban doctor said doctors whose patients were from lower income brackets very often included medicines in the consultation fee.

'But your average doctor will probably charge the recommended tariff for the consultation only,' he said.

The recommended tariff increases are:

Clinical disciplines (general practitioners and specialists) 19,05%, anaesthetists 20%, radiologists 21,6% and clinical pathologists 20%

'This is an average increase of 20,1% and represents an annual increase of 15,1% which is more or less 4% lower than increases in the CPI over the same period,' said Masa.

According to calculations by economists there had been a decrease of 5%-10% in the real income of the population over the past 16 months (since the last revision of the Masa tariff)

'It is therefore accepted that in order to maintain their relative position in the economy, doctors' incomes should also reflect this decrease,' Masa said

Services which merited special consideration in the increases were anatomical pathology (27%), ultra sound (41%) and computerised tomography (41,7%) — (Sapa)

Paint price set to rise

14/7/86

DD

153

JOHANNESBURG

Paint is to cost between 20 per cent and 30 per cent more in the next 12 months because of the present rand fluctuations, says Mr Billy Hart, marketing manager of AECI Paints

"Many homeowners were expecting the reverse to apply when the rand strengthened against the US dollar and with the reduction in petrol prices," Mr Hart said

"But these conditions have not been sufficient to offset the increase in costs of imported raw materials which account for a significant percentage of the domestic paint content.

"Of the balance of the content of paint manufactured in South Africa, most raw materials are import related

"This together with a 20 per cent inflation rate over the past year has made it impossible to contain prices, even though profit margins have been considerably reduced," he said

He said raw materials are, in the main, imported from the US, the UK and Germany — Sapa

153

Massive rise in doctors' fees

AN average increase of 20,1 percent in the private fees of doctors has been recommended as a guideline for medical practitioners from July by the Medical Association of South Africa.

In a statement in Pretoria yesterday Masa said it regarded its latest annual adjustment of the tariff "as reasonable compensation to doctors for their services."

It emphasised the adjustment would not bring about an increase in the real income of doctors.

"As in the past the adjustment was based on the Consumer Price Index, the reason being that practice costs will increase in accordance with CPI increases."

According to calculations by economists there had been a decrease of between five to 10 percent in the real income of the population over the last 16 months (since the last revision of the Masa tariff).

"It is therefore accepted that in order to maintain their relative position in the economy doctors' incomes should also reflect this decrease," Masa said.

The recommended tariff increase are:

- Anaesthetists 20 percent,
- Radiologists 21,6 percent, and
- Clinical pathologists 20 percent.

"This is an average increase of 20,1 percent and represents an annual increase of 15,1 percent which is more or less four percent lower than increases in the CPI over the same period."

Services which merited special consideration in the increases were anatomical pathology (27 percent), ultrasound (41 percent) and computerised tomography (41,7 percent).

Expensive

These specialities were immensely cost-intensive because they were dependent on imported sophisticated and expensive materials. The deteriorating exchange rate had made these adjustments essential.

Masa said it realised everybody had to make sacrifices in the present economic climate and requested doctors to take their patients' financial position into consideration when determining their tariffs.

"Because the private tariff is meant to serve as a guide only, it creates the opportunity for negotiation between doctor and patient. — Sapa

Higher medical fees proposed

Dispatch Correspondent

PRETORIA — An average increase of 20,1 per cent in the private fees of doctors has been recommended as a guideline for medical practitioners from July by the Medical Association of South Africa (Masa)

Masa has issued a new set of private tariffs to be used by medical practitioners as a guide only

"Because the private tariffs are meant to serve as a guide, it creates the opportunity for negotiation between doctor and patient," Masa said in a statement yesterday

In considering the adjustments, Masa's federal council took into account the possible collapse of private medical services because of spiralling practice costs

Masa regards the increases as reasonable It claims the adjustments, based on the consumer price index, would not improve the real income of doctors

A Masa spokesman said the association realised everyone had to make sacrifices in the current economic climate

"Doctors are, therefore, asked to take patients' financial circumstances into account when determining tariffs," he said

The increases are general practitioners and specialists 19,05 per cent, anaesthetists 20 per cent, radiologists 21,6 per cent, clinical pathologists 20 per cent, anatomical pathology 27 per cent, ultra-sound 41 per cent, and computerised tomography 41,7 per cent.

"This is an average increase of 20,1 per cent and represents an annual increase of 15,1 per cent, which is more or less 4 per cent lower than increases in the CPI over the same period," said Masa

The last three services listed were seen as immensely cost-intensive They depend on imports of sophisticated equipment and costly materials and are thus vulnerable to the rand's deteriorating exchange rate

153

Few doctors to ask maximum

Dispatch Correspondent

DURBAN — Very few doctors in general practice were expected to charge the maximum R22,50 consultation fee suggested by the Medical Association of South Africa (Masa), Dr Roy Davey of the General Practitioners' Society said yesterday

The maximum rate increased from R18,90 to its new level with effect from July 1, the second increase this year The last increase was on January 1

Dr Davey said while many general practitioners had been discounting off the Masa tariff, they could charge what they liked on negotiation with the patient

"Although Masa says we can charge R22,50, very few will charge that sort of fee, depending on time and the sort of examination," said Dr Davey

He said while a lot of doctors charged the standard medical aid tariff of R13,60, those who did not had been charging about R15 a consultation and would probably increase this to about R18

Specialist fees were roughly a third more than their GP counterparts, but were all different, said Dr Davey

Regarding a possible increase in the medical aid tariff as a result of the Masa increase, the chairman of the Representative Association of Medical Schemes, Mr John Ernstzen said "We are obliged to review our scale within three months and have already started doing so"

But, he added, any increase would be determined on how doctors reacted to the increases and the state of the economy

"Our decision will be determined on what we find is being charged and by the economy because our subscriptions come from the employers and members of industrial and commercial sector," said Mr Ernstzen

Mr Ernstzen emphasised that the situation was "not quite as bad as it sounds" and that the 20 per cent increase granted was hypothetical since most doctors did not charge the maximum rate

He pointed out that for all the services for which the medical schemes paid, more than 80 per cent were charged according to the scale of benefits as laid down by the medical schemes

Mr Ernstzen appeared to find the real increase doctors would get a little high when it was compared with the 8 per cent average salary increase for the man-in the-street whose real income was being eroded by inflation

FINMAIL 18/7/86

CAR PRICES (153)

Keeping longer

Dramatic car price increases in recent years are forcing South African motorists to keep their vehicles for longer The average period of ownership is now seven years, already three years up on 1980's average, say industry sources

Latest National Association of Automobile Manufacturers of SA (Naamsa) figures show that the average car price increase in the year from July last year to June 30, 1986 is 29,5% "The reason for the sharp rise is the depreciation of the rand, compounded by local inflation," says a Naamsa spokesman

Not surprisingly, Prestasi Brokers' insurance statistics for July 1986 show that of 102 000 cars insured through them for white- and blue-collar workers from government and semi-government sectors, only 18% are for new cars During the same period in 1985 more than 30% of the 87 000 cars insured were new cars The recession is evidently biting in many quarters

Together with the trend to hold on to existing vehicles or buy second-hand rather than new, there is an increased demand for spare parts But, say some sources, there is a shortage of imported parts

"This could be because suppliers expect the rand to improve and therefore cut back on imported goods," says an authoritative motor industry source

Spare parts demand

National Motor Spares and Equipment Association (NMSEA) chairman Oscar Taub blames the lapse on the weak rand and related import hikes "This is causing increased demand for second-hand spare parts," he says

But most part manufacturers don't see a shortage of spare parts either in the local or imported divisions. "There can't be a shortage of spare parts," says Nissan MD John Newbury, "We are supplying 92% of spare parts to the dealer on a first call monthly basis," he confirms

Most South African manufacturers are running near full capacity to meet demands for spare parts Because of their competitive prices and easy availability they now experience better times than ever before Some even consider the possibility of exporting

"We are smiling all the way," says Toyota marketing manager Brand Pretorius "Our parts service rate is running at about 95% "

National Association of Automotive Component and Allied Manufacturers (NAACAM) director Densell Vermooten agrees He tells the *FM* that although manufacturers are running at below 50% capacity, some lines are doing well

"Because motorists are not buying new cars, we are manufacturing many of the fast-moving components like spark plugs, which have to be replaced relatively often," says Vermooten "But slow-moving components like engines, which usually last the car's lifetime, bring our total capacity down " ■

Inflation falls to 16,9%

Finance Reporter

SOUTH AFRICA's year-on-year consumer price inflation which the Central Statistics Office (CSO) said yesterday has slowed to 16,9% for June after 17,5% in May was greeted with pleasant surprise by Old Mutual economist, Mr Rob Lee

Speaking from Cape Town, he said such a significant reduction was unexpected for June because of the very low increases in May

The main factor in both reductions, he said, came from the small increases in food prices, which forms about 25% of the index

He said it was not clear if the reductions were seasonal and could reverse, but he thought it unlikely there would be any further significant falls until December or early next year

Trust Bank projected an average rate of 17% for the year in their Economic Report released yesterday

It said the forecast was based on a recent sharp drop in the value of the rand, signs that the government sector will further increase its share of the economy this year and supply shocks to the economy which could be caused by limited sanctions

According to Reuters the all items index (base 1980) rose a monthly 0,8% to 224,4 in June after a 0,2% gain to 222,6 in May

A year ago the index stood at 191,9 and year-on-year consumer inflation at 16,4%

The food only index rose to 219,4 in June from 218,8 in May and 187,5 in June 1985, giving a monthly rise of 0,3% and year-on-year gain of 17%

The lower income group index rose to 219,2 from 217,7 and 188,2 respectively for respective gains of 0,7 and 16,5%

The middle income group index rose to 226,7 from 224,8 and 193,9 for a monthly gain of 0,8% and a year-on-year gain of 16,9%

The higher income group index rose 0,8% to 224,6 in June from 222,8 in May, giving a 17,1% rise from 191,8 a year ago

Economists welcome drop in inflation rate

22/7/86

STAR 153

By Janine Simon

The year-on-year inflation rate has dropped from 17,5 percent in May to 16,9 percent in June this year

But figures released by the Central Statistical Services yesterday show that the month-on-month consumer price index (CPI) has jumped from May's record low of 0,2 percent to 0,8 percent in June.

June's figure is still low compared to the monthly CPI for the past two years

"Costs to industry and commerce, especially in wages and salaries, have risen at a slower rate," said group economist for Rand Merchant Bank, Mr Rudolf Gouws

"The recession has created a highly competitive economy, making it difficult for the producer to pass on costly increases."

Chief economist for the Standard Bank, Mr Nico Czypionka, said pressures on the monthly price rates had not disappeared.

"This could be a lull before a storm — pent-up price increases are indicated in the producer price index and the impact of the renewed weakness of the rand is still to be felt"

Cape Times 22/7/86

Inflation rate drops to 16,9%

(153)

By AUDREY D'ANGELO
Assistant Financial Editor

THE rise in the cost of living slowed down further in the 12 months to June, to 16,9% compared with 17,5% in May, according to figures released yesterday by the Central Statistics Office

But the director of the University of Cape Town Graduate School of Business, Professor John Simpson, said yesterday he did not expect this trend to continue

"There is a downward trend but I think the government's recent attempt to stimulate the economy is inflationary

"In the medium term the Consumer Price Index (CPI) may go down, but I cannot think it will go down much more and we may soon see it levelling off."

Professor Simpson said the government was obviously sorely tempted to reflate the economy.

"And if you do that it is difficult to keep the CPI down"

He said the present weakness of the rand meant that SA was still importing inflation

The figures released by the Central Statistics Office show that the all items index has more than doubled since 1980, from the base rate of 100 to 224,4

A year ago it was 191,9 and the year-on-year inflation rate was 16,4% The food only index has risen by 17% in the past year, to 219,4 compared with 187,5 in June 1985

The upper income group has had the highest rise in its cost of living, of 17,1%, in the year to the end of June

The cost of living for the middle-income group rose by 16,9% and for the lower income group by 16,5%

In the month of June, the cost of living for the higher and middle-income groups rose by 0,8% and that of the lower-income group by 0,7%.

Sharp increase in summonses and judgments

Consumers are losing ground, says Sanlam

STAR 153 22/7/86

By Stan Kennedy

Taking into account inflation and a population increase of 2,5 percent a year, real disposable income per capita has dropped by one percent a year over the past six years — and that is without GST, which has shot up by 36 percent a year during this period

Consumers are still burdened with obligations incurred earlier and which must be redeemed now, while their real income is shrinking. The weaker financial position of consumers and their inability to discharge obligations is leading to a sharp increase in summonses and judgments for debt since 1981 For many, bankruptcy is inevitable

In its July *Economic Survey*, Sanlam says the factors contributing to the decline in spending in the first quarter of the year include a general lack of consumer confidence, only modest increases in wages, high unemployment, exceptionally high inflation, the increasing tax burden and organised consumer boycotts

Political instability

Others are a strong rise in Government spending, a sharp decline in real fixed investment by the public and private sectors and a further depletion of inventories

"It is against this background in the first quarter, and the signs that real economic activity most probably declined further in the second quarter, that additional stimulation has become extremely urgent

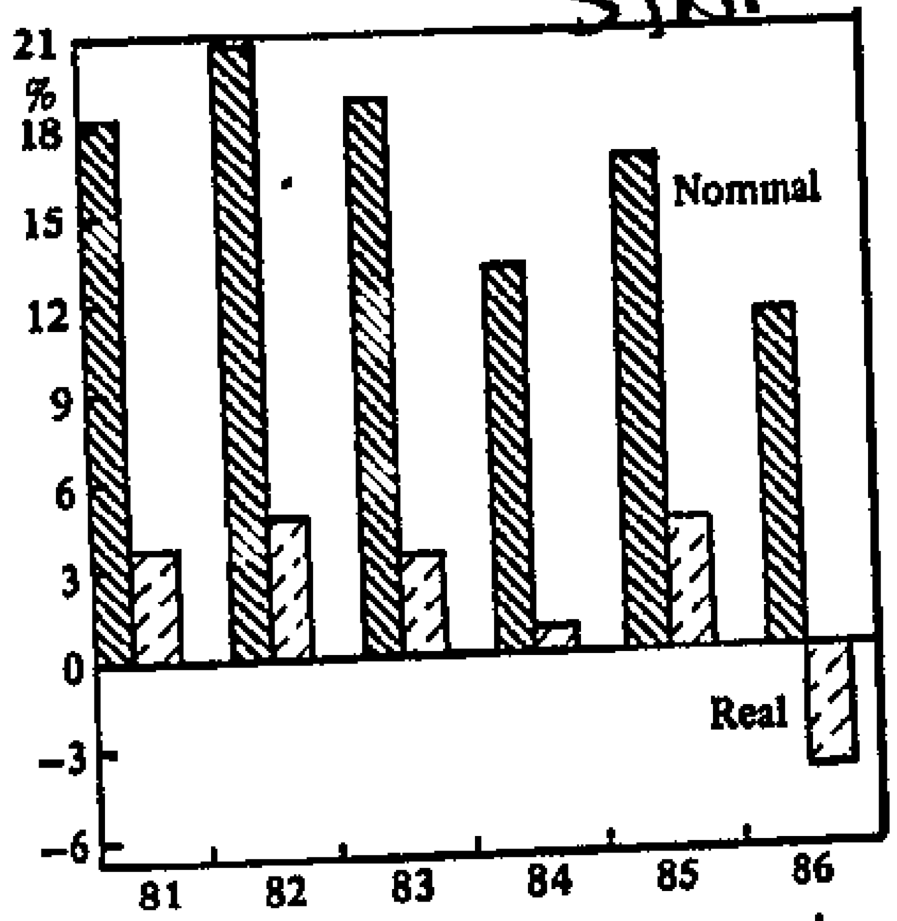
"We consider that further fiscal stimulatory measures, more reductions in short-term interest rates, a stronger rand and more stable socio-political conditions are necessary to get the economy going again"

Sanlam questions whether South Africans, in the midst of the current political instability, have the economic determination to ward off the sanctions onslaught

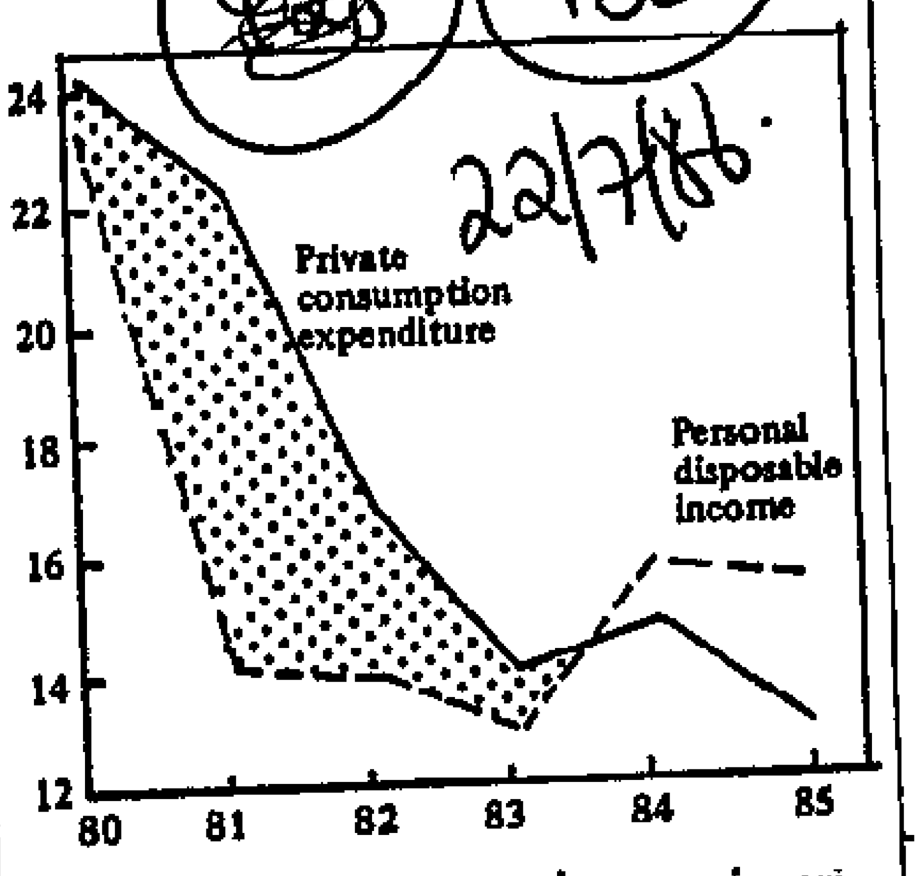
"It goes without saying, that a general improvement in business and consumer confidence is a prerequisite for a sustained upswing

"Considering the daunting problems facing the country, a continued high economic growth rate is all the more necessary now. Private consumption expenditure represents between 50 and 60 percent of the total domestic expenditure on goods and services and is an important incentive to growth"

To absorb all the new job-seekers, an average economic growth rate of about 4,5 percent a year is necessary — more than double the rate South Africa has been able to attain since 1980. Unofficial estimates are that up to two million workers, or 18 percent of the available labour force, are either out of work or not fully employed



Percentage changes in nominal and real renumeration per worker



Annual percentage changes in private consumption expenditure and personal disposable income

The surplus on the foreign trade account rose steeply in May, bringing the total surplus for the first five months of the year to just over R4,9 billion This compares with the R4,4 billion surplus for the same period last year

However, Sanlam estimates that the current account of the balance of payments for the first five months will be down from R2,2 billion last year to R2 billion

Large purchases of strategic goods, notably crude oil, in the first three months of the year, pushed up the volume of merchandised imports, at a seasonally adjusted annual rate, to 40 percent from 25,6 percent in the last quarter of 1985

"However, there are indications that the programme of stockpiling strategic goods is almost completed and that, in future, the volume of imports will once again be more closely related to the general rate of expansion in the economy"

Although the depreciation of the rand is pushing up import prices considerably, Sanlam believes that the current account of the balance of payents will show favourable surpluses during the rest of the year It estimates that there will be a surplus of between R4 billion and R5 billion for the year as a whole

EVENING POST, TUESDAY, JULY 22, 1986

usiness

(153)

Call to cut red tape stifling small firms

Business Editor

INFLUENTIAL insurance company Sanlam today put its weight behind calls to cut red tape stifling small businesses

Calls for cuts in personal taxation and action to reduce the inflation rate were also contained in the organisation's latest economic report, which gave an "unofficial" estimate that 2 million — 18% — of South Africans were unemployed or underemployed

Summing up current prospects, the insurance company said "In view of the proportions unemployment in South Africa is now assuming and the serious socio-political consequences this has for the country, there is an urgent need for a much faster growth rate than that of the past five years"

But, cautioned the report, this was unlikely in 1986 when only "marginal" growth was expected, although this would probably accelerate next year.

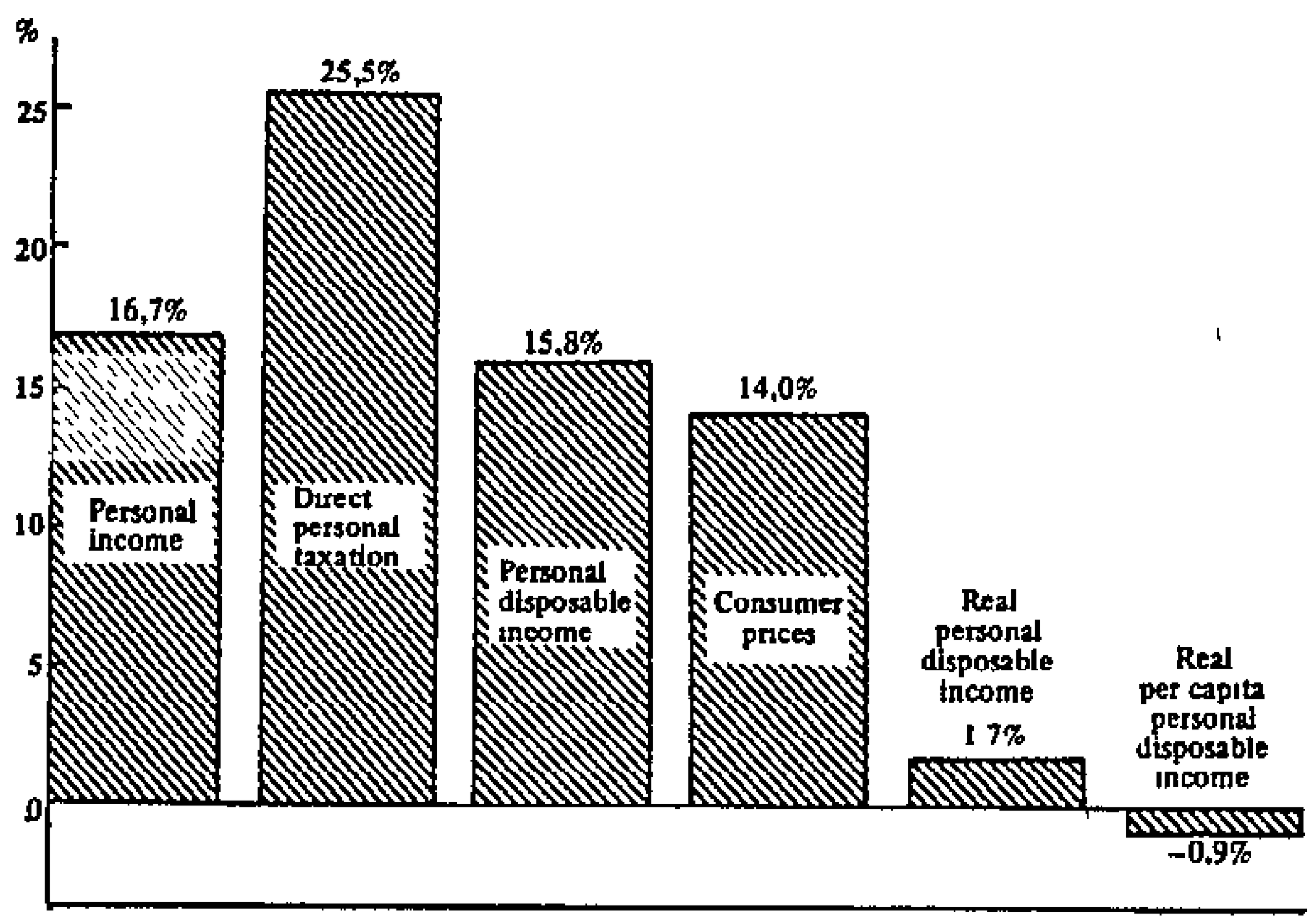
Giving what it called a "profile of impoverishment", the report said that taking into account inflation and an increase in the population of about 2,5% a year, real peronsal disposable income had dropped by almost 1% a year over the past six years — "and that is without GST, which has increased by 36% per annum in this time".

But the report said increasing salaries and wages was not the solution to the problem, as such increases without a corresponding increase in productivity could raise inflation

"We believe it to be essential that the tax burden of individuals be reduced and the inflation rate lowered drastically

"Consumers' willingness to spend depends largely on their sentiment — that is their confidence in the future economic and political situation

It urged that the Government speed up the process of repealing laws hampering the growth of small business by accepting the recommendations made by the President's Council Committee on deregulation



South Africa's "profile of impoverishment" ... a graph prepared by Sanlam using figures from Central Statistical Services and the Reserve Bank illustrates how, from 1980 to 1985, real personal income per capita has dropped by almost 1% a year, excluding the effects of general sales tax.

Experts see only gloom ahead for our economy as . . .

SA's trading partners head for nil inflation

153

STAR 23/7/86

By Michael Chester

Economists are in despair over evidence that South Africa is limping behind on crutches while its world trade partners are rushing to the winning post in the global contest to find solutions to inflation problems

And most see little sign of any dramatic shrinkage to single-digit inflation as consumers struggle with debt burdens and falling standards of living and wages and salaries fail to keep pace with the prices spiral

The dismal failure of South Africa to crack the inflation conundrum is underscored in comparisons of international trends over the past decade

While its annual rate of inflation has even worsened compared with 10 years ago and races ahead at 16,9 percent (even with a mild improvement over the past couple of months), the rate in Britain has been hammered down from 19,7 to 2,5 percent, in the United States from 11,7 to 1,6, in Japan from 18,1 percent to only 1,1 percent — and in West Germany it has been forced into reverse

FALLING PRICES

Consumer prices in all four overseas countries are now actually falling month by month compared with a year ago

In South Africa, the identical supermarket shopping basket that cost R100 only five years ago had a price tag of R183,80 last year and now costs R218,80

This time next year, if the consumer price index stays at its current level, the same basket will cost R255 or more

Meat prices have soared 120 percent since 1980, grain products by 152 percent, coffee and tea by 149 percent, fruit by 110 percent, cold drinks by 142 percent, and vegetable prices have almost doubled

Clothing and footwear is 105 percent dearer The cost of housing is up by 147 percent Furniture prices have more than doubled And education costs have risen 220 percent

"The danger signals were spotted more than a decade ago", reflects Dr Azar Jammine, of Econometrix, "but the impact on South Africa was softened in the 1970s by the fact that inflation was a universal phenomenon and the whole Western world was hit by a series of oil price crises

CRITICAL

"It has been from 1980 onwards that trends have become critical South Africa allowed a credit explosion and a wild spending spree that has worsened the problem

"Recession and the tumble of the rand exchange rate have camouflaged many of the dangers, because import volumes have been forced lower and our exports have enjoyed a price edge over competitors

"However, when the economic recovery begins and imports increase to fuel the revival, and if the rand steadies or even improves and thus blunts the competitive edge of exports, the shock waves will be enormous

"South African exports, costing more and more to produce, will simply price themselves off the overseas shopping list

"And our living standards will fall further and further behind

"It's a classic dilemma South Africa dare not exercise the sort of disciplines that were applied overseas and entailed steep rises in unemployment

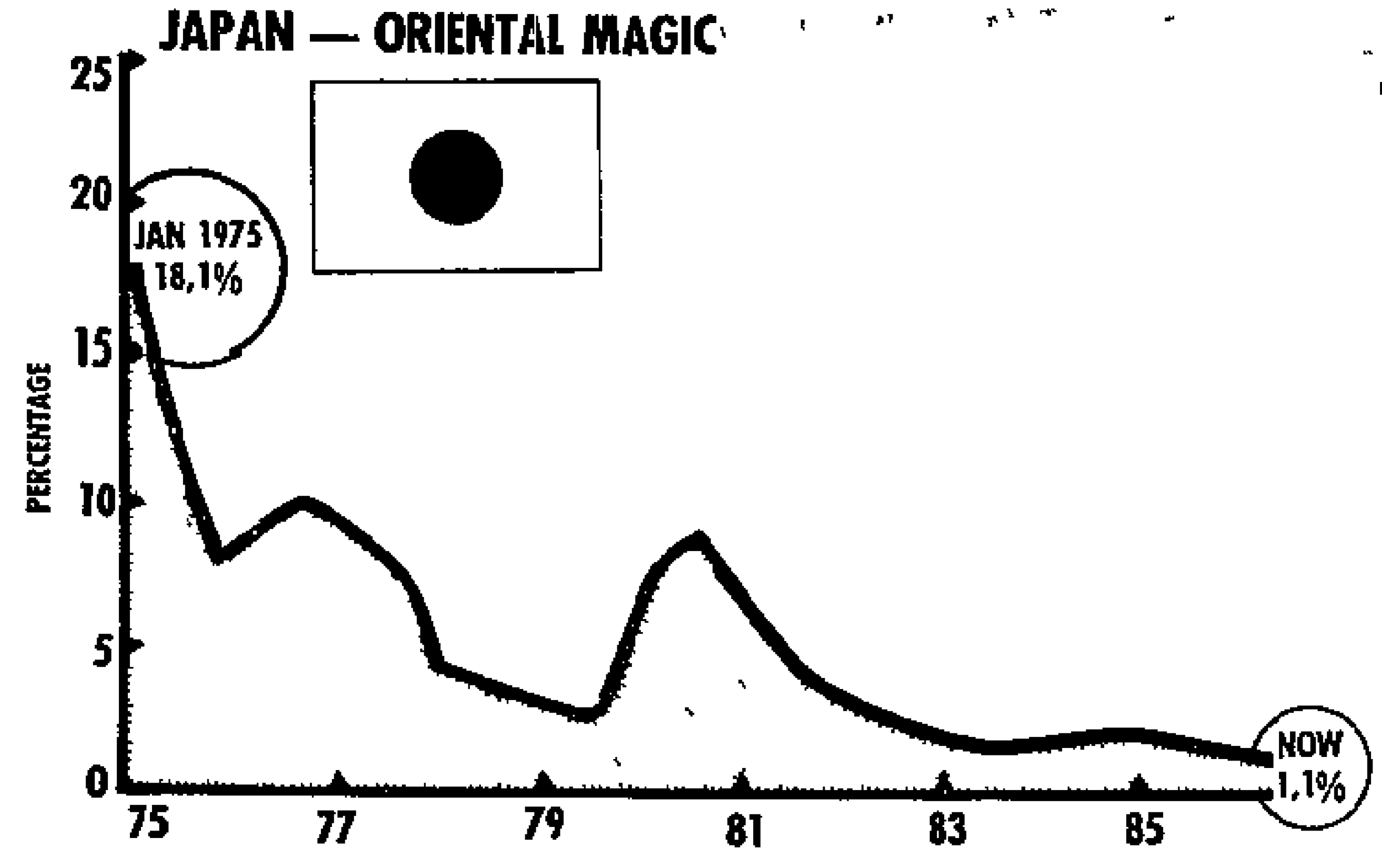
"If the Reserve Bank slows the rand-note printing presses for too long it will throttle the consumer spending needed for an economic revival and throw even more people out of jobs

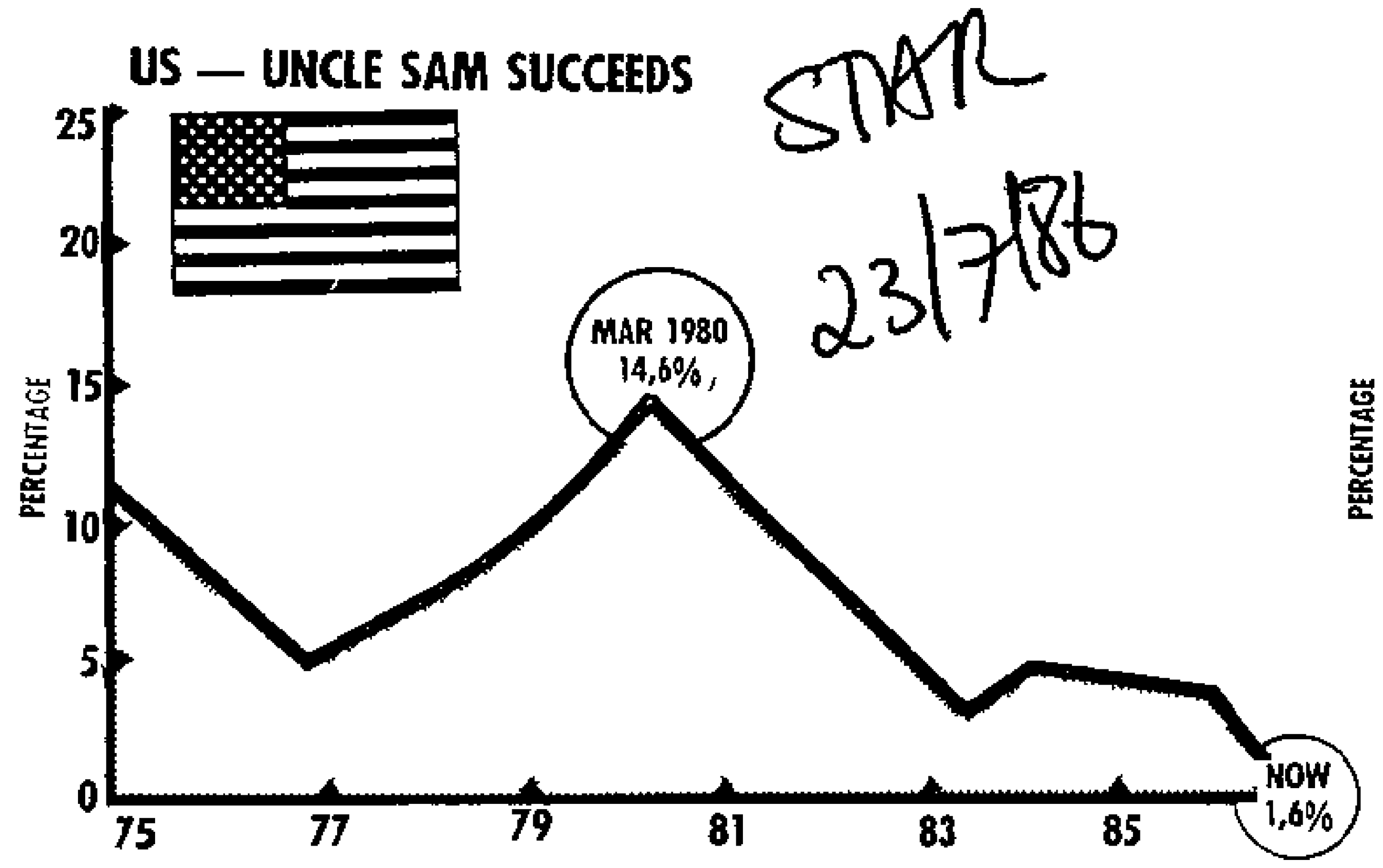
"And if the presses thunder on it will mean worse inflation "

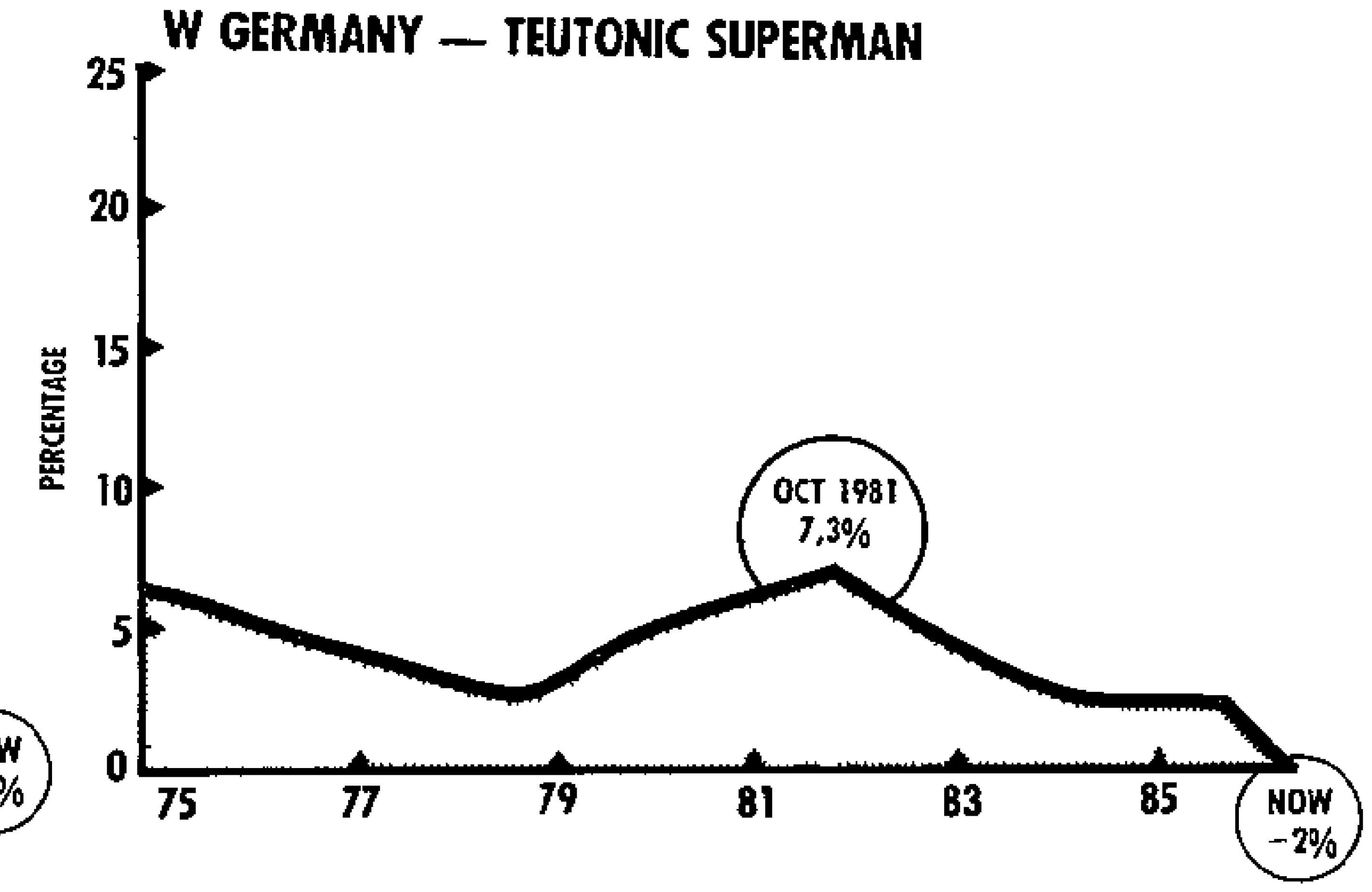
Economists are sharply divided in their forecasts of which way inflation will go from now

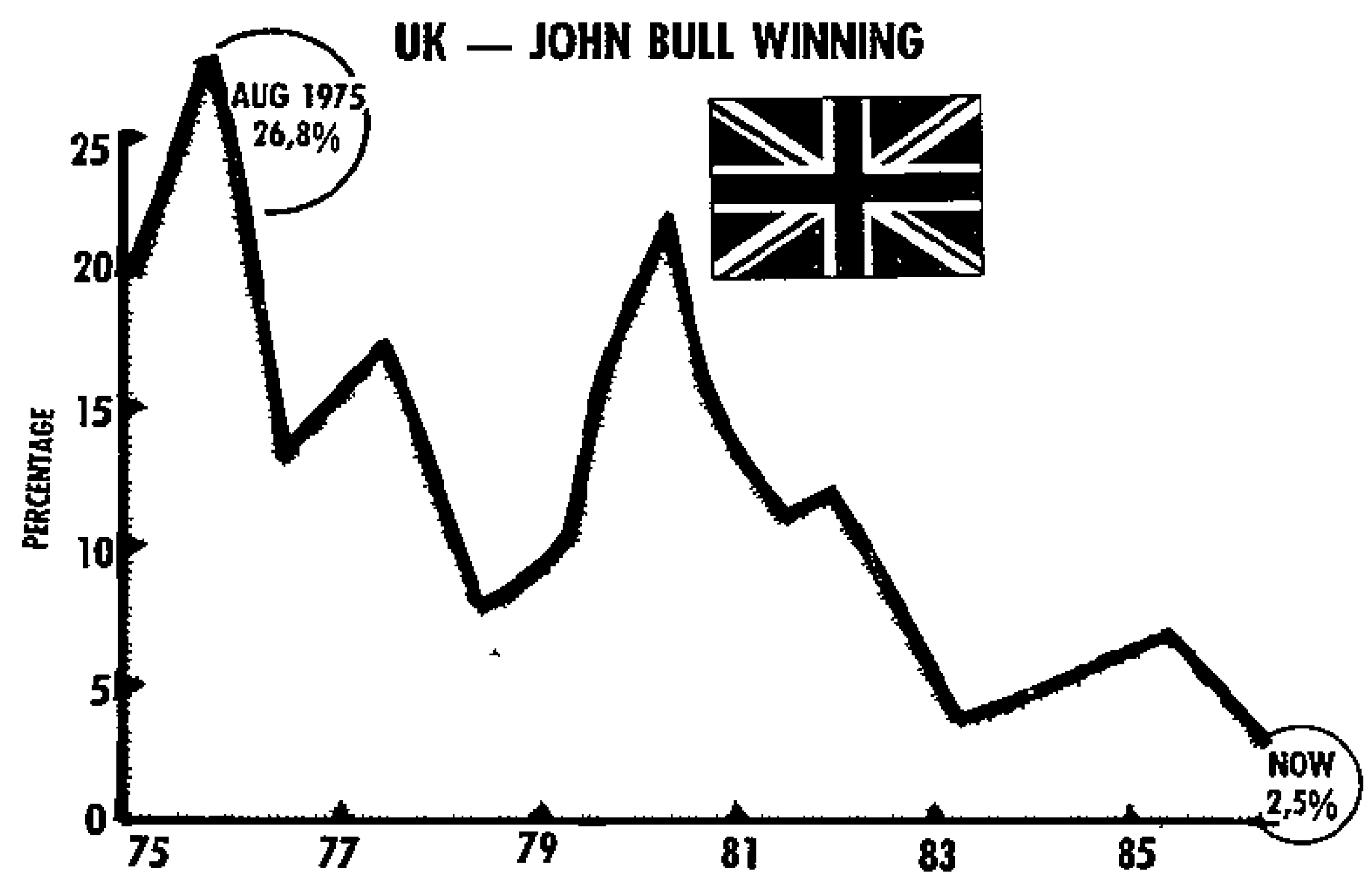
Sanlam predicts the annual rate will ease a shade to work out at an average of 17 percent for 1986 as a whole, with the possibility of a shrinkage to about 13,5 percent next year

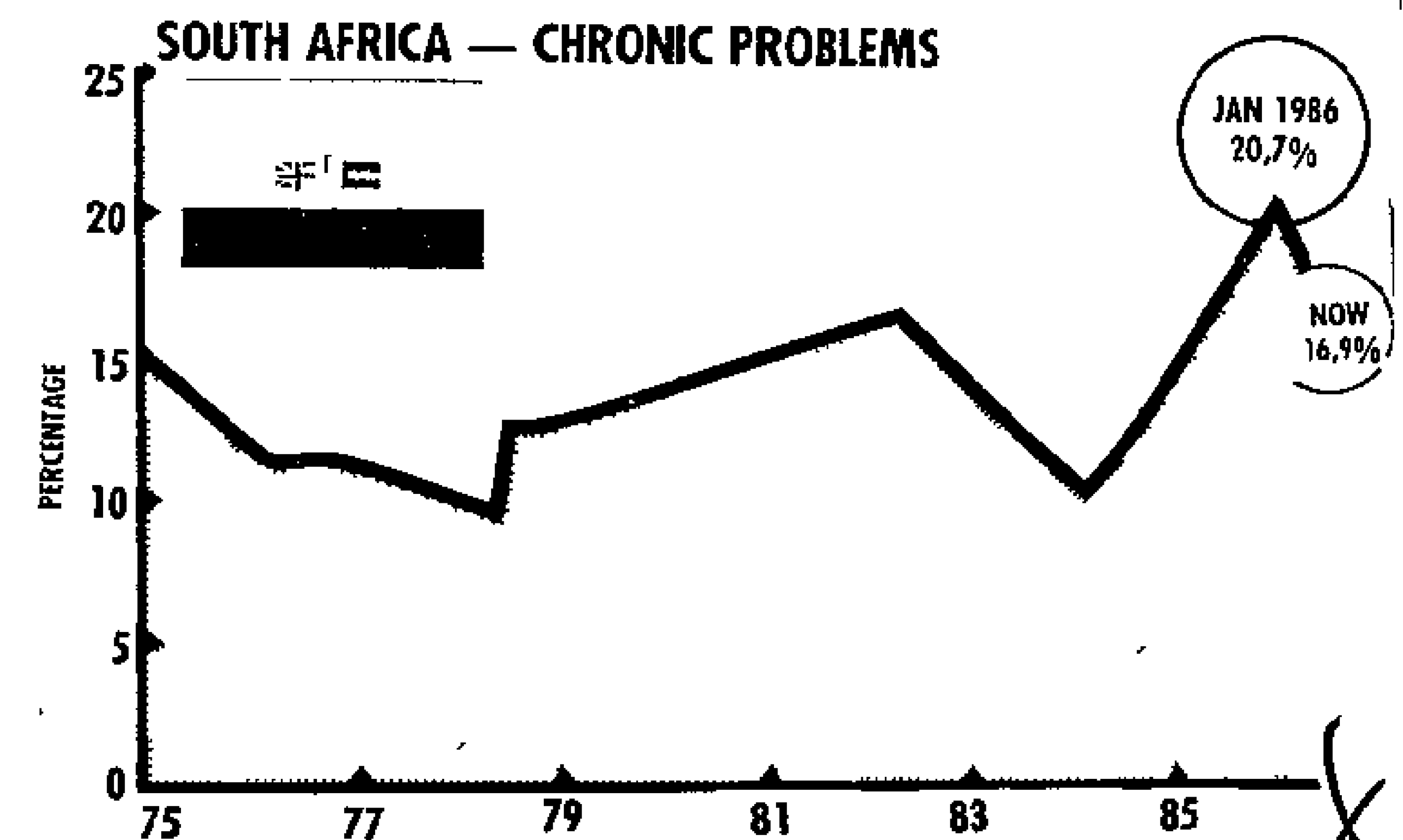
At the opposite pole, Professor Geert de Wet of the Rand Afrikaans University fears that inflation may flare as high as 30 or even 40 percent inside the next year or two unless "some very unpalatable measures" are taken by the Government











10-YEAR INFLATION TRACK RECORDS

	Jan 1975 %	Peak %	Now %
SOUTH AFRICA	15,2	20,7 (Jan 86)	16,9
BRITAIN	19,7	26,8 (Aug 75)	2,5
UNITED STATES	11,7	14,6 (Mar 80)	1,6
JAPAN	18,1	18,1 (Jan 75)	1,1
WEST GERMANY	6,1	7,3 (Oct 81)	−0,2

Natal Mercury, Wednesday, July 23, 1986

153

Many ask for tax extensions

Mercury Correspondent

JOHANNESBURG—Heavy demands are being made on receivers of revenue throughout the country for tax payment extensions, the chief director of the Directorate of Inland Revenue, Schalk Albertyn, said in Pretoria yesterday

From Johannesburg alone, 60 834 requests for extensions had been received in the past six months

'This is a reflection of the recession,' Mr Albertyn said

Unemployment, inflation higher than normal salary and wage increases, and shrinking disposable incomes all added up to making the tax collection operation more difficult

However, the directorate's tax audit teams and its inspectorate were steadily gathering millions from tax-shy salary- and wage-earners and companies

Since October 1984, Mr Albertyn said, R170 million in unpaid GST had been discovered

Unpaid GST collections were averaging about R8 000 000 a month

In the first six months of the year R49 million was netted compared with R43 million in the same period last year

Inspectorate staff working on income tax and estate duty investigations found R16,5 million owed to the State in the first six months of the year.

Audit teams have discovered additional untaxed company and individual income amounting to R517 million so far in 1986

153

Change needed to meet housing crisis

N M 24/7/86

Johannesburg—Inflation and bureacracy were factors blamed for the housing crisis in South Africa at a housing conference here yesterday Private sector delegates at the conference, presented by Unisa's School of Business Leadership and the Development Bank of Southern Africa, called for de-regulation, a lowering in building standards and other measures to tackle the backlog in black housing

The managing director of LTA Construction, Mr I W Robinson, said the biggest demand for housing came from the black community, but only 10% of the required 80 000 units a year were being constructed

He said the white housing demand was restricted to the low income groups as the market for middle and high income groups was 'saturated'

Mr Robinson called for bureaucratic controls to be re-examined and for authorities to take account of entrepreneurial contractors who were willing and able to help resolve the housing problem

Financial institutions with huge sums of money had to be coerced into providing low-interest finance so that urban workers could purchase their own homes, Mr Robinson said

Building regulation standards had to be dropped from first-world levels, he said

Mr Nico Korsman, of Korsman and Van Wyk, said inflation contributed to the low building rate of only 0,9 housing units for every thousand blacks during the period 1982 to 1985

Dr T L Webb, of Unisa's Business Leadership School, said concern had been expressed that the various government housing agencies could lead to fragmentation, and that a single government agency would be preferable

The head of the government department providing housing for whites, Mr Frank Gerber, said the private sector was mainly responsible for providing housing for whites

Government support was given to whites who were in need of care, indigent, aged, or young

In future the department's functions would be vested in regional functionaries and local authorities, Mr Gerber said, while its role would centre on policy determination —(Sapa)

'Reducing inflation rate in SA possible'

Cape Times 25/7/86 (153)

Nahum Biger

By GORDON KLING
Financial Editor

THERE is hope yet of SA reducing government spending and inflation if recent experience in Israel is anything to go by

Chairman of the Department of Business at Haifa University and visiting Professor of Finance at the UCT Graduate School of Business, Nahum Biger, notes that inflation in Israel has come down to the vicinity of 16% per annum from 450% a year ago

The swing was achieved by a new coalition government within two years of coming into power, Biger said in an interview this week.

It began with the implementation of a new economic policy in July, 1985, that entailed a 20% overnight devaluation of the currency, and a slashing of State subsidies on everything from bread, and milk to public transport

Government met jointly with the country's trade unions and organized industry to keep them abreast of developments which also included a severe clamp on government spending

The unions agreed to abandon indexation of wages against inflation and a three month wage freeze, which has since been extended

Within weeks, the initiative had begun to bite until inflation last December became a negative 1,2% for the first time in 19 years

"It was hard on a great many industries, particularly construction which is still at a standstill, but unemployment went up only marginally," said Biger The jobless rate remains at a low 7% by Western standards

Real wages went down by about 30%, from June till December, 1985

The balance of payments improved substantially in this period, before deteriorating somewhat in the first quarter of 1986, predominately because a weaker US dollar hit Israeli exports to the US

Export business with Europe and Japan remains buoyant, however, and a new free trade agreement with the US promises major advantages

153

DAILY DISPATCH, MONDAY, JULY 25, 1986 — 3

MP warns of crisis

Dispatch Reporter

GRAHAMSTOWN — The protection of strategic industries was contributing just as much to the financial crisis facing South African farmers as inflation was, the Progressive Federal Party MP for Albany, Mr E K Moorcroft, said at the annual meeting of the Koonap Farmers' Association at the weekend

While industries such as the Atlantis diesel plant and fertiliser firms were receiving protection, farmers could not compete on the international market for inputs

"The farmers are carrying the can Several high input costs are a direct result of protecting local industries You can't buy cheap fertiliser, for instance, from Brazil, nor cheap tractors from Rumania," Mr Moorcroft said

"In 10 years, the average annual increase in gross agricultural income from maize, beef and so on had been 25 per cent But agricultural costs had risen by 43 per cent

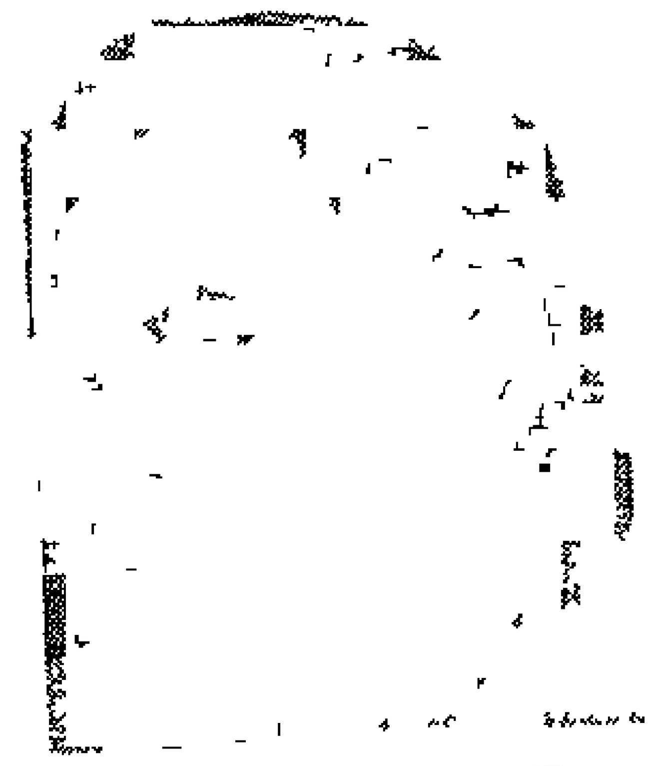
"The farmer is on the horns of a dilemna He has a vested interest in inflation because of the high land prices, but if land prices returned to market-related levels, his security would be destroyed," Mr Moorcroft said

The South African Agricultural Union (SAAU) had already approached the government with a formal request to try and contain rising costs and inflation, which was now running at 18,2 per cent

"The SAAU thinks that unless the government moves quickly and effectively we will be in deep trouble," he said

Unless the government tackled inflation there would be a catastrophe

"I have no difficulty supporting this appeal Inflation is strangling us The state has responded positively Let's see what the ministries of agriculture and finance can do If they don't act, we shall be in serious trouble"



MR MOORCROFT

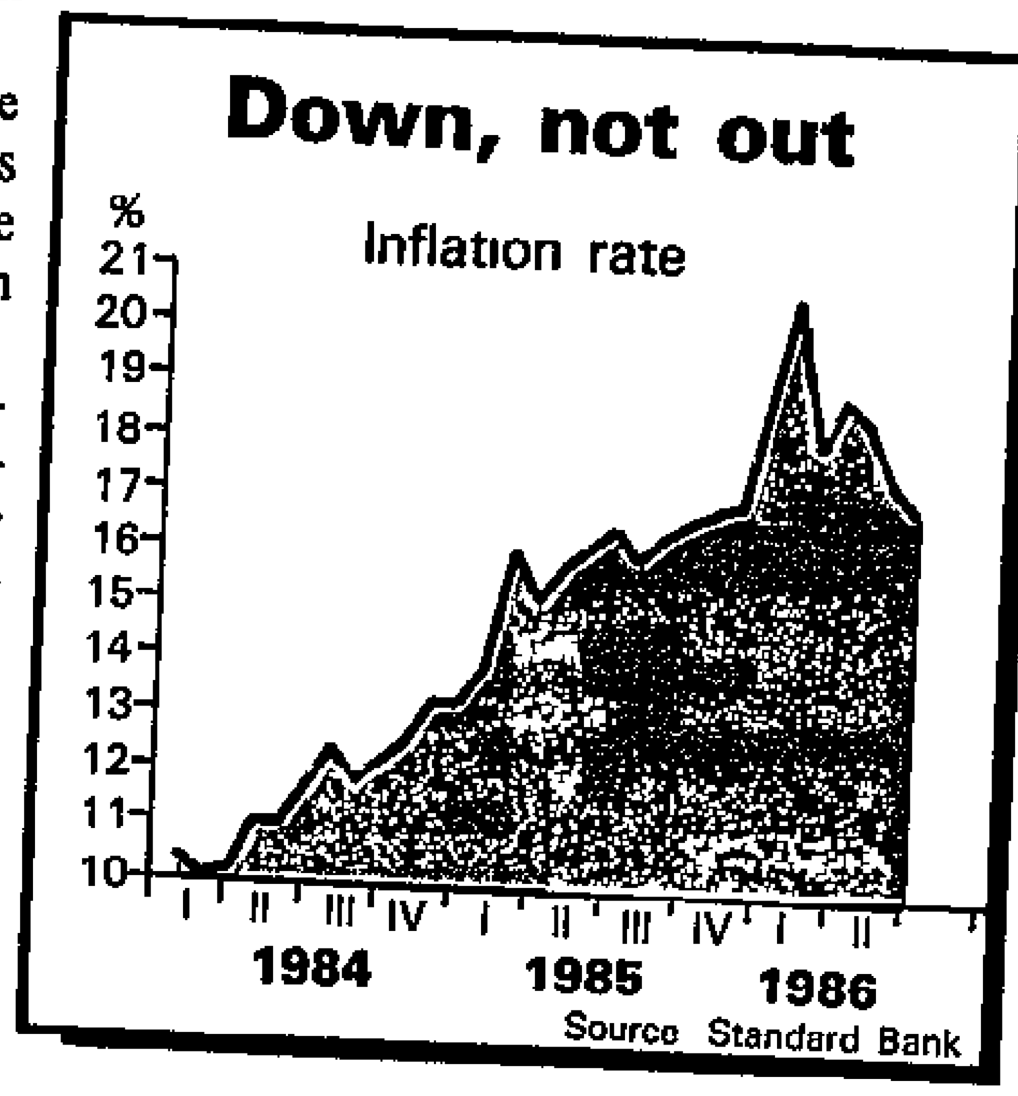
THE

INFLATION FINMAIL 25/7/86 153

Problems ahead

Even though inflation continues to decline, structural problems persist, causing economists to doubt the likelihood of any significant drop Resuming the recent downward trend, the June year-on-year increase in the CPI dropped to 16,9% (bringing the all-items index to 224,4) from 17,5% in May, 18,6% in April and 18,9% in March

This is the lowest annual rate since October (it was 16,9% in November)



But, at 16,9%, the year-on-year rate is still alarmingly above those of SA's main trading partners

In Germany, for example, prices have *declined* by 0,2% over the past year, while annual inflation is running at 0,5% in Japan, 1,6% in the US and 2,8% in Britain With such huge disparities come all the associated foreign exchange and international trade problems, themselves inflationary

Before inflation can be brought anywhere near these levels, administered prices must be curbed or determined competitively and the rand's value at least steadied so that import price rises are contained

Standard Bank's Nico Czypionka doubts that the declining rate reflects the full picture as far as short-term prospects are concerned "At the production level, the low rand and attempts to restore margins will exert inflationary pressures down the line" He sees inflation at 15% by year-end, "not a great base to start 1987"

Stockbroker Senekal Mouton's Leon Steenkamp also sees inflation around 15% by year-end (mainly as a result of the depressed state of the economy), but fears it could develop a will of its own and shoot up when the economy improves

Rand Merchant Bank's Rudolf Gouws is more optimistic "The latest figure shows May was not a hiccup, but a basic downward trend" He points out that over the past five months annualised CPI has risen 12,3%, compared with 26% in the previous four months He reckons inflation should be 14% by early next year

However, Nedbank economist Ian MacFarlane is not as optimistic Also citing the low rand and tight profit margins, he foresees year-on-year inflation at 18% by year-end, increasing to 20% early next year. "The June-July period is likely to be the last of the good months as far as inflation is concerned."

