INFLATION

1987

JAN – ~~NOV.~~ DEC.

Sugar price rise likely to have ripple effect

153

SMR SUGAR

Own Correspondent 2/1/87

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

The increase, due to be sanctioned in today's Government Gazette, will lift the price of a 2,5 kg packet of white sugar by around 35c. The last price increase of 12,5 percent was in March.

The rise will further boost costs of the bakery, confectionery, cool drink, tinned fruit, ice cream, brewing and food processing industries after a year in which food prices rose, on average, by 22,9 percent.

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

The industrial price of white sugar rises by R115 a metric ton, from R758 to R873, while brown sugar increases by R99 a metric ton, from R698 to R797.

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

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

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

FIN MAIL 2/1/87 (133)

INFLATION

Revving up?

Motor vehicles were responsible for much of the 1,3% monthly increase in inflation in November last year Prices rose by 7%, on a weighted basis contributing 0,4% to the total monthly addition to the CPI, now standing at 242,4. No wonder the month proved disastrous for the industry

Food price increases ran at 1,7% — compared with 2,8% in October Meat was the major single component at 0,5% But because of a decline in the price of vegetables, food as a whole, on a weighted basis, constituted only 0,4% of the monthly total.

The 1,3% total rise compares to 1,1% in October, 1,9% in September and 1,3% last November Year-on-year, inflation is still running at the 19,2% recorded in October, after a drop from 19,7% in September This compares with 16,9% in November 1985.

Though inflation is still running at dangerously high levels, the latest figure is vaguely encouraging At least CPI increases have not breached the psychological 20% barrier since the 20,7% reported in January last year

For the next two months, the outlook is fair This is partly for statistical reasons, because unusually high monthly increases were notched up in December 1985 and January 1986 (2% and 3,1%)

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

After an increase between the first week in September and the first week in October of 24,6%, they declined 8,7% to November and a further 2% to December These declines have still to be reflected in both CPI and the producer price index (PPI) ■

Inflation must be curbed to avoid disaster, says Old Mutual economist

2/1/87. SMR (153)

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

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

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

He points out that of a sample of 20 major commodity exporters (like SA), 15 have suffered higher inflation in the eighties than the seventies and, "like South Africa, many of these countries are also struggling with huge debt burdens."

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

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

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

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

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

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

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

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

"Increases in government spending originate not only from defence efforts. Changes in government priorities and electoral needs can also lead to sharp escalations in spending."

Sugar rise 'will boost inflation'

(153) (3) Sugar NM 3/1/87

Mercury Reporter

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

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

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

The statement from Sasa said white sugar would increase by 35 c for 2,5 kg in Durban

A spokesman for the association said the increases were well below the current inflation rate

Although the consumer did not bear the burden for export prices and contracts, the increases were expected to aid an industry which had encountered increased difficulties in its export activities

Mr Schwarz said 'This is a hell of a way to start the new year

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

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

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

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

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

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

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

The cheese price increase becomes effective to the general trade today However, spokesmen for some cafes in Durban said they would hold the old price as long as stocks lasted