CPI increased some 0,8% from May to June. Although not too much should be read into monthly moves, this is more than the 0,2% April-May increase (the lowest monthly increase since September 1976) The July index should reflect lower mortgage rates, which will be offset by higher milk prices

Over the month, increases occurred in clothing (1,5%), footwear (1,4%), housing (1,2%), furniture (1,7%), medical care (3,8%), recreation and entertainment (2,6%), personal care (3,4%), domestic servants (1,4%), milk and eggs (1,9%), vegetables (2,2%), and coffee and tea (1,2%) These were offset by declines in fruit (3,2%) and meat (0,3%)

The food index (25% of the total) rose a mere 0,3% over the month, bringing it to an annual 17%, down from May's year-on-year 19% Shoppers may find this hard to believe Czypionka questions the behaviour of the food index, since it shows hardly any increase in the past few months

The overall index for the lower-income groups is 219,2 (up 0,7% over the month and 16,5% over the year), 226,7 for the middle-income group (0,8% and 16,9%) and 224,6 for the higher-income group (0,8% and 17,1%)

The steepest price increases over the past year have been in Pretoria-Verwoerdburg (18,9%) and the lowest in Durban-Pinetown (13,5%) Prices on the Witwatersrand have increased by 18,2% since June 1985 ■

BusDay 28/7/86

153

Inflation the bar to job creation?

RONNIE BETHLEHEM

UNEMPLOYMENT, INFLATION AND REAL GDP GROWTH — US

Years / Annual Averages	Real GDP Growth % pa	Inflation % pa*	Unemployment Rate%
1950 - 59	3 3	2 1	4 5
1960 - 69	4 0	2 8	3 8
1970 79	3 1	7 8	8 2
1980 - 85	2 6	5 5	8 0
1983 85	4 6	3 9	8 0+

* As measured by year-on year changes in the CPI

* Average for 1984 and 1985 7 3%

UNEMPLOYMENT, INFLATION AND REAL GDP GROWTH — SA

Years / Annual Averages	Real GDP Growth % pa	Inflation % pa*	Unemployment Rate%+
1950 59	4 4	3 5	0 82
1960 69	5 7	2 5	0 91
1970 79	3 4	10 3	0 57
1980 85	1 1	14 8	1 06
1983 85	2 0°	13 9°	1 29

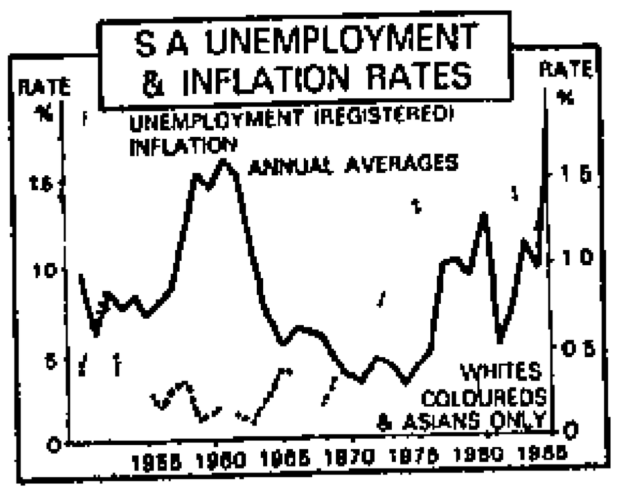
* As measured by year on year changes in the CPI

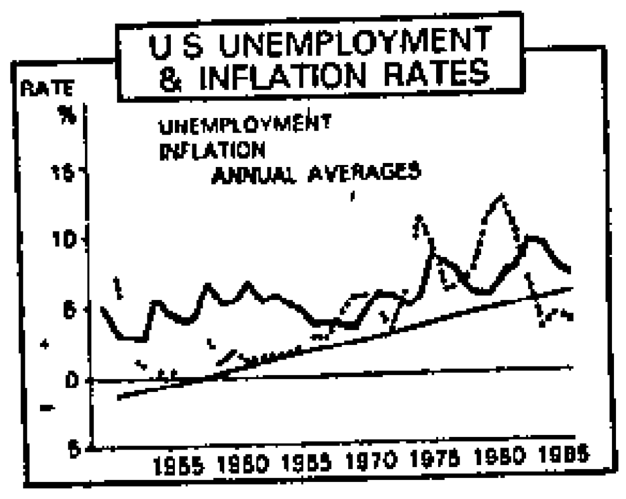
\+ The registered unemployment of whites coloureds and Asians only expressed as a percentage of the estimated economically active populations of such groups

° 1984 5 0% (reflecting mini boom effects) 1985 - 1 0%

° 1984 11 7% 1985 16 2% 1986 (April) 18 6%

'We used to think that you could just spend your way out of a recession, and increase employment, by cutting taxes and boosting government spending I tell you that option no longer exists, and that in so far as it ever did exist, it worked by injecting inflation into the economy Each time that happened, the average level of unemployment has risen Higher inflation followed by higher unemployment That is the history of the last 20 years' James Callaghan, former UK Prime Minister 1976





The trade-off between unemployment and inflation, suggested by empirical evidence both overseas and in SA, has important implications for economic policy

In recent years, however, the trade-off appears to have undergone a subtle change While it continues to be evident in the short-run, its dependability in the long-run has become more suspect.

Indeed, in the more industrialised countries, the evidence suggests that it breaks down altogether An interesting revelation of research in SA is that this breakdown has begun to manifest itself here too, so that the advantages of Keynesian-type reflationary policies may be shorter-lived and have less impact than in earlier years

In the long-run, only growth in the real economy greater than the growth of population will prevent unemployment from becoming overwhelming, and this gives growth a higher ranking in the determination of policy priorities

A negative correlation has emerged between growth in production volumes and inflation in SA and a reduction in inflation may have become a precondition for improved real economic performance and, hence, job creation itself

This is a contradiction of a conventional wisdom upon which the formulation of economic policy continues very largely to rest

The significance of the trade-off from a macro-economic stabilisation point of view had to do with what it implied for economic policy

Briefly, if the relationship remained consistently true, it meant that policy, concerned with reducing inflation, could be made effective by measures that would have the result of increasing unemployment

On the other hand, if the goal of policy was to reduce unemployment, measures that involved an increase of inflation could be considered It remained, merely, for governments to decide what balance between unemployment and inflation best suited them given the prevailing circumstances of the time and their broader political objectives

Dispute between theoreticians continues to rage as to whether the policies adopted by the Reagan and Thatcher governments in the US and Britain, have really provided good examples of monetarism in practice

The dispute will probably never really be settled What, however, is important is that as a result of Reagan and Thatcher, no one really doubts any longer that in circumstances of relative prosperity such as the Western world currently enjoys, the problems of unemployment or of economic disequilibrium more broadly, cannot be solved simply by resorting to the printing press

It might be said that we are all monetarists now if by monetarist is meant that inflation is a monetary phenomenon, and regulating the growth in the money supply is important to its control

The trade-off between unemployment and inflation is an underlying assumption of much of the thinking that governs policy formulation in SA

It is widely accepted, for example, that effective anti inflationary policies would cause black unemployment to rise and this is seen as being a threat to the socio-economic stability of the country

On the other hand, inflationary monetary and fiscal policies are seen as having the possibility of at least some beneficial effect for employment Although inflation is generally acknowledged as being undesirable, by both government and the public, it is seen as being less undesirable than unemployment

It seems to have been overlooked by many that the truth of such wisdom is a truth limited essentially to the short term and that on a longer run analysis inflation itself could be a threat to job creation

In a more rigorous investigation of the unemployment inflation relationship in SA covering the period 1958/9 to 1974/5 there is evidence of a trade off which did not disappear in the long run, but which became steeper

The conclusions that can be drawn is that accelerating inflation, and with it expectational factors, cause the trade-off between unemployment and inflation not to be dependable

In the short-run, more recent evidence shows the trade-off is no longer identifiable in a clear way, and in the long run it deteriorates This must render stabilisation policy based on the trade-off inefficient

The causal link between real GDP growth and the growth of employment in any country is direct, but susceptible to change particularly in the face of structural adjustments in the economy

In SA, this has been particularly true as the manufacturing sector has increased in relative importance to the agricultural and mining sectors

In more recent years, the growth of the service sector relative to the rest of the economy has added to the tendency for the rate of growth of employment to lag behind the growth of total output

The negative correlation between real GDP growth in SA and inflation is illustrated clearly in the graph

While this provides no conclusive demonstration of causality, it does draw attention to a fact which deserves very thorough consideration by policy makers

Why, it must be asked, has such a negative correlation existed? What are the factors of a structural nature which have combined here to produce such a discouraging result?

Is there, perhaps, a causal connection between the two variables that justifies the assertion that inflation itself needs to be viewed as a possible obstacle to job creation? Clearly, job creation is important and not just in terms of the immediate recession, It is important also because in the longer term SA confronts a demographic transformation that will end in disaster if growth does not match the increase of population and if, more specifically, it does not provide jobs for the exponential rise in the numbers of people, especially black people, entering the labour market

In SA, inflation has worked both directly and indirectly to affect unemployment negatively

Its direct impact has been mainly through the encouragement it has given to the introduction of labour-saving methods of production as a means to limiting the major element of cost in manufacturing, and through the mal-investment and wasting of resources that it has also caused

Its indirect effect has been mainly via the balance of payments and the constraint that that has imposed on economic growth generally

Inflationary disequilibrium at any given exchange rate, has contributed to balance of payments disequilibrium through a reduction of the competitiveness and profitability of exports, and through the encouragement it has given to imports which the exchange rate depreciation has served to counteract

Between the problems of unemployment and those of the balance of payments the problems of inflation remain the neglected issue of policy in SA

Not in its words but in its actions, government has demonstrated it believes that these types of difficulty can be dealt with separately

This is a fundamental mistake There will be no permanent solution to the problems of the balance of payments or the problems of unemployment, if similar urgent attention is not given to reducing the rate of inflation

Indeed, if experience overseas is any guide, it could well be that a reduction of inflation in SA is a prerequisite for any satisfactory solution to the problems both of the balance of payments and of unemployment

Capital is fleeing the country not merely because of internal social turbulence It is fleeing also because fears are compounding that the rand exchange rate is on a precipitous downward slope and can only go lower; and without capital, a required order of growth will not be possible

The historical challenge now facing policy markers is that they recognise this and that they recognise also that the battle against inflation the underlying reason for the rand's weakness, cannot be quickly won

Ronnie Bethlehem is economic consultant to JCI

Housewives query credibility of economic figures

153

The Housewives' League has queried whether published figures relating to inflation rates and the consumer price index (CPI) are reliable "or just a good PR exercise"

Mrs Lyn Morris, president of the league, says in its magazine *Rands and Sense* "We do not see how the compilers of these figures can say prices have come down over the past month, resulting in lower rates

"Do they conduct their surveys where the SA housewife does her shopping?" she asks

"As far as inflation is concerned, what is wrong with us? Our trading partners and other countries have managed to reduce their rates of inflation and living costs Why can we not do the same?

"In the past few months, we have lost an insurance company and a medical aid society and have experienced problems and loss of confidence in parts of our banking sector

"We have been getting into debt as never before, summonses and judgments against individuals are at the highest level in history, unemployment is also at a frightening level, and companies have been going into liquidation almost daily Soon our rand won't be worth the paper it is printed on — if it is now

INTEREST RATES

"Salary and wage increases have by no means kept pace with our totally unacceptable inflation rate

"If they had, would we be have been able to afford the compensating increases in the marketplace?

"Dropping interest rates are crushing those who live on investments — pensioners, widows and the retired What is the point of trying to save?"

Addressing businessmen, Mrs Morris claims that many have lost credibility in the eyes of the consumer She says to them "Petrol and transport costs have been blamed consistently for price rises, but when we had two petrol reductions your response was 'Oh, no, transport is such a small element of our costs the decreases will not make any difference to our prices' Can we believe anything you say from now on?"

Mrs Morris writes that interest rates were lowered to stimulate the economy, but consumers are afraid to buy on hire purchase in case interest rates go up again, as they did last year

CATASTROPHIC

"The latest economic-stimulation package is being funded by borrowing from the Central Energy Fund This smacks of borrowing from Peter to pay Paul — an exercise that any housewife can tell the Minister of Finance usually has catastrophic effects on finances"

Mrs Morris maintains there is no confidence in the marketplace If the Minister had dropped GST a percentage point or two, she says, consumers would have been aware of the move with every transaction and confidence would have been built up

Turning to the political situation, she says housewives have had to shop in stores faced with strikes "Some stores closed because they could not guarantee the safety of their customers staff This is a totally unacceptable situation and must be addressed immediately"

Vaal council to raise rent

MORE rent increases would cause chaos in the Vaal Triangle townships, the Lekoa Town Council was told during its monthly meeting in Sebokeng yesterday.

The council has decided to increase hostel tariffs by R5 a resident from August 1.

Councillor Z A Jokozela warned that the rent hike could cause a tense situation

However, the mayor, Mr Esau Mahlatsi, said the council gave all residents a chance to raise objections to the proposed increases So far, no objections were received and "we will go ahead with the increases"

Sowetan 7/7/87

INFLATION—

1986

AUG — DEC

153 FIN MAIL 1/8/86.

SHORT-TERM INSURANCE

Criminal charges

Rates could go up by as much as 30% by the end of the year, as massive increases in the incidence of burglary and related crimes are forcing insurers to review premiums on personal lines business

Recessions always bring an increase in crime, but the cycle this time has been particularly marked Says one insurer "Take January, for instance Our claims for burglaries were 50% higher than for any other month in the history of the company Part of it was seasonal, but overall losses are historically high "

Apart from unemployment — even white unemployment is reaching record levels — inflation has pushed the price of luxury goods, in particular, out of reach of many These are two main reasons why theft has become an attractive prospect

The rising cost of insurance has also encouraged increased claims awareness among consumers Most people these days claim for any loss, however small, and chances are that amounts are inflated to circumvent underinsurance penalties

This is where policyholders have claims reduced in proportion to the level of underinsurance If, for example, household contents are valued at R50 000, but insured for only R25 000, the insurance company may reduce the payout to 50% of an agreed claim It is difficult to do this for small claims, another reason why premiums are going up

Says John Bull, MD of Aegis "We are reviewing premium rates on householders' We now charge around 1,5%, and will go up to about 2% in some cases Of course, rating depends very much on the area


Bull

"But underinsurance is a big problem We are increasing all sums insured by 15% from July 1, while we look at our statistics "

He adds that his losses in crimes classes "have been awful," with a 119% loss ratio — that is, claims as a percentage of earned premiums This doesn't take into account expenses and commissions He says the cost of claims on householders' insurance has doubled since October Such experience seems common to most insurers

Bull says his company is working towards a R30 000 minimum sum insured This should go some way to overcoming the underinsurance problem

Although it will increase the apparent risk of the insurer, it will also boost premium income This is significant since insurance companies often pay a claim in full, even though they suspect underinsurance

As Bill Rutherford, MD of Commercial Union, says "Sometimes, no matter how suspicious you may be that a claim involves fraud or underinsurance, it is difficult to prove, and you have to pay "

Apparently, all major insurers are considering increases in rates Households in areas such as Johannesburg, the Reef generally, Port Elizabeth, East London and Cape Town can probably expect increases to 2% On contents of R30 000, for example, that amounts to an increase in annual premium from R450 to R600

Nor should policyholders try to save by failing to increase sums insured in line with inflation Insurers are getting more strict in the way they handle claims, they have no choice, given the severe squeeze on margins from claims generally, reinsurance costs and lower investment returns

And, as Bull says householders in the areas mentioned earlier have about a one in six chance of being burgled each year, they also have little choice but to pay up, or make a larger provision for self-insurance ■

FM 7/8/86

STEEL STEADILY UP

(260) (153)

5. Iscor's price increases of 8% and 12% — from August 1 — for 12 of its steel products received a mixed reception in trading and manufacturing circles However, the steel giant counters criticism of its second hike in six months by saying that only a selected number of products are being increased — while the average of the past two years is well below the rate of inflation

6. Apart from round bars — going up by 8% — the following Iscor products will be hiked by 12% from August 1: plate, floor plate, roller-quenched and tempered plate, billets, blooms and slabs, window sections, re-rolling billets, steel sections, special sections, rails and flange materials

Genrec MD Hendrik Esterhuizen says no price increase is welcome — especially when certain finished imports from Japan can be landed here at below South African steel prices But the impact should be limited, he adds. A source in a major construction company says that some 25% of heavy civil engineering costs are steel-related — and with Iscor leading the market, the 12% hike would lead to a 3% upward cost structure

The impact should be considerably less in the building industry, leading to limited cost increases there. Bester Homes director Willem Bester says the increase of window frame prices is reasonable.

Iscor spokesman Pieter du Plessis says that although the company's input costs are rising steadily, average annual steel price increases over the past 26 months were only 14,3% a year — against a much higher inflation rate.

More price increases on the way, say retailers

1/8/86

153

By Jackie Unwin

Consumers must brace themselves for more price increases at supermarkets, warn retailers.

There will be increases of between 8 and 12 percent over a broad spectrum of products.

Mr Richard Cohen, director of Pick 'n Pay, said "Although the inflation index has dropped in June it has only been a temporary situation which came about as the rand recovered in the middle of the year.

"The pressure of the rand dropping again and other costs going up has caused another round of increases

"If there are increases early in the year suppliers usually come back after eight to nine months for a second."

The canning industry is increasing prices on a variety of products from canned vegetables to canned jams, although it will manage to hold prices on some items

Increases are envisaged in paper goods and disposable nappies Toiletries, canned fish and biscuits will rise in price.

These increases will hit the consumer towards September

Mr Cohen said coffee prices would have to be eased up because replacement costs were "horrific". He said the replacement value of coffee now selling at under R6 was R7,50. Coffee has been hit by the exchange rate and the failure of the crop in Brazil

Mr Cohen said the inflation rate was the scourge of this country.

Delay increases

"How the housewife and the fixed salaried person are coming out I don't know."

His company had bought in bulk and would defer the price increases as long as possible.

An OK Bazaars spokesman said it would negotiate for the best prices and had bought stock in advance to enable it to hold prices.

Its managing director, Mr Gordon Hood, had promised R2 million to be used to cut prices over the next few months Some of this would be used on staving off some of the impending price increases.

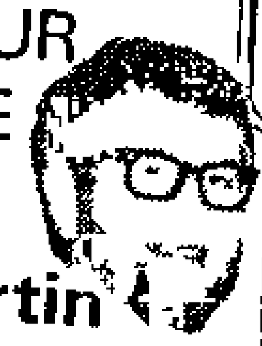
Checkers has also been buying-in wherever possible Mr Brian Sacks, grocery buying director, said "There is a huge discrepancy between the prices on the shelf today in relation to what the manufacturers' prices are because of our ability to buy in and hold prices down".

All three supermarket giants, Pick 'n Pay, the OK Bazaars and Checkers, have pledged to freeze the prices of some of their house brand products until the end of 1986 w/6 ARGUS 2/8/86

Inflation's downward trend not just a 'flash in the pan'

153

MONEY AND YOUR LIFE



Martin Spring

IT isn't often these days that there is good news to be found in the economic statistics-but the inflation figures are starting to look excellent

In the two most recent months for which figures are available — May and June — consumer prices rose at an average annualized rate of only 5,7 percent

Was that just a "flash in the pan"? I don't think so

If yu look at the usual way of measuring inflation — the increase in the consumer price index over the past 12 months — inflation peaked in January at 20,7 percent, and has been falling since

The latest figure is 16,9 percent

If you take the Personal Finance Index, which gives more weight to what has been happening in recent months, rather than what happened six to 12 months ago, the annual rate of inflation has fallen from 19,7 percent in January to 15,3 in the latest month and is falling sharply.

There are strong grounds for arguing that the inflation rate will continue to plunge, and will be back down below 10 percent in a few months' time

What are those grounds?

Firstly, money creating has stopped feeding inflation

Money supply growth is another factor that you can measure in several ways, but whichever approach is adopted, the growth rate is falling

Money supply growth is important because it is widely regarded as being an important determinant of inflation 9 to 12 months after it occurs

The recent peak in money supply growth was in November last year; the growth rate has fallen significantly since then

In fact, if you adjust the growth rate by deducting inflation, money supply has been contracting in real terms all thisyear

This means that inflation is being squeezed by a money shortage, and the recent sharp fall in the growth of consumer prices probably reflects that

Although the slowing of the money "printing presses" reflects the depressed state of the economy more than anything (depressed demand for additional credit slows down money creating), it is good news from the inflation point of view

The second reason for arguing that inflation is likely to continue to fall is that the exchange rate of the rand has stabilized

It is no lower now than it was a year ago, although it is true that the rate has been much higher at times during the past 12 months than it is now

This means that imported cost pressures are less than they were, and are continuing to lessen as prices adjust to past rand depreciation

Your guess about what is going to happen to the exchange rate is as good as mine

The rate is determined by many factors, some favourable (the large surplus on the current account of the balance of payments) and some unfavourable (the Reserve Bank's need to withhold dollars to build up foreign reserves as a kind of war chest in the face of sanctions)

But my guess is that the rate will tend to move sideways, and perhaps start to strengthen slightly which will have a favourable effect on inflation

Few workers are in a position to bargain for pay increases even sufficient to match for inflation, and few employers can afford to be generous, so cost pressures generated in South Africa itself should continue to ease

Finally, there is the sad fact that neither consumers nor businesses are in spending moods, and there is considerable excess productive capacity

This means there is no chance of inflation-stimulating excess demand emerging for some while

The recent sharp fall in long-term interest rates on fixed-interest securities shows that the capital market is waking up to what is happening, and also expects inflation to fall

That is good news for consumers, even if the reasons behind the decline in inflation aren't all welcome

● **Martin Spring is editor of Personal Finance Newsletter**

Medicine prices 'manipulated'

Manufacturers accused of offering kick-backs

Financial Staff

DURBAN — Medicine prices are rising constantly — and a pharmacist claims underhand tactics and excessive promotion by manufacturers are the chief contributors to inflated medicine prices

The Government also takes its slice through GST at point of sale and import duties on raw materials along the way

Backhanders to doctors to use certain brands, subtle "reward psychology" used on general practitioners and pharmacists by manufacturers' representatives, combined with advertising costs, are adding 25 percent to the ever-increasing prices charged for medicines, says the Johannesburg pharmacist, who asked to remain anonymous for professional reasons

A spokesman for the 50-member Pharmaceutical and Chemical Manufacturers' Association denies the allegations and says the industry is "cost-containment conscious"

Says the pharmacist "A GP friend of mine has showed me several hundred rands' worth of exotic liquor he has been given by visiting pharmaceutical reps

"He is just one ordinary doctor Multiply that out over all the thousands of GPs in the country — many of whom must be treated in the same way — and you can see what sort of contribution this could make to medicine prices, which we are told will soar 50 percent this year"

In addition to alleged kickbacks to doctors to use their drugs — cases of which are being investigated by the SA Medical and Dental Council — the pharmacist claims the overseas principals of some local producers increase the prices they charge their local subsidiaries for raw materials as a way of getting money out of the country

"They portend that the ingredients can be obtained only overseas — even though they may be far cheaper locally — and they push the prices up several-fold — which has a massive inflationary effect on medicines"

No-claim bonus

The pharmacist charges also that medical aid schemes benefit manufacturers by "anaesthetising" patients against the direct full effect of price increases — not only for medicines, but also for doctor's consultations

"We need a no-claim bonus scheme on medical aid schemes There are people who run to the doctor for a prescription every time they sneeze, and it's not doing the societies or the economy as a whole any good"

He says the 17,5 percent mark-up of drug wholesalers and the between 10 and 50 percent added on by pharmacists are not excessive given the overheads

"Among the main culprits are doctors and private hospitals who obtain their supplies direct from the manufacturer, and prescribe them at the retail price, or higher

"In some instances, the medical aid societies are regarded as fair game while they provide protection from undue resistance from patients"

A Durban medical aid society official has payment figures for medicines prescribed for members which point to about a 27 percent increase in prices between the second quarter last year and the same period in 1986

The gulf between 1986 and that period two years ago is 73 percent

In the second quarter of 1984, about 770 members cost the society R44 561, between March and June this year 935 members cost it R93 901 The figures do not take account of percentage levies charged to members, which also increased proportionately

The pharmacist emphasises he considers not all manufacturers act improperly

"At heart, they are probably an ethical bunch, but they are wary of losing market share and of sacrificing their vested interests, and they will go a long way in protecting themselves — including violating their code of conduct"

Last November, the manufacturers were successful in having the Supreme Court prohibit pharmacists from substituting brand medicines prescribed by doctors with generics — a move which was estimated could have brought savings of nearly half in the cost of medicines

The Pharmaceutical and Chemical Manufacturers' Association spokesman says although a pharmacist has a better knowledge of drugs than a doctor, he is unacquainted with patients' histories

Liability

At the same time, no authority exists to legally determine that an unnamed concoction has the same formula as a branded product

"Who would bear liability in the event of a generic variety having adverse effects that would have been avoided if the doctors' prescription had been abided by?"

He defends price rises in medicines on the basis of the widened exchange differential between the rand and other currencies, which has a multiplier effect on the imported cost of raw materials

He disputes the suggestion that multi-national manufacturers connive to push prices higher, and use foreign supplies to export currency from the country

6/8/86 STAR

153

By Jackie Unwin

Price hikes expected soon, warn retailers

Despite the raging supermarket war and promises of low prices, retailers have warned of price rises soon to hit the consumer

Langeberg Co-op has announced it will increase the price of its canned goods from August 25

The increases, which affect canned jams, vegetables, salads, sauces and fruits, vary between four and seven percent

Mr Carel Stassen, chief executive of the Co-op, said the last rise was in February and the total of both increases is 11 percent — far below the inflation rate

"The cost of cans has gone up by 14 percent and rail price increases over the past 18 months have been tremendous," he said

"Agricultural products generally increase even higher than the inflation rate because of the cost of the input, which is mainly imported."

"We normally have increases twice a year because of the seasonality of the product."

Retailers have warned of other pending increases of between eight and 12 percent on paper goods and disposable nappies, toiletries, canned fish, biscuits and coffee. These have been caused by the drop in the rand and increases in costs

Coffee prices will also rise due to the Brazil coffee crop's failure and the exchange rate

A Consumer Council spokesman said "Now more than ever consumers must be discerning when they buy groceries"

"They must compare prices. We are monitoring prices on a weekly basis and suggest consumers do the same"

Mr Richard Cohen, director of Pick 'n Pay advised consumers not to buy by brand name, but to compare and buy the best value.

OK Bazaars intends using some of the promised R2 million to be used to cut prices to stave off some pending increases

Checkers has also stockpiled and will hold down prices as long as possible

All three supermarket giants have pledged to freeze prices on some of their house brand products for six months

Inflation in the world's poor countries averages 55 %

6/8/86 STAR

(153)

WASHINGTON — Inflation decreased in poor countries last winter but is still much higher than in the world's more prosperous industrial areas, the International Monetary Fund reported yesterday

Areas that depend heavily on sales of oil, like Mexico, Venezuela and Egypt, were exceptions showing a small average increase. Inflation among the oil producers varies widely· Saudi Arabia has been reporting price decreases since 1984, while Mexico's inflation rose to an annual 76,4 per cent by May

With 84 countries reporting for the first quarter of 1986, the fund calculated an annual inflation rate of 55 percent in the poor countries that have to buy oil, compared with 59,9 percent in the fall of 1985 and 63,8 percent in the winter of 1985

Asia's average was also an exception, in large part because of rising prices in India There inflation was down to 5,6 percent last year, but since February it has been running at an annual rate of more than 8 percent South Korea, Hong Kong, Pakistan and the Philippines all reported lower inflation, while in Singapore prices have been going down this year

Data from Africa were not available

Among 20 industrial countries there was a drop in the inflation rate from 4,2 percent last in 1985 to an average 2 percent in June. With a few exceptions — Australia, Norway, Spain had the only reported increases last winter — many of these countries experienced sharp declines in inflation

In one, West Germany, prices paid by consumers fell by 0,2 of one percent from April until June.

Japan's low inflation rate was declining, from 2 percent last year to an annual 0,9 percent in April

The poorer countries of Europe generally showed declines too. Turkey's inflation was running 45 percent last year and 33,6 percent in April, Portugal had 19,6 per cent in 1985 and 11,7 percent in June

Among the Communist-run economies in the fund's membership, Yugoslavia reported inflation was up to 88,9 percent in April from 74,4 percent in 1985, but Hungary said its prices were rising only by 5,2 percent, compared with 7 percent last year China and Romania have not filed reports this year

The fund does not give figures for the Soviet Union and most of its allies, which are not members

Some of the Third World countries with the highest rates now show inflation declining, though still high by standards in heavily industrialised lands

Bolivia, where prices last summer were rising at an average rate of more than 20 000 percent a year, got its figure down to an annual 2 356 per cent in February.

Israel, which peaked at 386,1 percent last spring, was down to an annual 78,6 percent in May Argentina dropped to 125,4 percent in April, after a high of 1 036,2 percent in the spring of 1985.

But booming Brazil showed an increase, from 227 percent last year to 253,7 percent this past winter — AP

7/8/86 153

Toyota increase takes prices to new high

By Jeremy Sinek

New car prices are going into orbit again.

Toyota has put up the prices of its cars and light commercials by between six and eight percent — and it predicts that further increases are inevitable this year.

Once market leader Toyota moves on prices, most other car makers usually follow suit within one or two weeks.

This latest increase comes only two months after the last one, and means that today's Toyota costs around 17 percent more than it did in January.

Since August 1984 the prices of most models have risen by between 70 and 75 percent. The rises are blamed on the weakening of the rand against the currencies of the two countries from which most car components are imported, Japan and Germany.

The value of the rand has dropped from 90 yen in February, for example, to around 60 yen at present.

"The crux of the pricing problem," says Toyota Marketing company's executive director, Mr Bert Wessels, "is that although our imported content only accounts for 30 to 33 percent of the weight of a vehicle, the cost of these imported components accounts for more than half what the vehicle costs."

On a typical compact car, he said, the imported content by value had increased from 44 percent in February to 55 percent at the end of July.

Mr Wessels said that his company had tried to absorb as much of the increases as possible, and that retail prices had risen by only 17 percent since February while costs had risen by 24 percent.

153

The figures drop, the expenses soar

REG RUMNEY reports on how it is possible for the Housewives' League to say inflation is down and for government statisticians to say it is up

STATISTICS do not necessarily lie — but they can be difficult to believe.

The Housewives' League recently queried the reliability of the Consumer Price Index (CPI), the official measure of inflation

The CPI as a whole for June year-on-year (*ie* June 1986 prices compared with June 1985) dropped to 16,9 percent from May's year-on-year 17,5 percent, and July's figure may also fall again.

The League's magazine "Rands and Sense" quoted president Lyn Morris as asking rhetorically "Do they conduct their surveys where the South African housewife does her shopping?"

Morris is not the only one to be puzzled Everyday shopping experience does seem to conflict with the CPI's food index, which rose a trifling 0,3 percent in June, compared with May.

In fact, the year-on-year rise in the food index was 17 percent — a full two percentage points down from May's year-on-year figure

No one is accusing the compilers of the inflation index, the government's Central Statistical Services (CSS), of rigging the figures

What may be happening is that the recent rash of special offers may be distorting the index

The CSS takes these into account (they are, after all, real prices), while it does not consider privately-negotiated discounts

And shoppers who can and do consistently take advantage of these special offers will be able to keep their shopping costs down

They are not available everywhere, and not all of us do avail ourselves of them

But aside from this, economists warn that while the year-on-year inflation figure might come down, inflation will not plummet

Those with an optimistic turn of mind may point to the low demand in the stagnant economy as an encouraging sign for lower inflation, but economists feel this is not enough

Standard Bank economist Nico Czypionka expresses "reservations about the downward trend"

Cost pressures are popping up all over, he says, citing the co-op's putting up the prices of canned food and a maize pricing structure that in effect means a monthly increase

This is aside from the increased costs, because of a relapsed rand, of any number of imported items

Low demand has forced all parties, at retail and producer level, to be very conservative in their increases, but there are now pressures on profitability, companies cannot absorb losses forever

He stresses that we are still talking about double-digit figures for inflation

Nedbank economist Ian Macfarlane says the CPI figure for July may drop, but he too believes because of cost-push pressures, the long-term trend is by no means down

In fact he believes the inflation figure could be higher by the end of the year

Firstly the deterioration of the rand has to be taken into account

Then, too, profit margins of companies are under severe pressure

Inventory levels are at historically low levels and the cost of restocking at high prices will add to inflationary pressures

In its latest Guide to the Economy, the Nedbank Group Economic Unit put it this way "Until recently almost all signs pointed to the inflation rate declining in the months ahead The indirect impact of the petrol price reductions had yet to be felt, and further cuts in the price could not be ruled out

"The policy of keeping administered prices below the rate of inflation was expected to help, and the indirect impact of the appreciation of the rand earlier this year also had yet to be felt

"However, the recent uncertainty in the foreign exchange markets and the fall of the rand, particularly against third currencies, may make producers reluctant to pass on the benefits of the earlier appreciation

"A further drop in the petrol price can also now be ruled out unless the currency again improves "

The Nedbank report concludes "There is a real danger of inflation rising again next year Unit wage costs could rise rapidly Emigration has depleted the ranks of skilled workers in an environment where there is already a pent-up demand for larger wage and salary increases "

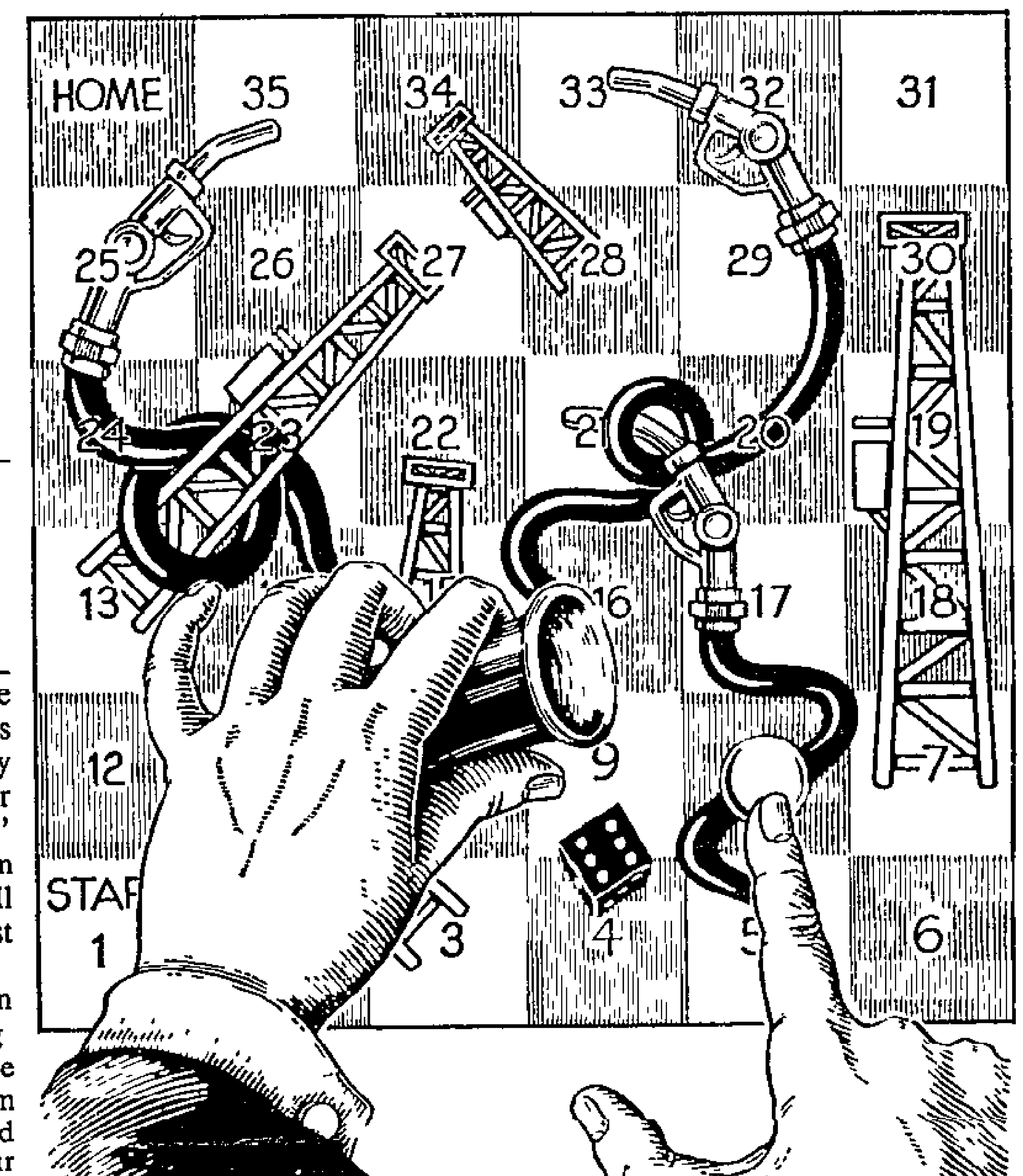
In any event, in inflation South Africa is now far out of line with the industrialised nations (for the moment, its major trade partners)

South Africa's double-digit inflation contrasts with West Germany's incredible minus-0,2 percent, Britain's 2,5 percent, Japan's 0,5 percent and 1,6 percent in the US

It's small consolation that our inflation rate seems to have avoided the hyper-inflation trap which Bolivia's February rate of 2 356 percent represents

The grand world recovery misses its deadlines

The oil price fall last year was meant to lead to a world economic recovery by the middle of 1986. So what happened? CHRISTOPHER HUHNE reports from London



THE oil price fall was meant to be good news So what has been going wrong?

Confident forecasts that growth would pick up in the first quarter were confounded, hopes were postponed to the second quarter

With weak second quarter results being reported around the world, the famed recovery is being postponed again, to the third quarter and beyond

The story is broadly similar in all the main Organisation of Economic Co-operation and Development (OECD) countries. in France GNP rose only 0,3 percent in the first quarter with manufacturing output down; in West Germany, GNP is provisionally estimated to have fallen 1,7 percent in the first quarter Ironically one of the best first-quarter figures was put in by Britain with 0,7 percent growth, but it looks as if the second quarter may offset that good news with little or no growth at all

Some of this is bad luck that West German figure, for example, was in part due to the 40 percent fall in construction work during the first quarter.

But there are other, more deep-seated factors at work, too. It is certainly too early to write off the recovery, as some market pessimists are doing, but the chances of turning it into a good old-fashioned boom are waning by the day.

The first point is surely that the world recovery was looking none too healthy when the oil price fall began at the end of last year, which is one reason why the fall began.

There was no real secret why the recovery was running out of steam. The first and most important factor was that its most robust engine for the past few years, the United States, was paying for much higher growth than the rest of the world by an expanding and ultimately unsustainable current account deficit as it sucked in the world's exports.

If there was some sign of the other big economies picking up the baton, any slowdown might have been averted But they did not Indeed, real interest rates were, if anything, creeping higher.

In this context, the oil price fall merely made the forecasts of steady growth more robust As the club of the developed countries — the OECD itself — pointed out, its forecasts were not revised upwards by much, but the downside risks which attached to those forecasts were a good deal less.

What almost every forecaster overlooked was the way in which the oil price fall would affect people. The losers — the Arab sheikhs — would have to cut back their spending quickly unless they were prepared to run into debt. The gainers, by contrast, could savour their real incomes rising in the bank before rushing out to spend.

Evidence that this is exactly what has been happening comes from the trade figures, notably from countries like France, which have traditionally done well in the Organisation for Petroleum Exporting Countries' (Opec) markets French exports fell in February and March, and were still 5,2 percent below the level of last June.

The other factor is probably an element of business destocking Businesses have been trying to reduce stocks both by meeting demand from the shelf, rather than from increased output, and by cutting back on their purchases of raw materials and fuels.

The first element of destocking probably reflects high real interest rates

The second element — postponing the purchases of materials — is more difficult to explain. As the London School of Economics points out, this was a feature of the falling price "pauses" during the inter-war period· it made sense for businesses to hang on before making purchases because they expected prices to fall further

So we have enough explanations for a growth pause in the first half of the year what next? The first signs are beginning to appear of the upturn in consumers' spending which most forecasters see as the main motor of the post-oil price fall recovery But these signs are pretty small

The broad pattern of effects is thus still in place· personal real income growth may at last be beginning to feed into higher sales, and this will, in turn, be reflected in better output — possibly quite quickly, since the cushion of stocks is relatively low.

This should in turn encourage higher business investment as capacity use gradually increases. It is already high in some countries such as West Germany and even Britain, where long recessions have led to a lot of capital scrapping

The chance of turning the oil price fall into a real opportunity for a boom has almost certainly been muffled One of the most disappointing features of this year has been the sluggishness internationally of investment, and the evidence of pessimism from business surveys.

That is certainly one reason why the Americans have been impatient with the low-inflation countries with large trade surpluses — Germany and Japan — which could have done much more to boost their economies and pump private demand, particularly investment

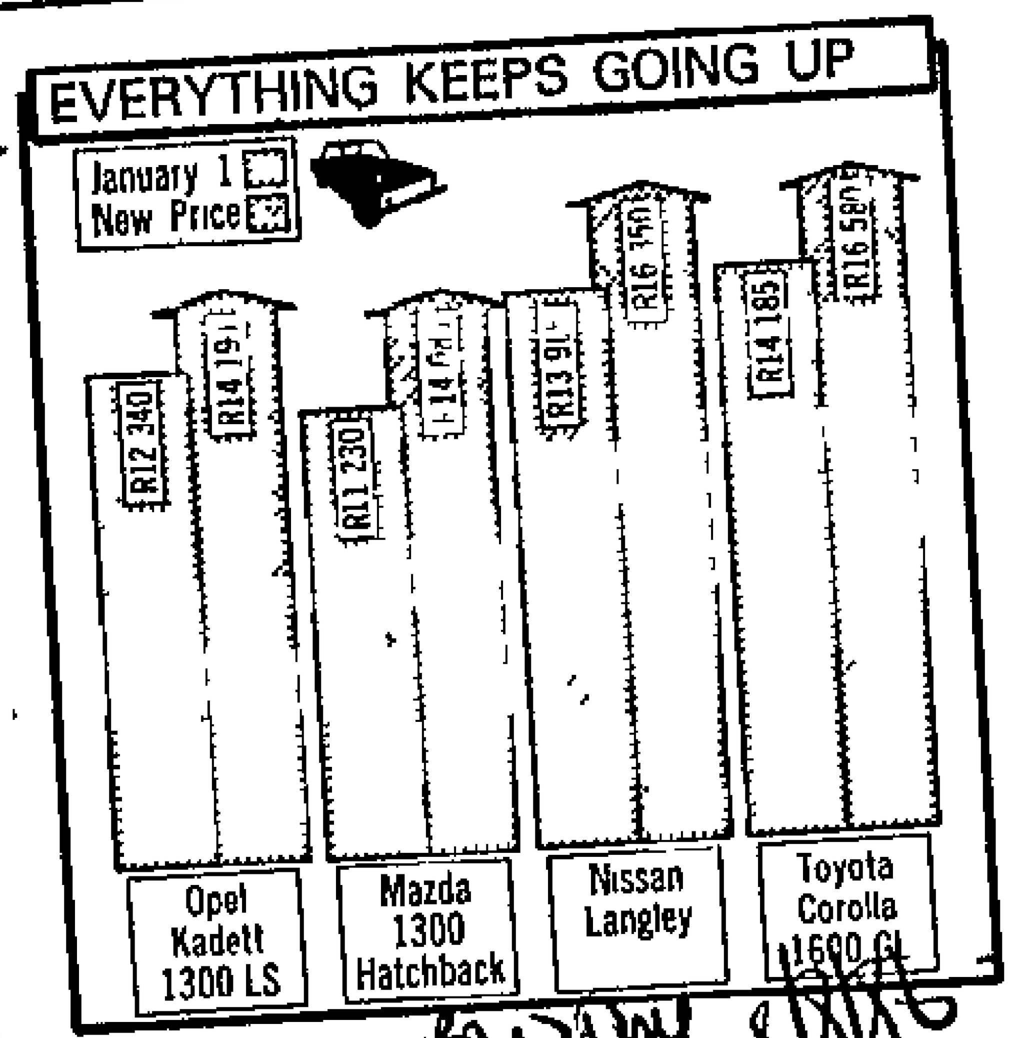
The real downside risk in this scenario is that the United States is forced by the recalcitrance of its external deficit and the pressures on the dollar to restrain its imports through a sharp slowdown in US growth. It wants to see faster growth in the rest of the world so its deficits can be reduced by increasing its exports rather than cutting its imports.

In Japan, a reflationary package is likely, but the finance ministry still appears to be demanding spending cuts, which is not the right way to go And the Germans forsee inflationary dangers, despite falling consumer and wholesale prices

The one serious side-effect of the oil price fall was its effect on oil exporting Third World debtors like Mexico, Venezuela, Nigeria and Indonesia

The deal between the International Monetary Fund and the Americans on one side and the Mexicans on the other is a pronounced break with the deflationary packages which have become traditional IMF medicine it spells out that Mexico gets more cash if its growth stalls, or if the oil price falls

On balance, we are on course for a not very dazzling recovery as the rich world's consumers begin to spend their real income gains from high wage rises coupled with low or negative inflation — Guardian



Bus Day. 8/8/86

Car prices accelerate

153/274

DAVID FURLONGER
Industrial Editor

CAR prices are going up again — and further increases are on the way.

Toyota and General Motors raised car and light commercial vehicles prices by between 6% and 8% this week Other manufacturers say they will follow suit

General Motors and Nissan will increase prices on Monday — GM by 6% on its Opel Kadetts and Isuzu bakkies, and Nissan by an average 5,5% on its entire car-bakkie range

Volkswagen officials met yesterday to discuss prices MD Peter Searle said an increase was likely in a few days BMW, which put up its prices on July 7, said it had no plans for a further increase at this stage

Mercedes-Benz said it expected to put up prices by the end of the month

The increases are the fourth for most manufacturers since the end of last year

● To Page 2

Bus Day (153)

Car prices get into gear

● From Page 1

— and there are more on the way.

Manufacturers predict a further round of price rises early in October and another at the end of the year

Nissan's Peter Coetzee said yesterday· "It all depends on the rand, but prices will have to move at least once again, probably in October, and then again at the end of the year."

Toyota executive director Bert Wessels said "Further increases before the end of the year are unfortunately inevitable"

The chief reason for the increases is the collapse of the rand against the yen and mark Since February the rand has declined by 50% in value against the yen

In pure cash terms, this is the effect of the latest price increases·

- A Nissan Langley 1500GL that cost R13 965 on January 1, and costs R15 450 today, will go up to R16 350 on Monday;
- An Opel Kadett 1300LS, R12 340 on January 1 and R13 385 today, goes up to R14 190 on Monday;
- A Mazda 1300L hatchback, R11 230 on January 1 and R12 780 last week, went up on Tuesday to R14 085,
- A Toyota Corolla 1600GL, R14 185 on January 1, went up to R16 580 on Monday,

153 FM 8/8/86

Buy me, buy my line

STORE WARS

Of late, amiable grocers have gone on the box reaching out for consumers in the privacy of their lounges It could not have been easy They do not look like star material, neither do they really have anything new to say Still the Checkers and OK Bazaars campaigns appear to be effective founded as they are on the respective personalities of Clive Weil and Gordon Hood

Behind the high-profile store war battlelines other incidents of no lesser a magnitude are underway Cash-and carries are fighting cat and dog and manufacturer suppliers are taking an all-time bruising Manufacturers are now wont to describe themselves as MM s with MM's — *miserable manufacturers with mauled margins*

The reason retailers are laying out millions to come into our homes is to consolidate what might be called the consumer alliance — a feeling that it s us (retailers and consumers) against them' (suppliers and control boards and government) This tactic was perfected by Raymond Ackerman after he founded Pick n Pay (P n P) in 1967 It is essentially a subtle campaign which casts any grocery chain in the role of a neutral but concerned bystander in the one-sided war between consumers and inflation

The message is we are awfully sorry for you but we shall do our best to screw our suppliers trim our margins and slash and freeze prices where we can And the shopping-bag ladies applaud

The thing is to look genuinely concerned and sincere Sometimes they overdo it and merely look unctuous That is the risk you take on television For the grocers however, theirs not to reason why The retail sector in calendar 1985 was worth R30,7 billion So they are locked in a war of terrific intensity in which conceivably too many shops are chasing a consumer base that is being eroded by adverse economic conditions

The strategy of the latest outbreak of store wars is to woo the consumer into the belief that he (more usually she) is winning against inflation From there, the fight is more about market share than a lower general price level.

In this sector the artillery is heavy the battalions big and the stakes large The Big Four retailers — P n P Checkers OK and Spar — employ around 70 000 which is more than Escom Last year they generated gross sales nearing R8 billion (see table)

The retail sector is as multifaceted as any But it is important to remember that, of the average South African consumer rand 33% is spent on food beverages and tobacco This is the largest chunk by far and makes up the real battlefield of the stores war OK the most diversified of the chains sells 64 000 items 62% of which is food The only liquor the chains may stock is wine

The turnover and earnings breakdown is interesting Though they have different reporting months it s clear that the stakes in profit terms, are exceptionally high P 'n P, in the year to end-February 1986 had a turnover of R2,144 billion (taxed earnings R35 5m) OK, reporting on March 31 had turnover of R2 042 billion — but taxed earnings were only R13m To June 30, Checkers turnover was R1 756 billion — but profits are not disclosed

The latest retailing clash lies in the recent history of Checkers Advertising agency Kuper Hands wanted the company to capitalise on the *personal* aspect of retailing It was advised that it needed a new image — that of a friendly grocer looking agreeably stout as he amiably passes among his customers, but nonetheless concerned about providing value for money The aim was to regain market share after control had passed from Kirsh to Sanlam The message of the TV campaign is fairly convincing for, as we have said it could not have been easy for ("Hi, arm Clarie") Weil to go before the cameras That is why it does not look phoney

This is very important When the goods on the shelves are all the same, the people who sell them have to be different Weil is no Richard Loring or Martin Locke, let alone Lee Iacocca, a major pioneer of the approach — but he looks solid and reliable especially with that Sanlam muscle he keeps telling people about

On the face of it, Ackerman seems unmoved by the Checkers-OK campaigns He tells the *FM* that he will not be appearing on TV — or rather not in the same way as Weil and Hood since he is an agreeable presence on the chat shows He is a man for the Big Issues and continues to work on his hard-won reputation as a retailing Robin Hood the urban guerrilla who pressures suppliers to pass savings to the housewife But is it all quite as it seems?

Ackerman agrees that much of the retailing business is showbiz What sets him apart from his rivals is that he is beneficial owner of the chain he built A near-parallel is Tony Factor who has established a zany but appealing personality behind a reliable corporate image Factor s style is to champion the underdog ("I will discount cars at any cost") and play the maverick (Discount coffins, only one per customer) Both Ackerman and Factor have enormous public appeal

Ackerman's technique is to launch shrewd and serious attacks on the establishment, conducted at high level with high exposure Government s muddled marketing policies where so much control — aimed at protecting inefficient producers and other interest groups — creates distortions and fuels inflation, provide him with plenty of issues, so that he is always in the news

P 'n P's most recent and widely publicised war against the establishment — which ended in the Supreme Court — was over petrol discounting Unnamed vested interests obsessively countered P 'n P's attempts to sell petrol below the listed price Ackerman appeared to be taking on the oil companies, Pretoria, and inflation — all at the same time

Comparing the Big Three

Note Spar stores are a franchise-type retail chain. Spar year-end is September 30 with turnover of about R1bn 10 000 employees and 459 stores Checkers is not listed.

*Excludes Jazz stores

TALE OF THREE STORES

They sell similar products, and on TV their executives make the same reassuring noises, but that is where any similarity ends between Pick 'n Pay, Checkers and OK Bazaars In essence, the three retailers are vastly different, emergent from different cultures, and facing different problems

This is largely reflected in their respective share prices, which, as the graphs show, move in divergent cycles OK Bazaars is the oldest of the three Founded in 1927, the chain was initially targeted at black consumers For this reason, most branches are located in downtown CBD areas, usually close to commuting points

Ironically, OK's business ethos has left it vulnerable to political unrest and economic recession, far more so than either Pick 'n Pay or Checkers, both of which have strong white market support in affluent suburban areas

Also in product mix OK is more vulnerable to downturns While both Pick 'n Pay and Checkers sell mainly food, toiletry and related goods, OK sells a large range of unrelated products covering the entire spectrum from foodstuffs to stereo sets This is a concept rooted in the era of departmental stores and, although overtaken by modern theories on focused trading this is a strategy OK still employs successfully

With recession however, OK has seen a sharp shift in sales away from its high-margin products like furniture and appliances towards its low-margin foodstuffs This resulted in lower overall margins, and a sharp fall in profits since 1983, causing its share to plunge

Towards the end of last year, however, sales of high-margin items picked up after HP regulations were changed And after the group reported creditable year-end results, the share price began rising sharply The graph shows OK's share price making up ground it had previously lost

Unlike OK, Pick 'n Pay's profits have never fallen The chain's dominant food trading base, and relatively affluent target market, insulates it from the worst affects of recession It is a superbly run chain, headed by a chairman with peerless marketing instincts (at least in the local market) which makes the sharp fall in the share price this year from a high of R51 to R36,50 all the more remarkable

Although the group's interim profit growth had slowed in the year to end-February to a sedate 5 9%, the result was certainly not bad enough to warrant the subsequent plunge in its shares But there are few real mysteries on the JSE What the results seemed to do was create a perception of Pick n Pay having reached maturity within a market that had itself reached stagnation

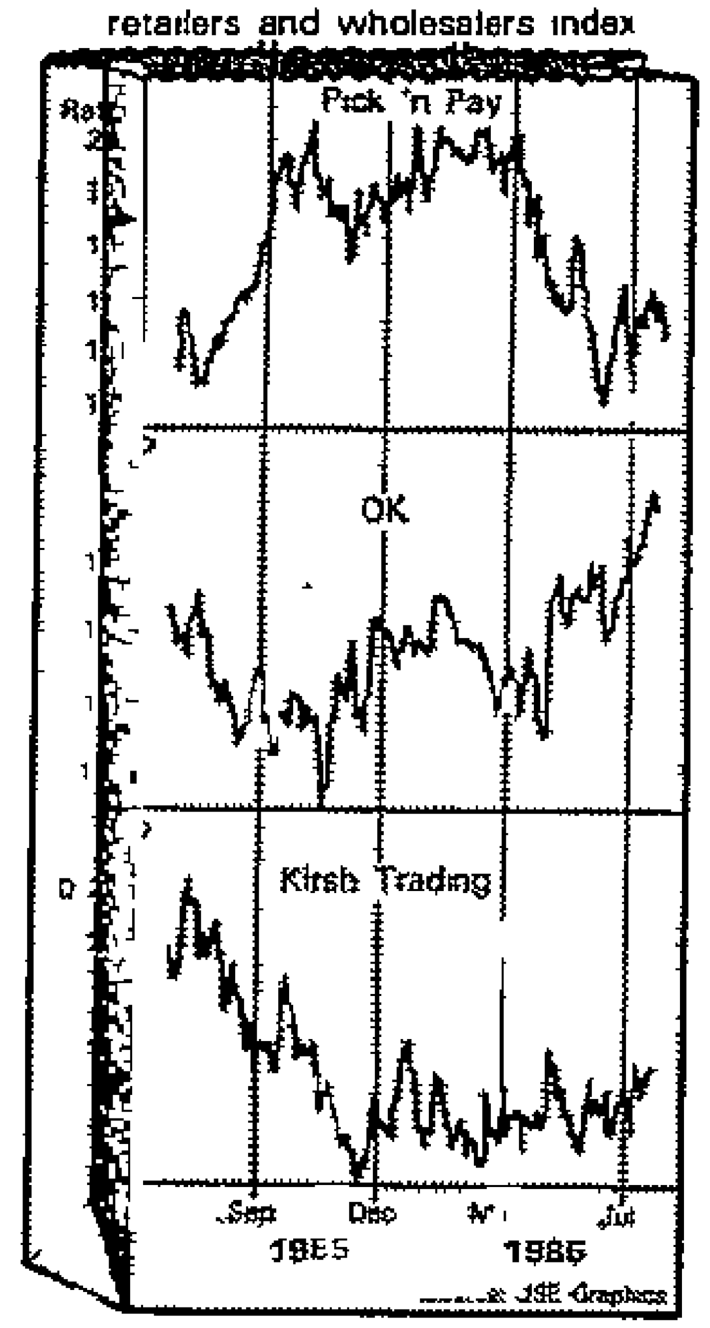
With Checkers gaining ground, some analysts believe the vaunted white market is now over provided for So, while OK has the capacity for explosive profit recovery on the back of improved black consumer spending on, particularly, high-margin durables, Pick 'n Pay is focused on the white market

Although Checkers cannot be rated directly, its investment image is to some extent linked to the shoddy JSE performance of its amorphous parent, Kirsh Trading (to be renamed Tradegro) Checkers lost its competitive edge during a long deterioration that started during the Seventies, and a massive property expansion in the Eighties.

Cash flow that should have been used to generate income to shore up thin operating margins was absorbed in property deals This placed Checkers at a structural disadvantage to Pick n Pay which has always been astute at cash management It meant that in any battle for market share, Pick 'n Pay could cut prices to levels Checkers could not match profitably Checkers plunged into losses and in 1983 it was delisted as a separate entity and moved into Kirsh Trading, which also contained Kirsh's interests in Russels, Metcash and Dion

Checkers has since hived off its property interests, and now trades with the same structural advantages as Pick 'n Pay In image and profits, Checkers is said to be gaining from the TV appearances of its burly MD, Clive Weil Maybe, but any such perceptions in the retail industry have not yet been enough to persuade the stock market that Checkers is capable of a strong and sustainable profit recovery Pick n Pay yields only 2,4% on dividend, OK Bazaars has crept closer at 4%, but Kirsh Trading's share (weighed down also by Russel and Dion) has yet to improve from its level around 160c, despite listings of Metcash and Cashbuild

Share price versus retailers and wholesalers index



Neville Glaer

Hood and Weil do not operate in this fashion, but their intention is the same, to get the tills ringing louder by the day

OK s TV campaign seems to confirm that that of Checkers is working, although Hood seems to have "upmarket' appeal because he looks more like a MD than a concerned grocer He tells the *FM* that the cost of advertising is justified when a company has something new to say He sees OK's campaign as just that, for all its *Candid Camera* approach

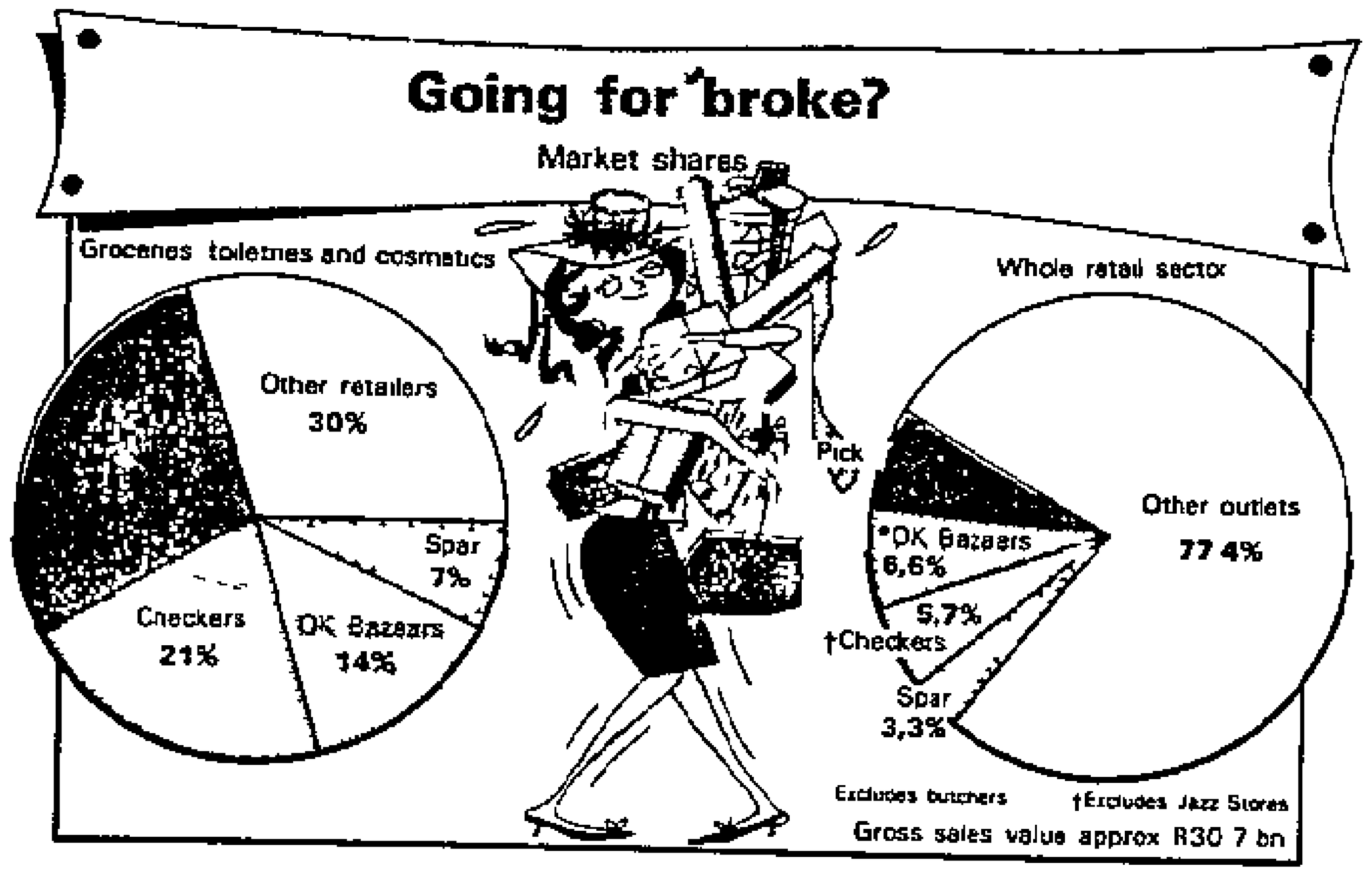
Checkers has probably turned red ink to black Maybe that is what spurred OK onto television, to spend millions of rands to regain what it perceives as loss of market share Within the past week the big stores have frozen prices of their housebrands until 1987 Nobody is sure who initiated this move but it looks like a massive game of follow-the-leader (but do it your way)

The sector is also concerned about politically motivated consumer boycotts and escalating union trouble and needs to project itself as the consumers' friend P n P in particular was marked out as a soft target earlier this year for union action

Nonetheless, Ackerman and Hood are confident of holding figures this year Checkers is certainly conducting more business than a year ago and Spar — notching up about half of P n P s and OK's turnover — reports volumes up more than 15% Time will tell But what other sector can claim to have frozen prices in times of high inflation? The store retailers are one of the few domestic operations (97% of OK's lines are South African-made) able to increase market share in adverse times Most other businesses are obsessed with simply maintaining turnover and at least delaying bankruptcy

What distinguishes most retailers is a bottom line pinned to the concept of recession-proof demand People must eat and drinkers need bottle stores Butchers and dairies and

Going for 'broke?



chemists are needed in war and peace alike But food is becoming more the most vital component in the store war As Retailin-form s Eric Levine notes the retail sector peaked in volume terms in 1981 and has run downhill since But as a percentage of the total retail cake food has increased its share dramatically This affects retailers product mix profits ratios OK s latest results reflected the impact of the recession on its bias towards furniture

Behind the store wars stand pressured manufacturer suppliers to the retailers Johnny Frankel of major supplier Tiger Oats reckons the retail war can go no further As manufacturers our margins are pared to all-time lows Many of our inputs are price-controlled for example by the agricultural control boards " He speaks for all suppliers in saying that not another inch can be afforded on margins

Retailers are also past masters at passing all manner of costs onto suppliers promotions displays incentive rebate schemes advertising allowances and literally every other 'trick But suppliers do benefit from dealings with the Big Four from bulk orders, deliveries and displays Yet most perceive that SA s large retailers have been allowed unfettered expansion In most comparative sectors abroad suppliers are compelled to offer the biggest chain and the one-man store the same price In SA, the Competition Board has outlawed supplier price-collusion

In these circumstances the small grocer is up against formidable odds There is still a large number of small vendors who presumably offer service and convenience Inland Revenue has registered more than 250 000 vendors liable to collect GST and outlets owned by the Big Four comprise 0 4% of this total

Meanwhile expansion is taking place Spar looks to add an outlet a month in the next year while OK is replacing and developing other stores And Ackerman is considering the launch of a fourth P n P module or mode of operation in a month s time

The first was the supermarket in the early Seventies — the hypermarket came later — and the superstore in the early Eighties Ackerman believes P n P should continue its tradition of biological growth not switch to predation I do not want to be the biggest retailer in the country ' But of course he is controlling 55% of SA s biggest retail chain Of note too is that last year Santam as ultimate owner of Checkers offered it to Ackerman He turned the offer down flat

On the basis of speculation P n P s fourth module would most likely specialise in furniture retailing Madness in these times? Perhaps not — in store wars the consumer gains, continually The big retailers and their suppliers will emerge as more efficient businesses, eventually able to pay higher wages. Indeed in terms of efficiency the benefit to the economy of the nightly pantomime could be quite substantial Sadly, however it will not bring about the general price stability that is so badly needed That will come only when a stable currency ceases to force up the cost of vital imports ■

BUILDING SOCIETIES

Entering the listing lists

Perhaps the biggest investment most people make is in a home With some building societies set to go the equity route, accounts need to be standardised so that further investment possibilities can be correctly assessed

Investors demand performance So the legislation expected this month to allow mutually owned building societies to convert to equity ownership and seek a listing on the Johannesburg Stock Exchange (JSE), will create new parameters Once content to be a friendly neighbourhood presence with a comfortable dependable image, societies which decide to go public will need a high profile on the JSE floor

And whether willing or not to put profits before other priorities the mutuals will be forced to follow suit To compete in the marketplace they will have to keep pace with their high-powered rivals

Listings are expected later this year or early next So the annual reports of the five major societies for the year ended March set the scene for the drama to come

Star performer of course, is the United Building Society (UBS) which reported a R76 2m profit 34 6% up on the previous year The executives of SA s biggest building society with total assets of R8 2 billion have passionately advocated the equity-based route' since the option was mooted in the second interim report of the De Kock Commission in November 1982 UBS is expected to be first to go for a listing when the Building Society Bill is passed Its crucial ratio — reserves in relation to liabilities to the public — is 0 25% over the 4% minimum requirement expected in the new legislation

According to the directors report the statements were prepared on the most conservative basis in anticipation of the flotation Stocks were valued at the lower of cost or market value specific provision was made for identified potential losses on mortgage advances, a general provision for the same was increased from R6m to R50m, and a deferred taxation account was created to match the tax charge with net income for the year among other things

It s interesting to compare the reported profit with results that would have been obtained with other accounting policies If for instance the UBS had not made its R44m provision for loss profits would have been nearly 66 2% higher than the previous year (The deferred taxation item reduced the increase somewhat)

However if it did not reflect its previously prescribed investments at the lower of cost or market value the effect on the bottom line would have been even more interesting In the previous financial year with soaring interest rates reducing market values to well below cost this had a decidedly negative

RONNIE BETHLEHEM

Groupthink, home and abroad

8/8/86 FM. (250)

IN MY OPINION

Dr Bethlehem is Group Economics Consultant of JCI The views expressed here, however, are his own, not those of his company

A powerful argument in favour of sanctions — especially considering changes in SA sport, and the repeal of many apartheid sacred cows — is that pressure works And sanctions are the ultimate form of pressure, short of military intervention, to bring about political change This certainly, is the hypothesis on which the Eminent Persons Group (EPG) and more generally the Commonwealth base their thinking It needs to be thoroughly examined

Reading the EPG report however, invites disappointment It fails actually to consider the matter of sanctions at all, directing itself mainly to constructing a moral case to justify their introduction

In particular, the EPG declined to consider the following questions of absolutely vital concern to any meaningful sanctions strategy

- ☐ What damage could sanctions of varying levels of intensity be expected to do to the SA economy and to the economies of neighbouring countries closely linked to it?
- ☐ How would the likely hardships and costs of sanctions be distributed between countries and population groups in the region?
- ☐ What would be the SA government's likely response be to continued outside pressure for political change without any accompanying acknowledgement of the reform initiatives it has already undertaken?
- ☐ What would government s likely response be to actual implementation of sanctions, and what initiatives are available to it to counteract them?
- ☐ What is the likelihood of government succeeding in its efforts to overcome sanctions? and
- ☐ What would be the consequences for the Commonwealth and more importantly for the goal of getting rid of apartheid, were government to succeed effectively in countering any sanctions?

The EPG would have been driven to a totally different conclusion had it considered these questions It is remarkable, given the centrality of sanctions to its thinking on SA, that it did not do so

In considering sanctions and change it is worthwhile to recall two events in recent world political history which hold important lessons both for government and its critics at home and abroad

The first is the Polish rebellion of the summer of 1980, staged by the newly instituted free trade union Solidarity under the leadership of Lech Walesa Those following its development from abroad were naturally warmed, but also a bit surprised by its initial successes

Given Poland's indebtedness to Western banks and the economic difficulties of the whole Comecon bloc at the time (which precluded even Russia coming to Poland's aid), the Jaruzelski government was prepared to concede a great deal in increased civil liberties But the more it conceded the more Solidarity's demands grew

These demands may be perfectly understandable but given the totalitarian nature of the Polish regime and the ultimate danger of direct Russian intervention, Solidarity seemed in danger of overreaching itself If only it had had the wisdom, and the internal self-discipline, to have consolidated

But it was not to be The momentum of feeling in the organisation became too strong for good sense to prevail In the end, the concessions won at first were lost altogether Sadly pressure for change was in the end excessive

The kind of euphoria which possessed Solidarity is something participants in financial markets know well It is the substance, albeit in a different form, of every speculative bubble

The Bay of Pigs fiasco provides one very important example It need never have happened, had the newly elected Kennedy administration and its Joint Chiefs of Staff heeded the information available to them, they chose instead to disregard or ignore it

It was a classic example of "groupthink" — the syndrome in which reliance on consensual validation tends to replace individual critical thinking and reality-testing in face-to-face group encounters Latent disagreements are prevented from surfacing when a risky course of action is contemplated

The emotionalism and hysteria about SA and sanctions that is gripping the world has all the trappings of crowd madness of the classic kind The fact that it built up over a long period means it may not easily dissipate Crowd madnesses in history often endured for decades before they finally ended

Certainly, the kind of behaviour we have witnessed in the US Congress and in the EPG have disturbing features In both cases important facts are being brushed aside in a euphoria of consensus

But it would be wrong to believe that the groupthink phenomenon is limited only to SA's adversaries Within the South African cabinet the danger lurks too The evidence suggests that it has already begun to manifest itself How else can President Botha's blunt rejection of Sir Geoffrey Howe s mission be explained?

What Sir Geoffrey did was to argue a case, which could have been rejected after give-and-take from both sides without sacrifice or courtesy or diplomatic breakdown If the State President s words at his press conference are taken at face value, one is forced to conclude that government, having made up its mind in advance as to the inevitability of sanctions, decided it would no longer expose itself to the logic of other people's arguments The situation, therefore, has all the ingredients of a compounding tale of woe

Were the Commonwealth heads of government in their turn, open to reason, they would recognise that sanctions — short of military blockade and invasion — do not only not work they actually very often have the ironic effect of strengthening the countries they aim to damage

This was the result for example, of Arab League sanctions against Israel The military embargo on SA and cutting oil supplies had a similar effect Denied the benefits of trade both countries were forced towards greater self-sufficiency Internal political will to surmount adversity by sinking domestic differences increased

In the cases of both Israel and SA, a more effective strategy for weakening the target regime would have been maximum trade and cultural exchange In the face of the benefits which flow from these the governments concerned would have been hard pressed to maintain policies of political separation

It is too much to believe that recognition of this subtlety namely the prospect of strengthening SA by sanctions, lies behind the anti-apartheid agitation of the Frontline States and their Third World Commonwealth partners Were SA to be strengthened in this way, it would compound the consequences of Frontline folly if those states found themselves, because of sanctions, very largely cut off from its benefits

10/8/86

SUN-TIMES

(153)

Another round of car-price increases

By Don Robertson

THE third round of car price rises this year has been sparked off by market leader Toyota

It has increased prices of the top-selling Corolla by 7% and the Cressida by 8% Other manufacturers have either followed or will in the next few weeks

Because the price increases are based on high figures, a small 1,3*l* car will go up by about R1 500, and a medium-sized 2,0*l* car by about R2 300

The continuing weakness of the rand has added to the cost of components imported from the main source plants in Germany and Japan Although the imported content of a car represents an average of only 34% by weight, the increasing cost of components has lifted this value to about 50%

Manufacturers relying on components from Japan, for instance, have been hard hit by the rand's low exchange rate Since January, the rand has declined in value from 90 yen to about 60 yen The result being a 24% increase in the cost of components

Toyota last raised prices in mid-June by 5% on the Corolla and 7% on the Cressida The previous price increase was an average of 4% in February

Increases by Samcor, which produces the Mazda and Ford range, are between 6% and 8% The Mazda 323 is up by 6%, and the Mazda 626 by 8% Light commercial vehicles have risen in price by about 6% Medium and heavy trucks cost 10% more

Holding

The new Ford Laser and Meteor cost 6% more and the price of a Sierra is up 8% The Courier and Triton are up in price by 6% and 10% respectively

Samcor last moved prices by between 4,5% and 7% in the middle of June

Volkswagen raised its prices a month later than the others in mid-year, waiting until mid-June before announcing increases of about 5% It has no immediate plans for a price increase

Volkswagen models rose between 4% and 5% in price. The Audi range was increased by 5,5% in April after going up by between 4% and 6% in February

General Motors will raise prices tomorrow, but their extent is not known. The last GM increase was 5% in June

Nissan prices went up by between 5% to 6% in June, but it has not decided on the next round

BMW is holding prices after an average increase of 5% on July 7 The previous increase was 5% in February

Mercedes-Benz is reviewing its prices, but no date for a change has been set The company last raised prices by 5% on the Honda and between 5,1% and 5,5% on the old Merc 123 and S Series

11/8/86 BUSDAY 153

Commodities consumption index shows only tiny rise

Import-price falls curb producer-price inflation

Economics Reporter

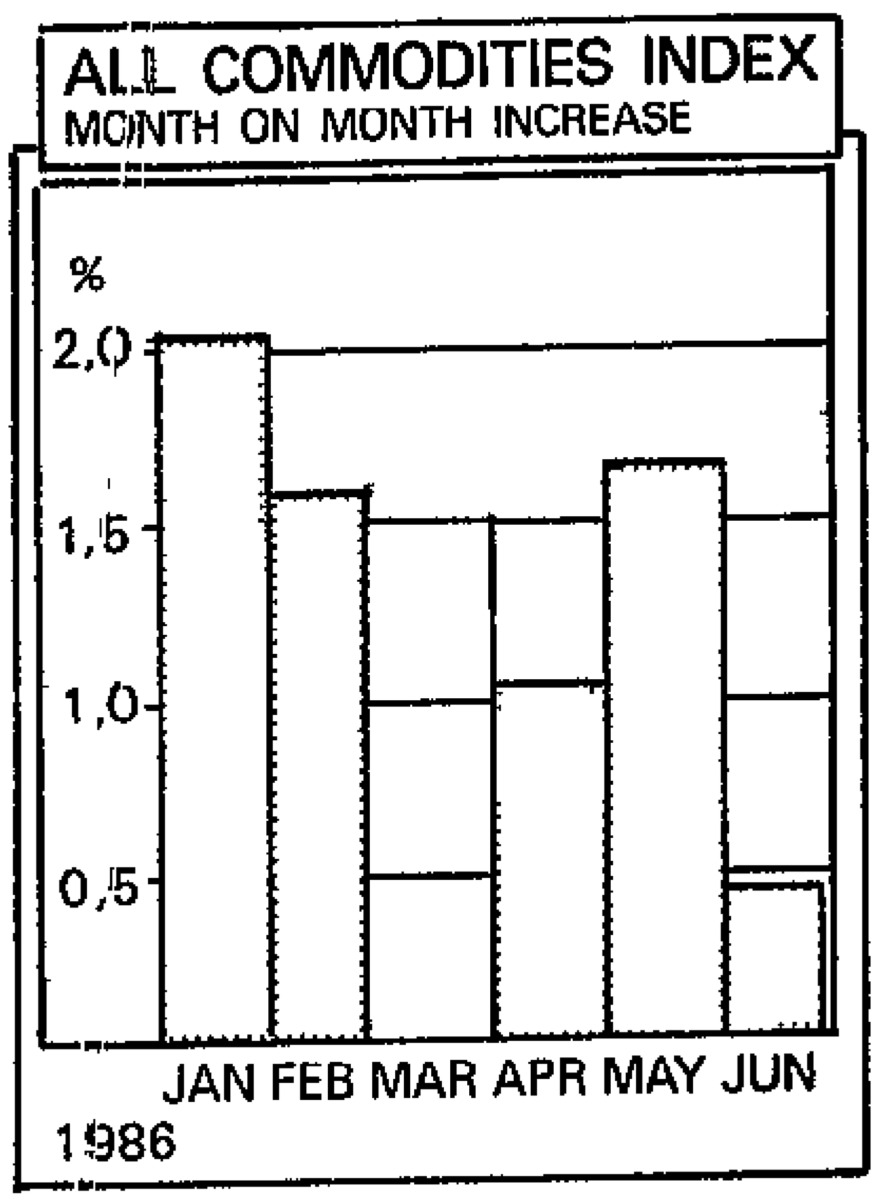
PRODUCER-price inflation, aided by far lower import prices, continued to slow in June, rising just 0,4% from May this year and 19% from June 1985.

Central Statistical Services say the index of all commodities for consumption rose to 213,3 in June — from 212,5 the month before and 179,2 a year ago The year-to-year increase in June was the lowest since last December's increase of 18,7%

The monthly index rose 1,7% in May and 1% in April

Prices of imported goods, which account for 25% of the total index, declined for the fourth consecutive month — to 221,7 from 225,5.

Rand Merchant Bank economist Rudolf Gouws says the annualised increase in import prices for the first six months of the year was just



6,6% — down from 35,9% in the last six months of 1985 — "really a remarkable slowdown"

Gouws attributes the improvement in imports to the relative strength of the rand up to June Its weak performance since then will probably show up in higher producer prices beginning in July.

Economists differ on whether the favourable trend in inflation will continue.

One says the June result, though somewhat surprising, will probably not be duplicated in the next few months because of pent-up demand for production

Locally produced commodities rose in price by 1% in June from May and by 18,6% from a year before. The annualised rate of inflation for the January-to-June period declined to 16,7% from 20,4% in the July-to-December period of 1985.

The producer price index generally indicates how the broader measure of consumer price inflation will perform in the next few months.

Red meat will be scarcer and dearer

SPM 15/8/86

It can be expected that red meat will become scarcer and more expensive, the Deputy Minister of Agriculture, Mr Gert Kotze, said at a recent country meat retailers' conference in Johannesburg

Mr Kotze said the number of sheep and cattle in the country had decreased between February 1985 and February 1986 — cattle by 280 000 to 7,99 million and sheep by 980 000 to 25,62 million

Over the same period, however, the number of pigs had increased from 1,04 to 1,08 million

"Seen against the expected population increases, these decreases in livestock numbers can be expected to lead to scarcer, more expensive meat supplies," Mr Kotze said

SURPLUS BEEF

Surplus beef supplies were not as large as generally thought, he added

For example, the Meat Board had a 6 000 ton surplus on July 24, but this was only enough to meet the country's needs for 4½ days

Mr Kotze also said that, following an investigation, controls over abattoir tariffs would be lifted from October and abattoir owners allowed to determine their own prices

A major issue discussed at the conference was the deregulation of meat hygiene in South Africa

Past drought pushes up beef price

153 DD 15/8/86

Dispatch Reporter

EAST LONDON — Further meat price increases could be on the way for local consumers, the chairman of the East London Meat Traders' Association, Mr Ivan Dawe, said yesterday

Mr Dawe said the increase in the price of beef at the city's abattoir during the past six to seven days — super from R2,80 to R3,50 per kg, first grade from R2,50 to R3,10 per kg and third grade from R2,40 to R2,90 per kg — could last for a long time

Mr Dawe attributed the price hikes to the effects of the drought of a few years ago, when farmers had to slaughter a large proportion of their stock because they were unable to feed them

He said it would take a long time for stock to recover from this

The East London area is short of 180 beef carcasses at present

Some good news, however, is that the current escalation in the price of lamb (super to R5,40 per kg and first grade to R5,10 per kg) and mutton (prime to R5,10 per kg and first grade to R5 per kg) should be reduced by next month, he said.

The prices are currently high because many farmers are shearing their sheep at present — and not selling them for slaughter

Sheep and lamb take less time to mature than beef and last lambing season was exceptionally good, Mr Dawe said

The regional manager of the Meat Board in the area, Mr Tom van der Merwe, said another reason for the shortage was the fact that the feeding pens in Bloemfontein, normally a large supplier of beef to the area, had not been supplying the usual number of carcasses

He ascribed this situation to the drought that was felt throughout the country

The branch manager of a meat co-op, Vleissentraal, Mr Neil McKowen, said the present situation could worsen because rainfall in the area had not been sufficient this year

He said although there had been good rains in September and October last year they had not broken the drought as far as stock farmers were concerned

There had been no decent rains this year and the situation was drifting back towards that prior to the rains last year.

If the spring rains were good, the situation could improve

The general manager of the Meat Board, Mr Frans Pieterse, could not be contacted for comment yesterday

Conditions in the Queenstown area are also reported to be serious but this could not be verified yesterday.

Transport angry over tyre hike

BEULAH BROWN

ORGANISED transport is threatening tyre manufacturers with authoritative investigation if they do not justify the 10% increase in their products by producing a breakdown of cost components.

The increase by Dunlop, Firestone and Goodyear is the third since January and is deemed necessary because of the weak rand, which has increased import costs

The first increase of 7,5% came in January and was followed by a 9,5% increase in April

Public Carriers Association chief executive Jack Webster says tyre manufacturers should be asked to give a break-down of their prices or else "the authorities will have to be called in to look into the matter

"When the price of crude oil — a considerable component of raw materials in tyre manufacturing — soared, nobody blinked an eye when manufacturers announced a tyre increase

"Now crude oil prices are rock bottom and we haven't heard a word about the savings through that"

Mastertreads' service manager Simon Mokoena says· "Tyres are becoming a commodity out of reach of the average motorist.

"It will affect us badly. The market for new tyres will become even tougher."

Another retailer, among the five biggest tyre dealers in the country, has accused manufacturers of "ripping off the public"

A set of new car tyres (155x13) will cost close to R400 when the higher price of R77,31 a tyre becomes effective In January, the same tyre would have cost R53,04

A truck tyre (1100x20-14ply) will cost R510,25, compared with R416 in January.

National Association of Private Transport Operators chief executive Andre Jacobs says the higher tyre price will soon be reflected in the price of a wide variety of commodities arriving on shop shelves via SA's estimated 500 000 transport trucks.

22/8/86.

FIN MAIL

153

INFLATION

Down, but not out

The inflation rate, though lower than most predicted at the turn of this year, is still too high. How much further can it fall; and what can we do to bring this about?

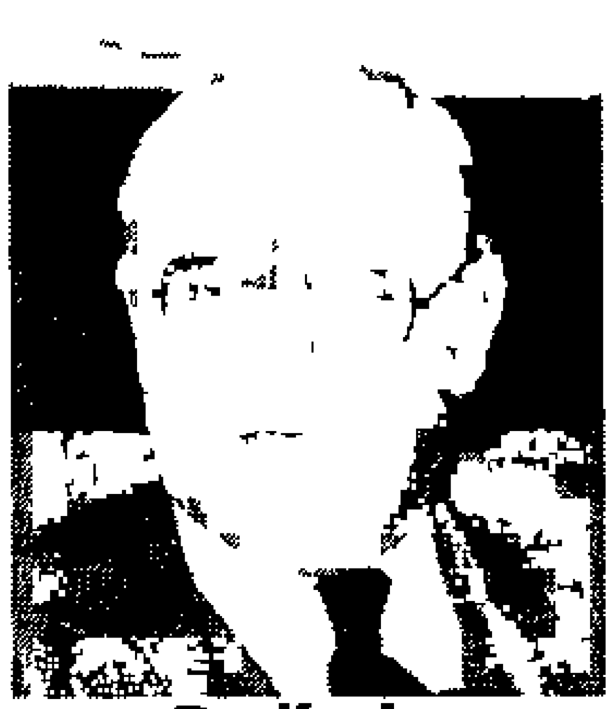
Scarcely did the De Kock Commission conclude that over the past 25 years virtually all SA's inflation had been demand-pull generated, than the position changed radically Deteriorating foreign perceptions of the political situation and the capital outflow (culminating in the debt standstill) nipped nascent economic revival in the bud, shot down the rand, and triggered a bout of cost-push inflation

At last, money supply has been brought under control — and with a vengeance, the latest estimate for July showing an annual increase of only 7,6% (see *Economy*) Wage and salary increases are running well below the inflation rate, implying declining purchasing power Yet inflation remains obstinately high, around 17%

Why?

Well, in the first place, as Gerhard de Kock himself points out, that 17% may be misleading He believes that in times of rapid fluctuations, the seasonally adjusted quarter-on-quarter rate is a better indicator of the underlying trend While for the consumer price index (CPI), this peaked at an annualised 27% in the first quarter of this year, by the second quarter it had dipped to only 12,8% — a remarkable turnaround On this basis, the producer price index showed an even higher peak, but has fallen even more steeply

De Kock believes that if the rand holds around US$38c, quarter-on-quarter CPI should stay around this level If that is indeed possible, then by early next year annual growth in CPI could also be down around 12%-14%, and possibly even lower



De Kock

That is still too high for comfort Even at 14% inflation, the value of money halves in five years Not only does this hit pensioners and others on fixed incomes, it redistributes wealth — often in the direction of those already well off Anyone who has owned a house for 20 years, for instance, has acquired a valuable asset at little real cost This wealth redistributive effect of inflation is particularly damaging in a society like ours

Then there is the force known as fiscal drag When money wages go up, even if their real value is only maintained, our "progressive" tax system diverts an increasing percentage of total income away from the (productive) private sector into the (largely unproductive) State sector This is another unhealthy redistributive effect of inflation

If all prices — including the price of money — went up at the same rate, inflation would be inconvenient, but harmless The trouble is that inflation brings changes in relative prices, and these distort the economy and cause all the problems

But although the South African inflation rate has outstripped those of our main trading partners for some years, Rand Merchant Bank's Rudi Gouws — whose minority view early this year, that inflation had peaked, now seems justified — stresses that we must not accept that SA is intrinsically prone to a high inflation rate "We suffered all the rigidities now blamed as causes of structural inflation in the Sixties, when we didn't have an inflation problem "

(Nor did we then have wide fluctuations in oil and gold prices, nor increasingly militant black trade unions, nor were we the polecat of the world)

Gouws points out that disinflationary pressures take some time to work through We are still paying the penalty for previous lack of monetary discipline and the decline of the rand He thus remains confident that the steadying of the rand and monetary discipline will keep the CPI in check for some time

Virtually no economists believe there is much we can do to bring inflation down further, anyway In real terms, manufacturing output is at its lowest since late 1979 (bar a blip in March), retail sales are still falling, and wage and salary increases are below the inflation rate Any further measures would more likely choke economic activity still further, rather than cut prices

In present circumstances, even though unproductive government current spending is excessive, attempts to bring it down may not be advisable Right now, it is one of the few positive factors around

Implementation of the new buzzwords, privatisation and deregulation, are desirable on general grounds, but would have little impact on prices Wage and price controls would be downright counter-productive

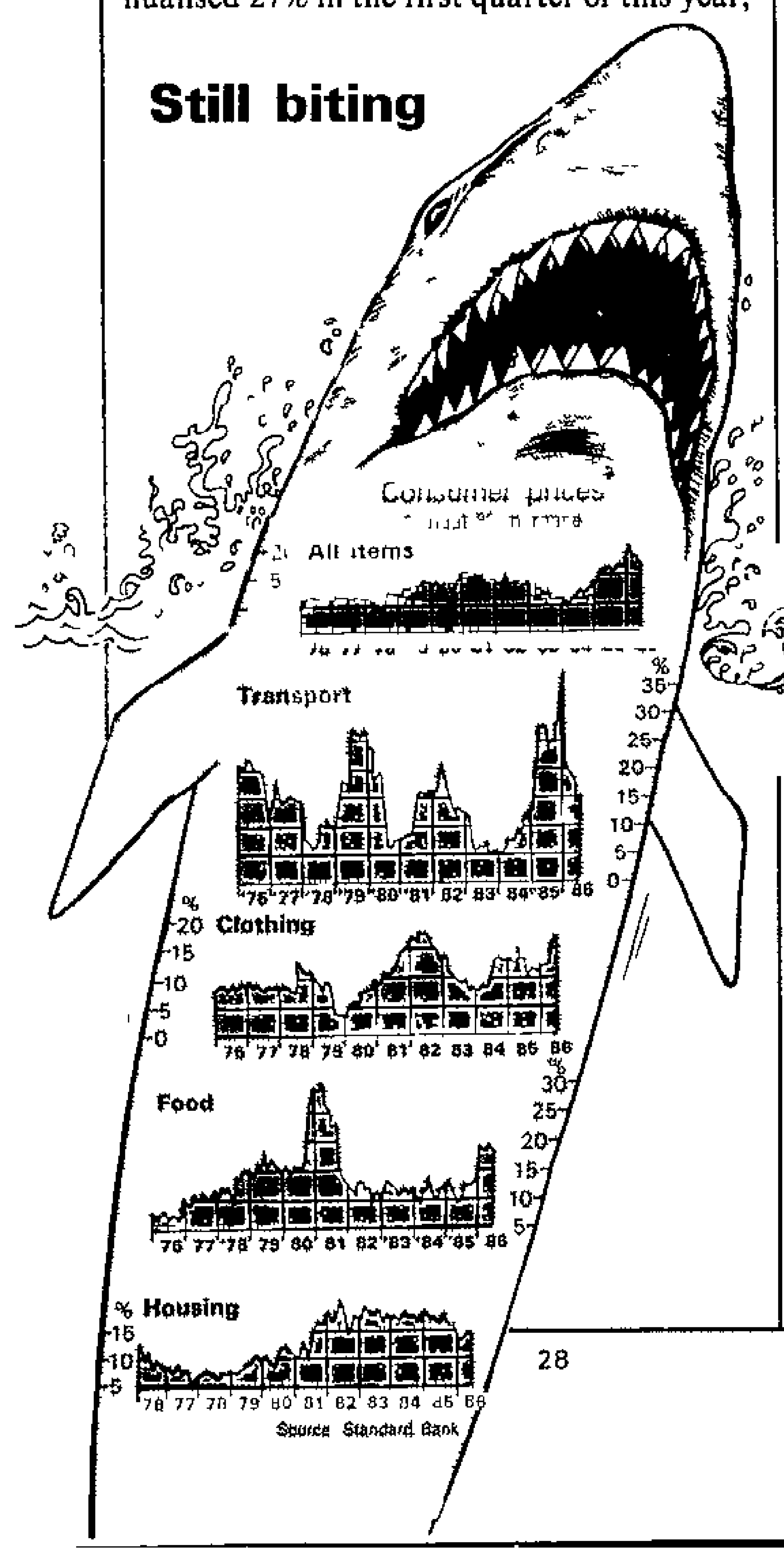
If there is a solution, it may be more political than economic restore social order and business confidence, and get the rand back to an external value in line with its internal purchasing power It is understandable that economists, qua economists, fight shy of these murky waters

In any event, inflation is now less of an immediate problem than growth and unemployment Inflation and growth may be incompatible in the long run, equally, the old assumed trade-off between inflation and unemployment no longer applies Unemployment and inflation have risen in tandem, showing that (at least in SA) the Phillips curve — one of economists' favourite toys of the decade — doesn't work

However, JCI's Ronnie Bethlehem warns that in the long run we cannot solve unemployment and maintain a healthy balance of payments unless we can control inflation

If economists generally feel that there is little more that can be done now to trim inflation further, many warn that the present

Still biting



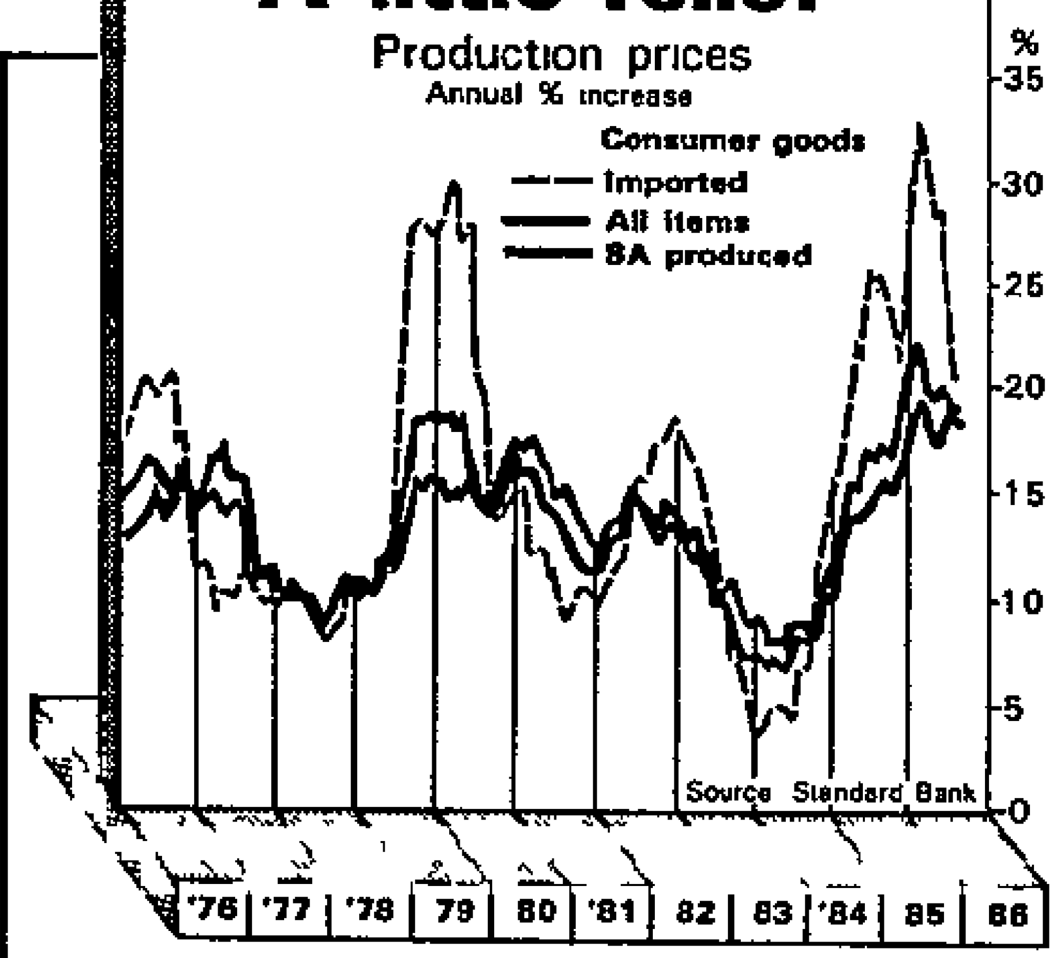
declining trend may not last

A major bogy is the threat of sanctions. Anglo American's Aubrey Dickman says bluntly that it's "nonsense" to think that sanctions can be anything but inflationary. Import replacement industries may absorb spare labour; but their output, virtually by definition, will be more expensive than the imports they replace The net effect must be a fall in real purchasing power.

Negative factors

Bethlehem adds two other negative factors He is worried that world inflation (notably in the US) could pick up in 12-18 months' time, and believes that apprehension of this is one reason for the stronger gold price.

A little relief

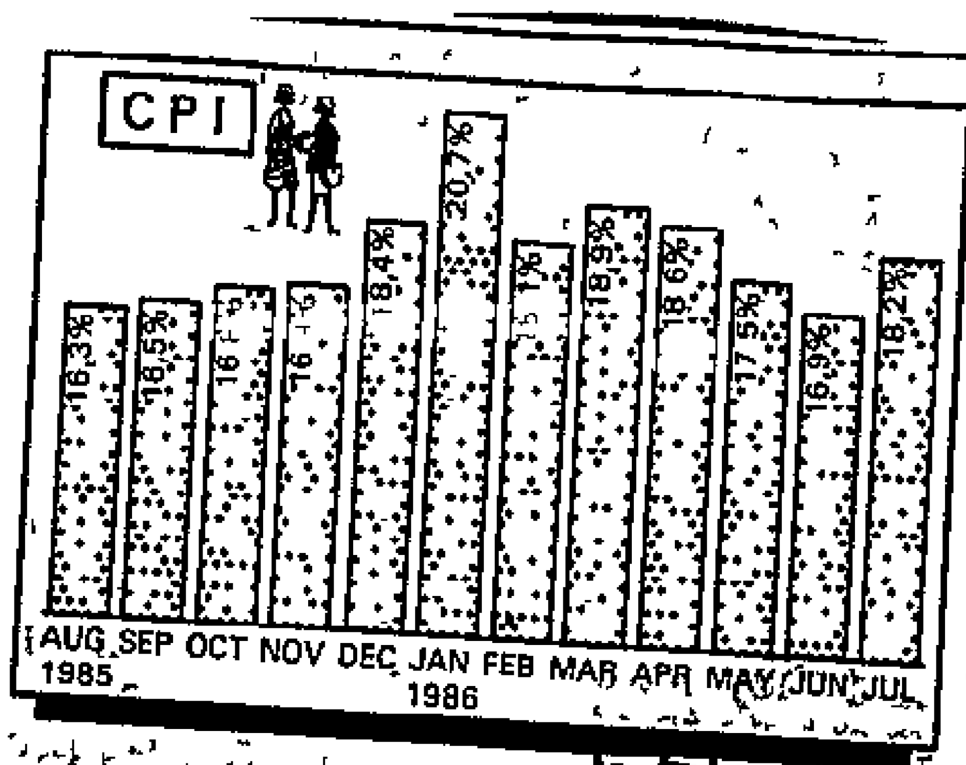


Then, he points out that the stronger (or, to be precise, more volatile) gold price itself is a mixed blessing. When the gold price firms, the revenue effect stimulates demand-pull inflation, when it falls, cost-push comes into play

If these pessimistic pressures materialise, the second half of next year could see inflation start to build up again

Perhaps we should count ourselves lucky that inflation has not reached Latin American or Israeli levels

Perhaps, too, there is indeed little we can do to contain it at the moment, without creating even more damage to an already battered economy. But it remains a basic weakness which is not going to disappear; and if (when?) the economy ever does start to put on steam, it could become a serious problem again much faster than most would now credit ■



22/8/86 BUSDAY 153

Inflation rate pulls ahead

Business Day Reporters

THE year-on-year consumer price index jumped sharply to 18,2% in July after slowing to 16,9% in June.

This, largely because of higher food and housing costs, startled many economists who had predicted a much smaller increase

The CPI rise was the first in the year-on-year figure since March Before last month inflation had declined by nearly four percentage points from its peak in January of 20,7%

The all-items index rose 2%, to 228,8, from 224,4 in June, according to Central Statistical Services, after monthly increases of 0,2% and 0,8% in May and June, respectively. The index stood at 193,6 in July, 1985.

Capital market sources said many traders knew the exact inflation result as early as Wednesday morning, indicating a leak from official sources.

The biggest month-to-month increases within the index came in housing costs, which rose 2,96%, and foods, which rose 2,8%. Economists were most surprised by the gain in housing costs in a month when bond rates dropped and most rents appeared stable.

Within the food category — which accounts for 25% of the total index — meat rose 3,4%, fish 3,6% and vegetables 7%. Most of the increases were larger than anticipated

Standard Bank chief economist Andre

● To Page 2

Inflation rate still pulling ahead

153 ● From Page 1 BUSDAY 22/8/86

Hamersma called the July inflation figure "disappointing" and "a bit of a surprise"

"The size of the increase is most surprising, especially as it comes after four or five months of a declining trend," Hamersma said He cautioned, however, that the one-month disappointment did not indicate a long-term reversal of the movement toward lower inflation

Volkskas economist Adam Jacobs said "It is shocking that in a time of recession we have an inflation rate still climbing"

Jacobs blamed the battered rand as the major cause of the continuing high inflation, and said he could see no indicators pointing to a significant fall in the rate in the months ahead

Economists and capital market traders indicated that yesterday's CPI figure had been widely known among in the markets by Wednesday afternoon Rumours concerning the figure normally circulate just before its official release, but traders said the information circulating on Wednesday and yesterday morning was unusually accurate

One trader said rumours had had a marked impact on trading Wednesday The yield on the bellwether RSA 13% 2005 stock, for one, moved to 14,80% from 14,65% when the rumour began early in the day

Inflation rise has experts baffled

SOWR 22/8/86 153

By Jackie Unwin

The leap in the year-on-year inflation rate to 18,2 percent in July has shocked consumer bodies and economists

The jump followed a slowdown to 16,9 percent in June

But some economists were hopeful that this did not represent a turnaround of the basic downward trend in the inflation rate

The increase in the consumer price index, issued by Central Statistical Services in Pretoria, was largely due to higher food and housing costs.

This rise was the first in the year-on-year rate since March

Before July the inflation dropped almost four percentage points from its high in January of 20,7 percent.

Housing costs showed the biggest month-to-month increase with a rise of 2,96 percent.

Meat rose by 3,4 percent, fish 3,6 percent and vegetables 7 percent

Economists were startled by the size of the increase in housing costs when bond rates had dropped

OPTIMISTIC

Mr Rudolf Gouws, group economist of Rand Merchant Bank, was disappointed at the rise in July, but optimistic that the downward trend will continue

"I will be very surprised if we are not below or around 15 percent in January next year," he said

"If you look at the monthly changes over the last six months and express those at an annualised rate, it is about 14,5 percent".

Mrs Lyn Morris, president of the Housewives League was upset at the rise and puzzled by the increase in housing costs in a time when house prices and rentals were dropping

"It just doesn't make sense"

She was also horrified at the food increases.

"I am unhappy about the way these figures are worked out and wonder where they get them from," she said

After a declining trend

153

Cape Times 22/8/86

Inflation rate surges to 18,2%

Own Correspondent

JOHANNESBURG — Consumer price inflation shot to an annual rate of 18,2% in July, largely because of higher food and housing costs, startling most economists who had predicted a much smaller increase.

The rise in CPI, from 16,9% in June, was the first in the year-to-year figure since March. Before last month, inflation had declined by nearly four percentage points from its peak in January of 20,7%

The all-items index rose 2%, to 228,8, from 224,4 in June, according to Central Statistical Services, following monthly increases of 0,2% and 0,8% in May and June, respectively. The index stood at 193,6 in July, 1985.

The biggest month-to-month increases within the index came in housing costs, which rose 2,96%, and foods, which rose 2,8%. Economists were most surprised by the gain in housing costs in a month when mortgage rates dropped and most rents appeared stable.

'Disappointing'

Within the food category — which accounts for 25% of the total index — meat rose 3,4%, fish 3,6% and vegetables 7% Most of the increases were larger than anticipated

Standard Bank chief economist Andre Hamersma called the July inflation figure "disappointing" and "a bit of a surprise".

"The size of the increase is most surprising, especially as it comes after four or five months of a declining trend," Hamersma said.

He cautioned, however, that the one-month disappointment did not indicate a long-term reversal of the movement toward lower inflation

Volkskas economist Adam Jacobs said: "It is shocking that in a time of recession we have an inflation rate still climbing."

Major cause

Jacobs blamed the battered rand as the major cause of the continuing high inflation, and said he could see no indictars pointing to a significant fall in the rate in the months ahead

The lower income group index rose to 222,8, up 1,6% from June and 18,3% from July, 1985.

The middle income group index, meanwhile rose to 231,2, up 2% and 18,6% from June and July, 1985, respectively.

The higher income group index rose to 229,1, up 2% and 18%, respectively.

Consumer confidence still sliding survey

28/8/86

BUS DAY

LESLEY LAMBERT

153

THE confidence of most ~~white~~ consumers had declined further during the third quarter, according to the latest Bureau of Economic Research poll — which fell 20 points.

Despite tax cuts and further relief measures aimed at putting more money into the consumer's pocket, the majority of respondents expected their financial position to remain unchanged.

The BER said it was not surprising, given the more pessimistic outlook, that consumers were reluctant to buy expensive items such as furniture and domestic appliances.

The poll indicated that consumers also expected faster price increases — a reflection of the devaluation of the rand in the last three months, according to the BER.

Most consumers did not hope that inflation would fall below the current level. About 80% of the respondents expected prices to increase, either at the current rate or at an even faster rate than previously experienced.

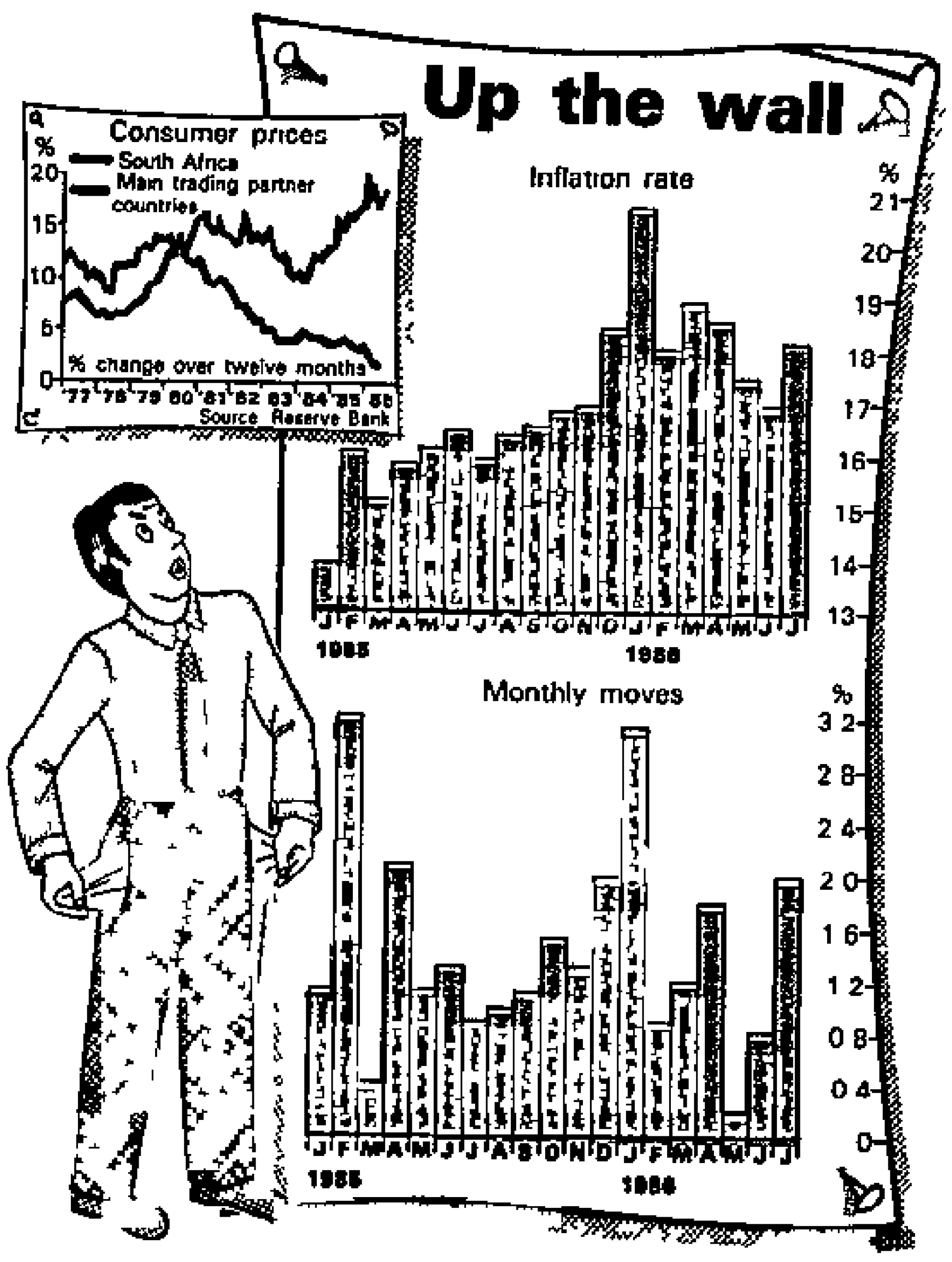
The re-introduction of the state of emergency, continuing political violence, an economic package described as "too little too late" and increasing international pressure for the imposition of further sanctions had played a major role in influencing the perceptions of consumers

INFLATION Fin Mail 29/8/86 153

Food for thought

The most disturbing aspect about the rise in consumer price index (CPI) to a year-on-year 18,2% for July is the cost of food Constituting 25% of the total basket, food increased by 20,8% on a year-on-year basis

The overall index rose 2% in just one month to 228,8, the index for food alone jumped 2,8% The month-on-month increase



was the second highest this year (after January's 3,1%). In recent months things looked hopeful, with slowdowns in April (18,6%), May (17,5%) and June (16,9%), year-on-year

The figures are up to July 7, too soon to reflect the "store wars" campaign (*FM* August 8). But will price freezes by major supermarket chains have any effect, anyway?