Depleted herds pose big problem

Soaring meat prices set to fuel inflation

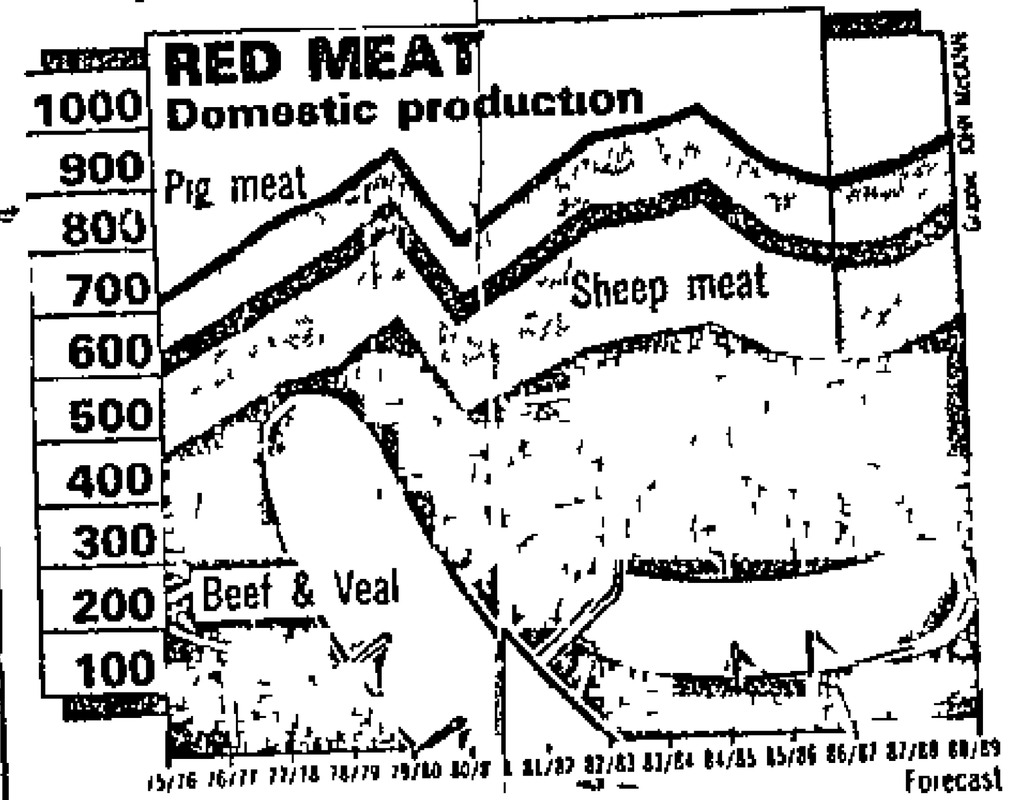
5/1/87 BUS DAY 153

MICK COLLINS

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

The price of super beef is expected to breach the 550c/kg mark — now at 400c/kg — and lamb is expected to retail at around 650c/kg and higher

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



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

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

A spokesman says "These products will be poised to grab a larger share of the total animal protein market"

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

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

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

● To Page 2

Meat prices set to rocket

5/1/87 (3 MEAT) 153 BUS DAY

● From Page 1

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

Meat Board deputy GM Frans Pieterse says all indications pointed to sharp increases

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

He says market prices paid for lamb just before new year had shocked the industry and adds "We are worried In Pretoria, the trade paid 704c/kg for lamb. We don't know the reasons yet but it could be butchers were without supplies for four days over Christmas"

And Pieterse says if wool prices rise farmers will be tempted to withold sheep from slaughter

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

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

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

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

But with supplies shrinking, spokesmen say prices will have to rise sharply between now and Christmas 1988 to keep supply and demand in balance

3 Sugar 1A 249 153

Lower-income groups will be hard hit

Sugar price hike to raise cost of foods

THELMA TUCH

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

The chief executive of supermarkets at Checkers, Lionel Blakeman, yesterday predicted price increases ranging from 5%-15% depending on the sugar content of the products

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

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

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

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

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

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

The last increase in the price of sugar was a 13,5% in March last year

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

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

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

Deadlock in OK Bazaars strike

Sowetan 1/6/87

153

By LANGA SKOSANA

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

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

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

Pamphlets

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

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

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

Offer

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

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

"You can't pay anyone more than what you have," he said.

6/1/87 153 BUSDAY

10 000 price hikes on way

Business Day Reporter and Sapa

PRICES of up to 2 000 consumer items will increase in the next two months and, by June, 10 000 will have gone up, retail officials say.

Increases in meat, sugar (15%), pasta (8-10%) and wine (17%) are the main products affected but the list includes peanut butter, milk powder, detergents, toiletries, paperware, packaging materials and gouda cheese.