Checkers MD Clive Weil is not optimistic. "I am not surprised at this increase and do not see inflation easing. Pressure from suppliers is enormous They continually request increases " He says smaller volumes also add to inflation "Higher price increases are needed to make up for lost volume."

Weil also warns that meat consumers are in for a tough time. "We are running into a terrible meat shortage "

Another ominous sign is that margins have been slashed Weil says "margins are significantly lower than a year ago " Such tightening cannot continue indefinitely

The major increases for July were meat (up 3,4%), fish (3,6%), milk, milk products and eggs (4%), fruit (2,4%), vegetables (7%), coffee and tea (6,1%), cold drinks (7,6%), alcohol (2,9%) and recreation and entertainment (3,8%).

Weil explains that most of these are a result of statutory price rises "Sugar, maize and transport costs have all fed through to push up prices of other goods, such as eggs "

The other disturbing aspect is the 3% increase in housing, despite lower mortgage rates This, Central Statistical Services (CSS) explains, is because costs such as assessment rates, refuse, sanitary and insurance rates, compiled annually, came through

Only one category dropped in price over the month — fats and oils, by 5,5% CSS explains this is a result of the fall in the butter price.

While most economists are surprised at the CPI jump, few are adjusting estimates for the year-end rate — between 15%-16% Senekal, Mouton's Leon Steenkamp says "15% is still possible by early next year but less certain," though he points out that the latest increase is not a result of imported costs

Rand Merchant Bank's Rudolf Gouws believes "this is not the start of a new trend, the basic trend is still down " He points out that the annualised inflation rate of the past six months is 14,5%, and looks for 16% by year-end

The Reserve Bank's annual economic report calculates that the quarter-to-quarter increase in CPI, at a seasonally adjusted annual rate, was 12,8% in the second quarter This follows an increase from 13,6% in the third quarter of 1985 to 27,2% in the first quarter of 1986

The report hopes that "although a number of further administered price increases stand to be effected in the near future, more favourable developments may exercise a restraining effect " Developments cited are the sharp drop in rates of increase in monetary aggregates, lower rates of increase in labour and other business costs, and abolition of the import surcharge on some raw materials and intermediate goods But inflation is still a major concern. Says Steenkamp "If this is the rate when the economy is recessed, what willhappen when demand and money supply pick up?" ■

Inflation: female office workers take strain

11/9/86 (153)

Inflation has outpaced salaries in most female office staff job categories, according to a salary survey covering the first six months of 1986.

The survey, data for which is drawn from the Kelly Personnel Group's 33 branches in the Transvaal, Natal and the Cape, also points to there being an oversupply of inexperienced staff (identified as staff whose starting salaries fall within the Lower Quartile of the salary range) while experienced staff (Upper Quartile of salary ranges) are in shorter supply.

This is evidenced by senior staff who are, as a statistical group, seeking not to "job hop". In fact, senior staff still prefer the security of the employer they know, to a new employer who offers more pay.

This, according to the group is a phenomenon associated with a recessionary market.

"With the current depressed business conditions and with inflation running at between 17 per cent and 20 per cent per annum, there seems little hope that salaries will keep pace with the cost of living," the survey comments

"Indeed, every salary increase fuels the inflation trend At this half-way point in 1986, there are few salaries which have risen anywhere near the 20 per cent inflation level"

The survey details seven job categories in each of seven different regions and reflects the actual starting salaries paid by employers with regard to Female office staff It is based on placements made by the group during the period under review.

For the six months ending in June, the executive secretary/private assistant proved the highest paid female staff position The job is specified as working for top management, responsible for confidential matters, with top secretarial skills including completing of own correspondence and responsibility for duties including scanning calls and visitors, making travel arrangements, organising meetings and taking minutes

In the Johannesburg region starting salaries of R1 650 per month were noted, compared to R1 500 in Durban On the lower end of the experience scale, these positions were paid Johannesburg R1 450 Durban R1 100 and in Cape Town and Pretoria and the Vaal Triangle the salaries range from R1 000, R1 200 and R1 300 respectively as starting salaries

The lowest paid female office staff members included in the survey was the Durban-based receptionist/switchboard operator whose starting salary ranged from R600 per month, with a Lower Quartile range of only R650

STARS

ARIES (Mar 21 — Apr 20) Concentration on the job at hand can free you for more interesting work later on Proceed from the beginning to the logical conclusion of a project before allowing yourself to be demoralized by those who would take away from your self confidence Best relationship, boss — number 106 — colour, ruby — opportunity, work — time, all day

TAURUS (Apr 21 — May 20) Be ready for appreciation rewards and love under these progressive Venus trends Show your best smiling attitude as an example for those who tend to look on the negative side The evening favours shopping, planning taking thought for home and loved ones Best relationship, Taurus and Scorpio — number 100 — colour, orange — opportunity, appreciation of events — time, 11 04 am

GEMINI (May 21 — Jun 20) number, 817 — colour, burgundy — opportunity, sound thinking — time, evening

LIBRA (Sep 23 — Oct 22) Don t deal in wishful thinking where earning power or money matters are at stake but face up to limitations and to quiet but practical ways of overcoming them Best relationship loved one — number, 262 — colour orange — opportunity, winning new laurels in love matters — time evening

SCORPIO (Oct 23 — Nov 22) Excellent stimulation of mental powers causes a surge in creativity You gain today where you smile, extend favours and show courtesy Best relationship, the right person — number, 031 — colour, beige — opportunity, spreading cheer — time, late afternoon

SAGITTARIUS (Nov 23 — Dec 21) You tend to keep on the go more today than you had planned Health admirably

Fall in inflation rate has setback

DD 11/9/86 (15)

JOHANNESBURG — Hopes of a continuing fall in the inflation rate have received a setback from the latest Production Price Index (PPI), which rose by 19,7 per cent year-on-year in July, compared with a 19,03 per cent jump in June

This follows a decline in the index in the previous four months

The overall index rose to 216,3 per cent from 213,3 per cent in June, showing a month-on-month increase of 1,4 per cent

The upward thrust in the PPI appears to have come from locally produced goods. While the prices of imported goods increased marginally from 20,4 per cent to 20,9 per cent, locally produced commodities rose to 19,3 per cent from 18,6 per cent

Inflation heading for 19 percent this year

153

11/9/86 STAR

By Sven Lunsche

Many economists, who suggested the recent rise in the inflation rate to 18,2 percent was just a hiccup, may have to eat their words

The year-on-year rise in the Production Price Index of 19,7 percent for July suggests the inflation rate could well approach the 19 percent mark once again

The PPI, which measures prices at the wholesale level, was 216,3 for July and is usually a strong indication of future changes in the Consumer Price Index

The rise in the PPI began in June, when the year-on-year figure was 19,03 percent, largely as a result of increases in the wholesale price of food The subsequent rise in consumer prices for food was the largest contributor to July's high inflation rate

While the prices of imported goods only increased marginally from 20,4 percent to 20,9 percent, largely as a result of the firmer rand exchange rate, locally produced commodities once again exerted upward pressure on the PPI, rising from 18,6 percent to 19,3 percent in July

153 FINMAIL 12/9/86

INFLATION

Economic bugbear

Economists remain very concerned over the future course of inflation Considering we are still in recession with a year-on-year rate of around 18%, what will happen if and when an economic revival gets underway?

Economists are divided as to the future course of inflation, some believing it will move into hyperinflation, others expecting the rate in fact to ease down slightly on the basis that some upward forces will be counterbalanced by new developments

By breaking new ground inflation has become a source of confusion Take, for example, the accompanying graphs, which correlate the inflation rate, first with growth in money supply (M2), and second with the year-on-year rate of change in real gross domestic expenditure (GDE)

From 1973 to about 1985 they match nicely, as one would expect, less cash, reflected in money supply, implies less demand for goods and therefore reduced pressure on prices GDE is simply the other side of the coin

But, says Leon Steenkamp, economic consultant to Senekal, Mouton & Kitshoff, the correlation has broken down On past experience, the graphs would suggest an inflation rate of 11% for 1986, not 17%-18% as is the "actual expectation"

To Steenkamp this anomalous behaviour of inflation in terms of demand factors is "most disquieting" He says inflation may have adopted a "will of its own" which could be the forerunner to a state of semi-hyperinflation

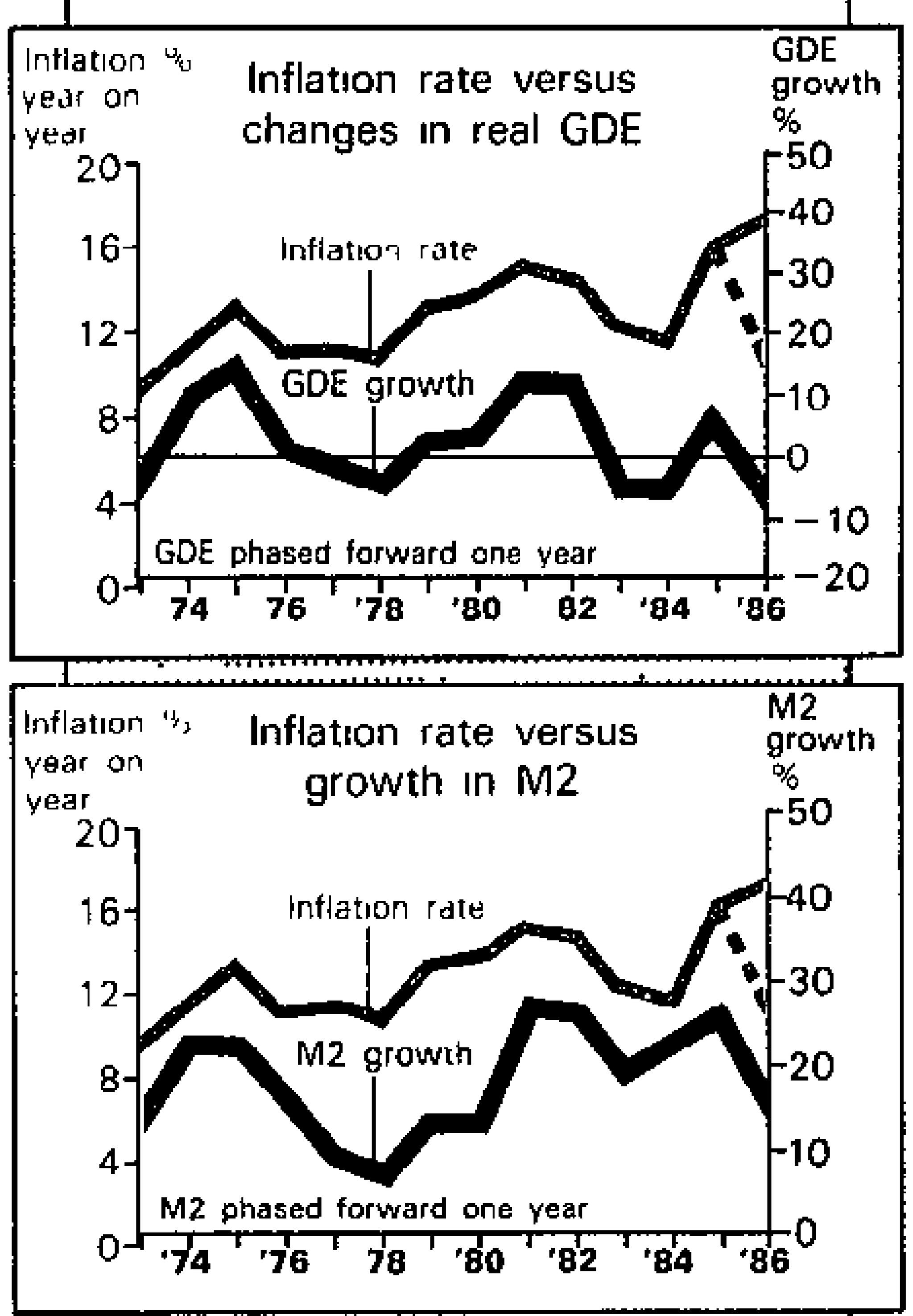
The misbehaviour of the rand seems to have ruptured the neat order of things Says Rudolf Gouws, group economist of Rand Merchant Bank "The exchange rate was an exogenous shock to the equation The fall, largely for non-economic reasons through capital outflows, pushed up import prices, and therefore affected inflation"

Certainly, looking at the situation in the conventional way has become dangerous For three years the economy has plunged while inflation continued to soar

Says UBS in its latest *Economic Monitor* "Important reasons for persistent high inflation are the high cost of imported goods and the increase in some administered prices Demand-pull inflation has virtually disappeared, but cost-push inflation has remained very real"

In recession, people lose jobs, get negative real increases in wages (as has been the case for six quarters now) and buy less, which means less demand for goods so demand-pull inflation disappears But is cost-push inflation now the main cause, with increased manufacturing costs — largely the result of the weak rand — passed on to the consumer?

Inflation relation



Source Senekal Mouton & Kitshoff

Steenkamp doesn't think so "It is difficult for companies to pass on cost increases if demand is depressed" Nor does he think cost-push theories square with low international inflation and the decline in oil prices and domestic interest rates

But these promising developments are of more recent origin The inflation rate appears very high in the current environment of depressed demand, but reflects price events that occurred as much as a year ago

Gouws also points out that there was no correlation in the graphs during the Sixties, when the opposite occurred GDE rose rapidly while inflation was low

Says Louis Geldenhuys, economic consultant to George Huysamer "For many companies it's a survival thing," so costs are being passed on "Anyway, even if car prices were slashed I don't think you'd find demand going up"

He points out that another dimension is the "shortening of people's time horizons Returns must relate to the greater risks, and this must be reflected in the price structure"

Also important must be social restructuring through the reform process, and, depending on the method of financing, possible huge increases in costs of defence, special housing packages and improvements to education

Future movements of the rand will be heavily impacted upon by political developments, both domestically and externally This can mean that the rand/dollar exchange rate, but particularly the trade-weighted rand, will remain highly exposed and could continue to feed through into a higher inflation rate

Says Geldenhuys "The outlook for inflation next year is very worrying" The economy should recover, but like Gouws he expects a phase of strong union demands for wage increases

Gouws says salaries will also create cost pressures as employers search to replace skills lost by emigration He expects inflation will average around 15% next year, depending on how sanctions affect supplies and how SA reacts ■

INTEREST RATES

Nearing bottom

Was last week's round of rediscount rate cuts the last? The general feeling is that rates are nearing bottom

The Reserve Bank's problem is that the economic picture is far from clear While premature tightening could undermine any recovery, delaying too long could create inflationary and spending problems

"The signal from the monetary authorities is to take it easy," says Volkskas's Danie Cronje, while his group's economist, At Engelbrecht, feels "the Bank will sit back and see whether the upturn is taking place before acting again"

With signs pointing to an increase in real economic activity, the Bank will be watching loan demand like a hawk before acting again — the last two drops of only 50 points reflect its caution

So far, the Bank does not detect any upturn in credit demand Nedbank's Merton Dagut, Barclays' Jimmy McKenzie, Standard's John Lloyd and Cronje agree that demand is still slack Only Lloyd notices a "slight improvement — at least the tendency to fall has disappeared" Dagut feels people must first have more confidence that is translated into inventory spending, while McKenzie says demand is low enough to accommodate a further cut — "the upturn should be off a low base"

This time round the Bank appears to have been pressured from both the money market and the banks Market rates are still way below the new rediscount levels One bank indicated to the Reserve Bank that it was about to reduce its prime lending rate This explains the almost immediate 50-point drop in prime to 13,5% (25% in May 1985) after the Bank's announcement

Margins have now apparently improved Bankers then complained about being locked into higher deposit rates and declining lending volumes. Margins depend on the deposit mix, which varies from bank to bank (*FM* August 15)

Now, McKenzie says, margins are under less pressure.

Cronje adds "While gross margins are not under pressure, net margins are still unacceptaby low " Lloyd reckons, "it is necessary to drop deposit rates more than would be the case if credit demand was strong " And Dagut talks about the cut "in itself not affecting margins "

A noticeable aspect of the cuts is the relative indifference of the market, which was, in effect, "out of the Bank" throughout August That is, the banking system was so liquid, that the market was barely reliant on the Bank for short-term accommodation (see *Markets*)

"Accommodation rates were not so critical The market has seldom borrowed less and mining houses are flush with cash," says Discount House's Colin Dunn This probably suits the Bank The De Kock Commission noted that such reductions should be low-key, unless it wants to provide a clear message

Lloyd is perturbed by negative real rates of interest, however, and feels liquid asset rates have overreacted and could be in for a correction to near their rediscount levels "Investors are being ignored and market rates cannot be justified at these levels " He points out that liquid asset rates are artificial in the sense that banks have been chasing assets to meet final liquid asset requirements — in terms of the new Banks Act — by September 21

Since May last year, the rediscount rate for Treasury bills — the Bank rate — has dropped from 21,75% to 10% There is now pressure on other retail deposit and mortgage rates Barclays has already reduced its mortgage rate to 15,5% from 16,5% But societies are unlikely to follow suit UBS economist Hans Falkena, whose society usually leads in reducing rates, says no further drop in mortgage rates should be expected this year ■

RESERVES

Less flight

The August asset and liability statement from the Reserve Bank suggests that the capital flight is slowing Foreign assets have almost doubled in two months — from R677m in June to R1,2 billion More significantly, they nearly doubled in dollar terms — from $271 billion to $469 billion

This supports comments by Reserve Bank Governor Gerhard de Kock in Cape Town on Monday After talking about how "a substantial withdrawal of foreign capital and credits for more than a year and a half" affected the rand, inflation and growth, he said that barring unforeseen developments, "the net capital outflow (including debt repayments) during the second half of 1986, should be substantially less than the expected current account surplus "

DE KOCK'S SCENARIO

Past and expected capital flows

	1986 1st half	1986 2nd half[3]	1987[3]
Repayments in terms of the interim debt arrangements ("inside the net)	R1 082m	—	R114m
Repayments in terms of the proclamation (outside the net")			
Repayments of bearer bonds and notes	R320m	R252m	R821m
Repayments to the IMF	R345m	R536m	R1 114m
Repayments by Reserve Bank	R1 004m		—
Other capital outflows (including repayments of trade credits and leads and lags in general	R2 156m	R172m[2]	—
Total capital outflow	R4 907	±R1 000m	—
Current account surplus	R2 900m	R3 000m-R4 000m	+R5 000

1 Using R1 = US42c
2 In July and August — for the rest of the year this is not expected to be large
3 Estimate

De Kock estimates the current account surplus for the second half of 1986 at R3 billion-R4 billion, bringing the 1986 surplus to R6 billion-R7 billion

A total of R1 billion is expected to be repaid in the second half of 1986 "To this must be added possible capital outflows in further repayments of trade credits and new unfavourable leads and lags, plus the usual errors and omissions "

Finance Director General Chris Stals tells the *FM* that $2 billion of the expected $2,3 billion of foreign debt due by next June has already been repaid

De Kock provides no estimate for total outflows in 1987, saying "the outcome will depend mainly on the behaviour of leads and lags in general, and trade credits in particular, and on any further debt repayments within the net that might be agreed during the new round of debt negotiations scheduled for the second half of 1987 " Apart from their share in bearer bonds and notes, public corporations are not expected to make net repayments

In the year to end-June, a net R9,5 billion flowed out of SA, of which a smaller portion (R2,6 billion) left in the first half of this

TOP JOURNALISM AWARD

Neil Jacobsohn, managing editor of *Business Day* and formerly the *FM*'s Cape Editor, has become the 1986 Rosholt Fellow

The award was made by Barlow Rand chairman Mike Rosholt at Barlow Park on Monday

The fellowship, which is given academic expression at Oxford's Templeton College, aims at fostering understanding of business among those journalists who have the ability to become editors

The five finalists for the award were interviewed by a panel chaired by JSE president Tony Norton.

Jacobsohn will spend the Hilary term at Templeton and then two weeks with an appropriate publication abroad He began his career with the *Pretoria News* and spent some years working in Fleet Street In 1985 he was moved from the *FM* to *Business Day* where he manages the day-to-day news operations of the paper

Pay rises far behind inflation rate

Cape Times 12/9/86

153

Staff Reporter

THE GAP between salary increases and inflation has widened to an all-time high

Pay rises for all races country-wide are lagging behind the inflation rate by 5,8 percent, according to a major survey released yesterday

And according to local employment agencies, Cape Town employees are slightly worse off than the average

The 1986 General Staff Salary Survey, undertaken by the remuneration division of P-E Corporate Services SA (Pty) Ltd, was based on data provided by more than 1 000 organizations employing about 1 200 000 staff of all races.

It showed that the overall percentage increase in basic salary levels for all races for the period June 30, 1985, to July 1, 1986, was 11,1 percent.

The Consumer Price Index (CPI) over the whole country for the same period was 16,9 percent, reflecting the countrywide 5,8 percent salary lag.

Mrs Cheryl Sharp, a manager of Drake SA, said salaries in the Peninsula area had gone up by ten percent on average in the past year.

And according to a recent six-month salary survey by Kelly Personnel in Cape Town, few salaries have risen anywhere near the inflation level.

The Kelly survey showed "a phenomenon" of the recessionary market that salaries at the top end of the market tended to increase because it was difficult to attract qualified staff from their current positions, while other salaries stagnated.

Miss Jane Ashburner, the division manager of P-E Corporate Services, said the salaries-inflation gap was "the worst in memory" The picture became even more dismal, she added, when one considered that since the effective date of the survey, the CPI had risen to 18,2 per cent.

This lag in salary increases started in 1983 and had continued at an alarming rate ever since, she said

Gap between pay hikes and inflation hits an all-time high

153 2/9/86 DD

JOHANNESBURG —The gap between salary increases and inflation has widened to an all-time high with increases for all race groups lagging the inflation rate by 5,8 per cent, according to the results of the 1986 General Staff Salary Survey.

The survey was released yesterday by the remuneration division of P-E Corporate Services SA (Pty) Ltd.

It was undertaken from data provided by over 1 000 organisations employing approximately 1 200 000 staff of all race groups, and showed that the overall percentage increase in basic salary levels for all race groups for the period June 30, 1985 to July 1, 1986 was 11,1 per cent

The Consumer Price Index (CPI) for the same period was 16,9 per cent, reflecting the 5,8 per cent lag

"This gap is the worst in memory," said the manager of the division, Miss Jane Ashburner. The picture became even more dismal, she added, when one considered that since the effective date of the survey, the CPI had risen to 18,2 per cent.

The lag in salary increases started in 1983 and had continued at an alarming rate ever since. As inflation had been spiralling, companies had been restricted from granting significant increases by the severe financial restrictions they had been operating under.

Until 1982, the CPI had been used as one of the most important guides when determining salary and wage increases "Forces of circumstance have now dictated, however, that companies' financial results be the prime measure taken into consideration when determining increases," she said.

The survey showed that whereas last year the lowest movements were recorded for whites, this year coloureds received the lowest salary increases at 10,4 per cent. However, the movement for whites was not far ahead at 11,0 per cent.

Blacks moved from the top position in the salary and wage increase stakes to second place behind Asians. The salary movement for blacks was 11,3 per cent while that for Asians was the highest of all race groups at 11,6 per cent. Last year blacks received 12,3 per cent and Asians 10,7 per cent.

Miss Ashburner said the fact that increases for other races had come closer to those for whites indicated that the socio-political factors that had largely determined wage increases for non-whites in the past had generally been shelved and replaced by the hard economic realities brought about by the recession.

Looking at the cumulative increases against the cumulative inflation rate over the past five years, the survey showed that no-one has kept pace with inflation.

The cumulative CPI for this five-year period was 97 per cent. Blacks came the closest to this with a cumulative wage increase of 91 per cent, followed by Asians at 90 per cent, coloureds at 80 per cent and whites on the lowest rung at 73 per cent.

"Salaries have, in fact, not kept pace with inflation for the past 10 years in the case of whites," said Miss Ashburner.

The cumulative percentage pay increase for the past 10 years for whites was 199,3 per cent against a cumulative CPI for the same period of 255,0 per cent. — Sapa

153

Inflation outstrips pay rises by 5,8%

MICK COLLINS

THE gap between salary increases and inflation is yawning wider with workers of all race groups — for the first time ever — trailing the inflation rate by 5,8%.

"This gap is the worst in memory," said Jane Ashburner, manager of the remuneration division of P-E Corporate Services

The shock results emerged yesterday when P-E released its results of the 1986 general staff salary survey.

The picture becomes even more dismal considering that since the end of the survey in August, the Consumer Price Index (CPI) has risen to 18,2%

The survey, undertaken from data provided from more than 1 000 organisations employing approximately 1,2-million staff of all race groups, showed that the overall percentage increase in basic salary levels for the period June 30, 1985, to July 1, 1986, was 11,1%

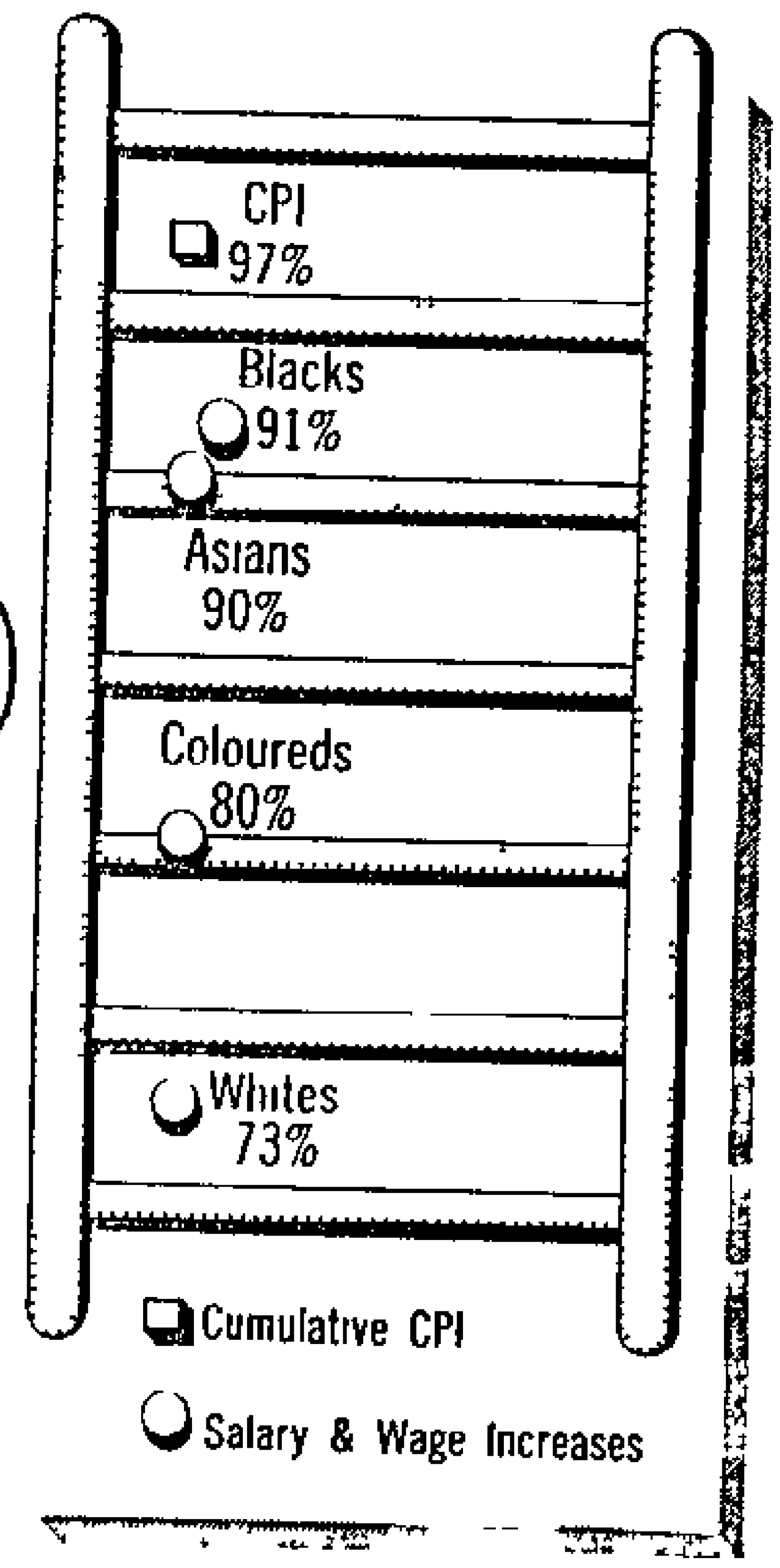
The CPI for the same period was 16,9%, reflecting the 5,8% lag

The cumulative CPI for this five-year period is 97% (see graph) Blacks came closest to this with a cumulative wage increase of 91% They were followed by Asians at 90%, coloureds at 80% and whites on the lowest rung at 73%

The cumulative percentage pay increase for the past 10 years for whites is 199,3% against a cumulative CPI for the same period of 255,0%

● See Page 10

WHERE WE STAND



12/9/86 BUSDAY

$100m loan helps Escom projections

ALAN SENDZUL

THE recently negotiated $100m, four-year loan to Escom from the Public Investment Commissioners (PIC) is believed to have helped the utility cut its funding projections for 1987 by R1bn to R3,4bn.

A spokesman for Escom said the reduction also follows the deferment of several capital projects.

The PIC released the $100m to Escom after successful negotiations between Escom and SA's foreign creditor banks. Maturing foreign loans caught inside the standstill net are paid into the PIC account if offshore bankers choose not to roll the loans with local borrowers.

Escom recently disclosed that it had managed to obtain a loan from the PIC, but this appears to be the first time the utility has brought these funds on to its books

Besides the PIC loan, Escom has obtained R375m in foreign capital this year in short-term European trade finance from export credit agencies And, the public corporation has continued to apply a policy of requiring foreign suppliers of specialist capital equipment to put up the finance for projects involving their equipment

Inflation has beaten 'everyone'

Mercury Correspondent

JOHANNESBURG—The gap between salary increases and inflation is yawning wider with workers of all race groups, for the first time, trailing the inflation rate by 5,8%

'This gap is the worst in memory,' said Jane Ashburner, manager of the remuneration division of P E Corporate Services, a large business consultancy

The shock results emerged yesterday when P E released its 1986 general staff salary survey

Since the date of the survey, the Consumer Price Index has risen to 18,2%

The survey, undertaken from data provided from more than 1 000 organisations employing approximately 1 200 000 staff of all race groups, showed that the overall percentage increase in basic salary levels for all race groups for the period June 30, 1985, to July 1, 1986, was 11,1%

The CPI for the same period was 16,9%, reflecting the 5,8% lag

Looking at the cumulative increases against the cumulative inflation rate over the past five years, the survey showed that no one had kept pace with inflation

The cumulative CPI for this five-year period is 97% Blacks came the closest to this with a cumulative wage increase of 91% They were followed by Asians at 90%, coloureds at 80% and whites on the lowest rung at 73%

'Salaries have not kept pace with inflation for the past 10 years in the case of whites,' said Mrs Ashburner

The cumulative percentage pay increase for the past 10 years for whites is 199,3%, against a cumulative CPI for the same period of 255,0%

Referring to the high cumulative increases for blacks, she said their averages were pushed up in the boom years of 1981/82 when abnormally high increases were granted in attempts to close the wage gap

Cabinet 'to decide on bread price'

STAR 15/9/80 153

Pretoria Bureau

The price of bread may rise soon

Reacting to speculation of an imminent price rise, a spokesman for the Wheat Board said it was "too early" to say whether the price would rise

He said the decision on price increases would be made by the Cabinet, which would probably announce its decision next week

Bread price increases depend on an increase in the price of wheat

"Keep in mind rising costs which farmers are experiencing at the moment when speculating on an increase in bread prices," the spokesman said

The maximum controlled price for standard 850 g loaves of subsidised bread is 50 c for brown and 70 c for white The brown bread subsidy is at present about 11,2 c per loaf

South Africans eat 462 million loaves of standard white bread each year and 1 388 million loaves of subsidised brown bread

B Bay electricity deposits shoot up

Dispatch Reporter

BEACON BAY — Electricity consumer deposits here have gone up by about 28,5 per cent

Domestic deposits have risen from R140 to R180

The town treasurer, Mr A Dijkers, told the town council that since the takeover of the electricity service from Escom on January 1, there had been no increase in the consumer deposits

"In view of the steady increase in tariffs since January 1, 1985, approximately 30 per cent, I have had no alternative but to increase the consumer deposits," he told the council

Mr Dijkers said the "extended period consumers enjoy to settle their accounts, which the council decided on, makes it imperative that deposits be maintained at a level equal to the average of two months supply to minimise bad debts and delinquency"

For all other consumer categories, the deposit was determined by the distribution superintendent, in consultation with Mr Dijkers.

The move was opposed by only one councillor, Mr C Meyers

He could not be contacted for comment yesterday

(18) 17/9/86 DD

10% rise in price of wheat looks on the way

BUD 91 153 17/9/86

GERALD REILLY

THE Cabinet is expected to approve a wheat price rise of about 10% at its meeting in Pretoria next Wednesday.

Informed sources believe the delay in annoucing the new price and its impact on the bread price has been caused by the "political factor".

A higher price of bread, sources said, could aggravate the unrest situation in the townships.

The bread subsidy for the current financial year is about R190m — R150m from government, R15m from the Wheat Board, and R5m each from the baking and milling industries, plus a R16m carryover from last year's subsidy.

However, if the wheat price is raised, and bakers' and millers' margins are increased, this would be insufficient to hold bread prices at current levels until the end of the financial year.

Jump in inflation rate, but blow softened by imminent bond rate drop

A JUMP in the inflation rate has been softened for home owners by the announcement that a major bank is to reduce its bond rate to 15%

It is expected that the drop in Barclays Bank rates will be followed later by building societies and other banks, most of which offer rates of 16%

Mr Adin Greaves, deputy general manager of the EP Building Society, said today that there could be a general drop in bond rates "in the not too distant future".

Mr Trevor Olivier, assistant general manager of the Natal Building Society in Durban, said his society had already announced its rates would be dropping to 16% from October 1, and further drops were likely

"We are slower to react than banks, but we are reviewing the situation continuously and, if at all possible, we will drop our rates further," he added

Barclays said yesterday that the 0,5% cut, effective from October 24, made its home loans rate the most competitive available.

Its rates have dropped from 18,75% at the end of last year to the new figure

Bad news for consumers was the announcement yesterday that the cost of living has increased by 18,7% since last August

Economists believe the latest figures — released by Central Statistical Services in Pretoria — dash hopes of inflation this year being contained within the 15% level hoped for earlier in the year

20/9/86 W/E Post (153)

W/E Post 20/9/83

High inflation 'devastating' SA lifestyles

(153)

Weekend Post Correspondent

JOHANNESBURG — The continuing recession has had a devastating effect on the lifestyle of the average South African, with 63% of blacks and 27% of whites having to make drastic cuts in expenditure this year.

In spite of some despondency, whites in particular are not quite as pessimistic about the country's economic future as they were last year.

These are findings of a study by the Markinor Research company into the effects of the recesssion on the expenditure patterns of black and white South Africans.

The survey found that blacks have been hardest hit, but all the low income earners have had to change their spending patterns drastically.

According to the survey, Afrikaners have been particularly badly affected.

Most of the whites affected believe the reason for the hardship is economic and blame Government mismanagement of the economy, with the drought playing a part.

Conversely, blacks are almost unanimous that the problem and the solution is political.

Disinvestment is seen as a direct cause of much of their economic misery.

The survey also shows that 89% of blacks believe the country's economic situation will deteriorate in the short term.

- Inflation has hit a whopping 18,7%, according to figures released yesterday — the third-highest figure since 1920.

And for low-income earners the rate is up to 19,1%, the worst on record. Middle-income earners' inflation is even higher, at 19,2%, while upper-bracket folk are better off with a figure of 18,3%.

But gold's leap yesterday to over $430 an ounce promises South Africa an additional R1 000 million assuming the price stands for a year. Up nearly $20 an ounce, it closed in London at a 3½-year high of $430 to $431.

(153)

22/9/86 BUSDAY

Hopes of strong recovery dampened

Inflation rises again to 18,7%

Economics Reporter

CONSUMER price inflation, fuelled by higher food costs, rose to an annual rate of 18,7% in August — further dampening the chances of a strong economic recovery in the near future.

The consumer price index (CPI) rose to 232,2 last month, up 1,5% from the July index, Central Statistical Services' figures show.

The increase followed a 2% jump in July, and pushed the year-on-year rate to its third-highest level since 1920.

Economists were disappointed by the latest data, after a decline in the CPI rate to 16,9% in June from its January record high of 20,7%.

An economist said "One would have hoped the declining trend of a few months ago would have continued. It may be difficult to restart economic growth with that high a level of inflation."

Some indicated, however, that September and October inflation figures might improve as the stronger rand reduced the cost of imported goods and food prices stabilised.

As well, the CPI grew exceptionally fast during the end of 1985, so year-on-year increases for those months this year should be lower.

Rand Merchant Bank economist Rudolf Gouws said inflation should slow to a 16% annual rate by year-end, declining further in the first quarter of 1987.

The food index, which accounts for 40% of the total, rose 2% in August to 230,0, after a 2,8% monthly jump in June. The year-on-year food increase was 22%, the highest rate since January 1981.

Vegetables provided the largest increase in the food category, up 6,4%, followed by a 5,6% fish increase and a 2,2% rise in fresh meat.

Prices for low-income earners rose 19,1% from August 1985 — the highest year-on-year increase on record for that wage group. The middle-income group faced a 19,2% increase, and upper-income earners a 18,3% jump.

153

Du Plessis warns on inflation

STEPHEN ROGERS

FINANCE Minister Barend du Plessis yesterday emphasised the need for a strong anti-inflationary policy when he warned that negative interest rates could damage the economy in the long term

SA faced a debt standstill situation and was cut off from inflows of foreign capital

Du Plessis said: "The need, therefore, for sufficient domestic capital formation is even greater. But an interest rate pattern that is consistently below the inflation rate will not encourage the level of national savings required"

The economy had been experiencing negative interest rates — where the rate of return on interest-bearing investments was less than the inflation rate — for about nine months.

As interest rates fell, inflation remained high and the gap between inflation and interest rates widened.

A banking economist said "In the short term it is understandable that interest rates have been allowed to drop below the inflation rate as government attempts to influence demand But in the long term we will be unable to ignore the interest/inflation rate differential

"Furthermore, in a period of negative rates, investment tends to be channelled into non-productive speculative areas as investors seek to obtain real returns"

Falling interest rates and continuing high inflation produced a contradiction between government's short- and long-term economic policy.

In the short term, interest rates were allowed to fall in encouraging increased demand and investment But if this policy was continued — at negative rates of interest — the decline in savings reduced funds available for domestic capital formation

Inflation boosts Govt's tax bite

24/9/86 STAR

By Reg Rumney

Wage earners, white and black, are feeling the pinch as inflation outstrips pay increases

Inflation, as measured by the Consumer Price Index, has almost halved the value of money over a five-year period

The cumulative inflation rate for the last five years, to the end of last year is 93 percent

If you earned R2 000 five year's ago, you would need to earn R3 860 just to equal your pre-tax income then

After tax, however, you would be far worse off, in spite of your raise, because of "fiscal drag" or "bracket creep"

Tax expert Mr Costa Divaris of Divaris, Stein, says few senior management have had real increases over the past five years to cater for the effects of inflation and fiscal drag

The tax tables have been changed three times over the past five years, but this, says Mr Divaris, "is nothing like the fundamental change needed to make recompense"

EMIGRATION

While the number of taxpayers is being decreased by emigration, the size of the collection is growing, he says

The increase in income tax collections over the last five years has grown substantially, as illustrated by the following table

1981 R2,1 billion
1982 R3,2 billion
1983 R4,3 billion
1984 R5,7 billion
1985 R7,4 billion
1986 R8,5 billion
1987 R10,3 billion (estimated)

A simple, if slightly artificial exercise, shows the power of fiscal drag to cut into your pay rises

If you were married and were earning, say R4 000 a month at the beginning of 1982, your tax was — without deductions — R1 309 a month that year

Assuming that inflation stays at its current high level of 18 percent, the cumulative inflation rate between then and the end of this year will be almost 200 percent

You will have had to have doubled your earnings to R96 000 a year, or R8 000 a month to keep pace with inflation

You pay tax of 50 percent on everything you earn above R61 700, plus tax of R20 697 on R61 700

So tax on R96 000 works out at R37 847, leaving you with R58 153, or around R4 846 a month

Of course, few people earning R96 000 would actually pay that amount of tax, since there are smart accountants and tax experts whose sole job it is to prevent them doing so

Nonetheless it illustrates the extent of the bigger tax "bite" inflation allows the Government

Bread price shock for consumer, feeding scheme organisations

SNOW 25/9/86

By Colleen Ryan, 153

The Government today announced an increase of 6c in the price of of white and brown bread from October 1 — a move which has shocked consumer and feeding scheme organisations.

The president of the Housewives' League, Mrs Lyn Morris, said the 12 percent increase in the price of brown bread was excessive. White bread will increase by 8,5 percent

She said the big jump in the price of brown bread would cause great hardship for the poor

Mrs Ina Perlman, executive director of Operation Hunger, said the price increase was "horrifying" and would increase the need for assistance to the hungry in the urban areas

White and brown bread will cost 76c and 56c a loaf respectively from next month, said a statement released by the director general of the Department of Agricultural Economics and Marketing, Dr D W Immelman.

The announcement of a higher bread price coincides with a statement from the Wheat Board of a 10,8 percent increase in the producer price of wheat.

In his statement, Dr Immelman said "The Government has decided on this price increase in view of the increase in the price of wheat .. and also rises in the costs of the milling and baking industry"

He said the last bread price increase was a year ago.

"An increase in the price of bread, which would have become effective on April 1 was deferred by means of special measures taken by the Government as well as the financial contribution made by the Wheat Board and the milling and baking industries"

Fuel, vehicle licence fees set to rise

25/9/86 BUSDAY

DAVID FURLONGER

MOTORISTS face increased vehicle licence fees and petrol prices to pay for recommendations in a Transport White Paper being studied by government

Transport director-general Adriaan Eksteen told an "Outlook for Trucks" conference in Johannesburg yesterday the recommendations would cost motorists R253m a year

And he said it was now accepted existing transport policies ran contrary to national economic policy

The cumbersome road freight permit policy cost the country more than R60m a year, while distorted tariff systems resulted in expensive and uneconomic transport

The major recommendations were

- An end to internal cross-subsidisation between SA Transport Services (Sats) activities, whereby uneconomic services are subsidised by money-making ones,
- Sats should be compensated openly for the financial burden of uneconomic services, by way of direct subsidisation,
- Uneconomic services should be paid for by whoever needed them — in the case of urban transport, by Regional Service Councils,
- Fares and freight rates should become market-related,
- Provincial traffic ordinances be rationalised into a single National Road Traffic Act

Eksteen said the direct cost of those changes must be borne by road-users.

He said "The Department of Transport has calculated that an additional R253m must be recovered annually from road-users This can be achieved by increasing the licence fee for all vehicle classes as well as the levy on diesel fuel now going towards the National Road Fund"

PRICE MOVES AT A GLANCE

26/9/86 · BUSDAY 153

Latest bread price rise greeted with dismay

GERALD REILLY
and Sapa

THE 6c/loaf increase in white bread and brown bread from October 1 has shocked consumer organisations and black trade unions

They warn of intensified hardship in the townships and an escalation of poverty and hunger

The producer wheat price is rise by 10,8%, from R325/ton to R360

However, producers are to be given an additional R15/ton from the Wheat Reserve Fund

Announcing the price hike in Pretoria yesterday, Agriculture Department director-general D W Immelman said white bread (76c/loaf) would rise by 8,5% and brown bread (56c/loaf) by 12%

Brown bread is subsidised by 11,5c/loaf and white by 1,8c Immelman said the total subsidy for the current financial year would amount to R193m — R150m from government, R12m from profits on imported wheat, and R31m from the Wheat Board and the baking and milling industries

Despite the subsidy, government had found it impossible to stave off a price rise, he said

National Union of Garment Workers general secretary Lucy Mvubelo said the higher price would come as a shock to thousands of struggling black families

Consumer Council director Jan Cronje, while welcoming the R193m subsidy, said the increase in the producers' price of wheat and the bread price would add to already expensive shopping baskets

Checkers MD Clive Weil described the increase as "moderate", although a slightly greater increase could have been applied to white bread in order to keep down the price of brown bread

Wheat Board chairman C D Cillie also announced price hikes in barley, by 11,5% to R300/ton, and rye, by 15,1% to R285/ton

FM 26/9/86 153

INFLATION

Drought dirge

For the second consecutive month, sharp rises in the prices of food items have boosted the CPI At 18,7% the August year-on-year rate is the third highest since 1920 It was 20,7% in January and 18,9% in March

But prices for the lower income group have the "distinction" of setting an all-time record The year-on-year 19,1% is the "highest rise observed to date," according to Central Statistical Services The 2% rise in the food index from July to August follows its previous 2,8% monthly increase Food prices have now risen 22% over the year ending August, the highest since January 1981 This is despite, for example, the so-called price freeze on "own brand" items marketed by the supermarket chains.

And both Checkers MD Clive Weil and Pick 'n Pay chairman Raymond Ackerman say margins reflect the tough competition. Weil cites higher packaging, electricity and wage costs as contributing to the rise

Ackerman says he is "fighting suppliers tooth and nail" He adds that the drought has understandably affected certain fixed producer prices

The weak rand working through higher agricultural inputs has also played an important part

SA Agricultural Union economist Koos du Toit says the rise in food prices is not the fault of producers "The increase in producer prices has been slower than the food index Some producer prices have actually declined"

Pointing out that the April year-on-year food basket at the retail level rose 19,7% while prices at the farm level rose 8% (only producer meat prices rose more than at the retail level), he says companies, including supermarkets, are under pressure to maintain turnover with declining volumes and therefore charge more

But the meat exception, comprising 36,5% of the food index, seems to be a major factor in the overall food price rises, mainly because of the drought In July it accounted for 43% of the total food price rise. In August, both vegetables and meat accounted for 33% each

Monthly rises include fresh meat which went up 2,2%, bringing the rise over the year to 27,8%, fish (up 5,6%), and vegetables (up 6,4%) Another 40% of the monthly 1,5% increase came from household fuel and power and vehicles

Over the year coffee and tea increased 34,1%, cleaning materials 36,3%, vehicles 35,2%, education 24,5% and recreation and entertainment 30,9%

Even so, economists are not rushing to change estimates of the year-on-year CPI for 1986, which vary from 16,5% to 18%

From what passes Weil's desk, "there is no easing in the trend" He notes that already this month there has been a 30% rise in coffee, while household cleaning materials have risen 20%

Checkers Weil ... no easing in the trend

Ackerman is more optimistic "despite the negative inflationary impact that sanctions will bring about"

Du Toit fears rain will not help reduce the rate of price increases "Farmers will now hold back supply to replenish their badly depleted herds" And Volkskas economist At Engelbrecht says companies presently absorbing costs will push them through to consumers when demand picks up

Ackerman does not foresee retailers taking a similar opportunity of any economic upturn to replenish tight margins "The market is still too competitive," he says ■

sunrise news

Bread shock avoidable — Ackerman

DURBAN — The sudden announcement this week of another increase in the price of bread could have been avoided if supermarkets and small bakeries had been allowed to bake the Government standard-size loaves

Controversial Pick 'n Pay chief Mr Raymond Ackerman said last night that he had written to Minister of Agriculture Mr Greyling Wentzel pleading with him to "stop the millers and bakers from bleeding the consumers".

The price of white and brown bread goes up from October 1 by 6c a loaf

"I have asked for an urgent meeting with Mr Wentzel so that I can once again make representations to him to lift the restrictions on the baking of Government-size bread," said Mr Ackerman "At present we are restricted from baking Government-size bread, but if we were given the go-ahead we could do so tomorrow "

Mr Ackerman said a bread commission of which he was a member sat last year and made recommendations to the Government to lift the restrictions

"It seems that our recommendations have been ignored I know for a fact that if we were allowed to bake the bread, we could do it easily

"It is very clear to me that the millers and bakers are bleeding the hard-hit consumers," he claimed

He said that if baking restrictions were lifted, the Government would save on its subsidy

He added that he had nothing against farmers, who had had a terrible time with the drought, but he believed the large milling companies and bakers were protecting a monopoly at the expense of breadwinners

SUNTIMES 28/9/86

163

Car prices up soon and worse to come

By Don Robertson

MOTOR manufacturers will increase prices again in a week or two — and for several it will be the fourth rise this year.

But worse is on the way A fifth price increase is likely before the end of the year in spite of the improvement in the rand in the past four weeks

Nissan and Toyota have indicated that prices will rise soon Volkswagen will follow later in October — and the rest of the pack will not be far behind

The average increase for the year to date is about 24%, but some manufacturers insist that because of the weak rand in previous months they are still under-recovering by between 10% and 15% The only way to return to profitability is another round of price increases shortly before the yearend

Prices of cars and commmercial vehicles rose by an average of 30% last year

Manufacturers of Japanese cars are under more pressure than the Germans Japanese content of cars has risen to about 50% of retail value in spite of the fact that imported components represent about 34% by weight

Waiting

Cars being built now use components ordered at least three months ago when the rand was much lower against the yen than now

Toyota will increase prices by between 6% and 8% across the range soon This follows increases of 4% in February, 5% to 7% in June and 7% to 8% in August

Nissan's increases will average about 6%, but the next price move is unlikely until the beginning of next year

Volkswagen will lift the price of Audis by about 6% this week A similar increase in Volkswagen prices will be made before the end of October The company hopes that if the rand improves, another price rise before January will be avoided

Volkswagen raised the price of cars in February by between 4% and 6% and by 5% in July and August Audi prices went up by 5,5% in April

Surprisingly, Samcor — manufacturers of Ford and Mazda — has not decided on a price increase But it is almost certain to charge more — as is General Motors

Mercedes-Benz will decide on pricing strategy in the middle of October BMW, which last lifted prices by 6% in September, will probably hold off until December

SUNTIMES 28/9/86

153

More price shocks on way in wealth drain

By David Southey

SOUTH Africa's inflation rate is on the march again

Most economists had until last week confidently predicted an easing in inflation for the rest of the year

Now they have turned gloomy

The announcement that August's year-on-year rate jumped to 18,7% stunned businessmen and consumers sent interest rates careering up and jolted confidence

Virtually all economists have revised upwards their forecasts of the average inflation rate for the year Sanlam's Johan Louw says 'A little while ago we were looking at about 17% for the year We now think it will be closer to 18%'

Food

Although Mr Louw expected a seasonal lift in inflation for August — mainly because of certain food shortages — the acceleration was more pronounced than anybody foresaw and nobody seems to know the reasons

The original optimism that inflation might be waning appeared to be based primarily on slack credit demand from banks low consumer spending resulting in widespread price discounting at the retail level on a host of consumer goods no fuel-price increases, low imports negative real salary and wage increases, falling fixed investment and minimal economic expansion

Now economists are looking to more price shocks in spite of their generally optimistic view that the rand is likely to maintain its recent strength

Louis Geldenhuys of stockbroker George Huyshamer says "In an uncertain economic and political environment, where everyone has shortened his time horizons one wonders why we were ever optimistic that inflation would ease significantly '

These shortened horizons he believes mean that most cost rises are passed on as quickly as possible to consumers

Moreover the fall in the rand in the second quarter will only be fully reflected in inflation in the third and fourth quarters

He warns 'There is a new dimension to inflation which cannot be explained simply on a month-to-month basis by one set of statistics Changes in the rate from one quarter to the next lead us to alternate between being very optimistic and very pessimistic — it's an entirely new experience for inflation analysts"

Agricultural economists warn of a longer-term shortage in meat — it makes up 36,5% of the food index, which in turn carries a 25% weighting in the overall basket of goods monitored The shortages of beef, mutton and lamb are likely to increase for some months, sending prices skyward

Bread rises

Pork and chicken shortages loom — in the case of poultry exacerbated by the lack of new capacity after two years of heavy losses by some producers

Maize prices to the consumer are increasing because of the R5/ton a month increase in storage costs It makes little difference that farmers themselves under the latest pricing system will receive minimal increases if the mealie crop exceeds a certain tonnage

To crown it all Government this week announced bread price increases 12% for brown to 56c a loaf and 8 5% for white to 76c, effective from October 1 It They coincide with a 10 8% rise in the producer price of wheat

Some economists warn of the ripple effect on inflation when replacement of ageing machinery and plant occurrs under the momentum of expected higher economic growth Bottlenecks in the supply of many goods are expected under a growth scenario and prices will rise as a result

Another aggravating factor could be substantial increases in public-sector pay early in the new year

If 'reasonable economic growth ensues in 1987 the shortage of skilled staff will manifest itself through spiralling private-sector salary increases

Economists warn, however that it is still too early to talk of a broad-based economic recovery The increase in retail sales in mid-June may well turn out to have been the release of pent-up demand after widespread black consumer boycotts

Poor consumers

One economist warns It does not take much analysis to see that the underlying financial position of the majority of consumers has not improved SA is not actually creating wealth, but is being drained of it

'So we will not see much follow-through from consumer spending — which is what underpinned most of our upswings in the past

Power costs to go up by 12%

BUSDAY 1/10/86

DAVID FURLONGER

ELECTRICITY costs will rise by 12% on January 1 — making a 35,5% increase since the start of this year

Escom chairman John Maree said yesterday the increase would be the only one in 1987

Maree said Escom intended to impose single increases in 1988 and 1989, each of 10%.

The 1987 increase will allow Escom to reduce its borrowing requirements on local financial markets next year Finance GM Larry Harper said borrowings were expected to total R2,792bn, down from the 1986 figure of R2,982bn. He estimated requirements for 1988 and 1989 at R3,045bn and R3,060bn.

Much of the cash will go towards financing Escom's decision to press ahead with the construction of five more power stations

After earlier warnings that slow electricity demand growth was causing Escom to reconsider its construction programme, Maree said it would go ahead.

However, as the new stations — Tutuka, Lethabo, Kendal, Matimba and Majuba — came on stream, capacity at older stations would be cut back and held in reserve for peak demand use and for future increased demand in the event

● To Page 2

Power costs to go up by 12%

BUSDAY 1/10/86

● From Page 1

of an economic and industrial recovery.

Escom's planners decided that to defer or cancel construction of the new stations, each costing R3,5bn, would be too expensive. Penalty clauses and other factors would cost more than R1bn

Escom's cost-cutting programme is likely to cause the loss of 10 000 jobs. Early retirement and other incentives have already reduced the workforce from the 68 000 of last year. Maree hopes to bring this down to 58 000 in the long term.

Management expects to reach agreement with unions on Friday on a retrenchment package for workers whose jobs have been made redundant by the cost-cutting Sources say that although talks will continue on the definition of redundant jobs and how to implement a retrenchment plan, there is broad agreement on a financial package

Escom, the 12 unions and staff associations said yesterday redundant employees would be identified from November 1. A source said it was hoped the retrenchment programme would be almost complete by February.

Escom runs into resistance

11/10/86 · STAR

The 12 percent increase in electricity tariffs will spark price rises in all areas in the economy, said the president of the Housewives' League, Mrs Lyn Morris, last night

She was reacting to yesterday's announcement from Escom that it will raise its tariff by 12 percent from January 1 — the third price rise in 12 months

"This price rise will affect everthing," said Mrs Morris

"South Africa's inflation rate is unacceptably high Most of our trading partners have single-figure inflation rates.

"If everyone gears their price rises just below the inflation rate we will never get our prices down "

The Federated Chamber of Industries and the Afrikaanse Handelsinstituut congratulated Escom for keeping its increase below the inflation rate

No end to Escom shocks

5/10/86 SUNDAY

By David Southey

ESCOM'S announcement that it is to raise prices by 12% from January next year — the third increase in 12 months — is yet another setback for consumers

It has also provoked protest from some of the country's leading economists, who argue that Escom's policy of building up a reserve cushion — similar to shareholders' funds in a private-sector company — is inappropriate for semi-government bodies, particularly in the present economic climate

UCT economics professor Brian Kantor has long castigated parastatals such as Escom for "milking" consumers through tariff policies designed to bolster capital funds

He argued "If they want to run it like a private-sector company incorporating shareholder funds then the Government should privatise it and sell off its assets"

Escom communications manager Chuck Thal says the corporation has been forced to fund itself locally because of SA's debt standstill After discussions with economists and Treasury officials, it was agreed that Escom should raise no more than 25% of its requirements on the local capital market

But this means it has to find the balance from tariffs Escom has had to trim R2,5-billion from running and capital costs over the next three years Its projected capital-market borrowings are R2,8-billion in 1987 and R2,9-billion the next year

Tariffs went up 10% in January and another 10% in July

BUS DAY 85 153

Medical costs are all set to escalate

DAVID FURLONGER

THE WARNING by private hospitals that they may pull out of the medical aid system is the latest shot in a protracted dispute between the hospitals and medical aid societies

Regularly accused of over-charging the sick and dying, the hospitals in turn accuse societies of denying them the cash they need to remain profitable Caught in the middle, meanwhile, is the patient. One way or another, he is going to have to pay more for his medical care.

If the societies buckle in to the hospitals' threat and allow them to charge more, it will mean an increase in medical aid contributions If the hospitals pull out of the system, the patient himself will have to pay the difference between what his treatment costs and what his medical aid is prepared to pay

The argument is between two central bodies — the Representative Association of Medical Societies (Rams) and the Representative Association of Private Hospitals (RAPH).

RAPH officials are due to meet tomorrow to discuss pulling out of the medical aid system in response to Rams' decision to grant private hospitals an average 7% increase in benefit scales from January 1 next year RAPH had asked for a 20% increase in the scales, which are the maximum medical aids will pay for members' treatment.

Hospitals say the 7% follows a 12% increase this year, 10% last year and 6,25% in 1984. During the same period, they claim, actual costs rose faster than inflation.

Ultimately, the dispute boils down to a difference in philosophy — between non-profit-making medical aid societies and hospitals determined to achieve maximum returns for investors.

The private hospitals sector is dominated by three groups — Rembrandt, Afrox and Clinic Holdings. Although there are several smaller investors, all are motivated by the profit factor and interests of their shareholders.

And according to RAPH chairman Dick Williamson, those shareholders are not too happy "Returns on capital are declining and margins are coming down substantially."

He says the growing cost of building hospitals — up to R120 000 a bed — has pushed up to about 65% the minimum occupancy rate needed to break even. That, added to increasing costs — such as nursing salaries, water and power costs and imported equipment costs — have dampened profitability

Profitable it remains, however, as the recent surge in new private hospitals indicates. And Williamson admits that bed occupancy is over the 65% mark. "So we are profitable"

Medical aid societies, while conceding hospitals might be entitled to bigger increases, are themselves short of cash. The only way they can boost their coffers is through higher contributions from members. "We have our own cost problems," says Rams chairman Jan Fernhout

Adding to the argument is the belief among many medical aid societies that hospitals are sometimes less than honest in the way they seek profits — by billing for drugs that were not used; by charging for reusable syringes, or even for charging for an entire roll of bandage or tape after using only a short strip

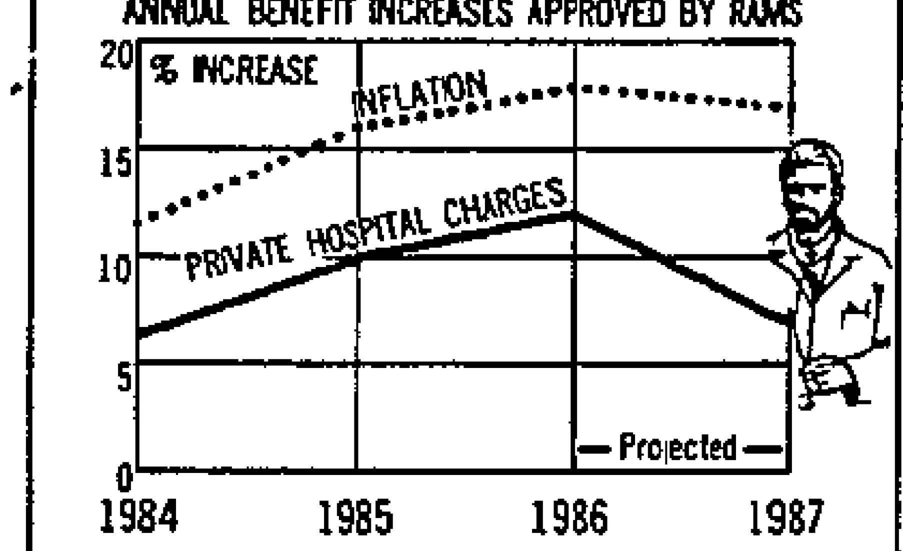
"Every time we have queried a private hospital account we have always got a refund," says the head of a leading medical aid society "The hospital's excuse is either 'wrong patient' or 'wrong drug quantity'. Overcharging can be as high as 20% Hospitals get to know who is checking accounts. They will 'try it on' with a scheme which doesn't check properly"

He adds. "I can't get away from the conviction that it is deliberate"

Biggest gripe of all among critics is the "three-time-payment" system. Where clinic-based doctors used to provide their own equipment, this is often now provided by the clinics, but without a reduction in the doctor's own bill The patient therefore is paying for the doctor, the standard hospital fee and an extra hospital fee to recover the cost of the doctor's equipment

HOW PRIVATE HOSPITAL CHARGES HAVE RISEN

ANNUAL BENEFIT INCREASES APPROVED BY RAMS



Williamson rejects this and says: "The hospital provides basic items of equipment That's what we pay for it and that's what we should get back. Surely it's better to provide one set of equipment for doctors than have the need for several sets?

"In any case, if Rams doesn't want to, it shouldn't let doctors charge for the equipment they don't have. And remember — Rams has allowed doctors no increases at all for next year."

Where the two sides do agree is on the idea that most problems are caused by the existing health care system Two main problems emerge — lack of incentive for patients to be cost-conscious and the cover-all system of medical benefits.

To most patients, their only link with health care is the monthly medical aid contribution. Beyond that, prescriptions, hospital bills and even visits to their GP mean only the receipt and handing-over of pieces of paper for others to pay.

The patient doesn't care, therefore, that any private establishment he may enter has facilities — and charges — far in excess of what he may need

"There's no need to be so luxurious," says the medical aid society head "I want a system of maximum payment per day Tell the doctor 'I can't afford this, get me a cheaper rate' Patients have been spoiled; there is no incentive to save costs."

Williamson agrees that a system encouraging cost-consciousness would be "no bad thing".

The second complaint — that there's no variety in medical aid cover — may be rectified next month when the Brown Commission on health care is officially translated into a White Paper

Both societies and hospitals want a system whereby people have the choice of medical cover — the option of comprehensive cover, cover for major operations or cover beyond a certain base-line.

INFLATION FINMAIL 17/10/86 153

Is the sky the limit?

With the producer price index (PPI) growing by more than 20% for the third month this year, and the consumer price index (CPI) by 18,7% and rising, everybody is asking what now?

Will the two indices, which represent percentage price changes over a one-year period, move past a point of no return — and on into the realms of hyper-inflation?

There is a view that, once inflation exceeds 20%, triple-digit inflation is only a hair's breadth away SA's CPI, the official inflation rate, was only 1,3 percentage points short of this measure in August, theoretically, it could follow the path of PPI, which was 20,3% that month

After a promising drop in the first half-year, both indices have been rising since June, when the CPI was 16,9% and the PPI 19,03%.

Given the potential higher prices of imported components (owing to the fragility of the rand) and the stimulatory effect of lower interest rates, important preconditions for runaway inflation are in place

Fortunately, life usually provides economists with the opportunity of hedging their forecasts In this case, it is the absence of many other characteristics of high inflation economies

Says Old Mutual economist David Mohr: "The fact that inflation hasn't been higher — given the depreciation of the currency since mid-1984 — shows that important disciplines are still operating One is wage increases, which have been barely 10%. Another is the decreasing growth of M3 Growth of 9,15% in August was way below the target 16%-20% "

Another factor which will hold down inflation is excess capacity In the manufacturing sector, this averages about 20%.

Mohr also questions the validity of looking at any particular level as a takeoff for hyper-inflation "It's true that the higher inflation gets, the greater the risk of it feeding on itself But whether this happens depends entirely on a given set of circumstances and the policies followed at the time.

"When a government introduces index-linking, the inflation risk increases astronomically. This often happens when the capital market is threatened To get it going, you have to introduce some certainty by guaranteeing investors a real return on assets "

But index-linking can also reduce inflation, because it acts as a discipline on government spending High inflation sends up the cost of borrowing funds, which provides an incentive to governments to reduce it "In Britain, for instance, it seemed to play a role in anti-inflation strategy They introduced index-linking in a limited form in 1975, when inflation was 24,2%, reaching a high of 26,8% in August It dropped to 14,6% the next year and went on to fluctuate as various governments experimented with controls

"When Mrs Thatcher applied a free-market approach, it went to 18,4% in 1980 As her policies took effect, it dropped as low as 4,6% in 1983 After moving up to 6% in 1985, it is now tending downwards to only 2,4% year-on-year in August "

Nor is there necessarily a link between the CPI and the PPI "There is a broad correlation," says Mohr "But, having studied the relationship over 10 years, I haven't seen much evidence that CPI inevitably closely follows PPI "

Core inflation

These arguments aside, hyper-inflation could be described as a state of mind "Core inflation comes only when inflationary expectations are so entrenched that there is no stopping the tide of rising prices," says a banking economist "The only way to determine whether this is happening in SA would be to survey public opinion."

In the economies of our major trading partners, where inflation is negligible, a rate of 12% could be considered hyper-inflation — while the Argentinians would heave a gigantic sigh of relief if their triple-digit inflation rate ever showed signs of reaching this level ■

BUSDAY 153 20/10/86

Salaries don't match the CPI

WORKERS at all levels are still way behind in the money stakes, compared with their US counterparts.

And, overall, salaries for all race groups are not keeping pace with the consumer price index (CPI).

Taking US salaries as a 100% base, gross salaries in SA for foremen, supervisors and sales representatives amounted to 64%, and net salaries to 56%.

Figures sourced to the SA-German Chamber of Commerce and Industry show that on the senior executive/director and general-manager level, gross salaries were 64% and net salaries 50% less than those paid in the US.

Salaries in SA increased from July 1, 1986 by 11,1% over a one-year period. However, the CPI increased by 16,9%, leaving a gap of 5,8%.

Cumulative increases in the CPI over the last five years amounted to 97%. In this period, black wages increased by 91%, Asian by 90%, coloured by 80% and white by 73%.

The lower-income group showed an inflation rate of 19,1% for August, the middle-income group 19,2% and the higher-income group 18,3%.

As a reflection of falling living standards and lack of confidence, consumer spending continued to drop in August.

53

NEWS CAPE TIMES 21/10/86

Govt dismay as rate of inflation increases

The Argus Correspondent

PRETORIA — Government sources today expressed surprise and dismay at the latest surge in the inflation rate — which at 19,7 percent is the second highest in South Africa's history

They said that the problem remained a high priority and that everything possible was being done to bring the inflation rate down They expected it to fall again next month.

The one percent rise in the inflation rate at the end of September, bringing the annual rate to 19,7 percent (18,7 percent in August and 18,2 percent in July) is attributable mainly to an increase in food prices and the lingering effects of the devalued rand

BODES ILL

Mr Harry Schwarz, Progressive Federal Party spokesman on finance, said today the latest level was very serious for South Africa because the Government had forecast that the rate would drop this year

"Now, instead, the rate has risen and this bodes ill for future rises," he said

Mr Schwarz said that although the Government had said it intended to reduce inflation it had in fact done very little about it Now there was a danger the authorities would overreact and that this could cause other problems

"SHOCKING"

Mr J J B van Zyl, Conservative Party spokesman on finance, said the latest inflation level was "shocking"

"It seems the Government is not in the slightest bit concerned about this, nor does it care that it is impoverishing the people of South Africa

"The Government is itself the biggest creator of inflation, and it does this even at a time when the level of unemployment is at its highest in the country's history," he said

DD 23/10/86

153

Inflation fears in upswing

CAPE TOWN — It is highly disturbing that the South African economy should have to enter the present upswing with an inflation rate of nearly 19 per cent, according to Sanlam's latest economic survey

The survey says that although next year's inflation rate is likely to be slightly lower than the 18-18,5 per cent this year, there will be upward pressure on prices as the surplus capacity in the economy is worked off and demand increases

"Against this background an average increase in the consumer price index of less than 16 per cent in 1987 can hardly be expected."

An average gold price of over 400 dollars an ounce is forecast for next year The higher gold price, the quieter conditions in the black townships, the stronger rand and continued firm trend in share prices on the Johannesburg Stock Exchange have all contributed to an improvement in business sentiment, says the report

However, there are four factors which cast doubt on the extent of the revival and whether it can be sustained

- Prices of goods and services are rising faster than salaries and wages,
- People are still reluctant to incur additional debt;
- Businesses are extremely careful as regards stockpiling,
- There is still no sign of a revival in fixed investment by the business sector.

"Against this background we expect a moderate and gradual improvement in business conditions in the next few months," the survey says, adding that a more marked revival will occur from early 1987 as the favourable effects of the higher gold price become evident and the fiscal action of the government starts to exert a more expansionary influence on general economic activity

The survey predicts that if the gold price stays at its present level of about 425 dollars an ounce for the rest of the year and the rand maintains its firmer trend, the current account of the balance of payments for 1986 will yield a surplus of about R6000-million

Sanlam's economists believe that extra liquidity caused by a higher gold price and the expectation that there will be no material increase in demand for credit could put renewed downward pressure on rates in the short-term — Sapa

Sharp rise in inflation

N/M 23/10/86 (153)

JOHANNESBURG—Following a rise of 20,3% year-on-year in producer price inflation in August, year-on-year consumer price inflation rose sharply to 19,7% in September (18,7% in August)

Trust Bank's latest economic and currency report says the monthly gain in the all-items index was 1,9% to 236,7 after a 1,5% rise to 232,2 in August

Consumer price inflation is continuing to be fuelled by higher food prices The food component of the consumer price inflation index rose 22,3% year-on-year in September (22% in August), the highest level so far

The average inflation rate for the first nine months this year is 18,7% compared to 15,76% in the same period last year — (Sapa)

24/10/86 · (153) FIN MAIL

INFLATION

Food for thought

The bad news about inflation is not that the consumer price index (CPI) rose to 19,7% in September, but that worse is to come The latest increases in meat prices, which contribute 9% of total CPI, are ominous — but not reflected in the September figures

The biggest increase came in transport costs, the price of vehicles rising, year-on-year, by 45,1% Of the 1,9% overall month-on-month increase in CPI, to 229,7, vehicles comprised 0,4%, meat "only" 0,2%

"CPI is measured in the first week of the month and the price of meat has risen substantially since September 7," says Leon Steenkamp, economic consultant to stockbroker Senekal, Mouton & Kitshoff "This is partly seasonal"

Ironically, rains in the next few months will push prices higher because they relieve pressure on farmers to dispose of stock So the chances of CPI topping 20% for the second time this year are high

"Our earlier optimistic forecasts have had to be tempered," says Rand Merchant Bank economist Rudolf Gouws Both CPI and PPI have increased from respective lows in June of 16,9% and 19,03%

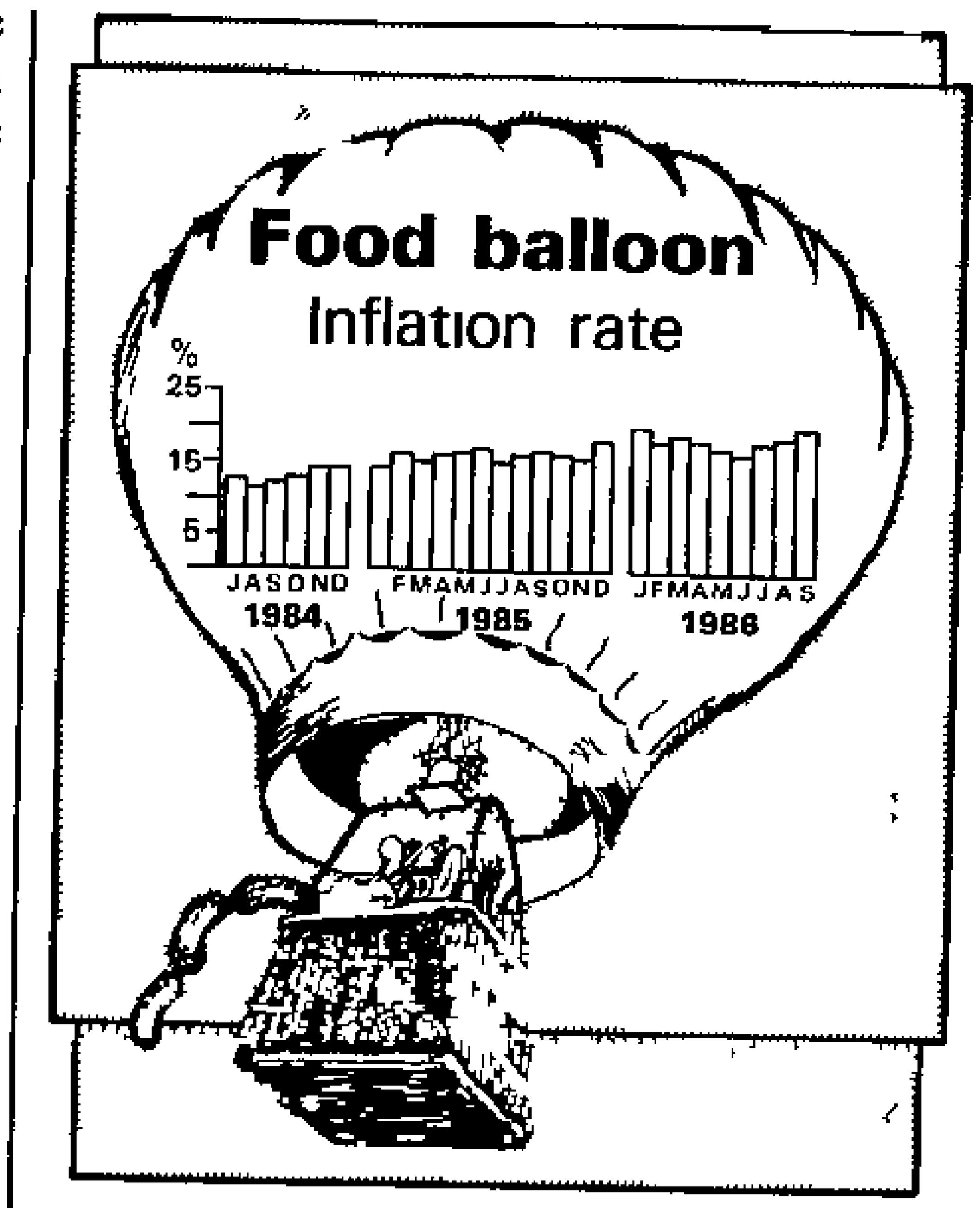
But pessimistic projections for the immediate future must be seen against positive medium-term indications While drought, the rand's poor performance and inflationary expectations will continue to fuel prices, there are powerful restraining factors

These include the slide of interest rates (prime has declined from a high of 25% in May 1985 to 13,5%), the drop in world oil prices from between US$25-$30 a barrel in 1985 to between $9-$16 in 1986, depressed consumer demand, wage and salary increases, running at about 10%, M3 growth consistently below its target of 16%-20%, and encouraging prospects for agriculture

Recently the rand has improved against the basket of currencies. Says Gouws "The rand's strength between mid-June and the end of August was exaggerated by its performance against the dollar and sterling Only when the gold price improved did it pick up against the currencies of our other major trading partners."

Subsequently, the picture improved considerably The September Reserve Bank *Quarterly Bulletin* records that "On September 15, the effective exchange rate was 17,9% above its low point of June 12"

But, because the damaging effects of meat price increases will emerge first, the rate of inflation is bound to go up before it goes down The good news may only come in the December-January figures, says Gouws And, he points out, these will benefit from "a statistical phenomenon — comparison with



sharp month-on-month rises in December 1985 and January 1986 of 2% and 3,1%"

But long-term prospects are as discouraging as immediate ones

Says Steenkamp. "Many of the restraining factors will dissipate salary and wage demands will rise, consumer demand will probably rise, and consequently companies will be in a better position to pass costs on"

It is disturbing that the economy should enter the upswing with such a high inflation rate As surplus capacity is taken up so will prices rise in the face of increasing demand The possible effect of intensified sanctions must also be taken into account

So clearly the underlying upward tendency of the inflation rate will continue (See *First Leader, Business*) ■

More car makers to put prices up soon

STAR 28/10/86 (153)

Most car makers are now falling into line with the round of car prices initiated by Toyota at the beginning of the month

Mazda passenger car prices will go up on November 1, by around six percent on the 323 range and by as much as 20 percent on some models in the just-revised 626 line-up

On the same day Ford's Laser and Meteor light cars will go up by around six percent and Mercedes-Benz W124 and Honda Ballade models will rise by seven and 5,5 percent respectively.

General Motors prices are up as of yesterday, while VW says it plans to move next week

LATEST ROUND OF RISES

The latest round of rises has been rather less orderly than is usually the case Toyota moved first on its Cressida and commercial vehicle ranges, followed quickly by Nissan with an across-the-board increase which it says will be the last this year

Later in the month Ford lifted its prices on Sierra mid-size sedans and on commercial vehicles, as did Mazda and Mitsubishi on commercials.

Toyota's Corolla small cars went up on October 21, and were followed yesterday by an all-model increase for General Motors

29/10/86 · BUSDAY

(153)

Govt has no answer to inflation

GERALD REILLY

THERE was no solution in sight for SA's inflation problem, Manpower Minister Pietie du Plessis said yesterday.

The Minister, who was speaking at the Rosslyn Training Centre, said a sound foundation had been laid for economic growth.

The lower interest-rate structure would make a further contribution to the economic revival.

"However, a solution to the inflation problem with its negative influence on the domestic-costs structure, and international competitiveness, was not yet in sight."

Since the low point in total economic activity in 1985, the economy had shown a slight upward, long-term movement.

The Minister said the SA economy would be unable to provide jobs for all those entering the labour market in the years ahead.

Therefore, workers had to receive training so they could find employment in the informal sector.

"And the disappearance of hampering factors through deregulation would simplify development of the informal sector," he said.

On the massive training programme launched by the Manpower Department, Du Plessis said in the current financial year 52% of the department's budget was earmarked for training.

□ SAPA reports from Bloemfontein that an extensive training programme for unemployed blacks who do not have their own homes has attracted 300 people.

Motor-makers busier as prices increase

By Don Robertson

ACTIVITY is picking up in the motor industry, but the rising cost of SA and imported components continues to exert pressure on prices.

Higher prices will be the single deterrent to the vehicle market's return to more acceptable levels.

The National Association of Automobile Manufacturers (Naamsa) shows that capacity use in the car sector rose to 68,5% in the three months to September compared with 56,6% in the quarter to June.

Increased use was noted in other sectors, light commercials (LCV) rising to 64,0% from 60,5%, and medium commercials from 47,7% to 60,0%.

However, buses and heavy trucks continued to reflect sluggishness in public and private investment and capacity use fell for the third quarter in a row — to 48,2% from 50,6%.

Capacity use for the industry as a whole rose to 60,17% from 53,85%.

Spiral

Sales improved in the September quarter — cars up 8% on the previous three months, LCVs up 15,2%, and mediums up 9,4%. Heavies fell by 0,9%.

In spite of the increased tempo, 1 998 jobs were lost.

Naamsa believes that the decline in sales of cars and LCVs has bottomed out. Car sales topped 15 000 for the fourth consecutive month in September, and LCVs recorded their highest sales of the year in the quarter.

But the price spiral continued on the component side. Prices of imported components rose by between 3,74% and 6,5%. SA component suppliers were hit by strikes and rose in price by 3,97% to 5,3%. SA-made components with a high imported content rose by more.

Imported raw materials again increased in price, but the rand's firmness towards the end of the quarter should provide benefits in the last quarter of 1986 and in the first three months of next year.

Fleet buying, about 70% of total sales, is expected to pick up as a result of the more favourable fringe benefits tax. Naamsa forecasts car sales for the year of 178 285 and 188 142 for 1987.

LCV sales are forecast at 76 755 and 78 915 for 1987, mediums at 4 545 and 4 985 and heavies at 6 800 and 7 250.

SOUTH Africa's structural imbalances are the foundation of our country's present economic torment. Unless these imbalances are corrected the economy will always have an ailment of some sort

The Department of Statistics recently released the inflation rate figure for September. As may well be expected, this figure went up by a percentage point to 19,7 percent, compared to the August figure.

In economic affairs, as in any other discipline, problems arise that often correct themselves.

However when economic events threaten an irreversible breakdown, with unwanted social and political outcomes, policymakers should rightly choose to intervene or at least provide some guidelines to be adopted by the private sector to prevent the realisation of this event.

The nature of our inflation is of the cost-push type. One of the characteristics of developing countries is to have relatively high cost structures, because the industrial sectors in these economies are on the lower level of the learning curve.

In our case, the high cost structure is further aggravated by the notion of granting wage and salary increases mostly on the basis of social and politcal factors.

Productivity plays a minor role, if any, in the granting of these increases. Social factors tend to be the overall focus when wages and salary increases are granted, particularly to blacks.

The reason may well be that companies (through events), have lately come to realise the economic and social plight of this particular segment of their work force.

To redress this imbalance against blacks, increases far in excess of productivity levels became the notion of the time.

On the other hand, the Government being the single largest employer, is more willing to grant wage and salary increases in excess of productivity levels purely for political reasons.

Mr BAREND du Plessis, the Minister of Finance, must take steps to curb inflation

What's behind South Africa's ailing economy

Sowetan 6/11/86

153

FOCUS

By NCEDO MLAMLA, an economist with Barclays Bank.

Notwithstanding the economic ramification of such a move, the Government will accede to salary and wage demands of its white employees if it feels there are political gains to be derived.

If what is being said about the general election next year is true, then at least some of the wage and salary demands made by white trade unions representing the public sector are likely to be realised.

Problem

If we add the general dimension of trade unionism to this scenario, the pressure of costs becomes even stronger. This is the situation that characterises our economy's inflation problem.

Unfortunately such a situation of constantly rising prices can no longer be down-played. If the rate of inflation was 19 percent in September, it boggles the mind as to what it will be in say January next year if this trend continues.

We cannot afford to host the argument that the market mechanism will correct or at least contain this deviation.

If we add the international dimension, i e the sanctions issue, to this scenario, which on its own is bound to add fuel to the general price level, it becomes apparent that the authorities belief that the market mechanism will correct this feature, is certainly asking too much from this mechanism.

The South African economic scenario has drastically changed and new approaches are needed to cure its ills.

The freemarket approach which our monetary authorities so tenaciously adhere to, is not adequately geared to deal with this kind of dilemma.

Irony

Our inflation track record bears this out. To cement this record South African Transport Services has decided to link its rail tariff for coal export traffic to the producer price index.

This virtually means that the part of our inflation that is contributed by SATS will never go down.

The irony of our inflation dilemma is that the Government has the means to control it. The Government exercises considerable direct control over wages and salaries (the government is the single largest employer) and also over the prices of major goods and services.

This control provides the authorities with a powerful and direct tool to curb inflation.

If they (the Government) were to put a ceiling on the increase in prices and wages that fall under its control, that would contain our inflation rate to a considerable extent.

The private sector would be likely to follow this example by holding down their increases to the same extent.

Freeze

A general wage-price freeze as used in other countries with similar problems would not be acceptable in the South African context. A general wage-price freeze would be perceived by black-oriented trade unions as keeping or holding down the standard of living of their members.

In any event, in the case of a wage-price freeze wage negotiations are done away with.

In South Africa's particular case wage negotiation serves also as a political value, in that a lot of political steam is let go of at these negotiations.

The situation has now become critical that the Government has to take positive action to curb the rate of inflation, because of known unpleasant effects, and before the SA population gets to accept high inflation rates as part of their lives.

A situation which, once it is pshycologically cemented, is hard to reverse.

The Media Council

THE South African Media Council is an independent body established to deal with various matters affecting media reporting and comment.

One of the council's functions is to receive and act upon complaints from members of the public who have not been able to get satisfaction by approaching a newspaper or other news media directly. Com-

24/11/86 BUS DAY 153

PFP warns as CPI slows slightly

Economics Reporter

CONSUMER price inflation slowed slightly in October, meeting the expectations of most economists who had forecast some moderation in price increases

The consumer price index (CPI) rose at an annual rate of 19,2%, to 239,3, down from 19,7% the previous month The monthly increase was 1,1%, from 1,9% in September

PFP finance spokesman Brian Goodall said SA was threatened by hyper-inflation, and government had to accept most of the blame

The whole massive apartheid structure and the political system which had spawned it had created grave distortions and the country was now paying the penalty, he said at the weekend

He forecast the rate would rise above 20% in the months ahead

"With the inflation at its current peak, and the fact that we are about to rise from the bottom of the recession, inflation can only go up"

Goodall said a contributory factor to the inflation scourge was that there was too great a concentration of economic power in too few hands

The food-only index, which comprises one-quarter of the total CPI, rose at an annual rate of 23,2% last month, with a month-on-month increase of 2,8% — representing 60% of the overall increase. It jumped by 1,6% in September

Grain products increased in price by 4,8% in the month, while meat rose 4,0% and fruit 7,7%

The food index is notoriously unstable, however, and difficult to forecast.

And manufacturers of white and brown goods have said prices of their products would increase by an average of 10% in January and February.

Fare hikes: rioters petrol bomb buses

4/11/86 BUS BOY BUSDAY (153) 332 347 0228

SIPHO NGCOBO

THREE Putco buses were petrol bombed, at least one completely destroyed, and six others were hijacked in Soweto as rioters went on the rampage yesterday, the first day of the bus boycott in protest against the new fare increases

The increases, which came into effect at the weekend, are 17,5% in the Transvaal and 15% in Natal.

A Putco spokeswoman told *Business Day* that 15 bus tyres were slashed and 100 windows broken during the stonings.

The official said that by yesterday morning the number of Soweto commuters using Putco buses was down to 40%

A number of incidents took place at the Baragwanath Hospital bus terminus at the weekend, when attempts were made to petrol bomb four buses

Ticket sales in the PWV western area, including Soweto and Wembley, had dropped to between 10 and 15%.

However, according to the spokeswoman, buses had not been withdrawn from Soweto despite the heavy damage.

The spokeswoman added that in the Wembley area buses were 90% full In the Wynberg/Edenvale/Boksburg/Springs areas, and in Pretoria and Natal, services were normal

Thousands of pamphlets were distributed in Soweto at the weekend calling for a bus boycott

Meanwhile SAPA reports that a Putco official said the company had met the government regarding an increase in its sudsidy and "got the best we could"

Buses run empty as boycotters use trains, cars, taxis

STAR 4/11/86 (153)

Putco buses continued to run empty this morning as the boycott against the 17,5 percent fare increase in Soweto entered its second day.

With taxis unable to cope, commuters flocked to use the trains this morning. The number of private car owners offering to transport workers increased, at fares lower than taxis.

Taxi operators in some areas have reduced their fares.

Putco increased fares at the weekend by 17,5 percent in the Transvaal and by 15 percent in Natal.

In protest at the increases, three buses were petrol-bombed and six hijacked in Soweto between Sunday night and yesterday morning. Fifteen bus tyres were slashed and 100 windows broken. One bus was completely destroyed.

Thousands of commuters were without transport this morning, and there were long queues of stranded workers in Johannesburg yesterday afternoon. Taxis operated until late in the night.

One commuter said: "The taxi associations must directly call upon private car owners — some of whom who fear the wrath of taxi operators if they ferry passengers — to join in and take us to work. No car should go to the city half empty. Otherwise, commuters may feel frustrated and go back to the buses."

The Dlamini and Senaoane Residents's Association chairman, Mr Steven Sangweni, appealed to car owners to use their vehicles to ferry workers.

Mr Sangweni called on commuters to stop buying Putco coupons in order to avoid clashes and injuries.

Gerhard de Kock on inflation

(153)

BusDay 5/11/86

☐ DE KOCK . . curbing inflation remains a high priority of official policy

Excerpted from an address given by the Governor of the Reserve Bank at a Mercabank seminar in Johannesburg on Monday. *Business Day* will be asking other leading economists their views on inflation in future articles

INFLATION remains a major problem in SA. In many developing countries a rate of inflation of between 16% and 20% might be viewed as "relatively low," but in SA we find it disturbingly high

In this regard it is important to distinguish between two aspects of this debate

The first is whether inflation is caused mainly by *excess monetary demand*, that is by overspending or "too much money chasing too few goods," or mainly by *non-monetary structural and/or cost-push factors*

The basis significance of this distinction is, of course, that demand inflation presumably needs to be curbed by restrictive monetary and fiscal policies, whereas structural or cost-push inflation might perhaps be better counteracted by direct price-wage controls or guidelines, anti-monopoly policies and other direct or structural measures

The Reserve Bank's view is that, during most of the past 25 years, the inflation in SA was caused mainly by excess demand fuelled by excessive money creation At the very least, excessive monetary expansion was a necessary condition for the inflation

The Bank fully accepts that structural and/or cost-push factors may in certain circumstances impart an *inflationary bias* to the SA economy This is mainly because they can at times place strong pressure on the monetary authorities to "validate" autonomous price increases by means of large accommodative increases in the money supply.

There can also be no doubt that phenomena, such as low productivity and inadequate competition, constitute serious economic problems which call for remedial action in their own right.

But the Bank rejects the view that these factors by themselves constitute the basic underlying "causes" of the inflation that has occurred in SA during the past 25 years.

It therefore also cannot accept that any strategy of restoring and maintaining reasonable price stability should be aimed principally at the direct removal or suppression of these non-monetary and non-fiscal "causes".

"Cost-push" and "demand-pull" factors are largely viewed by the Reserve Bank as interacting elements or different aspects of the same process, rather than as totally separate causes of different processes.

Autonomous cost-push influences cannot by themselves sustain an inflationary process If not accommodated by monetary expansion, they are self-terminating. Accordingly, to the extent that the monetary authorities succeed in resisting the pressure for accommodation, the force of cost-push pressures should abate.

Whatever supplementary measures might be desirable, the application of an effective monetary and fiscal demand management policy must therefore, in the normal course of events, form the crux of any strategy against inflation.

There is much validity in the view that inflationary expectations and a tendency to link wage and salary increases to the rise in the consumer price index play an important role in the inflationary process in SA

In theory, therefore, official wage-price controls or guidelines might shorten lags in the price index behind the demand restraining measures, and might reduce the real economic cost of curbing inflation. But the practical problems and more fundamental disadvantages that would arise from any such direct intervention would probably outweigh any such possible advantage

Comprehensive direct wage and price freezes or controls cannot therefore be recommended for use under present SA conditions.

The upshot is that price and wage controls can at best treat the symptoms of inflation but never the real causes. Inflation artificially "suppressed" by direct controls is still inflation.

A particular responsibility rests on government and other public sector bodies to guide the labour market towards greater harmony with the aggregate demand policies of the authorities

It must also be recognised that the influence exerted in this field by the public sector covers a broad range of "administered pricing," including the determination of the prices of many agricultural products, electricity, basic steel and transport and postal services.

Through the determination of these administered prices the public sector automatically exercises a powerful autonomous influence on the processes of wage and price formation and the pattern of *relative* prices in the economy as a whole.

The second aspect of the inflation debate is whether, in situations where it is accepted that the inflation *is* being caused mainly by excess demand, quantitative monetary controls should be used to reduce demand rather than market-orientated policies.

In this debate, as already indicated, the monetary authorities come down on the side of market-orientated instruments of monetary policy. These market-orientated methods can then be supplemented in exceptional circumstances by the use of the semi-market-orientated technique of varying the banks' cash reserve requirements.

Quantitative or "direct" methods of monetary policy, which attempt to suspend or bypass the operations of the financial markets, are avoided as far as possible.

This applies in particular to credit ceilings, deposit rate controls, lending rate controls (excluding usury rate restrictions), direct controls over private sector capital issues and import deposit schemes

These controls not only obstruct the efficient operation of many financial markets but inevitably also lead to large-scale "disintermediation" and other distortions in the flow of funds in the economy. They therefore vitiate the attempts of the monetary authorities to exercise adequate influence over monetary demand.

In inflation, as in most other things, there is always the exception that proves the rule. I am referring here to the accelerated rate of inflation in SA during 1985 and 1986, which is difficult to explain in conventional terms.

The inflation of the past 18 months has clearly not been demand inflation. The broad money supply M3 has risen over the past year by only about 10%, compared with a target rate of 16% to 20% between the fourth quarter of 1985 and the fourth quarter of 1986. In addition, total spending has been rising too slowly rather than too rapidly.

Nor has the inflation of the past two years been of a typically wage-push kind. As part of the inflationary spiral, wages and salaries have, of course, risen by more than productivity

But they have risen by *less* than the rate of inflation, so that *real* wages and salaries have declined quite markedly

Thus the rate of increase in the nominal remuneration per worker in the non-agricultural sectors of the economy, compared with the one-year-earlier level of remuneration, declined from 17,9% in the fourth quarter of 198 to 10% in the first quarter of 1986, before accelerating again to 14,7% in the second quarter *Real* remuneration per worker in the second quarter of 1986 was, however, still 6% *lower* than in the second quarter of 1984.

If the inflation of the past 18 months was neither *demand* inflation nor *wage-push* inflation, what kind of inflation was it then? What caused the consumer price index to rise by 19,7% between September 1985 and September 1986?

Clearly a major part of the answer lies in the depreciation of the rand from its relatively stable level of around US$0,50 between January and late July 1985 to between US$0,36 and US$0,38 during most of the remaining part of 1985

Moreover, unlike most other exchange rate depreciations, this particular one could clearly *not* be laid at the door of excess money creation and spending

It was caused by an outflow of capital that occurred largely because of a deterioration in overseas perceptions of the domestic political and economic outlook, which resulted in a withdrawal by foreign banks of credits to SA banks and other enterprises and a net outflow of capital in other forms.

For this reason the upward pressure exerted on the price index by the depreciation of the rand was a form of cost-push rather than demand-pull pressure

In these circumstances the monetary authorities deemed it undesirable to attempt to curb the rate of price increase by a new tightening of monetary policy Such a tightening would have contributed little to removing the underlying causes of the exchange rate depreciation and the inflation, and would merely have delayed the domestic economic recovery.

Curbing inflation remains a high priority of official policy

But when one is dealing with a rising consumer price index which is (exceptionally) neither the result of excess demand nor of undue wage-push pressure, then the short-term answer (equally exceptionally) does not lie in more restrictive monetary and fiscal policies.

In the months ahead the official short-term monetary and fiscal strategy will therefore remain growth-orientated.

SAA fares in double price hike

SAW 11/12/86

Transport Reporter

153

South African Airways is to increase international air fares by up to 15 percent from January 1.

The airline informed travel agents of the increase, which is the third this year, by telex yesterday

"Due to the unstable performance of the rand against foreign currency, the increased currency adjustment factors listed below will come into effect on January 1 1987, and, in addition, all air fares specified in the rand selling currency will be increased by 10 percent," the telex stated

This means there will be two increases — a currency adjustment and a general revenue increase — which could push fares up by as much as 15 percent

An SAA spokeswoman, who refused to release details of the increases, said "We are not the only ones who will raise fares"

The increases are the third this year Fares went up by about 15 percent in January In July economy class fares rose by 10,5 percent to the United States, by three percent to London and by five percent to Australia

First class fares rose by as much as 22 percent on flights to New York, 16,5 percent on flights to London and by almost 10 percent on flights to Australia

In addition, there was a further increase of about 10 percent on flights to Australia in April

All tickets sold after yesterday will be subject to the new increase

Govt pay rises 'outstrip CPI'

11/11/86

153

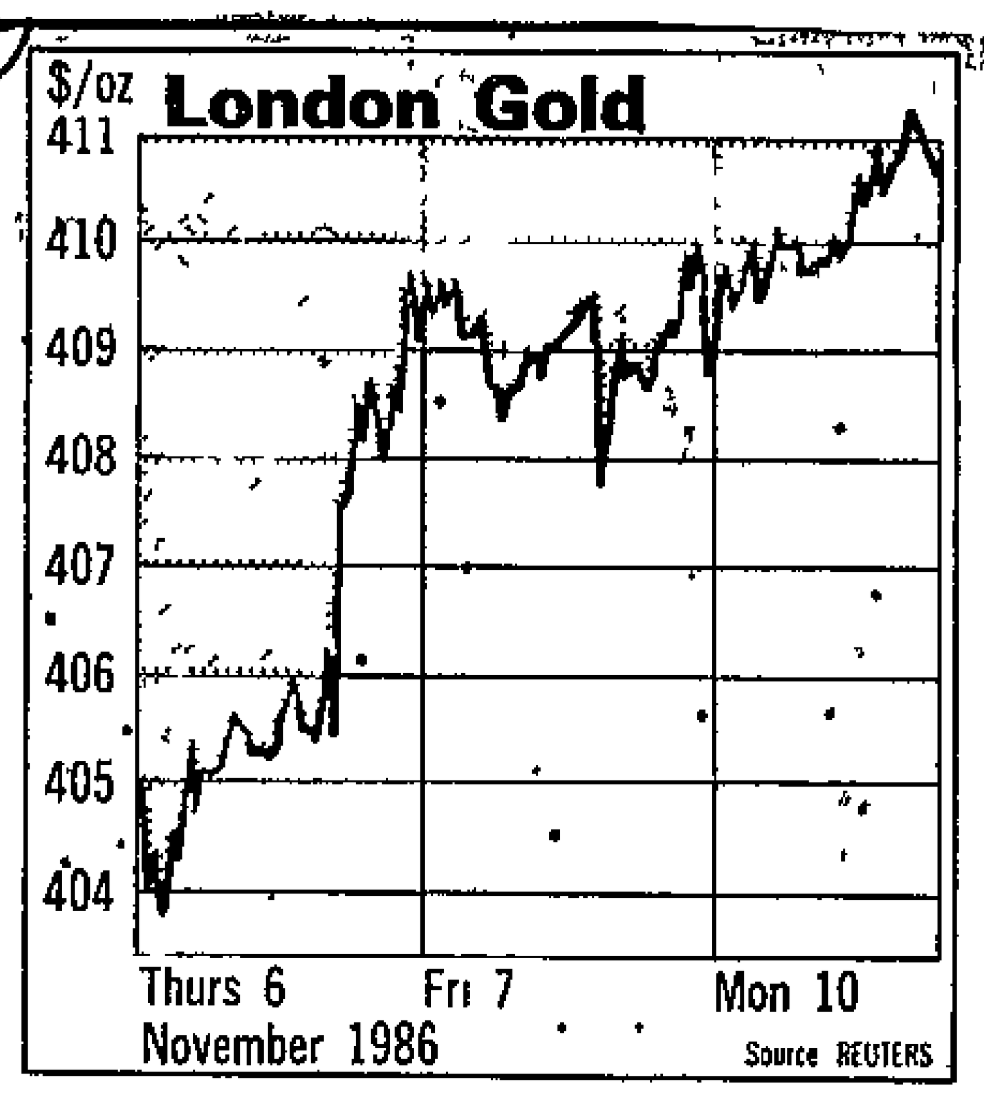
Economics Reporter

PUBLIC servants have enjoyed pay increases higher than the inflation rate over the past 10 years, an Assocom survey indicates.

The survey, taken among all races, says the average monthly earnings of central government employees increased to R1 138 in 1986 from R265 in 1976. This gives an average annual earnings increase of 15,4% compared with an average rise of 13,7% in the consumer price index (CPI) over the same period.

Over the last five years the differential is even greater, with earnings increasing 18% a year against a rise of 14,5% a year in the CPI.

The number of people employed by central government has increased to 397 227 this year from 295 462 in 1976



Although international markets displayed relative calmness, gold made further advances yesterday.

It closed at $410,75 in London after a morning fixing of $408,25 yesterday. The New York market pushed the price up to $411,9 in early trading after an opening of $410,5.

SA inflation stems from regulations

153

Ev Post 1/11/86

By
RUDOLF GOUWS
group economist at Rand Merchant Bank

SOUTH AFRICA'S inflation rate is now about five times higher than the average of its main trading partners It is also well above the range of 10% to 16% of the past 12 years, and there is a general perception of much worse to come

The acceleration in July, August and September (to an annualised rate of nearly 24%) surprised most analysts as well as the policy-makers, as most factors had pointed to a continuation of the downtrend that had commenced in February

Among these are the fact that the rate of increase in remuneration has been much lower than the rate of inflation, there has been a levelling out, and then a rise in the rand's effective exchange rate; inflation abroad is low, domestic demand has been slack, the demand for bank credit is weak, and the growth of the money supply consequently very slow

The budget dificit is being financed relatively conservatively, and dwelling prices and rentals, as well as mortgage bond rates and other borrowing costs, have been declining.

The rapid re-escalation of prices in the face of these disinflationary forces confirms that the inflation process is far more complex, and more difficult to turn around, than has been appreciated

There are, however, increasing and understandable public calls for the authorities to "do something" to keep prices from rising In turn, some Government officials have recently again taken to exhorting consumers, workers and businessmen to fight price rises, be more modest in wage demands, be less greedy, and so on.

These exhortations — however convincingly put across — will have no or little effect

Consumers have cut back on luxuries and are buying necessities at today's prices because they know everything will be more expensive tomorrow

RUDOLPH GOUS

Having already suffered a major decline in real living standards, wage and salary earners can do nothing but negotiate for as much as they can get

Commerce and industry are passing on cost increases (where demand conditions allow this), since they are in a profit and cash squeeze

The impression, nonetheless, again seems to be gaining ground that, if these calls on the different parties could be formalised in a kind of "social contract", they could be persuaded to act in unison in a way that would halt inflation

In 1975, in spite of the failure of similar "ventures" elsewhere, an "Anti-Inflation Manifesto" was implemented in SA, but this also was unsuccessful and had to be abandoned

At present, South African society is even more divided than 10 years ago, with suspicious groups vying for larger portions of a shrinking economic pie The chances of reaching general agreement about matters so close to the bone are very slim

This being so, arguments are again being raised that prices and wages should be frozen by decree, even if only for a short time, while basic causes are being addressed

Apart from raising the spectre of long queues, shortages, black markets, a larger bureaucracy and so on, this would be an inappropriate policy to follow for a country facing sanctions and major economic dislocations

SA must now, more than ever, try to make the most of scarce resources, and relative prices (which today have really come to mean different rates of price increase for different goods, services and skills) must be allowed to reflect relative scarcities

The general price level may be artificially constrained with some short-term success, but the costs to the economy at large in terms of lost flexibility and efficiency will be very great indeed

It is certainly true that the South African economy has an inflationary bias which, to my mind, stems mainly from social and political factors and rigidities caused by economic and political regulations

These must obviously be addressed — but this should be done regardless of the prevailing inflation rate, as, for instance, Reserve Bank Governor Dr Gerhard de Kock has often pointed out

The causes of the inflationary bias will not go away if we hide their consequences by means of artificial ceilings on prices and wages

What, then, should be done?

Somebody once said that "a platitude is merely a truth repeated until people get tired of hearing it!" And so it is with most prescriptions for the handling of SA's inflation problem

A decade of double digit annual increases in prices had already institutionalised the inflation process when the extraordinary depreciation of the rand from September 1983 gave inflation an enormous further boost

Now, with the "standstill" in the repayment of SA's foreign debt and the immediate prospect of a continued large current account surplus, the exchange rate should more or less hold its present level well into 1987

But longer-term, if we are to escape the inflation that has befallen almost all other countries with foreign debt problems, it is crucial that we avoid a repetition of the kind of fiscal and monetary policies — and the political shocks and upheavals — that led to the exchange rate behaviour of the last three years

The rate of increase in Government spending would simply have to be checked, as would the size of the budget deficit

Strict monetarists hold that, as long as the deficit is not financed with bank credit, other aspects of Government's finances cannot contribute to inflation as such

However, there is no denying that, for instance, the rising tax levels accompanying the sharp rise in Government spending have become an integral part of the economy's inflationary bias

The doubling over five years in the ratio of personal taxes to personal disposable income has correlated closely with the fall in the ratio of personal savings and increased borrowing by consumers who were trying to protect their living standards

Given the generally accommodative monetary policy stance, these credit demands translated into creation of new money, which, in turn, translated to rapidly rising prices

The monetary authorities should continue to construct monetary policy in such a way that control is maintained over the growth of the money supply

But because the money supply (as a so-called intermediate policy variable) is subject to many distorting forces, the monetary authorities should (and, I am sure, will) be watching a wide variety of other factors, such as the pace of economic activity, the state of Government's finances, the balance of payments, as well as inflation

When, on balance, these factors start pushing market interest rates up, the general interest rate structure should be allowed to rise The responsibility for avoiding another 25% prime rate lies more with fiscal authorities and the politicians than with the Reserve Bank

The risks of very much higher inflation are great The economy is in uncharted waters The economic and political impact of sanctions, the economic policy response to sanctions, and the response of consumers, businessmen and investors, are all open questions

Inflation is only one of many variables that can react in a virtually indeterminate way to the interplay of all these factors

Sticking to the policies outlined here will give the authorities the only chance of avoiding a continuing underlying escalation of inflation

I am more confident than most that, in very trying conditions, they will endeavour to do so and that we are not facing still higher inflation in 1987

Argus 11/11/86 (153)

ECONOMY

Inflation outlook grim, leading economist says

The Argus Correspondent

DURBAN — Prospects on the inflation front look grim — at least until the economy really starts to pick up

Speaking at a Mercabank seminar here South African Reserve Bank adviser Dr D W Goedhuys said monetary policy makers faced an "awful dilemma" — they were conscious of the dangers of hyperinflation, but the priority was to maintain business activity

"Our hand is forced by the circumstances of the economy," he said "We have to give the growth impetus full play"

UNUSUAL PRESSURES

Once the economy turned, however, policy emphasis could be shifted to inflation

Dr Goedhuys said current inflation was due to unusual pressures South Africa was experiencing "import price push inflation" — which stemmed from depreciation of the exchange rate following capital withdrawals for political reasons

Policy was to accommodate this by making credit cheaper "We are acquiescing to inflation to safeguard business"

University of Durban/Westville economist Professor A J Arkin told delegates that the economy needed a systematic reduction of Government controls

He warned that excessive control in a siege economy would exacerbate bottlenecks of labour and materials — and would reinforce the effect of sanctions

Professor Arkin said accelerated deregulation and privatisation were necessary to counteract the sanctions drive

The seminar marked publication of an analysis of direct and indirect economic controls, sponsored by Mercabank and produced by University of Pretoria economists

Presenting the report senior lecturer Mr J P van den Heever said direct controls were good in the short term but tended to politicise issues in the long term

Indirect controls tended to have an unfavourable reception — but they proved themselves with time

● South Africa is the victim of creeping economic socialism by the big private sector conglomerates, with serious implications for future job creation and the distribution of wealth in the country, says Mr Jan Erasmus, executive chairman of Prestasi Brokers

Addressing a gathering of businessmen in Johannesburg, Mr Erasmus said that the concentration of economic power should be broken, that new entrepeneurs should be encouraged and that any planned privatisation of Government functions should be effected by means of creating trusts in which South Africans of all races could become shareholders

Mr Erasmus warned that South Africa should not exchange Government monopolies for economic monopolies controlled by a few large private sector conglomerates

The voter can, to a certain extent, exercise an influence on Government monopolies, but cannot obtain any say in conglomerate monopolies

Economic power in South Africa was concentrated in the hands of four or five large companies, including a mining group, two Mutual Life insurance companies and two banking groups

"Some conglomerates are even overtaking Government departments in size, thus creating private sector bureaucracies with little difference from the traditional public bureaucracies except that voters have no say over them

"This is one of the most serious limitations on the development of entrepeneurs"

FIN MAIL (153)

BUS BOYCOTTS

Putco's woes mount

Putco argues that it will go out of business if it does not raise bus fares But attempts to do just that are causing it serious trouble

Introduced at the beginning of the month, the new fare increases have aroused a great deal of resistance, particularly in Soweto and townships within the KwaNdebele homeland, where many buses have been damaged Financial losses have been substantial

Fares were raised in the Transvaal by 17,5% and in Natal by 15% Because of black commuter opposition, the company has suspended fare increases on routes between the Reef and the distant KwaNdebele townships east of Pretoria.

At the weekend, two Soweto bus depots were bombed, causing R10 000 damage to ticket offices

Apart from the two depots rocked by limpet mines, four buses have been petrol-bombed, seven others hijacked and 1 000 bus windows smashed, according to a Putco spokeswoman She estimates total damage since the current bus boycott began at more than R70 000

According to Putco, a Durban South depot has been closed "temporarily" following dismissal of 200 drivers who did not collect fares from passengers on October 24 Action against the drivers was taken as a "disciplinary" measure, meanwhile, the company is looking for new drivers. Areas affected by the closure are Umlazi, KwaMakhutha, and Umbumbulu

Soweto Fares

In Soweto, fares from Emdeni (the most distant point) to Bree Street have risen from R1,60 to R1,80 for a single cash ticket, weeklies from R7,50 to R8,80; and monthly tickets from R39 to R45,80 From Baragwanath (the point closest to town) to West Street fares have risen from 75c to 90c a single cash ticket, from R5,10 to R5,80 for weekly tickets, and from R26,50 to R30,20 per month

Explaining the increases, Putco's assistant MD Vic Coetzee said "If you don't put up fares, you go out of business We are sympathetic, but cannot do much unless the government pays (a higher subsidy) "

The company also explained that the 17,5% and 15% fare increases are intended to cover cost increases between July 1985 and June this year They include a 37% rise in maintenance and spares, a 13,3% rise in wages, and 20% increases in insurance, licensing, rentals and depreciation costs

The feeling at Putco is that the company cannot be expected to provide a social service If it is expected to do so, then government must subsidise fares far more substantially than at present

Among proposals made by Putco — together with another bus company, Tollgate Holdings — to government is that regional services councils (RSCs) buy the companies' assets, then appoint the companies to run the bus services on an agency basis for RSCs (see *Business*, November 7)

A Putco spokesman tells the *FM* that there has been no movement from government on this suggestion ■

☐ See *Companies*.

(153) FIN MAIL 14/11/86.