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

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

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

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

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

"The government has encouraged consumers to be positive about the state of the economy, concerning sanctions and an inflation rate of 20 %, and now we have this 15 % increase in the price of sugar.

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

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

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

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

Sweet and chocolate manufacturers, the industries worst affected by the sugar increases, are optimistic and do not anticipate a drop in sales in the long term.

Food prices put bite on '87 shopping lists

Own Correspondent

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

And that's only the start

Durban North Hypermarket manager Mr Martin Rosen predicted yesterday that by June about 10 000 items will have gone up and that inflation on all foods could reach 20 percent by mid-year

THE LIST

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

He said these products would go up in the next few weeks

- Sugar by 15 percent
- Mineral drinks and squashes 10 percent

Sugar price rise helps fuel inflation

- Pastas by between eight and 10 percent.
- Canned fruit and vegetables by five percent
- Peanut butter by at least 20 percent
- Biscuits around eight percent in March
- Milk powder and associated products 10 percent
- Detergents 12,5 percent, including soap powder and liquid dishwasher
- Paperware by 10 percent
- Toiletries by eight percent
- Chocolate and sweets, hit by the sugar price rise and increases in the cost of labour and packaging, could be expected to jump 20 percent by next month
- Gouda cheese by 10 percent (and cheddar is almost unobtainable)

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

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

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

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

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

A five-litre carton now selling for R5,99 would jump to R7,83 after GST

2 BUSINESS DAY, Wednesday, January 7 1987

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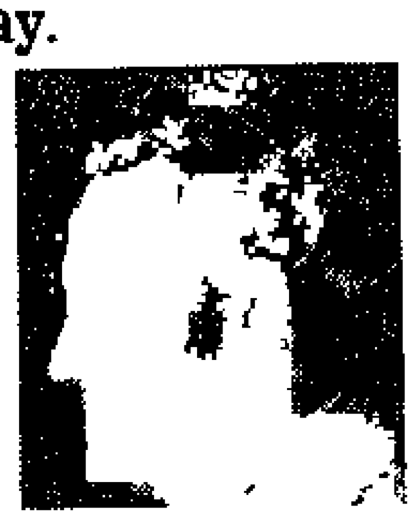
Call for price and salary freeze

Dire warning about inflation

GERALD REILLY and Sapa

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

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



● CRONJE

Recent price rises painted a bleak picture for 1987.

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

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

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

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

Detergents and toiletries will cost up to 12% more

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

The price of cheese has already been increased.

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

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

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

"The government is blamed by the private sector for excessive spending, but by constantly increasing prices the private sector must share the blame."

Cronje asked why, when the price of maize decreased by 25% and the price of cement remained unchanged, other manufacturers and traders could not follow suit.

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

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

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

Manufacturers producing specific uniforms for schools would obviously charge more

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

Cronje stressed that the final decision on school uniforms was made by parent committees. Hence the onus lay on parents themselves to obtain cheaper uniforms.

7/1/87 STAR 153

The Star Wednesday

Food prices set to soar

The Consumer Council predicts a gloomy picture for 1987 unless inflation is stemmed

Price increases will break the economy, according to a Press statement released by the council

It reports affirmation from one of the biggest chain stores that food prices are are expect ed to rise by about 19 percent

Motor industry members are estimating a 40 percent mark-up on new car prices this year, according to the statement

The council maintains that in such a climate, inflation cannot be stemmed It believes that a price and salary freeze would have the desired effect

The council's director, Mr Jan Cronje, said, although the Government was blamed for excessive spending, the private sector was also guilty of constantly pushing up prices

Mr Cronje said parents stuck with buying expensive school uniforms should approach their parent committees