INFLATION

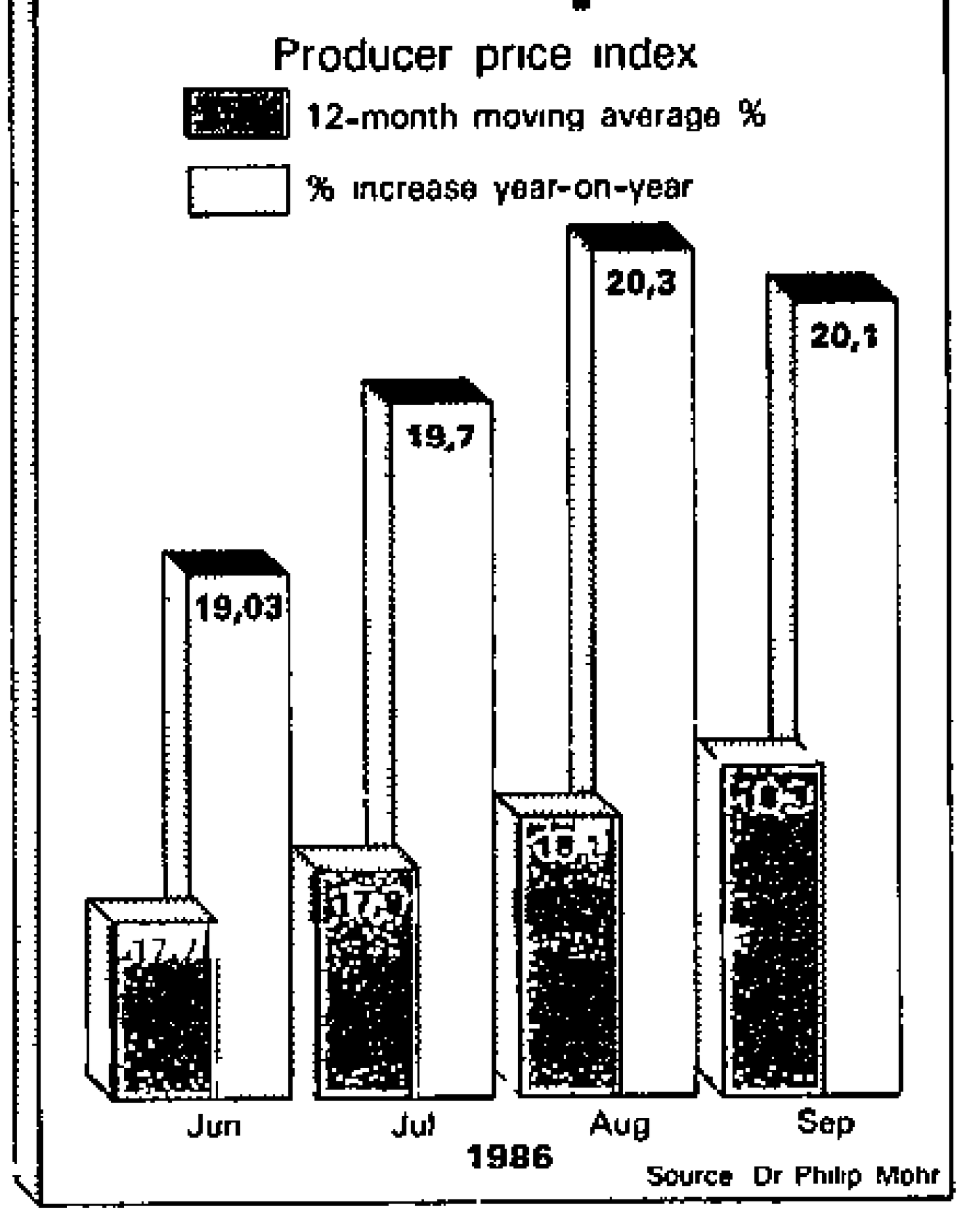
Twisted by lags

Like an unidentified virus, a mysterious force is at work in the economy, keeping inflation over 20% In spite of a number of restraining factors, prices move implacably upwards, confounding economists and defying policy makers

Low consumer demand, low demand for credit, low money growth, low oil prices, wage and salary increases well below the inflation rate, and an appreciating rand should have tamed inflation — but have not Some economists expect even worse to come if these restraining trends are reversed

The picture has become confusing Perhaps traditionally expected lags in the pricing mechanism have been distorted by exceptional external and political circumstances

Producer puzzle



However, the producer price index (PPI) for September does bring some hope, if only because it reflects a pause in the acceleration

In some countries, West Germany and the US for instance, inflation has been so low that disinflation has become a possibility In SA, where prices appear to be headed irrevocably upwards, discussion of inflation is complicated, at a purely semantic level, by the need to talk not of increases or decreases in the rate of inflation — but of increases or decreases in increases Trends can be gauged only by whether the latest leap compares favourably or unfavourably with the preceding one

September's PPI at least compares favourably with August

The all-commodities index increased by an annualised 20,1%, two points less than the August increase of 20,3% Analysis shows a fractionally bigger decrease (in the increase) in the cost of imported components (21% against last month's 21,3%) than in local (19,8% against 19,9%) The cost of total output of South African industry increased by only 20,5% (against 21,1%)

Month-by-month comparisons can be useful in identifying trends, and these show even bigger decreases The all-commodities index stood at 221,9 in September, against 220,3 in August, an increase of 0,7% significantly lower than August's increase over July of 1,8% On this basis, there was actually a drop in the item "Mining and quarrying, other" of 4,1%, from 126,8 in August to 121,6 Once again the fall in the rate of increase was more apparent in imported goods (0,6% against 2% in August) than in local (0,8% against 1,8%)

What do the PPI figures portend for the consumer price index (CPI)? Figures for October will be released later this month It is generally held that there is a broad correlation between the two, with CPI lagging PPI by about two months This would indicate that, by the end of the year, CPI growth should show signs of slowing

A PPI drop of 1,8% for fresh meat is an encouraging sign It indicates that, by November, recent seasonal and structural increases in the meat price should work their way through the system

Says Leon Steenkamp, economic consultant to stockbroker Senekal, Mouton & Kitshoff "They are cold comfort given the fact that inflation is running around 20% One must remember that an improvement in demand can turn existing restraining factors into pull factors"

Unisa economics Professor Philip Mohr questions the relevance of a one-month year-on-year figure

"I prefer to work on a 12-month moving average, which eliminates technical factors If you look at these, you will see a steady movement upwards of about 0,2% a month. Since June, it has moved form 17,7% to 17,9% for July, 18,1% for August and 18,3% in September"

Earlier hopes for a lower inflation rate were certainly premature, as Reserve Bank Governor De Kock says, "We've underestimated the time lags" (see *Leaders*) Let's hope the lagged effects of the rand's depreciation have now completed their course, and benefits of the more recent appreciation of the currency are still to be felt ■

GOVERNMENT SPENDING

Deficit widens

Finance CE (Policy) Gerhard Croeser is now talking of a deficit before borrowing around 4% of GDP for fiscal 1986-1987 — not

INSURERS TAKE LICENCE

Hard-pressed insurance companies have tightened up policy conditions to rid their books of unlicensed drivers or those with forged documents

From now on, any motorist submitting a claim will have his licence status vetted No licence, no repair Legitimate drivers involved in accidents with unlicensed drivers will not be affected Their claim will be handled in the normal way Nor will they lose any no-claims bonus where they are not at fault

Insurers have long recognised the problem of unlicensed drivers, a major reason for one of the highest accident rates in the world There were 33 204 road traffic accidents in August 1986, according to official statistics — over 1 000 a day In the first nine months of this year, more than 250 000 accidents were reported

Says Rodney Schneeberger, CE of the SA Insurance Association (SAIA) "There are probably more than 900 000 unlicensed drivers on our roads."

He says insurance companies have gained access to the "central register of drivers' licences," established by the Department of Transport, which holds records of some 3,9m licence holders It is intended to incorporate data from the TBVC countries in due course Also a "central traffic offence register" and an "accident register" are being prepared

Insurers now have their own microfiche records — their Licence Register — which will be updated by the authorities once a month from central records

"The main function of the insurers' licence register will be to identify drivers or claimants who are uninsured or have invalid licence documents," adds Schneeberger Claims procedure will now include a check of the microfiche records. If an insurer cannot find the claimant's name, enquiries will be made about whether a licence has been issued within the past month If a valid licence cannot be produced, the claim will be rejected.

IMF LOAN REPAYMENT

Last week's R240m (SDR100m) repayment to the International Monetary Fund (IMF) was the fifth since the SDR795m loan was taken out in November 1982 and brings repayments to SDR400m

The first repayment was in May 1983, amounting to SDR50m. The next four repayments were all this year February (SDR80m), May (SDR80m), August (SDR90m), and the latest this month, equivalent to a total of R801m

The final four repayments will be SDR100m each, quarterly until November 1987

In 1982 the IMF granted SA a SDR1 billion facility though not all was drawn down. SDR159m was drawn in terms of the Normal Standing Facility, against a SDR364m entitlement The rest was fully drawn under the Compensatory Financing Facility Interest varies between 6% and 7% and has been paid quarterly.

because of declining revenues, but because of increasing expenditure

This is considerably above the 2,75% (R3,9 billion) budgeted in March Many economists considered this too conservative anyway, given the boost needed to get the economy going The 3% maximum to which the government committed itself in 1985 has come under criticism in recent weeks (*Economy* October 24)

Croeser notes that only the mining sector is investing "substantial amounts in capital development," one reason tax revenues are lower than otherwise suggested by higher gold and platinum prices

There is no danger of extra spending overheating the economy or exerting upward pressure on capital market rates, "crowding out" the private sector Indeed, government has already borrowed more than it budgeted for 1986-1987

And the deficit is still within the De Kock Commission guidelines, that the deficit before borrowing "should at all times be restricted to an amount that can be financed without either undue money creation by the banking system or undue upward pressure on interest rates"

However there is, rightly, disquiet how government is spending the money

Louis Geldenhuys, of stockbroker George Huysamer, for example, is "not happy with government's mix between capital and current expenditure More capital expenditure is needed," whereas much expenditure has gone into security and socio-economic areas

Capital expenditure

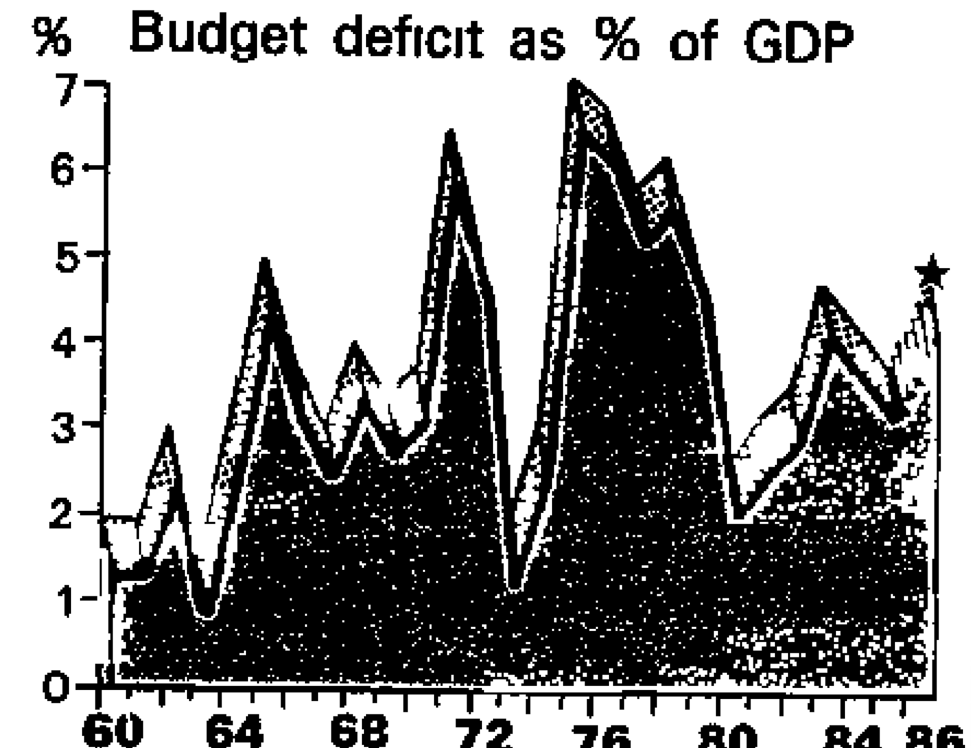
Old Mutual's Rob Lee agrees that too little is being channelled into capital expenditure He points out that increased government expenditure is counter-cyclical (higher spending during a recession) and therefore appropriate "In the past, fiscal policy has tended to be pro-cyclical rather than counter-cyclical This has exaggerated economic up- and downturns"

Latest Treasury figures for the first six months of the fiscal year, to end-September, show that revenues rose 11,7% to R14 billion, against a 19% rise in expenditure to R19 billion Expenditure was budgeted to rise by 13,9% and revenue by a smaller 13,1%

Geldenhuys expects the deficit to end up between R5,7 billion-R6,2 billion, considerably more than the budgeted R3,9 billion Lee talks about a larger R6 billion-R6,4 billion deficit

Historically, Lee calculates that between 1960-1975 the deficit was on a broadly rising trend, increasing from an average 1,5% to 6,5% of GDP in 1975 Subsequent years, however, have seen this trend reverse against a background of relatively low growth ■

Higher than budget



★Latest revised estimate Source Old Mutual

AUDITORS CATCH

Companies sailing close to the wind are usually found out first by angry creditors But the Public Accountants' and Auditors' Board (PAAB) is now receiving up to 40 reports a month from auditors who have uncovered material irregularities in businesses

It is obligatory for auditors to make such reports under section 26 of the PAAB Act An irregularity means anything that would prejudice creditors or others affected by a company's conduct, including contraventions of the Companies Act, reckless trading in insolvent conditions, fraud, and so on

The PAAB must decide what to do with each report, and may hand it to creditors of the business, or a public servant such as the Registrar of Companies, an attorney general, or the Commissioner for Inland Revenue

A PAAB spokesman says it is not clear whether the increase has to do with auditors becoming more pernickety, or with sharp trading associated with adverse economic conditions But not one report forwarded to the authorities from auditors' referrals has resulted in a prosecution

FIN MAIL 320 14/11/86

TAX EVASION

A township sport

Non-payment of GST is common in black areas, with losses estimated to run into millions of rands Tax evasion is an act of defiance associated with the rents boycott and is said to be between R60m-R80m a month

Inland Revenue refuses to comment on tax evasion, while its inspectors refuse to go into black areas to monitor it

Revenue's most direct reaction to the phenomenon was this year's removal of GST-exemption certificates from businesses generating less than R50 000 a year turnover As part of a recently conceived programme Revenue also started an investigation into GST being paid "closer" to the manufacturer

For example, Revenue has circulated draft guidelines in the beer, liquor and wine industries concerning the payment of GST closer to the manufacturer, possibly by the wholesaler

Implementation of the rules would speed collection of GST in the industry But more important, large amounts now evaded would be collected The liquor rules were set to come into effect on December 1

The *FM* understands that Revenue is looking at other sectors, notably wholesaling, with the same intentions The system of collecting GST from any party other than the final consumer is based squarely on the precept of the value-added-tax system (VAT)

VAT is said to be one of the recommendations in the still unpublished report of the Margo Commission VAT's gradual phasing-in, say initially in the liquor and wholesaling industries, would mean that GST, where evaded, would be lost only on the final retailer's mark-up ■

Beer halls ... inspectors are steering clear

Cost inflation squeeze threatens SA gold mines

17/11/86 STAR

By Stan Kennedy

All the symptoms are present on South Africa's gold mines for the average costs a ton to rise to $185 an ounce in the next six years, with serious implications for the gold mining industry.

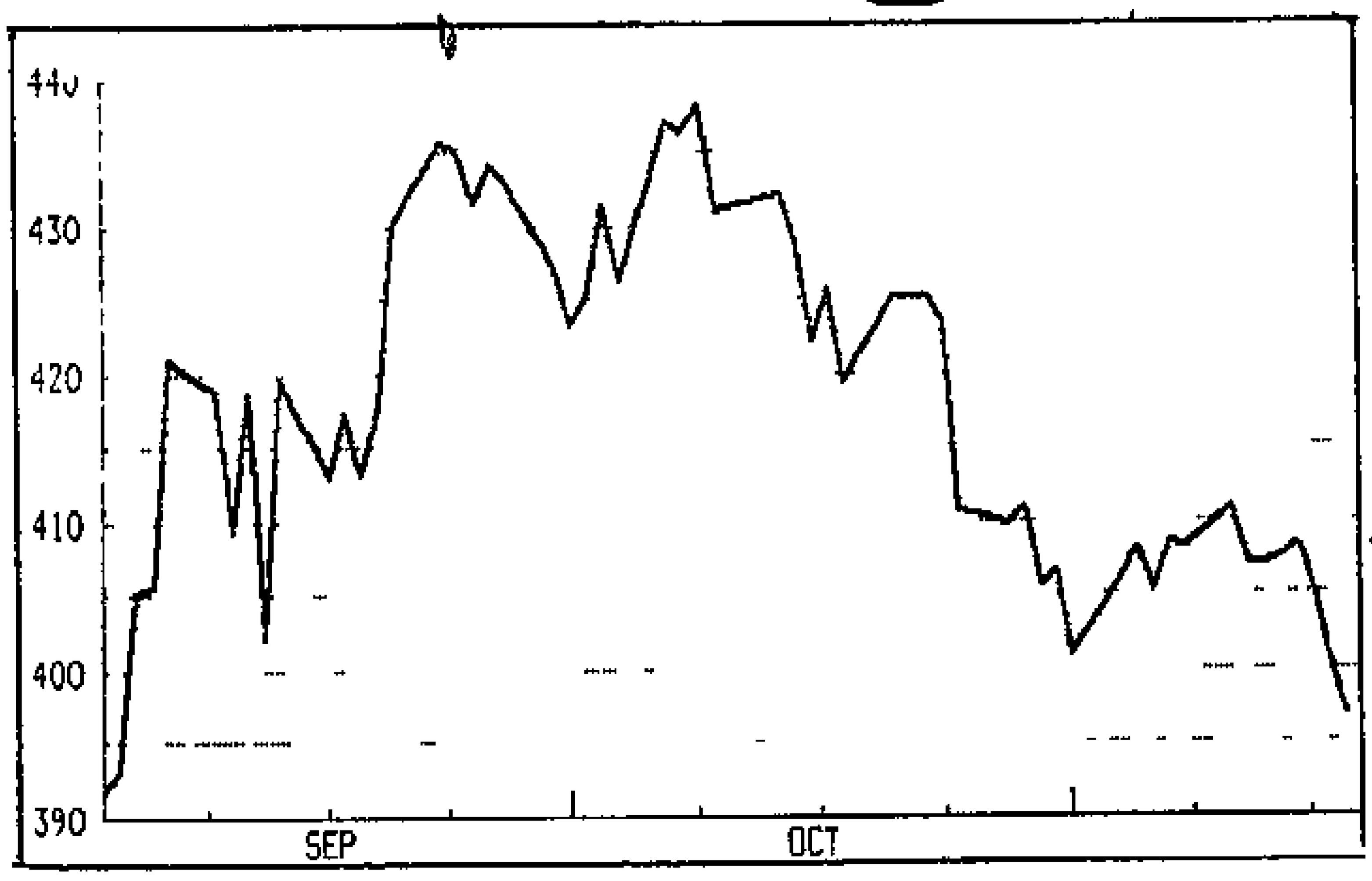
Alternatively, the commercial rand would have to fall to $0,19 to maintain the present cost/revenue relationship. For the overseas shareholder, the alternatives are squeezed profits or a drastic fall in the value of the rand dividend.

In its latest review of SA gold mines, Warburg Securities, a division of the financial services group Rowak, points out working costs in the last quarter rose by 5,5 percent to give an increase over September last year of 16,2 percent.

"This is no real problem in the short term," it says, "because the high rand gold price has more than compensated But a quick look at the last six years will show that the longer term implications of this sort of annual price increase are very serious"

Between the third quarters of 1980 and 1986, average costs a ton have risen from R36,19 to R81,93, an annual compound rate of 14,6 percent Another six years at this rate and costs an ounce will be more than the current price of gold

"Obviously much can happen to gold and other things over the next six years but it is difficult to see how inflation on the mines can be curbed, particularly as the black/white pay gap is still substantial



The international bullion price appears vulnerable after it slumped through the psychological $400 mark in New York on Friday and weakened further in Hong Kong today It opened this morning in the Far East at $397,75, more than $1 down on Saturday's close — ***Graph: Simpson Frater.***

"The ability of the mines to raise grades to compensate is also becoming limited The South African gold mining industry faces serious pressures on results from rising costs over the next few years, which will be to the detriment of overseas shareholders, whatever happens"

Labour unrest has yet to affect the mines significantly, it says Most companies have enough stockpiled ore on surface or "rainy day" gold in the strong room to get over minor stoppages of the sort that has happened so far

The potential for more serious disruption in the future is, however, growing as the black union becomes better organised.

In the near term, a high rand gold price will outweigh rapidly rising costs and sporadic labour unrest and rand profits and dividends will stay high

Judging by the Johannesburg gold share index and rand gold price movements since the last quarter of 1984, Johannesburg prices have not run ahead of gold and should hold present levels if gold stays above $400

On the other hand, a quiet gold price and the present stream of adverse news from South Africa will continue to exert downward pressure on the financial rand and therefore on overseas prices.

"We remain optimistic that gold's next major move will be up but it could consolidate in the $400-$440 region for some time and overseas prices therefore look likely to weaken further in the near term or, at best, move sideways"

It says yields do not look particularly attractive now, except on short-life mines like Blyvoor, Bracken, Grootvlei, Leslie, Venterspost, Stilfontein, Durban Deep and East Rand Prop, and it regards the shares mainly as trading counters on sharp gold price moves

The outlook for a continuing strong rand gold price looks good The SA Reserve Bank is not going to allow the commercial rand to rise much above $0,45, principally to protect the rand value of the dollar-denominated exports like gold

"On the other hand, any weakness in gold will undoubtedly be accompanied by a fall in the rand and the rand gold price may not fall very much In broad terms, therefore, we expect the rand gold price to hold at least in the R26 000 to R30 000 region for the time being."

BUSINESS

8/1/86

Inflation to stay high says United

DD 18/1/86

JOHANNESBURG — Inflation is at its second highest level in almost 60 years, the United Building Society says in its Economic Monitor

It notes "In contrast with the steady decline in the inflation rate (as measured by the Consumer Price Index) from a level of 20,7 per cent in January to 16,9 per cent in June, the third quarter witnessed a sudden reversal in the trend, pushing inflation up to 19,7 per cent, the second highest level since 1920"

The rise in the CPI came after a 20,3 per cent increase in the producer price index (PPD) in August, which tends to lead the CPI

The imported goods component of the PPI rose at an annualised rate of 21,3 per cent in August, while prices of local commodities rose by 19,9 per cent

The Monitor says "The impact of the weak rand during the first half of the year is thus still evident. Also contributing to the higher inflation rate were food prices (up 22,3 per cent for the year to September) and new vehicle prices (up 45 per cent in the same period)

"Inflation prospects remain far from rosy for the foreseeable future Despite the absence of demand pull inflation — credit demand is still well below the growth target set for M3 money supply — cost push factors seem to be stronger than ever

"Such factors include the ripple effect of the weak rand, increases in administsered prices and the need of many companies to increase their profit margins

"This sustained high inflation rate, expected to be some 17 per cent in 1987, creates a poor environment for economic recovery owning to the lack of business confidence, its adverse effect on investment and the distortion in production factor allocations" — Sapa bank's Merton Dagut adds that "banks are accustomed to move in line with the Reserve Bank "

Standard's John Lloyd, whose bank recently increased long-term deposit rates, explains that banks are locked into fixed deposits at higher rates "Margins might be wide, but the average cost of funds is not that low Banks are now getting margins into line," he says

This rise in the cost of funding, says Volkskas's Danie Cronje, is in anticipation of rates rising next year, and "normal when the rate structure nears bottom, as it is now "

The reluctance to drop lending and rediscount rates is more puzzling when it is considered that the market is awash with funds One banker describes how his "foot is held against the door to stop money coming in "

The market shortage, absent for a few days, re-appeared on Tuesday (reflecting Monday's business) — when the Corporation of Public Deposits (CPD) had R50m in deposit with discount houses This — probably a temporary blip until nearer the month-end when the shortage is not expected to exceed R500m — surprised dealers who expected a cash injection into the market "The outflow is baffling," says a dealer (It could have been from dollar sales that the Bank entered into in support of the gold-pressured rand)

To avoid a surplus and balance the market, the Bank sold up to R200m of the CPD assets to discount houses on an overnight basis at market (call) rates Positions have, thus, been unwound daily and houses take no margin

Both weekly tenders were sharply down and well bid Friday's Treasury bill (TB) rate fell by 33 points to 9,11% (now 122 points below its rediscount rate — Bank rate) and Monday's Land Bank dropped by 38 points to 8,87% (138 points below its rediscount rate) The TB attracted a huge R215m (R131m) for the small R40m (R60m) offered More was offered at Monday's Land Bank tender which drew R170m (R120m) for R100m (R100m) on offer

In line with the TB result, the three-month bankers' acceptances (BA) rate dropped 25 points to 9% on Friday (following a 10 point drop on Thursday) and five points lower on Monday to under 9% By Tuesday, as the shortage returned, BA firmed 10 points to 9,15% The weight of funds available also pushed call rate down to 8%-8,5% — this also hardened slightly on Tuesday

The liquid situation (lack of credit demand) is reflected in a report by Barclays based on BA9 returns of the five largest banks It notes that in the third quarter, total funds committed to HP were nearly 5% lower than a year ago (R9,6 billion — itself lower than the R9,8 billion employed in the second quarter — compared to R10,1 billion) and total deposits more than 6% higher (R47,9 billion, from R46,9 billion in the second quarter and R45,1 billion a year ago)

There was an even steeper decline in leasing — over 9% from a year ago to R4,6 billion Going against the trend, total fixed deposits fell from R17,2 billion in the second quarter to R16,5 billion "This indicates," says Barclays, "that retail investors were switching from long-term to short-term instruments in anticipation of rising interest rates sometime next year " Also in anticipation of rising rates, the volume of negotiable certificates of deposit grew from R3,3 billion to R3,6 billion

Current accounts

The total amount held on current accounts rose to R10,3 billion from R8 billion a year ago and R9,7 billion in the second quarter

Breaking down market share shows that the Barclays group, Standard and Nedbank all gained in current accounts during the third quarter at the expense of Volkskas and Trust Barclays' share grew to 34,9% from 32% in the second quarter, Standard's from 30,4% to 30,7%, and Nedbank's from 9,4% to 10,6%, while Volkskas' fell from 18,9% to 17% and Trust's from 9,45 to 6,9%

In an increased pool of savings (R5,9 billion, compared with R5,7 billion in the second quarter), four of the five banks increased their market shares, with Nedbank retaining a constant 11,6% ■

MONEY SUPPLY

Slipping back

Growth in broadly defined money supply is turning down again Provisional figures from the Reserve Bank show growth in M3 of 9,48% in the year ending October, to R77,8 billion, while the revised figure for September shows growth in that month of 10,8% (up from the provisional estimate of 10,4%)

The drop in growth, after two consecutive increases (9,6% in August and 9,4% in July), comes when the economy is perceived to be picking up

This monetary aggregate has been substantially and consistently below the lower limits of the 16%-20% target The latest figures confirm this trend is continuing as credit demand remains stubbornly low

In the narrower aggregates, the trend is reversed The latest figures for September show increased growth in all M1(A) grew by 28,1% to R14,2 billion, compared with 20,3% in August, M1 by 2,61% to R24,2 billion compared to a decrease of 6,9%, and M2 by 6,4% to R55,3 billion (5,9%) ■

FIN MAIL 21/11/86 (153)

INFLATION

Does it measure up?

Economics lends itself to ongoing debate on any number of fine points Like theology, it provides no finite situations and no ultimate answers So one can argue endlessly on whether, for instance, the purchases people *don't* make should figure in the inflation rate

Certainly, as economic realities force

more people into financial awareness, with the looming threat of hyperinflation, the CPI is coming under increasing scrutiny

To calculate CPI, the Central Statistical Services (CSS) surveys monthly the price of a representative sample of goods, each weighted according to its significance in household expenditure (see story headed "Inflation index") But though independent surveys claim that CPI accurately tracks price changes, some economists believe there are better measures

They compare inflation as measured by the CPI with the private consumption expenditure (PCE) "deflator," derived by dividing nominal prices by real prices "In the first two quarters of 1986, the deflator was substantially below CPI," says Unisa economist Claude van der Merwe

"This reversed the trend of the previous two quarters "

And there have been discrepancies from time to time The two indicators were almost level in the second quarter of 1985 The deflator then rose above CPI for two quarters, dropping below CPI for the next two

"The discrepancy last year was caused by a durable consumption boom when people tried to buy white goods and TV and electronic equipment before prices went up The second phase was the result of a drop in expenditure on durables, presumably as people adjusted to a lower income or higher prices "

Van der Merwe points out that a similar situation arose in 1975, "after the oil crisis and a government-sponsored devaluation in the rand sent the price of durables up "

Does the gap between the two indicators, which emerges in recessionary times, cast doubts on the validity of CPI as a measure of inflation?

There are at least two good reasons why the PCE deflator could be more accurate It reflects actual expenditure, while CPI represents historical expenditure PCE includes rural areas, which have a higher percentage of low-income groups, while CPI covers only 12 urban areas

"So the deflator gives a clearer picture of what is actually happening," says Van der Merwe "But it has the disadvantage of being three or four months behind because it uses volume figures "

Certainly CSS head Treurnicht du Toit is convinced that CPI should remain the official measure of inflation "It is preferred worldwide The PCE deflator is only a derived indication of inflation " ■

INFLATION INDEX

Weight problem

Apart from queries about the validity of CPI as a measurement of prices, its weightings are also questioned Obviously, wrong weightings would distort the figure

Many agree that CPI does not reflect the particular circumstances of any one person or family unit Even a spokesman for Central Statistical Services (CSS) says that the "average household" is as fictitious as the family with 1,6 children

The problem really lies in the percentage weightings given to groups of commodities and services (see chart) Those used now were obtained from a survey of about 5 000 households in 1980

Patterns of expenditure have surely changed since then For example, retailers have noted a steep drop in purchases of durable goods, and there has also been a fall in expenditure on entertainment The weightings have not been changed to reflect a decrease in mortgage bond rates nor the failure of wages and salaries to keep pace with inflation

Yet most economists agree that CPI is the best of several inflation indicators, if it is kept in mind that its compilers only hope to reflect price changes and *not* an increase or decrease in the "cost of living"

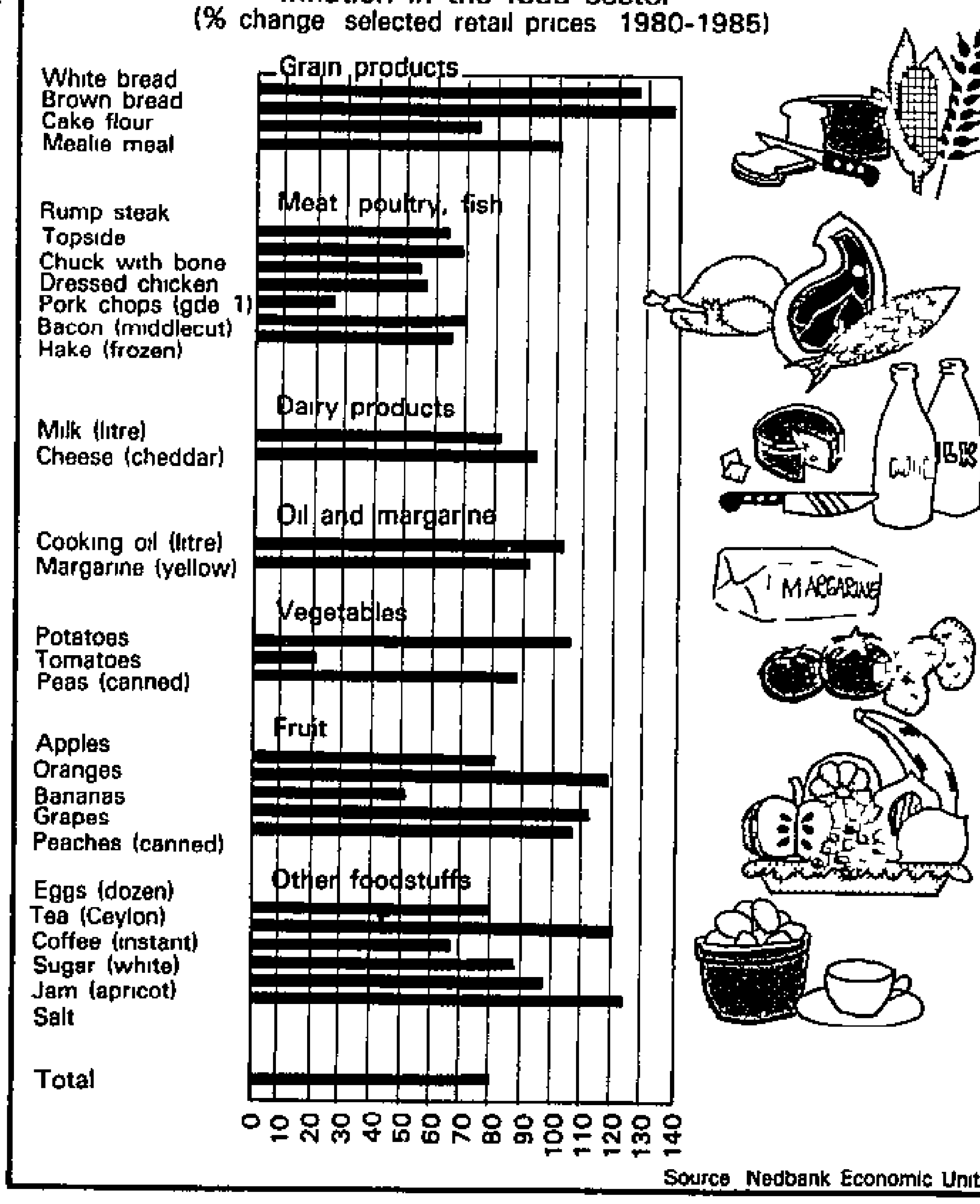
This is evident in the method of compilation There are 600 commodities and services in a "basket" of consumables monitored The index includes GST but not income tax, as it is only a measure of real disposable income

Prices are noted in the first week of each month, so the price of any commodity that goes up later in the month will only be reflected in the following month's CPI Some prices are monitored even less often

Of course, CPI can at best be only a guide to what is happening to the general level of prices It cannot, for example, take into account discounts offered by retailers or prices of used goods Sales at auction, for instance, have become significant in these hard-pressed times

Another simple, but rarely noted, point is that CPI is only relevant to people who actually spend money on the commodities rated For instance, the rising cost of a

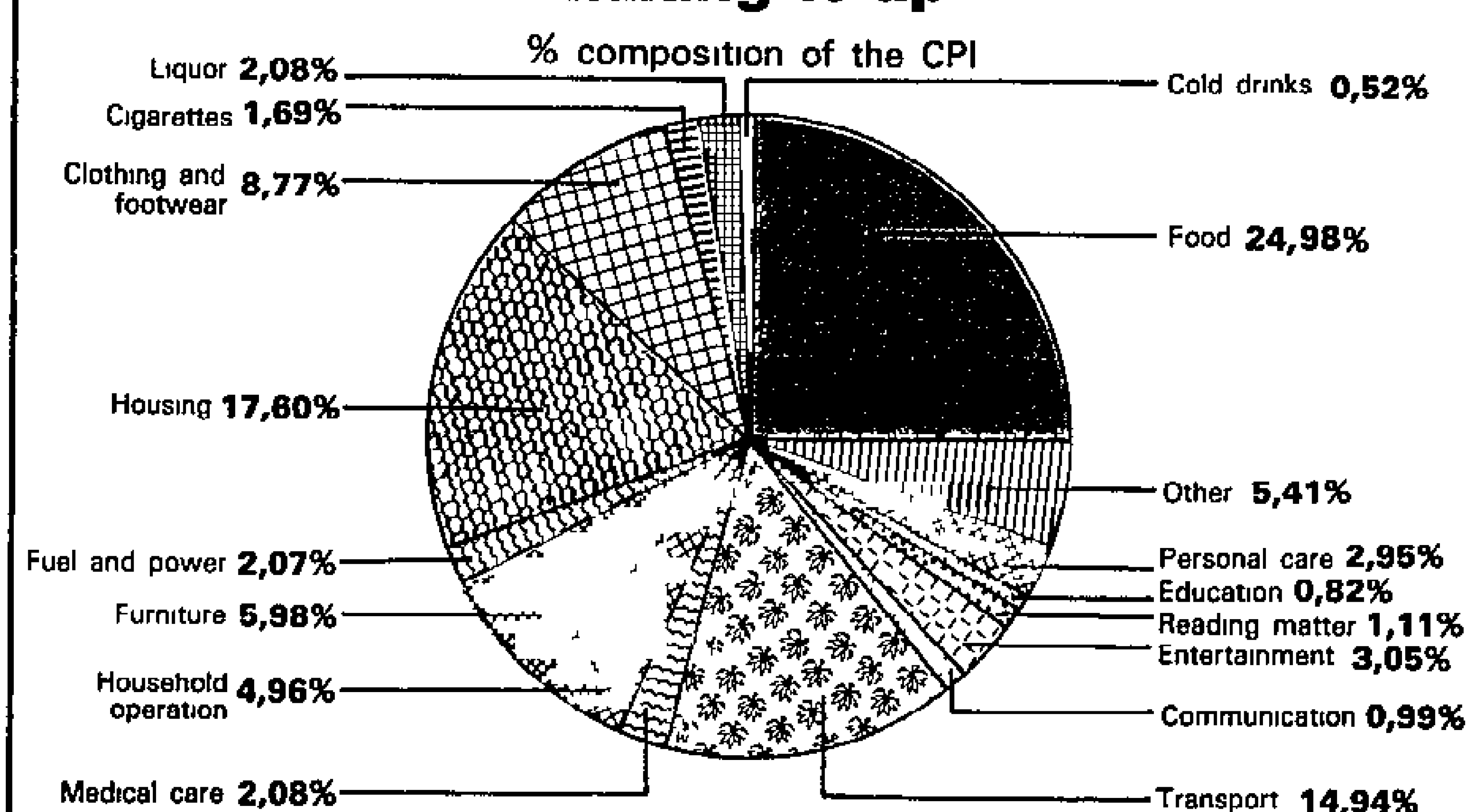
Hard to digest



Source Nedbank Economic Unit

Making it up

% composition of the CPI



Source Nedbank Economic Unit

motor-car is immaterial to a person who doesn't buy one

A study by Old Mutual's Economic Monitor describes CPI, in its present form, as "a fairly accurate indicator of consumer price inflation" It points out, however, two important flaws it does not include the rural areas, but does include GST which is a tax and not a price Says Old Mutual Economist David Mohr "Ideally, the weighting should be established over a period of years, to reflect an entire economic cycle"

CSS has, however, taken note of changed spending patterns It has conducted a new survey this year, and the basket and weightings are to be changed for 1987 to reflect the results The base, by international convention, is to remain 1980 = 100 ■

INSURANCE COMMISSIONS

Break for brokers?

There's still a great deal of confusion over brokers' insurance commissions One minute they were being cut across the board, next the plan was withdrawn, "finally" reductions were to be applied on an individual basis But according to leading brokers, few insurance companies seem to be going through with previous agreements to cut commissions

The rationale had originally been that since insurers were facing commission cuts from reinsurers, brokers should too

Other cost squeezes include more stringent reinsurance treaty terms, larger net retentions, high catastrophe cover costs, and rapidly increasing claims costs Cutting insurance commissions would be just one of a number of ways for insurers to reduce costs

Also argued

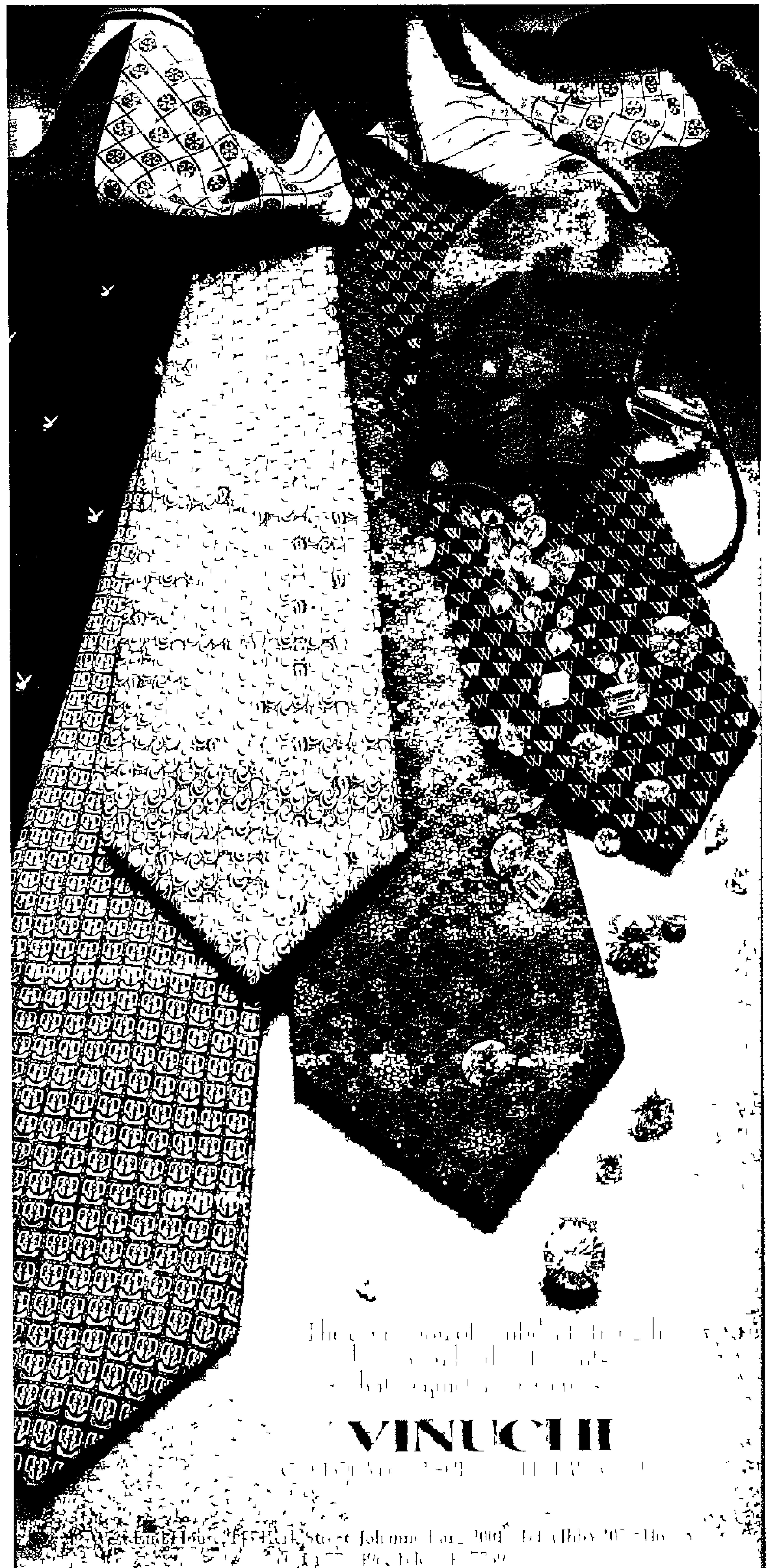
Insurers also argued, with some justification, that brokers should reduce commission rates since they would otherwise receive huge increases in remuneration on the back of sky-rocketing premiums, for no extra effort

But arguments and counter-arguments have kept the pot boiling and little has been resolved Bill Rutherford, MD of Commercial Union, says "As far as I know, any plans to cut commissions have died"

SA Eagle, for example, has withdrawn its letter which advised intermediaries of a reduction in brokerage on accident classes and personal lines, because of "lack of market support"

One broker instructed recently "Commission cuts still to be confirmed — no action or response from us meanwhile" Comments another "We told them we weren't going to agree to their commission cuts because none of the other big brokers were" Generally speaking, he says, larger brokers are "ignoring insurers' demands" for commissions to be cut

He adds "In any event, brokers take great exception to reduced commissions just being announced in circulars Since payment of



commission is an agreement between underwriter and broker, the least insurers should do is renegotiate face-to-face in terms of that agreement"

So insurers wishing to impose commission cuts are being given a hard time They have little bargaining power, given the present system of remuneration where brokers collect premiums and deduct commissions *before* they are passed on to the insurance company

As a result, insurers may well be taking the line of least resistance Increases in premiums, notably for the man in the street, and adjustment of insurance excesses may be proving sufficient for hassles with brokers over commission cuts not to be worthwhile

Says David Way, director of Willis Faber Enthoven "Only Guardian National and SA Eagle, to our knowledge, are actually seeking to reduce commission on more than one class of business"

For example, from September 1 1986, Guardian National advised that it wished to reduce rates of commission from 20% to 15% on burglary, money, goods in transit, fidelity guarantee and domestic policies American International reduced commissions on fidelity guarantee only, also to 15%, from July 1 1986, while General Accident cut commissions from 20% to 17,5% on bloodstock and livestock insurance

Way explains that most other companies have been sitting on the fence, many saying "no across-the-board alterations at present" This applies to Commercial Union, Federated, Protea and Standard General Other companies, like Cigna and NEG, have mooted changes but nothing has yet happened

A few companies are negotiating commissions on selected business on the basis of claims experience and rating Aegis and IGI are such, while Hollard is negotiating all commission rates

Comments Rodney Schneeberger, CE of the SA Insurance Association (SAIA) "We started the ball rolling towards an industry cut in commissions around the beginning of the year Although that initiative ran out of steam, individual companies began to negotiate with each broker in respect of fire and commercial risks This has gathered momentum, and is spreading to personal lines business, including motor" ■

BOB GARNETT

21/11/86 FIN MAIL

IN MY OPINION

Accounting for inflation

153

Bob Garnett, a member of the SAICA's Accounting Practices Committee, is a partner at Arthur Andersen.

The SA Institute for Chartered Accountants (Saica) has just published a document entitled *Disclosure of Current Value Information in Financial Statements (Exposure Draft 66 — ED66)* If adopted as a standard, it will require financial statements to provide information on a "current-value" basis for certain assets This will highlight the impact of both inflationary and real value changes

Saica first issued recommendations on accounting for the effects of inflation in 1979 in a document, AC201, which encouraged businesses to report a supplementary current-cost income statement These recommendations have not attracted substantial support, though a handful of companies have provided information about the current value of their economic resources

We have been living with unusually high inflation long enough that everyone recognises the shortcomings of "unadjusted historical-cost" information For most of us, the concern is not whether we need to measure the effects of inflation, but how best to do it, and how changes will affect businesses

ED66 proposes that financial statements should not merely disclose the cost of assets, but also their current value to the business This current value can be arrived at in a variety of ways, depending on circumstances

While AC201 focused on adjusting net income to eliminate gains from inflation, ED66 focuses on reporting increases in the value of assets The former approach is clearly divorced from economic reality While many may disagree with some details, ED66 provides a starting point

With inflation running near 20%, those who continue to resist ED66 are likely to find bad decisions flowing from bad information, because they will be based on historical rands ED66 is imperfect, but will be a milestone if it removes the millstone of historical cost data

Management performance is increasingly judged on returns generated, whether cash or income, as compared to economic resources employed However, if assets are not based on current value, performance indicators — such as return on net assets — will be misleading A sensible and practical approach is to restate assets employed in terms of their current value to the business

Examples include company premises at open market value, plant and equipment at depreciated replacement cost, marketable securities at JSE prices, and raw materials and finished goods at replacement cost

The impact of inflation does not change most management rules, but it will result in additional emphasis on some of them

The following is a summary of some of the positive things a company can do to increase its returns during times of inflation

It can minimise monetary assets Corporate treasurers have become sophisticated in this area and perhaps there is little room for improvement in things such as cash collection and the timely investment of available cash However, customer receivables are also monetary assets Some businesses carry these as part of a market strategy This strategy should be evaluated in the light of current inflation

Credit limits, payment terms, deposit requirements, progress payments, discount availability and collection procedures require special consideration in times of inflation, as do policies on delinquent accounts It may no longer be profitable to carry customers' receivables for 90 days or more

A company should also maximise its monetary liabilities This is the one management rule that differs under inflation from traditional corporate financial management Everyone understands the advantages of being in debt in times of inflation In fact, inflation will help reduce bankruptcy because borrowings are paid back in cheaper rands Debt also provides a hedge during times of inflation, although the benefits must be weighed against the risks of further leveraging

Inventories are a particularly important asset during inflationary times Inventory systems must provide current value information to permit proper product pricing Obviously, escalation clauses should be incorporated wherever possible

Inflation becomes an important element of inventory carrying costs These should be recalculated since inflation is a negative carrying cost Inventories, incidentally, may be a better investment than marketable securities if prices in an industry are rising faster than general price changes But if they lag behind general price increases, inventories should be minimised and resulting cash flows invested in marketable securities

Projections and business plans should use current value data Several assumptions about levels of inflation may be used to achieve flexibility It will be necessary for management to face up to their company's actual performance on an inflation-adjusted basis If it does not, the market certainly will

Decisions rejected in the past as of marginal benefit may have a positive impact on earnings because of inflation Because taxes are paid on both real and inflation profits, the tax system really confiscates capital

Capital also needs to be carefully planned and evaluated in relation to capital availability Leasing should be considered as an additional source of funds Sale and leaseback transactions may free funds Factoring receivables may provide a source of cash Joint venture arrangements are becoming more popular for financially large projects Dividend policies may also need reconsideration

Cost of living set to spiral

High inflation here to stay

CAPE TIME 22/11/86 IS 3

By AUDREY D'ANGELO
Deputy Financial Editor

THE SA inflation rate slowed by only a fraction in October, figures released yesterday by the Central Statistical Service showed

Economists say they foresee no sizeable drop for months to come, with sanctions likely to push up prices, and the rising cost of living putting pressure on employers to give larger pay increases

The inflation rate for the 12 months to the end of October was 19,2% compared with 19,7% at the end of September and 18,7% in August.

The monthly gain in the all-items index (base 1980) was 1,1% in October to 239,3 after a 1,9% rise to 236,7 in September

A year ago the index stood at 200,8 and year-on-year consumer price inflation at 16,9%

Yesterday's figures showed a particularly high increase in food prices, which rose by an average of 2,8% in October

The price of wheat products climbed by 4,8%, meat by 4%, fruit by 7,7% and coffee and tea by 2,2%

The recreation and entertainment category showed a 2,4% increase as a result of the rise in television licence fees on October 1

The director of the University of Cape Town Graduate School of Business, John Simpson, said the inflation rate was still unacceptably high, compared with that of SA's major trading partners, but he could not see any prospect of it coming down

"If the government stimulates the economy — as it has to do — the inflation rate will stay high

"But the government cannot institute strong measures to bring it down for socio-economic reasons

"Employers will have no option but to increase wages and salaries as the cost of living rises

"A rate of inflation in the high 'teens is something we shall just have to live with"

Importer and retailer Philip Krawitz, a past president of the Cape Town Chamber of Commerce, said such a "horrific" rate of inflation undermined attempts to raise the living standards of a large part of the SA population.

"This rate grossly exceeds wage and salary increases and means a reduction in standards of living which we are trying desperately to uplift."

Krawitz said the inflation rate would be aggravated by sanctions, which would reduce competition

If local manufacturers filled a gap left by exports they would be able to push up their prices

He suggested that inflation could be reduced significantly if government expenditure were pruned "not in vital areas like housing and education, but in areas where it could be avoided, such as public service pensions which are horrifically high in relation to what is paid in"

Rise in electronic, white goods

153

New Year to herald huge price hikes

BUSDAY 24/11/86

MANUFACTURERS have planned big across-the-board price hikes — averaging 10% — for the full range of white and electronic goods.

Retailers are predicting that consumers will bear the full brunt of the increased prices as early as January, if Christmas sales are strong and stocks run low.

Otherwise, retail outlets say the costs will be passed along to the consumer later in February

Among goods set to bear a higher price tag are refrigerators, stoves, washers, dryers, TVs, audio equipment and car stereos.

Internal inflationary pressure is the main cause of price hikes in the sector. Foreign exchange woes have had a greater effect on the import-sensitive electronic goods.

Tek's new price list shows most increases in the 8% to 12% range

Brian Cape, Tek trading division director, said videos were being held at constant levels. TVs, car stereos and audios were going up 5% while built-in cooking units would rise by 17%.

Industry Reporter

Barlows Appliance Company MD Pat Gallagher said costs were currently being reviewed. He predicted increases of "slightly less" than 8% to 12% in the new year.

Peter Dupen, chairman of the Domestic Appliance Manufacturers' Association and a director of Barlows Manufacturing, said the industry had to react to the rising cost of imports and to the upward price adjustments of components from local suppliers.

The 1987 price increases represent the third or fourth jump in the last year for most firms

Industry figures show total price hikes for the last 12 months of 20% to 25% for major appliances, and 10% for TVs, car stereos and audios

OK Bazaars marketing director Arthur Solomon said stocks had been increased in anticipation of price increases, but he predicted consumers

● To Page 2

Big price rises in pipeline

● From Page 1

would feel the effects in the new year

Amalgamated Retail group marketing director Bob Hart said the appliance industry was already working at very low margins and the price hikes would be passed on to customers as soon as old stocks ran out

But it might not be until February that consumers noticed the higher prices, Russells MD Ian Sturrock felt

National Panasonic plans to raise prices across the board by between 5% and 10% in the new year Assuming a stable exchange rate, the firm expects no further increases

In fact, Panasonic MD Terry Millar said if the rand strengthened within the $0,46 to $0,48 range, and the yen remained unchanged, prices would drop

SA Philips will jack up its TV prices by roughly 5% to 10% in the first quarter of 1987 but marketing manager for video display products, Fred Pearce, doubted the increase would take effect by January

The television hire industry is mixed over the price hikes Teljoy operations director Bernard Taffs said the expected reduction in the ad valorem tax in January would counter any price increases

Visionhire had no plans to raise rates to new subscribers, but MD Graham Taylor said increases were possible depending on market conditions

Govt blamed for massive inflation rate

D.D 24/11/86

(153)

SA pays penalty says PFP

Dispatch Correspondent

JOHANNESBURG — Consumer price inflation slowed slightly in October, meeting the expectations of most economists who have been forecasting some moderation in price increases

The consumer price index (CPI) rose at an annual rate of 19,2 per cent, to 239,3, down from 19,7 per cent the previous month The monthly increase was 1,1 per cent, from 1,9 per cent in September

The Progressive Federal Party's spokesman on finance, Mr Brian Goodall, said South Africa was threatened by hyper-inflation, and government had to accept most of the blame

The massive apartheid structure and the political system which had spawned it had created grave distortions and the country was now paying the penalty, he said at the weekend

He forecast the rate would rise above 20 per cent in the months ahead

Mr Goodall said a contributory factor to the inflation scourge was that there was too great a concentration of economic power in too few hands

There had been a massive movement of resources from the private to the public sector

Economists said on Friday the primary moderating force on prices

MR GOODALL

was probably stability of the rand against foreign currencies.

Although the rand has stayed at levels constant with last year's for several months, they said, the indirect effects on prices had been reflected in the index until now

"We expected a slight decline," said the Trust Bank's economist, Mr Ulrich Joubert. "But 19,2 per cent is still unacceptably high, especially given international trends"

Experts do not agree on whether inflation will continue downward The United Building Society's economist, Mr Hans Falkena, predicted the annual rate would decline through the next six months, to as low as 16 per cent, before moving up again

But others expect sharply rising food prices to keep inflation high

The food-only index, which comprises one-quarter of the total CPI, rose at an annual rate of 23,2 per cent last month, with a month-on-month increase of 2,8 per cent — representing 60 per cent of the overall increase It jumped by 1,6 per cent in September

Grain products increased in price by 4,8 per cent in the month while meat rose 4,0 per cent and fruit 7,7 per cent

The food index is unstable, however, and difficult to forecast

And manufacturers of white and brown goods have said prices of their products would increase by an average of 10 per cent in January and February.

Because of the higher food costs, lower-income families were hit hardest in the latest month, with prices in that sector jumping 1,7 per cent from September and 19,9 per cent from October, 1985. The middle-income index rose 1,3 per cent to 242,3, up 19,8 per cent from a year before And upper-income families paid prices 0,9 per cent higher than in September, and 18,6 per cent higher than a year ago

Inflation was highest in the Port Elizabeth area, which recorded a 21,5 per cent year-on-year rate, and lowest in Bloemfontein, with 16 per cent.

Cost of living forces painful adjustments

25/11/86 BUSDAY

153

DOMINIQUE GILBERT

WHITE urban South Africans are feeling the effects of a more frugal life-style that is forcing them to cut back on everything from entertainment to ice-cream

In their bid to beat the rising cost of living, they are being forced to do without holidays, restaurants, cinema-going, clothes and liquor and to trim back spending on sweets

The findings of a poll conducted by Omnichek Research Surveys, from a sample of 800 women and 500 men, shows "a level of deprivation and considerable lowering of the SA quality of life among whites" to a standard of living almost, but not quite, comparable to that of the black majority

MD 'Butch' Rice says: "If the whites are hard-hit, the penalties endured by the black communities must be surpassingly bad."

Responses show that 57% of urban whites say they have slashed spending on holidays and cut back on eating out. About 56% have reduced spending on clothes, 46% don't frequent the cinema as often as they used to and 44% say they have cut back on sweets and ice-cream.

A quarter of those interviewed have curtailed purchases of liquor, 30% have reduced hiring of videos, 32% have reined in on hire purchase commitments and 18% have lowered their accommodation standards.

The survey finds that five in every hundred do not spend as much on education as they used to and six in every hundred have reduced bond repayments.

153 FIN MAIL 28/11/86

CORPORATE PROFITS

Real hope or false dawn?

For many sectoral shares, the bottom line is looking far healthier than it did a year ago. But that is measuring current profitability against a very bleak year-ago situation. Analysts remain cautious while inflation stays untamed and the gold price continues to be sluggish.

For corporate SA, the spring months of 1986 have brought relief to a bleak and parched landscape Over more than three years, while inflation rocketed ahead, the profits of most industrial companies stagnated or fell Many firms did not survive But in a notable reversal of this trend, for week after week now, starting in early August, companies have been reporting rising earnings and, often, higher dividends

There have been false dawns before — the mini-boom in 1984, which proved illusory, comes to mind Yet, on the whole we may be seeing the end of a dark period of more than 40 months, throughout which profits were squashed by those now familiar maladies recession, a week bullion price, excessive debt, record interest rates, foreign exchange losses, political unrest, international isolation, and wilting business and consumer confidence

Our profits table published a year ago, covering the comparable reporting period, showed that some 80 of the 130-odd companies on the list had published falls in earnings; of these, about 30 had cut their dividends This week, the table tells a different story. Of some 160 companies listed, around 75 produced higher earnings and more than 50 have increased their dividends A number of the large groups — the best-known cases include Barlow Rand and AECI — have at last climbed off protracted dividend plateaus

Some analysts decided in the first half of the year that the tide could turn during 1986. Rosier prospects were heralded in the JSE Actuarial Industrial index's climb over the first eight months of the year (see graph) Initially, the more positive and often tentative forecasts were based largely on a few key economic fundamentals, particularly the surplus on the current account and the declining trend in interest rates that started in April 1985

These circumstances usually favourably influence equity prices A positive current account can be expected to presage economic growth. And any softening of interest rates from the dizzy levels of 1984-1985 was bound to benefit companies' bottom-line earnings Prime now stands at 13,5% against the peak of 25%

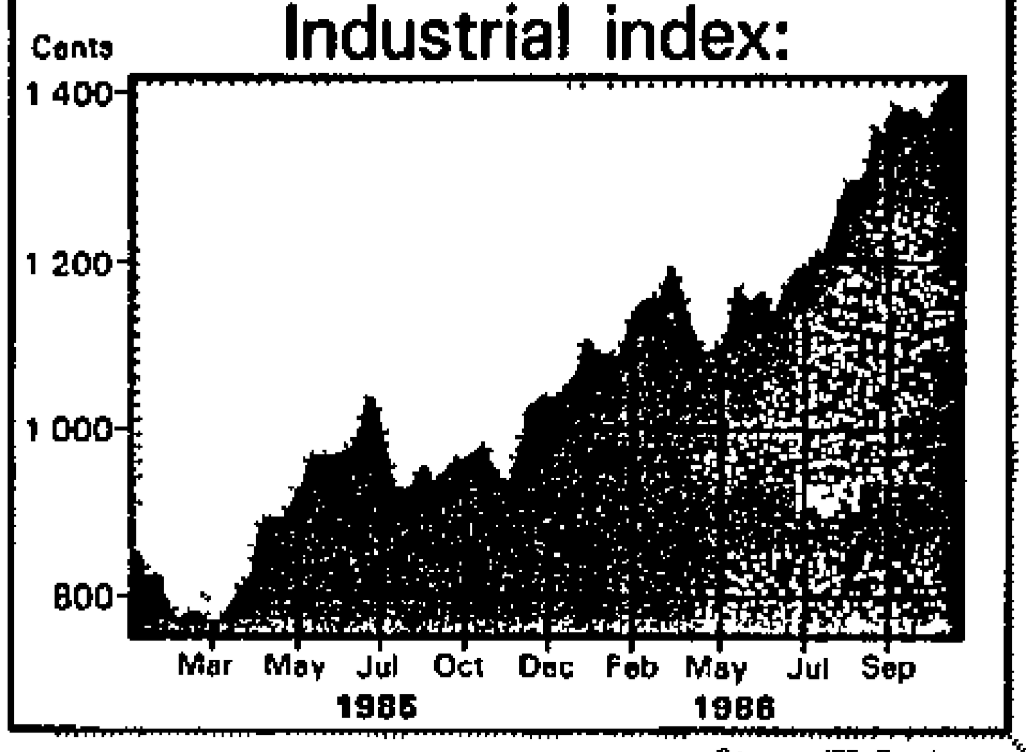
There were, of course, many reasons for profit improvements across such a diverse range of companies But two other events at mid-year provided unexpected and powerful fillips to profitability One, curiously, was the reimposition of the State of Emergency The other was the pick-up in the gold price, which had been almost dormant since dropping below $400/oz in late 1983

Whether or not such perceptions prove sustainable, there is little doubt that the renewed emergency helped quell visibly worsening civil disorder — and to reduce overall awareness of the problem The resulting stimulus to business and consumer confidence was a pivotal ingredient needed to nudge the economy forward again

Certain companies, particularly those which sell consumer products like furniture and semi-durables, noted an immediate improvement in sales to black areas after July Not only were customers again able to make their purchases, but payments could again be collected

Steady Ascent

Industrial index:



Source JSE Graphics

In the ensuing months, confidence was further boosted by the leap of the gold price from around $340/oz to well above $400/oz. It has since dropped below $380/oz but, for many South Africans, faith in the yellow metal has been restored (at least for now). For the economy, the price rise already seen will help to compensate for capital repayments to overseas creditors All of which brightens sentiment

But internal factors, such as rationalisations, recapitalisations and, simply, better management, have also been important — in many cases these were the real causes of turnarounds Rationalisations have involved takeovers and subsequent paring down of operations — or, more frequently, sales, closures or other drastic actions to deal with under-performing assets

Among groups which have been enjoying the benefits of such clean-ups are Dorbyl, Malbak, Safren, Saan, HLH, Tongaat, Abercom, Murray & Roberts, Reunert, and Darling & Hodgson These are only the more visible cases Throughout South African industry, managements have been forced to scrutinise their own efficiencies In more than a few cases, formerly respected executives (and some less respected ones) have shuffled off the stage, and not only because of retirement.

This is, of course, one compensation for such a long and deep recession Survival demands that a new level of fitness is infused into industrial corporations Cost structures have been reshaped and breakeven points widely reduced with, unhappily, considerable human cost — unemployment has ballooned But the potential for recovery and growth when an economic upturn does arrive is large Much of the preparatory work was done by the first half of this year

Balance sheets had also been strengthened

— 1985 will be remembered for the flood of rights issues, which collectively pumped more than R2 billion of new equity capital into listed companies These funds often went towards the repayment of interest-bearing debt

Some groups, such as Tedelex and Kanhym, had to be recapitalised through rights issues after the foreign exchange losses suffered in 1984 and 1985 For dozens of companies, simply the non-recurrence or the reduction of previous forex losses put an extra kick behind their latest profit figures These included Premier, Federale Volksbeleggings, Kohler, Sentrachem and Toyota

The more heartening 1986 profit figures must be seen in perspective They are being compared with the generally horrendous figures in the latter half of 1985 Thus, thanks partly to the return of consumer spending at mid-year, the SA Breweries (SAB) group companies interim earnings growth figures looked good this time. Amrel swung from a loss to earnings of 34c, Edgars raised earnings a share by 128%, Afcol by 107%, OK Bazaars by 17%, and SA Brews by 56% But, in the year-ago period, Amrel was down by 169%; Southern Sun by 93%, Afcol by 66%; OK by 46%, and Edgars by 39%.

On the whole, Barlow Rand industrial companies did not show earnings growth as strong as those under SAB's wing But a number of the Barlow companies showed resilience in the previous year, and, of course, SAB's directly consumer-orientated businesses are normally the first to benefit from an upturn in demand.

The continuation of more active spending should lead to restocking of inventories This means further profitability improvements could be in the pipeline for manufacturing and distribution companies — including those in the Barlow group, clothing, textile and furniture manufacturers, packaging suppliers, wholesalers and certain engineering and chemical companies, particularly AECI

Does all this indicate corporate profits are securely back on an uptrend? Analysts are hopeful They are also well aware that key determinants like private consumption expenditure — up by an annualised 4,5% in the third quarter — have often proved brittle For the present, though, conditions are propitious for a buoyant festive season Consumer confidence is much brighter compared to the depths of the second quarter, although more improvement is needed

Even with better activity, some sectors remain overshadowed by intense competitiveness In the retail sector, the "store wars" led to some less than impressive figures from the large chains, Pick 'n Pay, Checkers and OK Bazaars Competition in this market is expected to remain a drag on profits

This also applies in the food sector, where margins have remained thin A return of growth in fixed investment could be crucial for many companies whose fortunes are linked to this indicator Among these are construction and civil engineering-orientated groups like LTA, Murray & Roberts, and Group Five These, as well as firms like Dorbyl, Grinaker and E L Batemen, are still waiting for more substantive developments at Mossel Bay, on which major announcements were being hotly speculated a year ago

Reserve Bank Governor Gerhard de Kock noted at the recent *FM* Investment Conference that real gross domestic fixed investment was estimated to have shown a marginal increase during the third quarter of 1986

"If this marks the end of the persistent downward tendency in this strategically important component of total spending since early 1982," he said, "it is a most significant and welcome development" But will it be? Cynics would argue that capital will remain scarce, confidence is fickle, and the gold price has retreated

There is some point in holding reservations Both company profits and the economy need to do a lot of catching up after the past few years of stagnation Returns on assets remain low, interest cover is often still thin, and it is questionable whether borrowings have yet been wound down far enough Almost all JSE companies have reverted to the fifo method of stock valuation, inflation continues to undermine real growth

Yet, one of the most positive trends running through these profits is that pre-interest profit margins have begun to improve again. Apart from enjoying stronger sales, as Winston Floquet, research director at stockbroker Martin & Company notes, many companies have not been scared to raise prices once conditions eased

Floquet's view is that profits will show even greater improvement in the current six months He believes that prices of industrial shares already largely reflect the reported earnings and dividend growth, but the growth still to come should trigger further price increases — although at a lower rate than the expected dividend increases

"Present indications are that the rate of profit growth is going to increase for the next six months and then level out and begin to deteriorate, unless we're saved by the gold price," he adds But with gold fixed at $380/oz on Monday afternoon, analysts are talking rather cautiously about bullion again

Andrew McNulty

CORPORATE PROFITS: RELIEF AT LAST

Company		Reporting Period	Turnover Rm	Turnover % change on previous period	Operating Profit Rm	Operating Profit % change on previous period	Finance Charges Rm	Finance Charges % change on previous period	EPS c	EPS % change on previous period	DPS c	DPS % change on previous period
					INDUSTRIAL HOLDING							
Amic	I	Jun 30	1 466	32	190,7	65	50,4	5	193 0	50	55	—
AVI	P	Jun 30	2 401	19	191,6	11	35,7	4	242 0	15	50	9
Barlows	P	Sep 30	14 623	19	1 216,5	16	300,5	−11	212,3	29	80	14
BTR Dunlop	I	Jun 30	176	57	17 4	18	2 0	—	38,0	−25	29	—
CG Smith	P	Sep 30	7 237	17	478 2	13	105 7	−18	287 5	7	130	4
Cullinan	P	Jun 30	175	23	13 3	−4	2 9	−42	76 1	21	35	17
Curfin	P	Jun 30	—	—	17 9	−11	—	—	48 3	−16	35	—
Eureka	I	Aug 31	6	84	0,8	83	0,5	474	34,7	396	17	278
F-S Ind	P	Jun 30	165	67	18,7	38	●10 2	−5	24,0	229	6	200
HLH	I	Sep 30	125	19	21,7	22	1 0	−48	18,0	27	6,5	27
IICO	P	Jun 30	140	21	7,6	62	2 4	9	71,3	250	19,5	18
Ind & Com	P	Jun 30	97	24	5 9	16	1 3	8	218,0	35	85	—
Lucem	I	Sep 30	38	15	4,4	37	0,03	−99	5,7	307	1	—
Malbak	P	Aug 31	997	21	35,0	100	4,9	9	43,7	68	15	20
McPhail	I	Jun 30	29	23	0 6	—	—	—	0 8	−11	—	—
Messina	I	Jun 30	93	−10	4 5	73	5 4	−34	4 7	—	—	—
Micor	P	Jun 30	—	—	3 3	−13	—	—	10	−88	10	−62
Nictus	P	Jun 30	—	—	1,1	175	0,5	−44	6,06	−77	2,5	—
SA Bias	I	Jun 30	—	—	2,6	6	—	—	9,7	33	2,4	33

P = Preliminary I = Interim ● = Includes foreign exchange losses

Continued on page 40

Continued from page 39

Company		Reporting Period	Turnover Rm	Turnover % change on previous period	Operating Profit Rm	Operating Profit % change on previous period	Finance Charges Rm	Finance Charges % change on previous period	EPS c	EPS % change on previous period	DPS c	DPS % change on previous period
Safren	P	Jun 30	1 914	10	334 4	5	51,3	−34	177,0	35	88	16
Sinclair	P	Jun 30	21	50	2,6	18	0,6	—	30,8	25	10	25
T & N	I	Jun 30	59	23	5,8	9	1,3	−13	12,23	14	—	—
W & A	I	Jun 30	—	—	23,2	—	9,5	−49	88	—	25	—
BEVERAGES												
Kersaf	P	Jun 30	541	36	115,3	28	9,2	2	62,6	17	40	18
SA Brew	I	Sep 30	3 220	23	205,5	48	64,9	−2	30 3	56	12,5	25
Sunbop	P	Jun 30	168	17	36,4	22	7 6	30	28 9	8	20	5
Suncrush	P	Jun 30	136	14	19 3	10	1 2	−40	353,0	12	116	17
Suthsun	I	Sep 30	116	12	−1 3	—	5,0	−47	−8,5	—	—	—
BUILDING AND CONSTRUCTION												
A Alpha	I	Jun 30	161	4	37,5	2	17,1	37	28,3	−34	22	—
Blue Circle	I	Jun 30	146	−3	28,1	−7	12,7	−4	12 3	−41	—	—
Boumat	I	Sep 30	255	20	11,4	61	3,6	−40	20,0	700	14	−18
Concor	P	Jun 30	—	—	−9,3	—	—	—	−47,6	—	—	—
Everite	P	Jun 30	230	—	14,0	−58	2,5	67	24 8	−73	18	−70
Goldstein	P	Jun 30	260	−11	1,9	2 011	2 1	−38	2 1	—	—	—
Grinaker	P	Jun 30	457	9	15 9	−35	5 2	44	22,3	−42	9	−50
Group 5	I	Jun 30	202	−19	−9,7	—	1,3	−67	−71,8	—	—	—
Gypsum	P	Jun 30	—	—	9,9	−15	—	—	59,0	−17	22,5	—
PPC	P	Sep 30	408	25	91,1	1	4,8	529	116,1	−25	47	9
CHEMICALS												
AECI	I	Jun 30	1 308	21	141,0	33	37,0	−8	45,0	36	25	4
Chemsve	I	Jun 30	75	34	7,8	29	1 7	19	68,4	51	25	25
Farm-Ag	I	Aug 31	34	39	2,6	29	—	—	34,0	31	12	20
Plevans	P	Sep 30	352	34	29,6	40	4,2	20	53 5	42	25	67
Sasol	P	Jun 28	3 746	10	1 326 6	28	164 0	−26	102 3	15	45	15
Trek	I	Jun 30	338	7	7 2	−62	0,6	—	67,1	−12	25	67
CLOTHING												
Af & Over	P	Jun 30	—	—	9,6	−27	2,3	−55	140,6	—	25,5	—
Ensign	I	Jun 30	—	—	0,4	83	0,08	−12	20,0	43	5	—
Gubings	P	Jun 30	275	12	13,8	9	10,0	−6	148,5	36	35	17
Mooi River	I	Jun 30	17	15	2,1	10	—	—	21,7	−15	10	—
Ninan	I	Jun 30	—	—	1,3	32	0 3	−74	−5 0	—	—	—
Progress	I	Jun 30	15	40	1 4	234	0 3	−24	19 2	1 100	7	—
Rex True	P	Jun 30	—	—	9 2	−24	2 3	−54	140,6	−37	55	—
Romatex	P	Sep 30	490	13	34,2	56	7,0	−33	64,7	66	26	73
Seardel	P	Jun 30	374	6	19,4	−11	9,9	−29	84,1	24	16	33
Svenmill	P	Jun 30	27	19	2,1	13	1,2	−27	4,9	104	—	—
ELECTRONICS												
Aberdare	I	Jun 30	122	45	6,2	110	—	—	26,8	80	12,5	67
Af Cable	P	Jul 31	91	14	8,6	—	0,07	−95	19,93	—	12	—
Altech	I	Aug 31	300	39	51 7	22	2,4	−15	276 5	26	—	—
Altron	I	Aug 31	624	32	70 1	16	5,3	18	112,4	20	—	—
Asea	I	Aug 31	227	32	9,1	25	1,5	−31	16,9	−14	—	—
Computermatic	I	Aug 31	26	−12	3,1	34	0,4	29	12,9	30	5	—
Delta	I	Jun 30	—	—	4,3	63	—	—	28,9	38	9	50
Elcentre	I	Aug 31	37	−3	3,1	12	0,8	−42	6,9	44	4	—
HJ Cable	P	Jun 30	—	—	0,7	−10	—	—	9,3	3	4,5	—
Powtech	I	Aug 31	325	26	16,0	3	3 5	−27	4 3	—	—	—
Reunert	P	Sep 30	922	12	23,7	−53	20 2	−34	—	—	—	—
SPL	I	Aug 31	13	38	2 2	38	0 1	—	6 9	—	2,8	—
ENGINEERING												
Abercom	P	Jun 30	279	36	16,4	23	3,1	182	58	9	15	25
Berzack	P	Jun 30	—	—	13,4	51	5,5	−7	340,3	41	50	47
Cemenco	P	Sep 30	241	59	13,4	74	6,3	232	44,6	−23	22	−12
Claude Neon	P	Jun 30	—	—	5,6	−2	0,4	33	46,2	−3	22,5	—
Davgra	I	Aug 31	—	—	0,9	80	—	—	8,9	141	—	—
Dorbyl	I	Sep 30	1 544	9	87,1	26	22,9	−33	161 2	162	55	38
GIC	I	Sep 30	21	22	1 9	850	0 2	−67	42	—	20	—
Globe	P	Jun 30	—	—	1 4	100	0 7	−30	93	−7	55	—
Haggie	I	Jun 30	335	18	47 3	15	0,7	600	110	9	25	—
Natl Bolts	P	Jun 30	113	69	13,8	44	7,1	−13	95,1	2403	—	—
Natl Trad	I	Jun 30	103	12	4,4	529	1,0	−57	40,7	—	10	—
NEI	I	Jun 30	141	6	16,3	18	3,3	—	136,6	8	41	413
Steelmetal	P	Jun 30	55	6	5,1	9	2,1	31	46	−22	15	−25
Std Brass	I	Jun 30	—	—	0,4	100	—	—	11,1	71	—	—
FISHING												
Wilbarz	P	Jun 30	5	74	2,1	−5	0,1	—	20	—	7	—

P = Preliminary   I = Interim   ● = includes foreign exchange losses

Continued on page 44

Continued from page 40

Company		Reporting Period	Turnover Rm	Turnover % change on previous period	Operating Profit Rm	Operating Profit % change on previous period	Finance Charges Rm	Finance Charges % change on previous period	EPS c	EPS % change on previous period	DPS c	DPS % change on previous period
FOOD												
Becketts	P	Jun 30	167	21	20 5	27	0 2	100	152	52	60	50
Cadswep	I	Jun 30	59	8	3 4	−31	1 6	−24	48,2	12	15	—
CGS Food	P	Sep 30	4 951	23	263,6	12	65,5	−9	97,5	10	40	8
Fedfood	P	Sep 30	511	14	29,3	−1	13,3	−6	34	−3	10	−17
ICS	P	Sep 30	1 367	8	19,1	−33	12,7	−3	30,2	−41	15	−25
I & J	P	Jun 30	612	18	37,2	11	3,6	24	72	7	26	4
Jabula	I	Sep 30	17	13	0,2	900	—	—	15,1	788	—	—
Kanhym	P	Jun 30	238	7	6,0	−42	5,6	−71	0,1	—	—	—
Premier Group	I	Sep 30	1 329	16	71,7	15	33,0	−24	70,3	69	36,0	13
Tig Oats	P	Sep 30	3 513	26	188,7	20	15,0	−13	775	12	270	17
FURNITURE AND HOUSEHOLD												
Afcol	I	Sep 30	192	32	10 2	52	3 6	−12	38 2	107	19,5	105
Amrel	I	Sep 30	294	27	5,9	—	—	—	34	—	11	—
Bradlows	P	Jun 30	—	—	0,5	—	0,9	−53	−13	—	—	—
Ellerine	I	Jun 30	119	30	11,0	75	2,1	−5	79,0	104	19	111
Tedelex	I	Jun 30	241	32	17,1	138	10,5	−66	0,47	—	—	—
World	I	Jun 30	—	—	2,3	2 200	0,9	−72	10,1	—	—	—
MOTOR												
Curries	P	Jun 30	—	—	5,1	—	—	—	106	−12	75	—
Gentyre	I	Jun 30	144	18	10,3	−7	2,7	−25	35	3	7	40
McCarthy	P	Jun 30	1 019	18	24 3	−11	7,2	−3	60,7	0,2	25	—
Metair	I	Jun 30	—	—	3 1	−60	—	—	41	109	—	—
Porter	P	Jun 30	—	—	3,3	230	—	—	39,2	−36	13	17
Saficon	I	Sep 30	256	30	10,4	259	—	—	64,3	—	12	—
Toyota	I	Jun 30	—	—	24,3	3	17,1	2	186,8	—	—	—
PAPER AND PACKAGING												
Carlcor	I	Jun 30	92	9	6,5	−36	2,1	−5	15,2	−46	8	−43
Coates	I	Jun 30	24	−20	—	—	0,3	50	26,6	−11	—	—
Consol	P	Jun 30	403	34	49,2	11	8,9	44	404	−6	150	—
Haddons	I	Jun 30	—	—	8,2	39	1,8	13	96,7	28	30	11
Kohler	I	Jun 30	217	23	13,5	265	5,7	−51	47,1	—	10	—
Metalco	I	Jun 30	31	19	3,8	15	0,5	25	83,8	0,2	2,3	−15
Nampak	P	Sep 30	1 734	21	181,7	28	30,7	−22	174	22	79	13
Sappi	I	Jun 30	461	24	65,1	16	36,4	−45	26,2	—	—	—
PHARMACEUTICALS												
General Optical	P	Jun 30	—	—	1 7	89	—	—	78	90	24	33
STEEL AND ALLIED												
Hiveld	I	Jun 30	378	24	40,1	112	—	—	42,4	57	10	25
Union Steel	P	Sep 30	—	—	16,5	931	—	—	−28,6	—	—	—
Verref	I	Sep 30	86	18	8,1	25	0,5	525	76,7	15	21	5
RETAILERS & WHOLESALERS												
Boymans	I	Jun 30	22	7	0,9	29	0,4	33	5,4	23	—	—
Cashbuild	P	Jun 28	88	47	3,9	39	—	—	8,3	30	—	—
Clicks	P	Jun 30	188	18	13 5	11	—	—	34,7	12	15,85	11
CNA Gallo	I	Sep 30	148	11	4 8	26	1,3	−46	9 8	250	4	—
Edgars	I	Sep 27	423	24	41,3	67	6,3	−36	853	128	215	72
Fablibe	P	Jun 30	20	8	1,8	29	0,3	−25	6,9	—	—	—
Foschini	I	Jun 30	—	—	8,8	26	—	—	—	—	175	4
Garlicks	P	Jun 30	87	11	5,1	−20	0,5	—	75	−31	44	—
Housewares	I	Jun 30	—	—	1,7	113	0,1	11	3,6	112	—	—
Metro	P	Jun 28	1 283	26	—	—	—	—	26,3	33	—	—
OK	I	Sep 30	1 104	15	9,3	6	—	—	35	17	21	17
Pick 'n Pay	I	Aug 31	1 132	11	26,8	14	—	—	77,3	13	24	12
Spitz	P	May 31	28 1	—	−0,09	—	—	—	−7	—	—	—
Tradegro	P	Jun 30	3 709	26	6 7	−88	49,6	−29	−37,4	—	—	—
TOBACCO												
Utico	I	Jun 30	98	14	8,1	72	1,9	−34	51,9	136	12	71
TRANSPORT												
Mobile	P	Jun 30	—	—	2 7	29	—	—	67,5	23	60	20
Tollgate	P	Jun 30	127	18	18,2	27	—	—	28,6	59	20	33
Trencor	P	Jun 30	277	21	23,4	46	—	—	1 100	45	210	20
SUGAR												
Tongaat	P	Sep 30	1 038	10	85,5	35	38 4	−40	34,8	610	10	233
DEV CAPITAL												
Commercial Finance	I	Jun 30	—	—	0,7	—	—	—	11,7	95	—	—

P = Preliminary I = Interim ● = Includes foreign exchange losses

FIN MAIL

INFLATION 28/11/86 (153)

Stomach ache

Food, comprising a quarter of the consumer price index (CPI), continues to eat into consumers' pockets In October, food prices increased by 2,8%, bringing the year-on-year increase to 23,2%

This compares to the overall year-on-year October CPI increase of 19,2%, down from from September's 19,7%. The index increased by 1,1% to 239,3

Central Statistical Services says that food prices have not risen at such a rate since early 1981. The difference, of course, was that SA was then in a mini-boom

In contrast, demand is now weak Competition among retailers is "tough " So why the strong upward thrust in food prices?

SA Agricultural Union chief economist Koos du Toit calculates that "at the farm level, price increases over the past decade are much more moderate than retail price rises " He explains that this is a result of attempts, at retail level, to recover losses and maintain turnover in rand terms in a market where volumes have been declining as a result of prolonged recessionary conditions

The major food price rise is meat It has a CPI weighting of over 9% That it rose by 33% in October year-on-year was a major reason behind the boost in the CPI

Du Toit explains that this is because of "a decreasing supply of animals to the market as a result of the drought and bad debts " Ironically, rain is an aggravating factor, as farmers are more likely to replenish herds than make further sales

Grain and fruit were the other major items behind the inflation rate On the other hand, prices of fats and oils, eggs, and fish declined over the month by between 0,4%-4%

Premier's Peter Wrighton, whose company is one of the four large food manufacturers (the others are Fedfood, Tiger Oats and Tongaat), blames food price rises primarily on maize. The millers' price will have risen 32% by the end of the year "The more maize produced, the greater the exports and the larger the losses, since maize is exported at a loss This loss is carried by consumers and impacts significantly on many other food products, even meat, chicken and eggs "

Wholesale red meat prices, however, are not up by as much as the CPI Food processors face "pitiful profitability and a trading level only 15% up "

Nampo CE Piet Gous cites the maize millers' contract "They cannot compete with one another The free market is not working " He reckons "farmers get 31% less for their maize than consumers pay — and the gap between input costs and output prices is widening "

Price fixing

Du Toit concedes that price fixing on the basis of average cost of production has contributed to the problem, although he believes there is a move away from this

At the retail level — where Checkers, Pick 'n Pay and OK Bazaars dominate — Checkers MD Clive Weil quotes research showing that grocery prices increased by an average 14% over the past year "The major chains were below this, with little price difference between them "

Food accounted for some 80% of the 1,1% monthly increase in CPI The rest comprises housing, recreation and entertainment (thanks to a 30% increase in TV licence fees), cigarettes and tobacco

Leon Steenkamp, of stockbrokers Senekal Mouton & Kitshoff, sees inflation back above 20% next month "Then it should drop before accelerating again from around March, especially if economic recovery is sustained "

Weil is no more optimistic "From present conditions and listening to manufacturers, I see no drop for the future "

Tradegro's Mervyn King expects an ease "only when volumes are up "

Du Toit notes that it takes time to replenish animal stocks, especially cattle, where the reproduction cycle is lengthy So he does not expect much easing in the rate of meat price increases, "especially during the coming festive season "

More optimistic is Rand Merchant Bank economist Rudolf Gouws "After three large monthly jumps, CPI seems to be levelling off " He does not see the inflation rate breaking January's record 20,7%

"It should be lower earlier next year and then rise to average 17%-17,5% for the year "

Gouws says there are no precedents to assess the time lag of the rand's appreciation on the inflation rate The currency's mid-year appreciation has clearly had little impact so far

The Reserve Bank does, however, now have sufficient reserves to maintain the rand at present levels which should, Gouws says, "ensure that the currency will not be as inflationary a factor next year " ■

ARGUS 2/12/86 153

BUSINESS

ECONOMY

Inflation: Experts divided on the prospects for 1987

Finance Editor

THE implications of South Africa's inflation rate (currently 19,2 percent but showing slight signs of declining) and ways of reducing it seems with some justification to dominate the thinking of many of the country's economists at the present time

However, there is an old saying that when you get two economists together you get three opinions, so it is understandable that their views on the subject show some divergence

One economist who believes that inflation is South Africa will get worse is Professor Geert de Wet of the Rand Afrikaans University He has been heading an Afrikaanse Handelsinstituut committee investigating inflation and has come up with some frightening findings.

In a statement last night he warned that the inflation rate could rise to between 20 percent and 30 percent if the private and public sectors did not make an all out effort to fight it.

He said that one of the major factors causing inflation was salary and wage payments growing faster than productivity, and suggested that the state and the mining sector should set an example by freezing salary and wages increaes.

Economists at Barclays Bank are also concerned about the high rate of inflation However, they do see a little bit of light at the end of the tunnel.

Writing in the latest issue of Barclays Business Briefs they say that inflation showed every sign of remaining high and predicted that next year there would be further increases in food prices, in prices of other goods as the private sector took advantage of the upturn in business to increase its profits margins and also and invitably in administered prices.

But they are not completely negative on inflation as they comment somewhat ponderously. "There remains hope that there will eventually be a subsidence of inflation once this string of unmitigated disasters has been fully absorbed, although it is unlikely that there will be an early resolution".

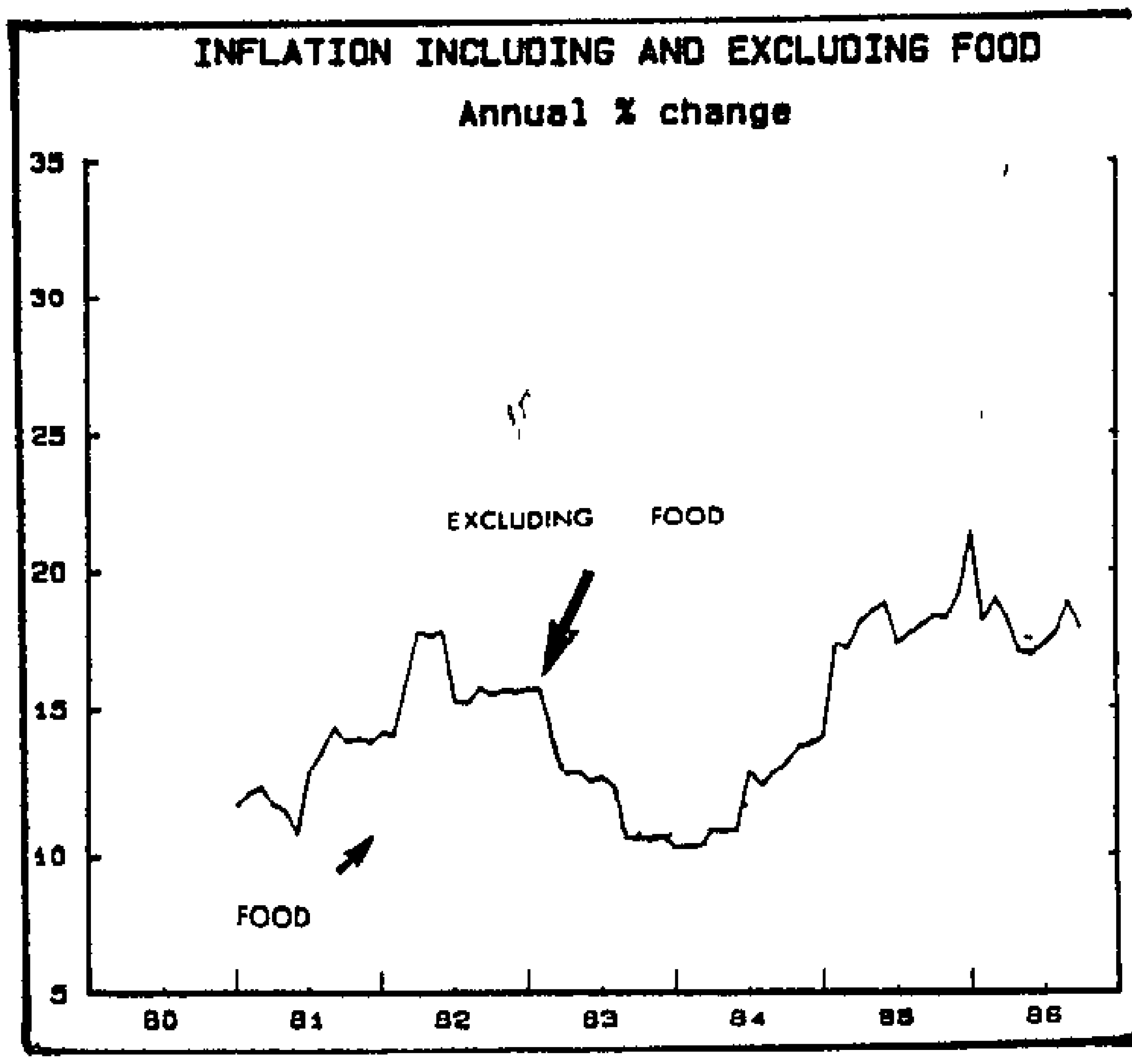
It is therefore something of a comfort to find two economists at Mathison and Hollidge, Mr David Roche-Kelly and Dr David Rees being rather more positive.

"We remain convinced that inflation will continue on a downward path in 1987," they confidently state in the company's latest inflation monitor

"The effect of the rand depreciation in June, this year, has worked its way through as far as producer prices are concerned, while the positive effect of the September appreciation has yet to make itself felt"

They are sticking their necks out by forecasting only a 1,1 percent increase in November's consumer price index which is about the same as in October If their forecast is right it means that at least for these two months the annual inflation rate would have dropped to under 14 percent

They expect food prices to rise further this year owing to the normal Christmas influences. But by the end of January they expect the year-on-year increase in the consumer price index to have droppped to around 17 percent



Year-on-year inflation excluding food is at 17,8 percent while for food prices it is 23,2 percent.

Economist predicts improved SA growth

STA

Fou

Hea

3/12/86

STAR

153

Inflation expected to remain high in 1987

Phc

Pr

Me

R

U

A

By Gareth Costa

The South African economy faces a mixed bag of forces next year, and although many will be conflicting they will result in real gross domestic product growth of three to four percent, says Frankel Kruger economist Gill Raine

In her economic review, Raine says the bad news is that inflation will continue to be high and that current growth improvement is more consumption than investment-based

Sanctions and a continued high rate of government intervention in the economy are also a negative factor

Her analysis of the economy is against a background of gold rising to around $500 an ounce by the end of 1987, and oil prices rising to an average of $18 a barrel for the year The rand will remain vulnerable due to a high relative inflation rate, with a depreciation of about 22 percent against the Deutschmark

Real growth in GDP is forecast at one percent in 1986, which should increase in 1987 due to the rise in consumption expenditure, both private and government, and the increase in investment

"Unlike previous expansions, direction cannot be taken from exports due to sanctions pressure on exports excluding gold. It would seem to be based on consumption, similar to the 1983 mini-boom " Raine says that there is concern about sustaining the growth in 1988

Real gross domestic expenditure is expected to rise by seven percent in 1986 and by six percent in 1987, after falling by 8,3 percent in 1985.

Consumption demand

The third quarter of 1986 is set to show a sharp increase of about 26 percent due to strong consumption particularly in durables

"Inventory restocking has has also taken place and consumption expenditure by general government has risen seven percent in real terms in the second quarter of 1986 "

Consumption demand should be credit-based, due to the fact that since the second quarter of this year consumers have been "reliquifying" their balance sheets and are in a position to take on more debt.

Raine says gross domestic fixed investment should turn into positive growth in 1987 after five years of decline, with 1986 showing an eight percent fall

"The expected repeal of the initial investment allowance will mean rapid growth in the fourth quarter of 1986 and the first quarter of 1987 before the end of the tax year "

The biggest components of the consumer price index (CPI), and thus inflation, are food at 25 percent, housing at 17,6 percent and transport at 15 percent

"Housing is expected to decline in 1987 as mortgage rates fall, but transport will rise due to the weak rand and the parity pricing of petrol plus the imported components of vehicles for which there is no domestic substitute

ty

"Grain products, meat and milk all suffer from the control board syndrome and ineffecient pricing, so cost pressures will maintain price momentum. Fuel and power will also rise with the Escom tariff increases."

In real terms, exports are expected to decline some three percent in 1987 because of of sanctions on iron and steel, coal and agricultural exports "Due to domestic revival and the importation of heavy equipment, imports are expected to rise about six percent after showing negative growth of three percent in 1986," says Raine

She predicts a rand dollar exchange rate average of $0,39 for 1987.

"Theoretically, the exchange rate is determined by capital flows and interest rate parity. However with the dual exchange rate, the financial rand is determined by capital flows and the commercial rand by service and trade flows. Thus purchasing price parity becomes the relevant theoretical tool.

"On this basis, relative inflation rates and any physical trade restrictions determine the value of the domestic currency — hence the expectation of the decline in the rand against the weakening dollar, and against the Deutschmark, yen and sterling "

Raine expects a cut in the prime interest rate by the end of the year, which could be followed by a further cut early in 1987 if the economy still appears sluggish

However, "once credit demand picks up the authorities will be forced to push up the bank rate to curb money supply growth in mid-1987, so by year end prime is forecast at 16 percent".

4/12/86 STAR

153

Construction inflation 'will rocket'

By Frank Jeans

Price inflation in construction will rocket by 30 to 50 percent when conditions improve in an industry which has been hit hard by recession and a shrinking workload for the past four years.

This was the consensus at a media lunch of the South African Federation of Civil Engineering Contractors (Safcec) in Johannesburg yesterday.

Aggravating the plight of the "civils" business has been what one construction leader described as the "build-up of public work units to the detriment of the private contractor".

Brian Hackney

Mr Brian Hackney, vice-president of the federation, said "When the industry shrunk these government departments kept their units intact, consquently leaving us an ever-diminishing portion of the construction cake," he said

"In 1976 the civil engineering industry employed about 135 000 people. By 1985, the workforce had dropped to 90 000 and by August this year the total was 83 000."

To illustrate the decline in work volumes and margins, Mr Hackney said that in 1976, investment in civil engineering was R4,4 billion and from 1980 to last year, the figure had shrunk to R2,7 billion

While construction men are hesitant to say whether the downturn is bottoming out, the total volume of work to be undertaken during the current year is estimated at R2,7 billion which, in monetary terms, is only 2 percent up on the previous year.

"With a current inflation rate of at least 15 percent in the industry, the total amount of work by contractors during the year will further decrease in real terms by about 10 percent," said Mr Hackney

He said the future of the contracting industry was being built on a "precarious platform, and he saw little relief in the round of retrenchments, insolvencies and far from satisfactory company results

On the brighter side, though, given a more stable economic base, there are big projects down the line, such as the Lesotho Highlands Water Scheme, and the Mossel Bay and Synfuels ventures.

Mr Con Roux, immediate past president of Safcec, called for a greater involvement by private enterprise in the economy

Mr Roux said: "South Africa has now reached the stage in its development which demands changes in the way in which work is carried out with accompanying decrease in public sector participation in the economy

"Work undertaken by public sector bodies represents the ultimate in monopolies, since the elements of profit and fair competition are entirely absent."

FIN MAIL 5/12/86 X

INFLATION 152

A retiring nightmare

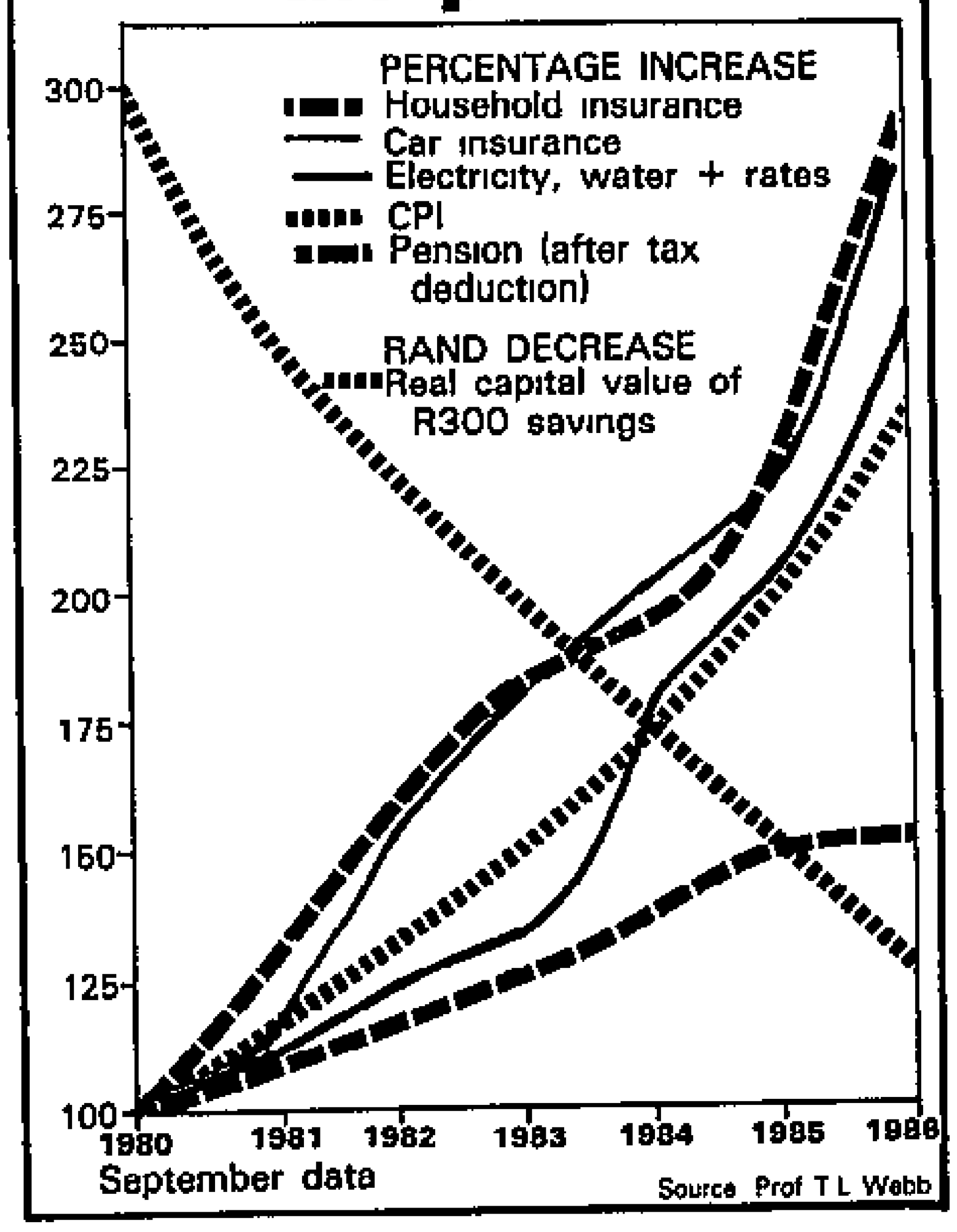
The experiences of an erudite professor may serve as a microcosm of the general disease afflicting SA — inflation After retiring on a fixed income, he collated personal financial statistics, as reflected in the accompanying graph. This shows how his pension and savings have been battered, while general living expenses have rocketed.

The professor quotes John Maynard Keynes on Lenin "There is no subtler, nor surer means of overturning the existing basis of society than to debauch the currency." Classified as a senior public-sector employee, he retired in 1980, in time to experience the effects of "uncontrolled inflation"

Since then, despite adjustments, his pension has depreciated by 62% against the CPI. If expenses such as household insurance, domestic electricity, water and rates are taken into account, his pension has halved in value During the past year alone, expenses increased 15 times more than his pension.

Moreover, R300 worth of "real" money — savings made by "self-denial and frugal living prior to 1980," as he puts it — has depreciated to just R125, and will be worth R30 in six years' time Not surprisingly, perhaps, he describes the decline in value of his savings and pension as common theft

How inflation hits the pocket



He says the facts depicted in the graph "foreshadow a grim future, characterised by a worsening and dehumanising decrease in living standards, and culminating in being inexorably forced into a dismal, cold and traumatic dive below the breadline."

The professor quotes Theodore White "Inflation is the threat that disorganised government always holds over those who try to plan, to save and to be prudent"

Experience in leading industrial countries shows that it is patently possible to control inflation SA could control inflation "if there were more real collaboration between the public and the private sectors, rather than posturing and lip-service," he says

This could be aimed at, for example, better resource utilisation, upgrading of training and education, creating more and better job opportunities, improving productivity and selectively reducing government expenditure ■

153

Inflation may hamper the consumer boost

STEPHEN ROGERS

ECONOMISTS are looking to an upsurge in consumer expenditure to strengthen the present economic recovery. However, high levels of inflation in some sectors of the economy may result in any additional expenditure having a minimal effect on real economic activity in the short-term

With excess capacity restricting the revival of investment in the private corporate sector, and the government deficit insufficient to compensate for this lack of demand, many economists believe that it will be up to the household sector to provide the growth stimulus to the economy through higher spending

"In the absence of any foreseeable growth in the government and private corporate sectors, the onus will be on the household sector to boost demand through higher expenditure," said Ulrich Joubert of Trust Bank.

However, this increase is likely to be financed through higher borrowings rather than personal savings

Borrowings

Declining disposable income and erosion of savings to preserve living standards has resulted in savings, as a percentage of disposable income, remaining too low to fund deferred demand when confidence returns.

Higher expenditure, therefore, must be financed by consumers resorting to borrowings

Bankers say that consumers mainly borrow to finance purchases in four areas motor vehicles; home improvements, travel, and white and brown goods.

However, two of these sectors — motor vehicles and white and brown goods — have been subject to inflation rates far in excess of the present consumer price index

Prices of new cars have soared 31% this year, while white and brown goods prices have risen about 25% and 35% respectively.

This means that any increased expenditure that is channelled into these areas will initially finance these high price increases instead of creating any real growth

Car sales are expected to increase by only 5,6% to 190 000 units next year and by 5,3% to 200 000 units in 1988 before declining again. Sales volumes of white and brown goods are predicted to rise by less than 5% in 1987.

The high level of inflation in these sectors — if spending is directed in their direction — will also reduce the potential income available for other sectors

Furthermore, it will distort the perceived effect of an increase in consumer borrowing and consequent spending on the level of economic activity.

If consumer borrowing is to create real growth, it will have to increase by a sufficient amount to overcome the inflation levels in these sectors.

There is a considerable amount of pent-up demand in the economy, which should stimulate spending Also, consumers have already reduced their level of hire purchase debt, thereby increasing their ability to take on new debt.

Negating these factors, however, is consumer reluctance to incur high levels of debt.

But economists believe that borrowing will increase sufficiently to create real growth

Rob Lee of Old Mutual says this will be dependent on certain conditions prevailing in the new year.

Real growth

These include real growth in wages and salaries; allowance for fiscal drag in the budget, increase in the level of employment and a reasonable level of confidence.

"If these conditions exist next year, consumer borrowing should increase sufficiently to create real growth in these sectors," he said.

Nonetheless, the disparities in levels of sectoral inflation will still constrain the initial effect of higher spending on economic activity

Adcock out to beat inflation

153

SUNTIMES 7/12/86

By Dave Edwards

PHARMACEUTICAL gladiator Adcock-Ingram is looking to continued growth in 1987

Executive chairman Norman Nossel says in the report for the year to September that he expects good results in 1987 in spite of the uncertain economic and political climate

In the past year Adcock acquired the remaining 40% of Sabax, which makes and markets a diversified range of therapeutic medical-care products

Sabax is now a fully owned subsidiary of Adcock

Mr Nossel expects Sabax to have a beneficial effect on the group's earnings Adcock should maintain a growth rate in accordance with long-term strategic objectives, which are

- Earnings increasing by at least 4% more than the rate of inflation
- To expand the base through growth and acquisitions

Tax took a much bigger portion of profits in the past year than before, increasing by 42% to R12,5-million

As a result the increase in group income was reduced to 23% With outside shareholders taking a greater share of profits, ordinary shareholders were left with R11-million, or 585c a share — up 17% from last year's 501c

Mr Nossel says the nine-week strike at the company's plant in March this year was satisfactorily resolved "through constructive discussions conducted in a cordial manner"

"Continual interaction and constructive meetings held with the shop stewards and workers had made the sociological environment in the company an important part of the culture of the workers"

7/12/86
SUN.TIMES

153

Appliances to cost 17% more in 1987

THE weak rand and inflation are set to boost the price of domestic appliances and home entertainment equipment by between 5% and 17% in the new year.

A stove, now selling for R1 249, will cost R1 349 compared with only R1 175 six months ago A 51cm colour television set, which cost R1 599 in the middle of the year and now sells for R1 999, will be priced at R2 149 early in January.

Yen and mark

Mike Bosworth, managing director of the R350-million Tek group, says the increases will be caused not only by inflation now running 19%, but by the rand's weakness against the yen and mark

"These currencies have strengthened considerably against the dollar Although the rand-dollar exchange rate is steady, the cross rate between the rand and the yen and mark has weakened"

In an effort to prevent prices from rising too fast, Tek intends to increase SA content in its refrigerators, stoves, television sets and audio equipment

Some Telefunken TV sets have a local content as low as 20%, but once additional expenditure of R1-million for production of components has been completed, it could rise to 50%

By Don Robertson

The East London factory was modernised towards the end of 1984 at a cost of R8-million Production costs have fallen as a result

Mr Bosworth says 'Another example of our determination to hold prices is illustrated by the introduction of the Defy Duette refrigerator/freezer It is the first SA-made side-by-side unit with a four-star rating It will retail, depending on the model, at about R2 000 compared with similar imports which cost about R5 000"

The Duette was launched in the middle of November and its success has forced the East London plant to operate a double shift six days a week The company is producing 150 Duettes a day and hopes to turn out 200 soon It is expected that the double shift will be maintained

Mr Bosworth says Tek will look for other opportunities next year of keeping prices stable But inflation and the dependence on imported goods will mean price increases

A major imported item in TV manufacture is the tube, but because of the small numbers required for the SA market, it is not profitable to make them here

Tek sources tubes from various countries, sometimes at premium prices, in order to maintain supplies The company will introduce a new model next year and it will incorporate a square tube which offers better styling possibilities and a wider viewing surface

David Smith, general manager of Tek Refrigeration, says that rationalisation is essential if the industry is to survive

"Because of the limited size of the market, rationalisation must happen or one of the big three — Tek, Barlows and Katz International — will have to go"

7/12/86 · SUN TIMES

153

Red meat, chickens and toiletries lead price rises

By Don Robertson

EFFORTS by food chains to hold down prices have been thwarted by increases in the cost of red meat, chicken and toiletry.

The good news is there are unlikely to be any further increases until after Christmas.

The consumer-price index rose by 19,2% on an annual basis in October.

However, the food index soared to 23,2% on a yearly basis, or by 2,8% in October alone. This compares with a 1,6% increase in September

The big chain stores are holding prices on their own products, but other goods cost more

Hugh Herman, managing director of Pick 'n Pay, says the rise in the food index was almost entirely due to higher prices for dry goods, such as detergents and toiletries.

A major factor has been the higher cost of imported packaging material because of the weaker rand.

Red-meat and chicken prices also rose in October, although they have been fairly stable for most of the year The October increase resulted largely from seasonal demand and drought which initially encouraged heavy slaughtering and a consequent shortage

Poultry prices have increased in sympathy with meat prices.

Mr Herman says: "However, Christmas prices are likely to be below those in October and remain there until January."

Pick 'n Pay's gross margins have not increased in the past few years, says Mr Herman

Gordon Hood, managing director of OK Bazaars, agrees that the major increase came in dry goods

Tea has risen by about 5% this year, but coffee is 50% more expensive. Canned foods and fresh vegetables also cost more because exports caused a shortage on the SAmarket.

Biscuits have risen in price, and sweets cost more because of the need to import cocoa butter.

Clive Weil, managing director of Checkers is more pessimistic, saying: "Meat prices, which are a big component of the index, have gone through the roof and they could rise again before Christmas We are living in a world of inflation and I don't see prices falling "

"We generally refuse to accept price increases in November because of the large trade at Christmas. But a large number of price increases can be expected in January and February."

Fruit and vegetable prices have taken off and potatoes now cost twice as much as a year ago

8/12/86 BUS DAY

153

New Year will ring in many price hikes ranging from 8-60%

Industrial Staff

SUPERMARKET chains are ready to abandon their price freeze of the last six months.

New Year shoppers will be greeted by price hikes of between 8% and 12% on many food and toilet items. Certain articles will rise by up to 60%.

Supermarket executives are playing down the significance of the increases, saying they are always expected in the new year when manufacturers review prices.

Products with higher price tags will include processed meats, detergents, tea, coffee, paperware, milk by-products, frozen vegetables and toiletries. At the top of the scale, nuts and peanut butter will rise by 60%.

A Spar spokesman says consumers should expect to see many psychological price barriers broken.

Retailers blame rising costs for labour, transport and packaging for the increases

A Consumer Council spokesman says the council is monitoring the situation.

He said: "The price hikes will have a tremendous ripple effect throughout the economy. Consumers can expect to be hit hard. We are awaiting the increases with trepidation."

Housewives' League national president Lyn Morris says the whole price freeze issue is being watched.

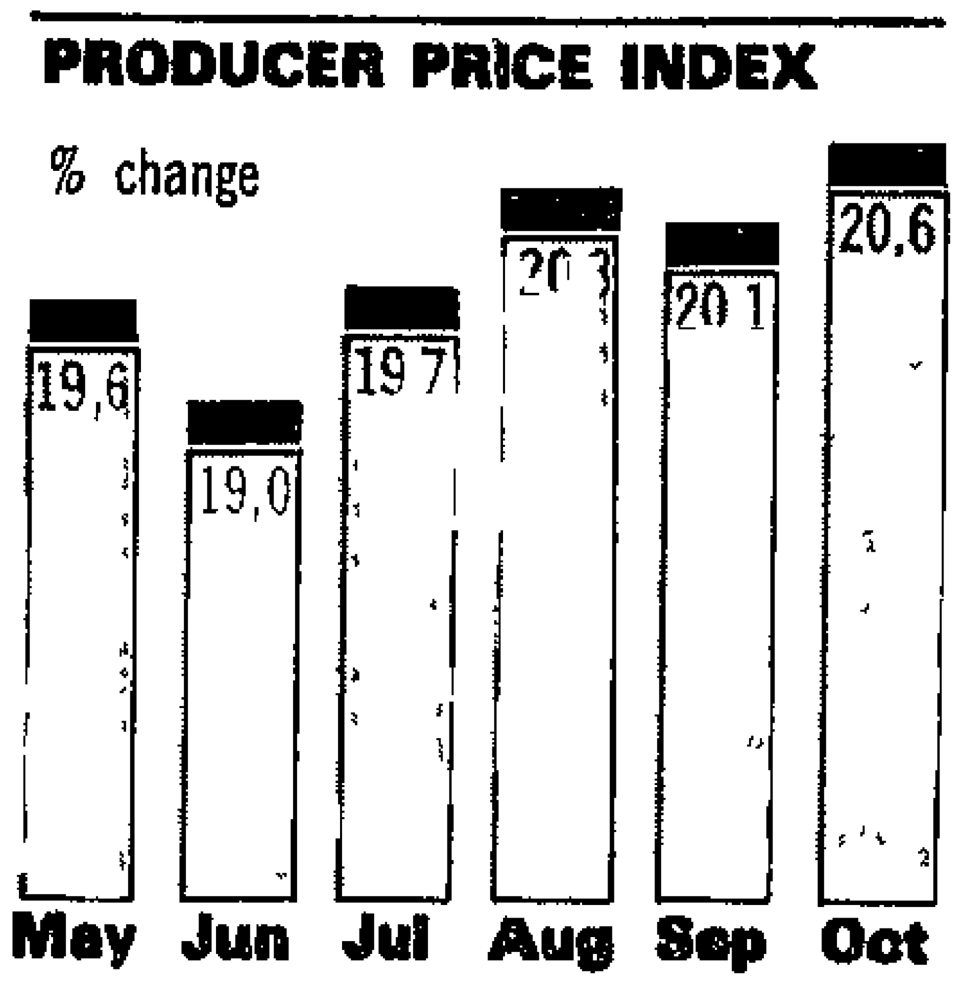
She said: "We would be surprised if there weren't sharp increases."