Prices could be lowered if uniforms were rationalised, he said

Govt blamed for shrinking rand as inflation spiral worries economists

STAR

By Michael Chester

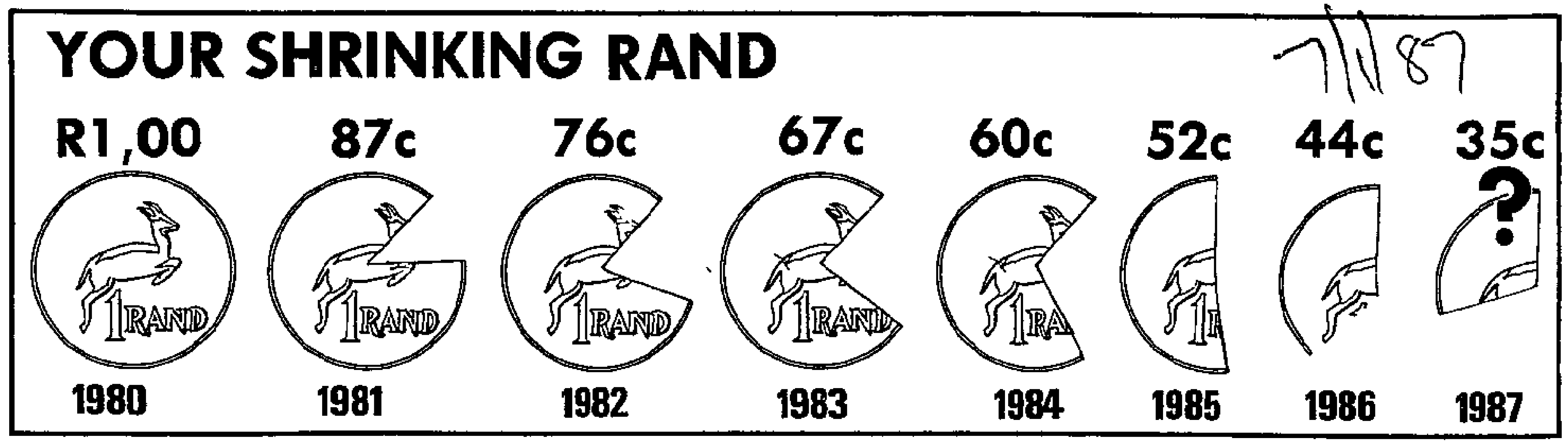
The buying power of the cash in your pocket has shrunk by more than 55 percent in seven years and the R1 coin of 1980 may be worth no more than 35c by the end of 1987.

Disclosures of the dramatic erosion of the consumer value of the rand have emerged from studies by the Econometrix research unit. They underscore the mounting concern of economists over South Africa's failure to follow the lead of its Western trading partners in finding solutions to rampant inflation.

The director of Econometrix, Dr Azar Jammine, believes, because of debatable weaknesses in the composition of official statistics, the full degree of shrinkages to the rand may be even worse than the cuts reflected in the consumer price index (CPI).

Even the CPI concedes that a basketful of household items that cost R100 in 1980 now costs around R240 with the annual rate of inflation running close to 20 percent.

The result is that the purchasing power of the rand has toppled from R1 in 1980 down to 44c, with a deeper slide threatened as economists despair about the inflation spiral and the long-term impact on living standards.



Dr Jammine blames Government mismanagement of fiscal and monetary policies as the main cause of inflation.

He said: "The Government has made a hash of it ever since it wasted its opportunity to set the economy on a dynamic new course in the early 1980s when an avalanche of money came into the country with the wild climb of the gold price above $850 an ounce

"Instead, it allowed and encouraged a mindless explosion in buying on credit as the money supply spun out of control.

"The way the private and public sectors permitted wages to gallop higher without any comensurate increase in productivity is also to blame," he said.

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

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

Dr Jammine said: "The temporary boom at the start of the decade set in motion a massive movement towards bigness in business, with big corporations growing even bigger through a succession of takeovers of smaller companies and the emergence of massive concentrations of corporate power.

"It's a controversial issue, but I am convinced the sheer size of business enterprises can cause hiccups in classical economic theory

"Theoretically, when demand falls, as in the prolonged recession we have been in, prices should come down to bring demand and supply back into equilibrium

"Unhappily, it is obvious that many giant corporations, rather than reduce prices, have simply resorted to reductions in production volumes, hoping high prices will balance lower sales volumes However, they have caused more unemployment and loaded the problems elsewhere

"Several companies in specific industrial sectors, such as the motor industry, would have been forced to make different decisions on prices had they not been under the umbrella of huge conglomerates that virtually guaranteed their survival whatever their strategies," he said.

"There's a weird mixture of causes for all our inflation woes. But in the final analysis it is the Government that must shoulder the bulk of the blame because of its poor performance in economic management on so many scores "

Argus 7/1/87 (153)

Rand drops 20c over 18 months

By DEREK TOMMEY
Finance Editor

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

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

The figures show that a basket of goods that cost R10 in May, 1985, now costs almost R12,80 — an increase of 28 percent

It means that today's rand is worth less than 80c in May 1985 terms

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

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

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

LAGGED BEHIND

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

Some may not have realised this yet as they may have been able to exist on their past purchases But they will know it when the time comes to buy another car (up 61,9 percent in price over the past 18 months), or domestic appliances (up 32,8 percent) or have to embark on a course of medicines (up 36,6 percent)

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

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

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

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

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

	percentage
Car running costs	03 7
Fats and oils	11 2
Public transport	11 2
Sugar	17 1
Vegetables	18 4
Cigarettes	20,0
Alcoholic beverages	20 0
Communications	20 9
Services	22 8
Clothing	23 2
Housing	23 3
Grains	24 2
Clothing and footwear	24 6
Transport	24 9
Fuel and power	25 0
Education	25 8
Furniture	26 3
Reading matter	26 3
All except food	26 3
Domestic servants	26 5
"Other" foods	26 5
Furniture and appliances	26 8
High income living costs	27,9
Milk, butter, eggs	27 0
Low income living costs	27 4
All items	27.9
Cold drinks	28 0
Middle income living costs	28 2
All except housing	28 9
Personal care	30 0
Footwear	30 4
Commodities	30 5
Household operations	32 7
Appliances	32 8
Food	32 9
Medical	36 6
Fruit	37 1
Recreation, entertainment	43 0
Fish	44 0
Meat	45 6
Coffee, tea	48 3
Cleaning materials	50 9
Vehicles	61 9

Inflation warning

Sowetan 8/1/87

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

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

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

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

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

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

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

Toiletries and detergents will cost up to 12 percent more.

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

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

The private sector and wage-earners cannot continue to claim more from the economic system, he is reported as saying.

Business Report

THURSDAY, JANUARY 8, 1987

CAPE TIMES 8/1/87

'Govt policy' caused high inflation rate

JOHANNESBURG — The present high inflation rate is a result of government mismanagement of the economy by allowing a buying spree on credit when the gold price rose in 1980, says the director of economic consultants Econometrix, Azar Jammine

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

A report from Econometrix forecasts that the real value of the rand — with a buying power nearly half that of seven years ago — will have shrunk to 35c by the end of 1987

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

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

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

The result is that the purchasing power of the rand has plunged from R1 in 1980 down to 44c, with a deeper slide threatened as economists despair about the inflation spiral and its impact on living standards

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

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

The ambition to start closing the wage gap between white and black employees was "commendable"

But government's error was "the failure to find simultaneous remedies for SA's dreadful productivity record"

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

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

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

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

"However, they have caused more unemployment and loaded the problems elsewhere" — Sapa