A survey of supermarket chains turned up — with some variations — these increases. detergents (12%), wine (16%-18%), tea and coffee (8%), paperware (10%), processed meat (12%), sugar (8%-14%), frozen vegetables (10%), cheese and milk by-products (8%-14%), toiletries (8%-10%), artificial sweeteners (20%), and shoe and furniture polish (10%).

A Checkers' spokesman said: "We expect price increases in January but it does not necessarily follow we accept every increase." Next year's price jumps come on the heels of a 21% average rise in all food and grocery products during 1986.

A C Nielsen's market research figures for the grocery industry are confidential. But a spokesman says retailers are "doing their damnedest to hold prices down. The margins are tight".

BUSDAY (153) 9/12/86.



Inflation likely to rise

STEPHEN ROGERS

PRODUCER price inflation rose to 20,6% in October and the consumer price index could feel the pressure in months to come

The all-items producer price index (PPI) rose to 226,8 (base 100 equals 1980) from 188,1 in October last year

The monthly rate of increase at 2,2% is the largest since November last year, when it reached 4,2%.

Producer-price increases continue to be driven by import prices through the recent depreciation of the rand The imported component of the index increased at an annualised rate of 22,4%.

The imported commodities index increased to 235,7 from 229,6 in September, giving a monthly rate increase of 2,7%

Prices of local commodities rose at a slower rate to 20% in October The local commodities index increased to 224,2 from 219,7 the previous month, giving a lower rate of monthly increase of 2%.

FIN MAIL 12/12/86

153

NATAL BUILDING SOCIETY

Following United

Capitalising on the euphoria surrounding the United (UBS) listing, Natal Building Society (NBS) — by assets, the fourth-biggest building society — has decided to accelerate its JSE debut by five months

In going for a listing on April 8, NBS has taken more than a leaf out of UBS's book Its listing is virtually a carbon copy of big brother UBS — right down to the R2 offer price, minimum allocation and retrospective cut-off point for qualifying depositors

Though not constrained to follow UBS, NBS GM John Bennett points out the Registrar agreed the form for the UBS listing

The company to be listed, NBS Holdings, is looking for share capital of R120m Shares will be issued to depositors registered on May 31 this year in a ratio to deposits of 16% (against UBS's 20%), subject to a minimum of 100 shares A further requirement is that a minimum balance of R1 250 is maintained in the qualifying paid-up, fixed period and subscription shares until January 31 1987

Bennett says it was decided not to encourage a flood of new money by having a pre-listing cut-off point because additional capital would only dilute the interest of existing shareholders, who might not have been able to increase their holdings

Further, with a capital base of R120m, the R48m that can be used for discretionary investments in terms of the new Building Society Act was more than sufficient.

Like UBS, allocations to depositors not qualifying for the minimum 100 shares will be pooled and put out to tender Depositors will then be paid out pro rata in accordance with the tender strike price Shareholders will be called on to vote on the conversion on February 5 and have until March 6 to take up preferential allocations.

Bennett expects a comfortable premium on the offer price, but maintains that an accurate picture will only emerge once the full estimate of earnings to March is available in the prospectus, due early next year.

INFLATION

Beefing about PPI

Anyone who feels tempted to ask "Where's the beef?" should pause and count the cost For October's producer price index (PPI) figures, released last week by the Central Statistics Service, show the price of fresh meat increased over the previous month by a staggering 11% This is the steepest hike in meat prices since September 1980's monthly increase of 17,4%

The all-commodities index leapt to 226,8 a monthly rise of 2,2%, compared to 0,7% in September and 1,79% in October last year, to bring the year-on-year increase to 20,6% This too was significantly higher than 1985's year-on-year figure for October of 17,1%

The leap in the price of meat is partly seasonal, partly a structural response to improved rainfall after four years' drought Herds slaughtered when grazing was poor have to be replenished, creating a shortage of stock at abattoirs

Other significant components of the monthly increase were mining and quarrying (other) at 7,3%, leather and leather products at 6,9%, rubber and plastic products at 4,1% and basic ferrous metals at 3,3%

There was, however, a 6,8% fall in the price of agricultural products other than food — probably the result of a drop in prices of wool and cotton on international markets

The all-commodities increase surprised and depressed economists. Says Volkskas's Adam Jacobs "I really hoped that by now we would see a lower figure for PPI

"What surprises me most is the increase in cost of imported products, 2,7% compared to 0,6% last month, while local goods rose 2% compared to 0,8% last month This came after the effective exchange rate of the rand, against the basket of trading partners' currencies, had improved markedly "

Next month may provide better news but for largely technical reasons, according to Leon Steenkamp, economic consultant to stockbroker Senekal, Mouton & Kitshoff

"Between October and November last year, all commodities rose 4,2%, because of an 8,8% jump in the imported component We will now delete that 4% and should have a significant decline in the all-commodities year-on-year figure and an even steeper decline in the imported component "

Whether or not a statistical quirk, a drop in acceleration of PPI will still be an encouraging sign in our high-inflationary environment "It will result in a year-on-year increase significantly below the 20,4% for November 1985," says Steenkamp "We could realistically see it below 19% "

This even though the local component will not be substantially lower Any decrease in the increase of PPI will be due to the fact that imported components, which last November rose 28,5% year-on-year, have decelerated markedly since early this year

Says Steenkamp "I agree with Jacobs that one would have expected a greater deceleration in the cost of imports Nevertheless there has been a significant decline

"Inflation could increasingly be the result of relatively sharp rises in the prices of locally produced goods I fear we are seeing producers taking advantage of improved demand to push up prices

"So anything which counters inflationary expectations will be valuable "

SUNTIMES (153) 14/12/86

Inflation taking its toll on banks

By David Southey

INFLATION isn't only the scourge of little old ladies, widows, and pensioners Big, rich bankers say its also one of their most serious worries

Fact is that inflation hammers banks capital ratios

Explains Barclays deputy managing director Barry Swart "Let's assume you have capital of R1-billion and inflation of 20%

"Because your balance sheet grows automatically by the rate of inflation, that means you are suddenly faced with having to bolster capital by another 20% in order to keep in step with the statutory capital ratio requirements

Erosion

"But what the authorities don't realise is that in order to boost our capital by another R200-million — just to keep pace with purely inflationary growth in our lending book and in our costs — we have to achieve profits of two or three times our additional capital requirements

"That means that in order to pay dividends and tax at roughly the same level, Barclays (which earned roughly R100-million this year), is required to earn around R600-million to put us back where we were in the previous year

Anything less than this means that we are rapidly eroding our capital base vis-a-vis balance sheet growth "

That's not the only headache for banks

South Africa's burgeoning grey market is another and partly explains why banks haven't been able to lend as much money as they would have liked to sound corporate customers

According to Mr Swart, disintermediation (lending taking place directly between non-banking organisations) is probably at its most rife

Reason non-banking institutions with spare cash, notably mining houses and assurers, can lend money to triple A corporate customers at well below prime overdraft rate of 13,5% and still earn more than they would otherwise do by placing the funds on call or in short-term money market paper

Banks are fuming because they point out that these institutions are not subject to the same stringent capital and liquid asset requirements, which is why they can lend so much more cheaply than banks

It is virtually impossible to estimate accurately the extent of this type of grey market lending, but a figure of around R8-billion has been mentioned

SUN TIMES·

153

Inflation taking its toll on banks

By David Southey

INFLATION isn't only the scourge of little old ladies, widows, and pensioners Big, rich bankers say its also one of their most serious worries

Fact is that inflation hammers banks' capital ratios

Explains Barclays deputy managing director Barry Swart "Let's assume you have capital of R1-billion and inflation of 20%

"Because your balance sheet grows automatically by the rate of inflation, that means you are suddenly faced with having to bolster capital by another 20% in order to keep in step with the statutory capital ratio requirements

Erosion

"But what the authorities don't realise is that in order to boost our capital by another R200-million — just to keep pace with purely inflationary growth in our lending book and in our costs — we have to achieve profits of two or three times our additional capital requirements

"That means that in order to pay dividends and tax at roughly the same level, Barclays (which earned roughly R100-million this year), is required to earn around R600-million to put us back where we were in the previous year

Anything less than this means that we are rapidly eroding our capital base vis-a-vis balance sheet growth"

That's not the only headache for banks

South Africa's burgeoning grey market is another and partly explains why banks haven't been able to lend as much money as they would have liked to sound corporate customers

According to Mr Swart, disintermediation (lending taking place directly between non-banking organisations) is probably at its most rife

Reason non-banking institutions with spare cash notably mining houses and assurers, can lend money to triple A corporate customers at well below prime overdraft rate of 13,5% and still earn more than they would otherwise do by placing the funds on call or in short-term money market paper

Banks are fuming because they point out that these institutions are not subject to the same stringent capital and liquid asset requirements, which is why they can lend so much more cheaply than banks

It is virtually impossible to estimate accurately the extent of this type of grey market lending, but a figure of around R8-billion has been mentioned

ECONOMY

Argus 18/2/86 (153)

SA hyperinflation warning

By TOM HOOD

WARNING signals for hyperinflation in South Africa are sounded by Old Mutual economist David Mohr in the company's latest newsletter, Mutual Forum

Domestic inflation reached the 20 percent level for the first time in 65 years in January and moved decisively out of the 10 to 16 percent range of the past 12 years, he says

"This rapid rise in the inflation rate, which was as low as 10 percent at the beginning of 1984, has raised the question of potential hyperinflation"

One of the biggest dangers, he suggests, is that the Government might underestimate future demands on spending and overestimate its powers to keep it within reasonable limits

"History has shown that such an underestimation of future spending can prove to be disastrous in terms of trying to accommodate such demands in a non-inflationary manner."

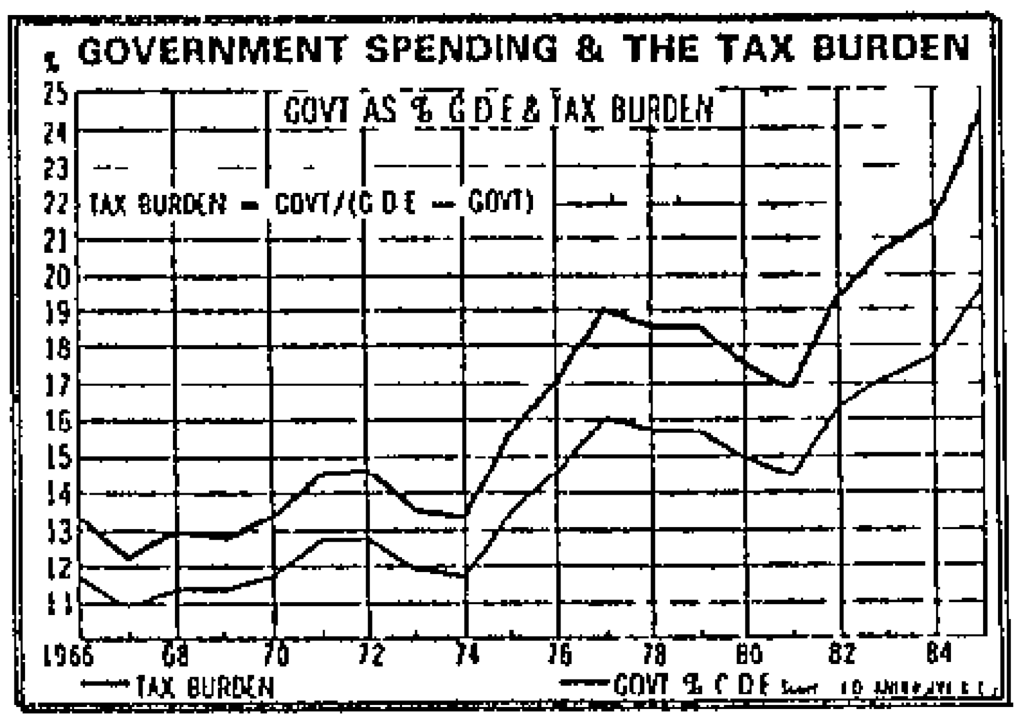
Judging from the severe domestic pressures on Government spending, including defence, social and physical infrastructural needs, the potential inflationary pressures from this area can only be considered high and not likely to recede in coming years.

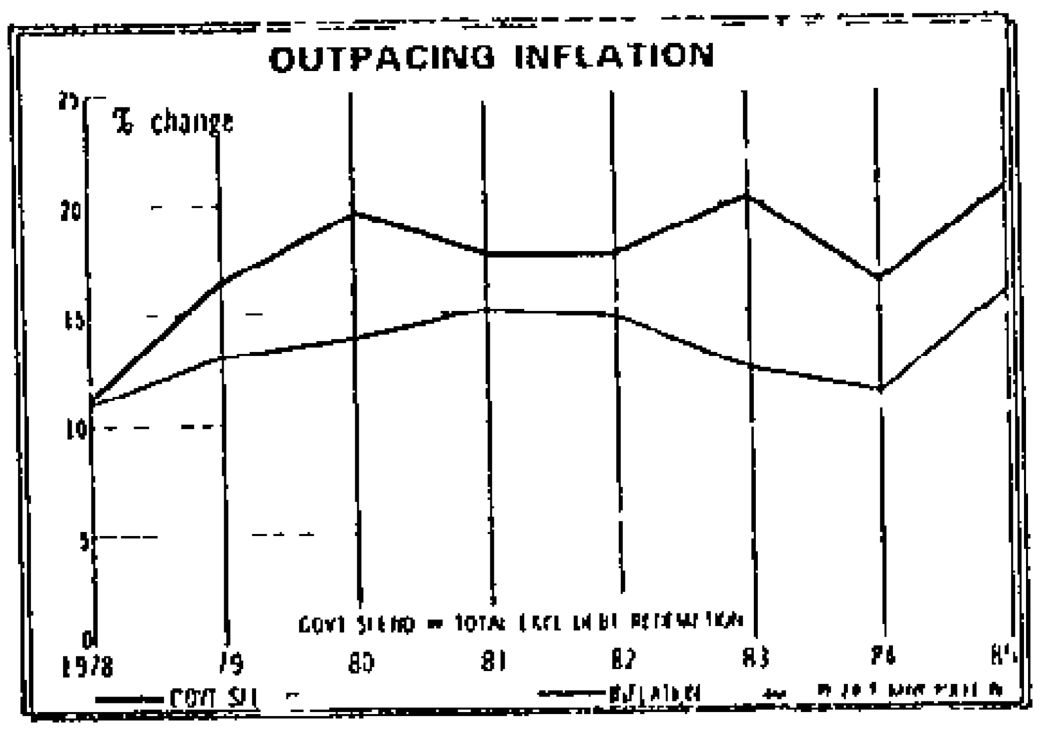
"Fortunately up to now, the authorities have succeeded in adhering to sound financing principles even in the face of continuous overspending year after year"

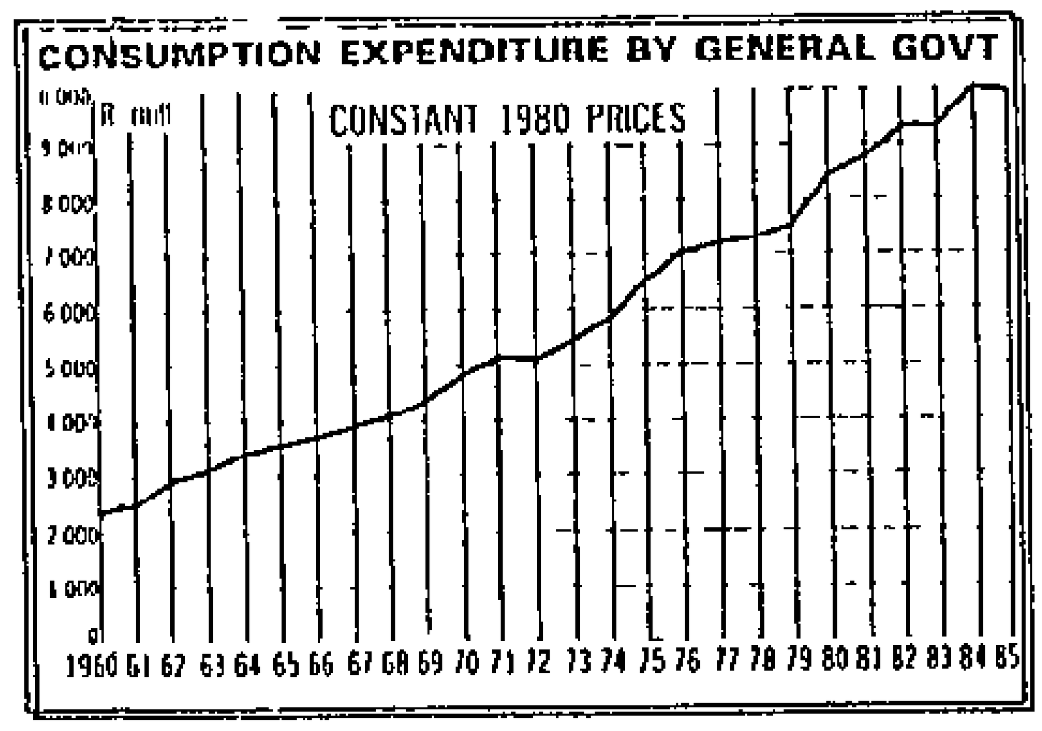
"In sticking to strict financing policies the tax burden, however, has risen rapidly in recent years and the question must be asked how much further it can rise"

The Margo Commission, due to release its findings soon, should shed further light on this issue, says Mr Mohr

The scant prospect of attracting a net inflow of foreign capital in the foreseeable future may have materially damaged the inflation outlook







How the public service pushes up SA's inflation

GERALD PROSALENDIS/Economics Editor

153 BUSDAY 26/9/85

MANY ECONOMISTS and officials argue that SA's persistently high inflation rate is the lingering consequences of cost-push pressures which have their origin in the depreciation of the rand

But SA's continuing high inflation rate is also the price being paid for permissive monetary policy — largely up until 1985 — and years of fiscal profligacy

And it has been nurtured by an over-regulated economy which lacks competitive depth to absorb and deflect cost increases many arising from administered prices

It has been argued, for example, that administered prices — which last year made up more than 30% of the consumer price index — do not respond to market conditions of demand and supply

The prices of many inputs and outputs to administered prices, and the SA economy in general, are controlled both for reasons of strategic importance and political expediency

The upstart of this is that many producers do not respond to market demand but rather to production incentives This means commodities have to be subsidised if they are over-produced, while producers are subsidised if there are shortages Nor are they subject to competition, an important determinant of efficiency, and thus price level

Two legacies of government's increasing share of the SA economy, then, are in built inflationary pressures and punitive tax rates that are chasing the talented out of the country

High inflation is also linked to government's increasing appropriation via the tax system, of the productive wealth of the SA economy, which it increasingly uses to pay public servants' wages with no direct productive spinoff

Recent estimates (excluding the Post Office, Sats and State corporations) show that the public sector employs more than one million people, or 27% of all economically active South Africans outside the agricultural sector

Consumption expenditure by general government on salaries and services of a non capital nature — rose to 17,4% of gross national product last year from 9,2% in 1960

And because company taxes have not kept pace with the rate of inflation, progressively more of the tax burden to finance this spending has fallen on a small group of individual taxpayers, who now contribute more to the State coffers than gold mines and companies put together

In this fiscal year individual taxpayers will contribute R10 2bn to tax revenue — an increase of 20 4% compared with last year's R8 5bn This, however, was matched by an average increase in wages of about 10%

Gold mines, on the other hand, are this year expected to contribute R2,8bn, down 7,7% compared with last year, and companies R6,4bn, up 15,1%

On top of this, the State will collect a further R9 4bn from GST, a large portion of this from individual consumers And individuals will carry no small part of the burden of the R1 3bn collected from custom duties, the R0 9bn surcharge and R1 8bn excise duty

Each year that government increases its nominal demand for a finite pool of available funds at a rate higher than inflation government is building in an upward bias to inflation in the economy

Put more simply — if government increases its spending at a rate the economy cannot accommodate, the result will be a residual rate of inflation

But, some economists argue, government spending is not inflationary if funded by higher taxation

Over the last five years government has increased the burden on individual taxpayers thus lowering their standards of living Taxpayers have reacted by borrowing more to maintain their standards of living and this has been reflected in a ballooning money market shortage which was, for some time accommodated by the central bank in an inflationary manner

Increases in the real terms of wages, and increased government revenue because of higher inflation have fostered the myth in certain quarters that being protected, or even benefiting from inflation, means that in the long-term society is not damaged by it

But price stability is not an economic luxury — it is basic to social and economic growth

One of the overriding economic lessons learnt by the industrialised world in the past decade has been that getting into high inflation is a lot easier than getting out of it

Our relatively high inflation rate guarantees that SA's competitiveness is weakened in world markets, and it erodes both the value of the currency and living standards

However, inflation's most damaging cost is not necessarily economic With time it subverts government and growth and inspires the fear that the future will be worse than the past

It feeds on itself, with expectations of further inflation becoming the cause of the activity that leads to that outcome

Inflation is insidious, precisely for the reason that small increases can be rationalised away as the cost, for example, of higher employment. Also, it is the State — and its employees — who are least affected

Possibly — despite inflation's ruinous effects — government has a vested interest in it continuing at high levels In a sense, it has become a tool for the redistribution of wealth

As inflation pushes up nominal taxable incomes, the rate of tax automatically increases and the State receives even more income to distribute to its employees

It appears, then that high inflation, rising taxation and undisciplined government spending are inextricably linked As inflation increases State revenue by pushing individual taxpayers into higher brackets, government is able to spend more, mainly on non productive wages and salaries, which in turn feeds inflation

Unless, at the very worst, government freezes both the size and funding of the public service and its grip on the economy, the prospects for lower inflation in SA are dim

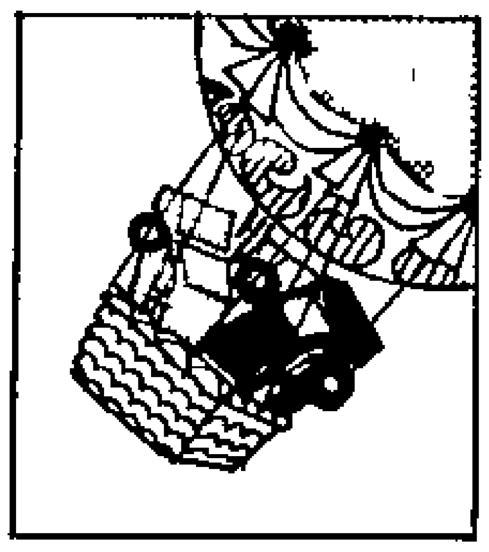
FIN MAIL 19/12/86

153

THE MOTOR INDUSTRY

Heading for a crash?

SA's carmakers have come through the most difficult year in the industry's history bowed and bloody, but not quite beaten. There's even a small surge of confidence in the sector, but it's still all bad news for car buyers.



Pity the poor South African motorist The cost of a car increased by some 85% in the last three years — by 30% or more this year alone — and more hikes are in store.

Manufacturers are not insensitive to price resistance Indeed, the "price shock" which virtually drove the private motorist out of the showrooms is seriously debated throughout the industry, particularly after November's disastrous sales figures*(*Business* December 12)

But after several years of heavy losses, or at best marginal profits, manufacturers are adamant that prices must continue to rise to recover the erosion of margins by local inflation Car prices will probably go up next year in line with inflation — making the average car 17%-18% more expensive by next Christmas

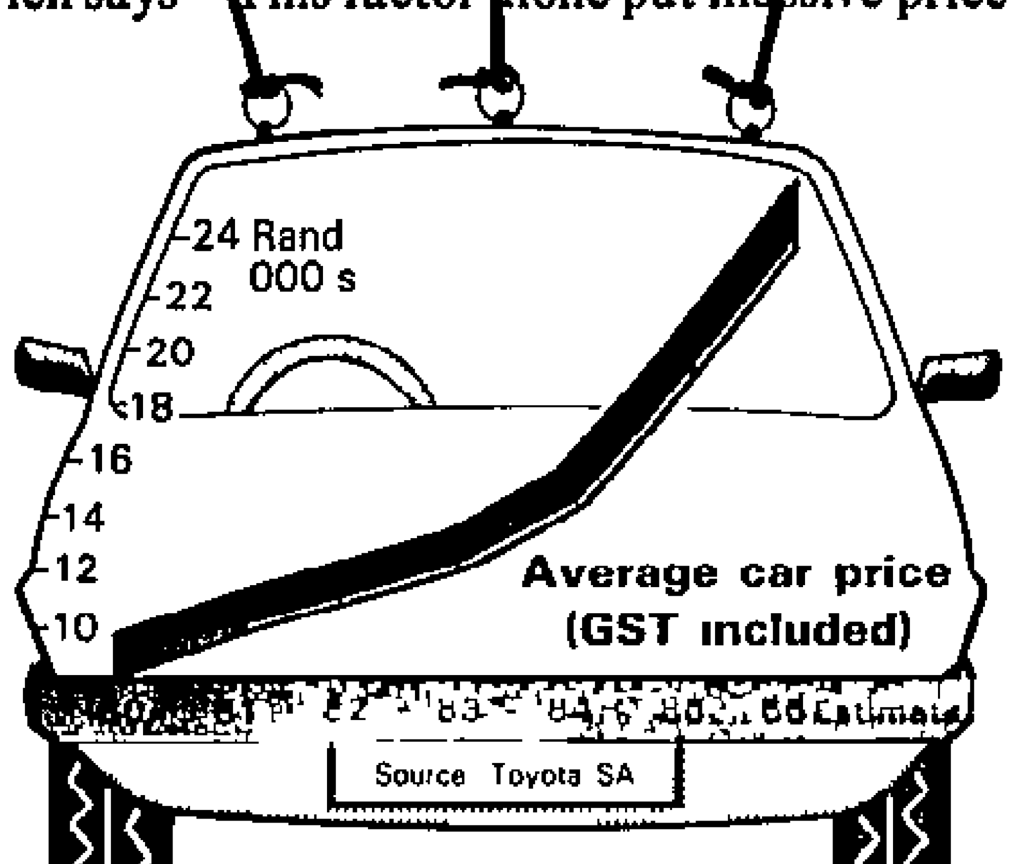
How is it that fierce competition for diminishing sales still allows hefty price increases from all manufacturers — most of whom are still below break-even point and, in even the best cases, have "unacceptable" returns on investment?

No doubt some of the industry's big problems are of its own making In the good old days when anything sold, South Africans happily plunged into debt and passenger car models and variants multiplied.

Then, with the first chill of the current recession, some manufacturers misread the signs and embarked on bloodletting sales promotions The inevitable shake-out saw the departure of Alfa Romeo, Renault and Peugeot [illegible]

But without doubt, the single most significant factor was the rand's decline against the currencies of Japan and West Germany, the source of all SA's vehicle kits.

More than 50% by value of the average car is still imported. With the rand's fall, manufacturers have been bleeding heavily As National Association of Automobile Manufacturers (Naamsa) director Nico Vermeulen says "This factor alone put massive price pressure onto manufacturers, and in the current climate they've been forced to pass it on "



Car sales had in fact already started to decline from their peak of 301 000 back in 1981, when the average car price after GST was R10 299 By 1984, when the rand started its real slide, sales were down to 267 000 and average price climbed to R15 098

Other important factors affecting car-buying patterns, says Vermeulen, are the persistent recession, sharp increases in the prime lending rate which peaked in August 1984 at a record 25%, the doubling of GST to 12% in March 1985, fuel price increases; and imposition of fringe benefit tax on cars, though on an extended phase-in basis

Temporary measures, since abolished, which hit sales include the tightening of HP repayment periods between August 1984 and February 1985 and imposition of *ad valorem* customs and excise duties in the 1984-1985 Budget

All this when pressure on net disposable incomes was mounting Real earnings of employed whites fell by 0,2% a year from 1981 to 1985 And direct tax paid by whites increased massively in 1980 some 8,8% of personal incomes went in direct tax, by 1985 this had risen to 15,5%

Market research for a leading manufacturer has shown that in 1983 an average car price of R12 021 accounted for 61% of a white household's average annual income In 1986 it's estimated that the average car price of R24 140 is absorbing some 88% of average household income

So it's easy to understand why extremely strong price resistance has been generated; why car sales figures for the year are unlikely to top 176 000, and why manufacturers are operating at little more than 50% of capacity

But in spite of all this, Vermeulen insists all is not gloom and doom "There's an air of cautious optimism in the industry," he tells the *FM* His view is supported by other industry leaders

He says that in spite of November sales figures' distortion by heavier-than-usual October buying and the absence of private buyers, statistics show car sales bottomed out in the first quarter His view is backed by Toyota marketing experts, who say that if October and November sales are combined they match the pattern for the rest of the year

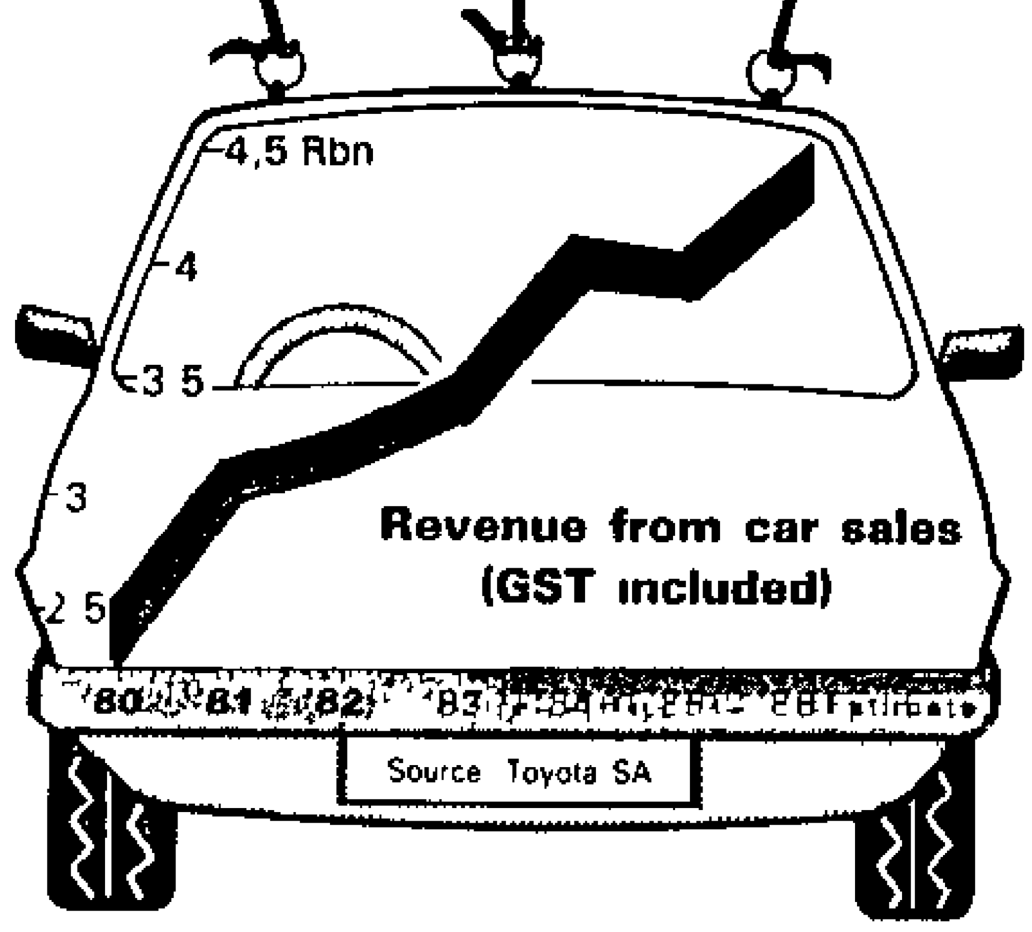
Vermeulen also points to signs that the heavy commercial vehicle sector, undergoing its worst patch in 20 years, bottomed out in October

A number of factors lead manufacturers to believe overall sales next year will be a modest 5% ahead of [illegible] for this year.

Confidence is growing that the rand has stabilised at the US44c-45c level and that the effects of its earlier rapid slide have worked their way through the system. Toyota MD Colin Adcock [illegible] staying at current levels until at least mid-1987. He's also more optimistic about car prices than others in the field.

"If the rate remains stable we should be able to keep prices well below this year's level. On a year-on-year basis, price rises next year should be around 12%, well below the rate of inflation." Adcock says Toyota will hold current prices until February — "and then we will keep the increase down to [illegible]% "

Nissan's John Newbury also believes the industry has absorbed the effects of the falling rand, and providing it stays steady at the current rate, price increases next year should average 3,5% a quarter (or 14% for the year)



Fortunately, with inflation in West Germany virtually nil and just nominal in Japan, the cost of imported components is stable

Another hopeful development is the fall in interest rates, important to motor manufacturers with their high capital investment

Then, too, pre-election stimulatory measures, including civil service salary increases and higher government spending on development projects to boost employment, could start to trickle through from February. And a good agricultural season seems likely to generate confidence — and sales.

The industry's tribulations inevitably raise speculation about further rationalisation Every manufacturer would like to see some competitors depart, but all deny they're ready to pull out A glance at international car ownership figures shows the long-term incentive to stay in 1984 it was estimated that SA had 11,3 people per car compared with 1,9 in the US, 2,5 in West Germany, 3,4 in the UK, 2,3 in Canada and 2,4 in Australia

Two years ago the industry manufactured 42 major passenger car lines available in a number of variations Today there are 22 major lines, with derivatives The trend to cut the number of derivatives will probably continue, but manufacturers say financial advantages are very limited and a wide range of options could have an important bearing on market share.

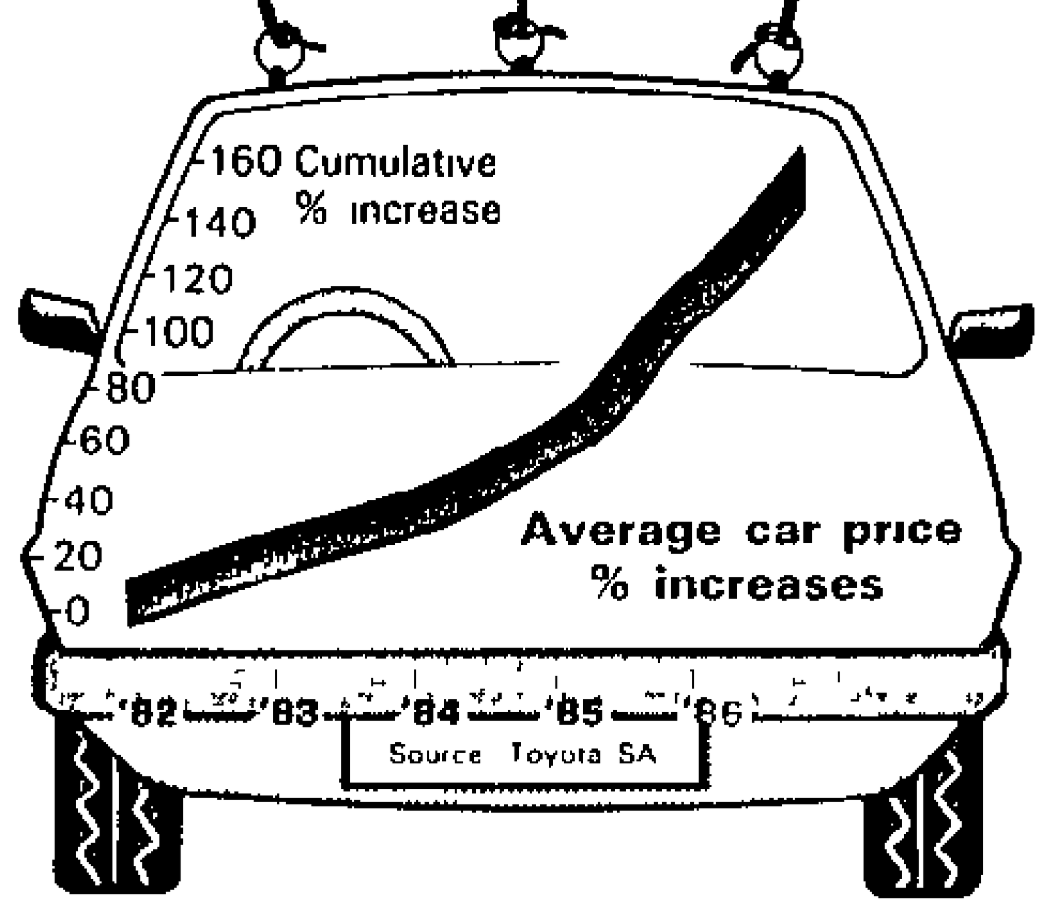
More likely is another extension of the life of car models on the local market The current recession has seen model life extended from four to six years; for some models this is likely to be stretched to eight.

This makes sense given the current cost of tooling up for introduction of a new model A new small car line car runs at R40m-R70m, most of it in variable-rate foreign exchange, and a new line for a medium or large car costs between R60m and R100m

But adding to the industry's small upsurge of confidence is the very different shape it's in. "It's leaner and fitter than it was," says Vermeulen At least two big manufacturers are in the black, even after the trauma of 1986. Others hope to join them in the new year, as increased confidence in the economy and sheer necessity overcome price resistance

It hasn't come cheap, particularly in employment. "That's the real tragedy," says Vermeulen He reckons the motor industry, with its vast backward linkages into raw materials and component supply, supports some 250 000 workers — or one million people

Since 1982, motor industry jobs have fallen from 50 300 to 29 000 Component manufacturers have cut employment from 75 000 to 50 000 Another 30 000 jobs have been lost in the retail sector



Despite their importance to the economy and as a supplier of strategic equipment, Vermeulen believes car builders can expect little more help from the government

He points to the direct relief from the 1985 abolition of the 1% *ad valorem* customs and excise duty on vehicles, reduction of HP deposits and longer repayment periods, changes to local content provisions, beneficial amendments to the 10% import surcharge regulations and the fringe benefits tax relaxation for cars

But a current review of the Phase V local content programme, which applies to cars and light commercial vehicles, could result in some new benefits for manufacturers, particularly as the review aims at ensuring the sound development of the industry

It may be too late for some — the possibility of one or even two manufacturers quitting the market or merging can never be ruled out, whatever they say for public consumption If the survivors bring prices under control through greater volume throughput, perhaps it should even be welcomed ■

Inflation at 19,2%

17/12/86 (153) Weekend Post

PRETORIA — The inflation rate for November remained at 19,2% the Central Statistical Service said in a news release in Pretoria yesterday

The rate dropped to 19,2% in October from 19,7% in September.

Food prices continued to rise at a relatively sharp rate — Sapa

INFLATION F W MAIL

Waging war?

153

Prices and wage controls are always controversial measures to fight inflation

In the South African context, recent proposals by the Afrikaanse Handelsinstituut (AHI) that administered price increases should be curbed and that public and mining sectors should voluntarily freeze wages for a specified period are particularly provocative.

The political implications of asking white voters (traditionally government supporters) and militant black miners to make sacrifices for the rest of the community are mind-boggling Besides, are prices and wage controls effective in countering inflation anyway?

The AHI proposals are based on research by economist Geert de Wet, of the Rand Afrikaans University (RAU) De Wet, who is on his way from the chair of economics at RAU to that of the University of Pretoria, is convinced price and wage restraint is crucial to the fight against inflation

"Wages have exerted upward pressure over the past 20 years because there is always a race between different sectors to keep on top The result is that wages per worker have increased faster than output per worker."

Producer power, he says, has prevented prices from falling in recessionary times Agricultural and administered prices have repeatedly inflicted price shocks.

The AHI report and recommendations have drawn criticism from several quarters Says Chamber of Mines senior economist Henry Kenney: "The failure of incomes policies in Western Europe was so striking that any proposal to resurrect this kind of policy would be akin to recommending cold showers as a cure for excessive virility "

He points out such freezes were followed by a sharp upsurge in prices to accommodate pressures which had been bottled up — not eliminated

"Freezing prices and salaries amounts to suppressing the price mechanism, which can then no longer do what it is supposed to — evaluate relative scarcities Salary and wage increases are not acts of charity but a reflection of the need to attract and retain a certain kind of labour force "

While De Wet argues "wage restraint" would not violate the free market system because existing wages have come about as a result of negotiations, Kenney sees collective bargaining as a part of that system

Criticism has also come from Pretoria's Afrikaanse Sakekamer (ASP) "After studying the report we have to say we don't agree with one single conclusion The ASP describes the call for wage and salary restraint as inappropriate and predicts that such a step, if not accompanied by a general price freeze, would lead to outright depression in a city like Pretoria, for example "

De Wet, however, is adamant He believes that, if implemented together with disciplined monetary and fiscal policies and other measures suggested by the AHI, price and wage "restraint" would not impair the market mechanism "because it applies to general increases and doesn't imply that individual wages and prices have to be pinned down

"Everyone has focused on the wage and price measures we suggested, but we tried to address the whole spectrum of possible causes of inflation — without invoking additional government intervention in the system "

He points out the suggestions were generated by an exhaustive study — "and, whatever measures one takes, inflation is not going to be halted without pain Has anyone else come forward with a policy which would not entail direct government intervention and could be applied without discomfort?"

De Wet sees himself as a follower of the Austrian economist Friedrich Hayek, who propounds an extreme free market philosophy, and vehemently denies his suggested voluntary price and wage measures constitute control

"We *don't* advocate legislation to enforce this recommendation," he says In the words of the report, implementation will depend on "Persuasion in the case of the mines and Cabinet decree in the case of the public sector " ■

153 Cape Times 19/12/86

SOMERSET WEST TEL (024) 51 2535

Cost of living rises by 19%

By AUDREY D'ANGELO
Deputy Financial Editor

THE cost of living is still going up at a rate of more than 19%, figures released yesterday by the Central Statistics Office show.

The consumer price index for the 12 months to November showed a rise of 19,2%, almost unchanged from the dismaying 19,7% for the 12 months to October.

And, although lower interest rates may help to bring it down, price increases in the pipeline together with the government's plan to revive the economy by encouraging spending will be inflationary.

The new statistics show the monthly all items index (base 1980) rose 1,3% in November to 242,4 after a 1,1% rise to 239,3 in October

A year ago the index stood at 203,4 and year-on-year consumer inflation at 16,9%

The figures show that the middle income group was the hardest hit over the past year

The higher income group index rose to 242,7 in November from 239,3 in October and 204,4 in November last year, giving a monthly rise of 1,4% and year-on-year increase of 18,7%

The middle income group index rose to 245,1 from 242,3 in October and 204,8 in November last year, giving a monthly rise of 1,2% and year-on-year increase of 19,7%

The lower income group index rose to 236 from 233,6 in October and 197,3 in November last year, giving a monthly rise of 1% and a year-on-year rise of 19,6%

The food only index rose to 244,3 in November, up 1,7% from 240,3 in October and up 22,9% from a year ago

Frank Horwitz of the University of Cape Town Graduate School of Business said the figures made it certain that trade unions would press for pay increases which would at least keep pace with the rate of inflation and possibly exceed it.

Most recent wage settlements had been below this.

Severe price rises hit SA

Inflation claims high toll in 1986

153
BUS DAY 29/12/86

ALAN SENDZUL and
HAMISH McINDOE

INFLATION dominated the news headlines during 1986 as severe price rises swept through the economy.

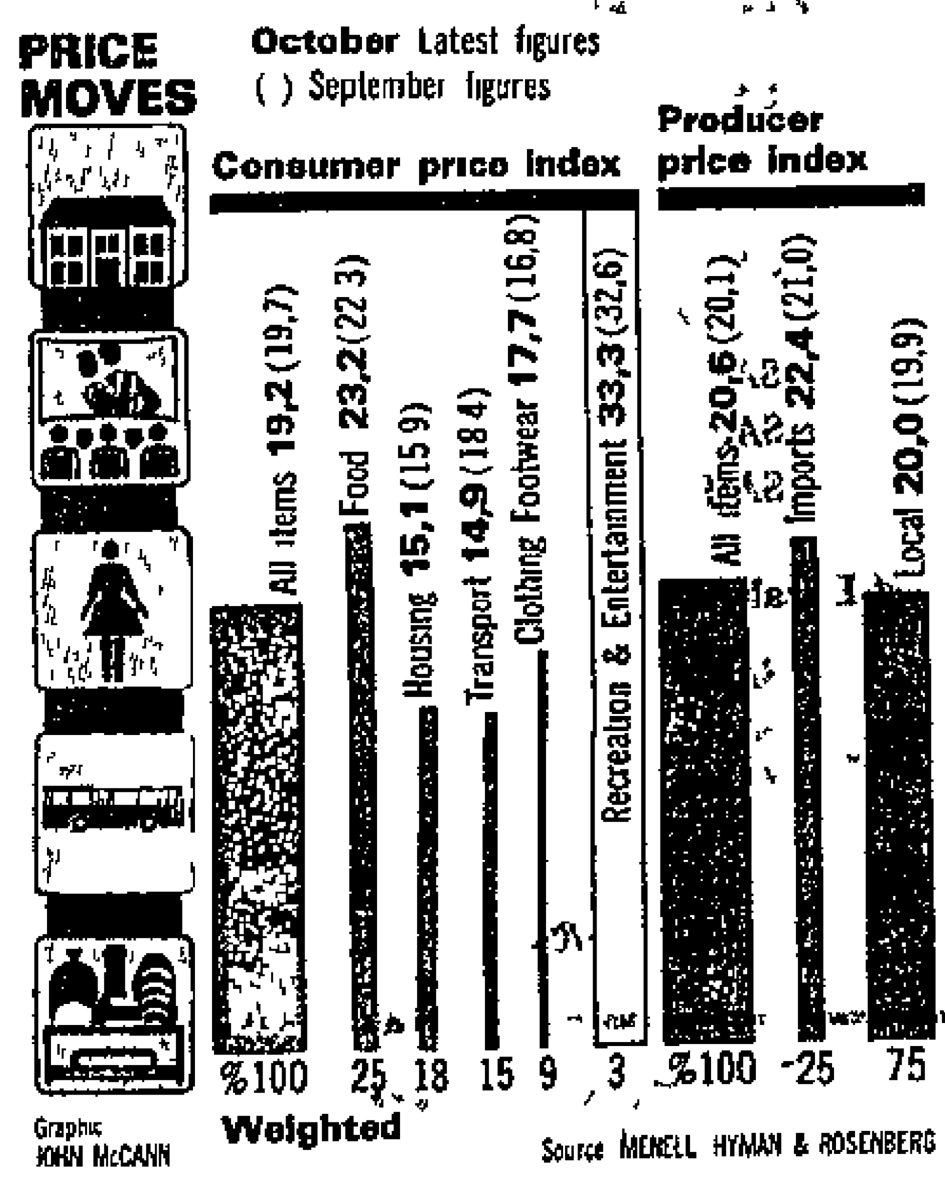
The battered consumer was knocked by an accelerating consumer price index (CPI) which touched a high of 20,7% in January. This was a continuation of an upward trend in the previous year when inflation reaching a twelve-month high of 18,4% in December.

The producer price index (PPI) also reached a high in January — of 22,2% — putting pressure on the CPI in later months.

The volatile exchange rate played havoc with prices. This was aggravated by SA traders having to pay "political premiums" for goods bought on the international market.

Spending on food swallowed a disproportionate share of lower and middle income group spending in 1986. Rising food costs — the component which has a 25,5% weighting of the index — also accelerated the upward drift in the CPI

Central statistical services (CSS) figures show that meat, grain products and fruit accounted for more than 60% of the



Graphic JOHN McCANN
Source MENELL HYMAN & ROSENBERG

● To Page 2

BUS DAY 29/12/86
153

Inflation's high toll in 1986

● From Page 1

CPI's 1,1% monthly rise in October

Economists, however, are tempering their forecasts for next year's inflation rate after the recent rains Lower bond rates — which will increase consumer disposable income — has also lead to greater optimism

However, although inflation is expected to decline in the coming year, it is likely to remain at a high level with lowest estimates in the 15-17% range

Several sectors of the economy are expecting large price increases in the coming year The motor industry is predicting increases in the range of 17-20% while sugar price may rise 15% in January

Heavy price increases were the rule in almost every sector of the conomy last year Tea and coffee prices increased a massive 35,2% while white and brown goods rose on average by 25% and 35% respectively

Prices of few products remained static and a *Business Day* check found that only the cost of fertilisers — hit by a price war and oversupply — fell dramatically

Air transport costs were hit by sanctions in the form of a US landing rights ban against SA.

SAA's domestic ticket prices rose 10% and international fares by 13% to 15%. Higher operating costs, a continuing weak rand, and dollar price tags on aviation fuel accounted for SAA's air fare hikes

SA Transport Services road tariffs rose 11,8% on goods traffic and 15% for parcels and livestock Rail freight tariffs rose 13,8%.

Iscor's steel price increases — on paper, at least — stayed below the inflation rate as did cement prices on the Reef which rose 7% against an average countrywide increase of 13%

SA's inflation rate in 1986 can be put in a proper perspective when compared with the rate of price increases experienced by our major trading partners In some cases our inflation rate was ten times higher

Should this degree of disparity continue, it will eventually erode what competitive advantage our exports presently enjoy from a weak rand

SA is going great guns to boost exports

STAR 30/12/86

By Frank Jeans

South African mineral and metal exporters are emerging as aggresive marketers despite the efforts of other countries to take over those markets closed by sanctions

This, together with South Africa's reputation abroad for reliablity in quality and delivery of its goods, is compensating for negative sanctions trends

According to recent reports, South African mineral exports are making inroads in Asian markets

South Africa is still the major source of minerals and has built up a record of good delivery times

In terms of price, too, South Africa is fairly competitive because of the depreciation of the rand South African traders enjoy strong advantage in world markets, particularly as the supply lines of newcomers to the minerals scene are often suspect.

"Some of these countries do not have the experience which the South Africans have built up over the decades," says one minerals industry source.

"Strikes and other disputes in these countries often interrupt deliveries — and in today's highly geared marketing scene, delivery is a vital component.

"Clearly, then, South Africa has a big advantage — a reputation which world markets are only too well aware of despite the sanctions lobby."

Economists see a far from gloomy trend emerging in major countries such as those in the European Economic Community and the Far East which are apparently winning the fight against inflation.

There are strong growth vibes coming through, and this obviously means these countries will continue to present excellent market opportunities for South African traders in industrial goods and consumer products.

There is a groundswell, too, among South Africans to get trade going, particularly in the light of the sanctions and disinvestment campaign.

"Too often in the past, the export potential within South Africa itself has perhaps not been accorded the priority it should have received," says Mrs Ann Moore, a general manager of the South African Foreign Trade Organisation (Safto).

"Over the past 12 months, however, this certainly has changed One now sees more and more recognition both from the public and private sectors that exports are essential to the well-being of South Africa and are very much an integrated part of the overall economy"

This recognition is extending to the non-traditional export field such as manufactured goods

Indexation keeps SA inflation rate high — economist

(153) STAR 30/12/86

By Reg Rumney

Informal "indexation" of wages to the inflation rate seems to be keeping inflation at its present high levels, though is not driving it to much higher levels, according to Old Mutual economist Mr David Mohr

The surge in South Africa's inflation rate this year raised the question of hyperinflation — that is, inflation that rages completely out of control and tends increasingly to make the money in circulation worthless

Discussing this in an analysis of inflation prospects, Mr Mohr in *Mutual Forum* notes that inflation reached 20 percent for the first time in 65 years in January this year

"In doing so the inflation rate moved decisively out of the approximate range of 10 to 16 percent of the past 12 years"

SA's inflation has also broken with history in comparison with its main trading partners, which have been mostly in the industrialised world

In the seventies it compared favourably with their inflation rates, but for 1985 the inflation rate at an average of 16 percent was roughly four times higher than the average for the seven major Western economies of 4,5 percent

However, South Africa's inflation rate still ranks favourably with that in the Third World, where the average for 1985 was 52,5 percent

Looking at typical inflationary circumstances, Mr Mohr identifies two main categories — balance of payments and public finance problems — but adds that indexation also seems to be crucial

"Indexation always starts at an informal level, with workers normally using the consumer price index in the wage bargaining process in an attempt to protect their real incomes and standard of living," he notes

Tax burdens are also sometimes costed into workers' calculations, particularly indirect taxes

The impact of informal indexation depends on political backing of such claims and the basis on which they are calculated

If the political lobby is powerful and all price changes, tax increases and exchange rate changes are taken into account, the result is likely to be a nullification of traditional anti-inflationary policies

Since high inflation tends to encourage current spending, governments are tempted to provide inflation protection in the form of indexed savings, starting with index-linked government bonds, to ensure a steady supply of savings from which government can borrow

This, says Mr Mohr, has often been the next stage in the indexation process, and "in the absence of addressing the underlying causes of inflation leads to rapid increases in government spending as interest payments eventually skyrocket in line with inflation

"In the longer term the burden becomes unbearable and the budget deficit is usually monetised This in turn leads to even higher inflation."

Major Latin American countries and Israel, prime examples of this process, have all moved away from official indexation in their efforts to halt inflation.

Giving some idea of the inflationary pressures associated with indexation, is the length of the period of adjustment to the release of inflation figures The shorter the period, the greater the inflationary pressure and the closer the economy is to hyperinflation

"In most very high inflation economies (inflation rates of 100 percent plus) this adjustment period is normally around one month, the time it usually takes to update price indices."

The local experience is still different

"In South Africa, informal indexation is widely practised as most wage claims are effectively indexed, at least to some degree, to the CPI

"There is, however, no real evidence at this stage of automatic or official indexation, and the authorities have repeatedly rejected the issuing of indexed government stock

"The informal adjustment period seems to be about 12 months, indicating that indexation is at this stage a factor keeping inflation at present levels rather than being a driving force behind a much higher rate"

Cape Times 29/12/86 (153)

Cape

Consumers battered by year of big price hikes

Own Correspondent

JOHANNESBURG — Inflation dominated the news headlines during 1986 as severe price rises swept through the economy

The battered consumer was knocked by an accelerating Consumer Price Index (CPI) which touched a high of 20,7 percent in January

This was a continuation of an upward trend in the previous year when inflation reaching a 12-month high of 18,4 percent in December

The Producer Price Index (PPI) also reached a high in January — of 22,2 percent — putting pressure on the CPI in later months

The volatile exchange rate played havoc with prices This was aggravated by SA traders having to pay "political premiums" for goods bought on the international market

Spending on food swallowed a disproportionate share of lower and middle income group spending in 1986

Rising food costs — the component which has a 25,5 percent weighting of the index — also accelerated the upward drift in the CPI

Central Statistical Services (CSS) figures show that meat, grain products and fruit accounted for more than 60 percent of the CPI's 1,1 percent monthly rise in October

Economists, however, are tempering their forecasts for next year's inflation rate after the recent rains

Lower bond rates — which will increase consumer disposable income — has also led to greater optimism

However, although inflation is expected to decline in the coming year, it is likely to remain at a high level with lowest estimates in the 15-17 percent range

Several sectors of the economy are expecting large price increases in the coming year

The motor industry is predicting increases between 17 and 20 percent while the sugar price may rise 15 percent in January

Heavy price increases were the rule in almost every sector of the economy last year

Tea and coffee prices increased a massive 35,2 percent while white and brown goods rose on average by 25 percent and 35 percent respectively

Prices of few products remained static and a check by our correspondents found that only the cost of fertilizers — hit by a price war and oversupply — fell dramatically

SAA's domestic ticket prices rose 10 percent and international fares by 13 percent to 15 percent

SA Transport Services road tariffs rose 11,8 percent on goods traffic and 15 percent for parcels and livestock. Rail freight tariffs rose 13,8 percent

Iscor's steel price increases — on paper, at least — stayed below the inflation rate as did cement prices on the Reef which rose seven percent against an average countrywide increase of 13 percent

SA's inflation rate in 1986 can be put in a proper perspective when compared with the rate of price increases experienced by its major trading partners In some cases the inflation rate was 10 times higher