Car price hikes to be less than inflation — VW head

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8/1/87

By Jeremy Sinek

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

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

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

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

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

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

STEADY RAND

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

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

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

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

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

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

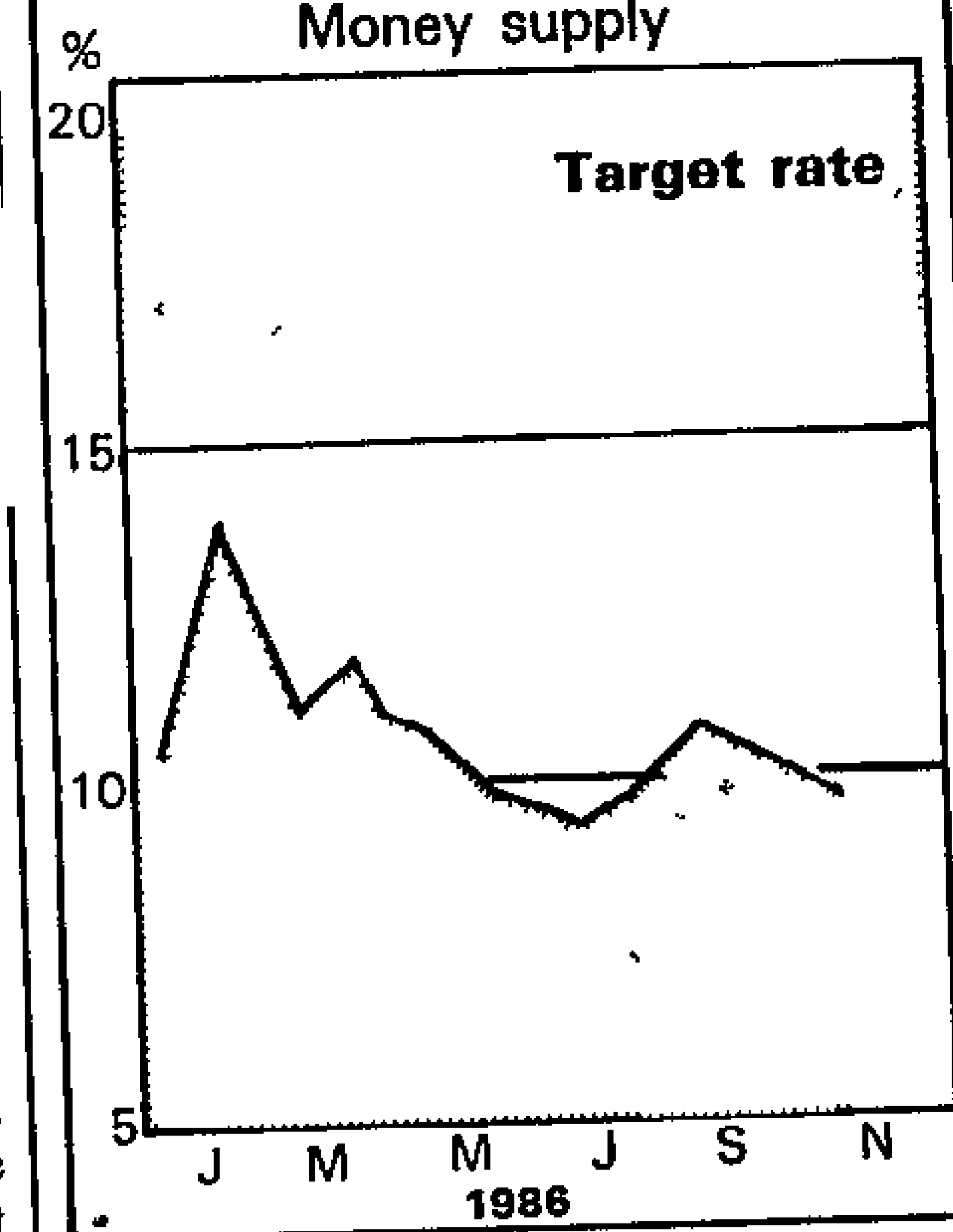
"If this holds through the year, as it should, there is the potential for growth considerably better than five percent"

LOST TARGET FOUND

This graph corrects that published with a story in the *FM* on December 26, headed "Where's the target?" Unfortunately some details were omitted.

The accompanying corrected graph shows that to November 1986 growth in M3, the broadest monetary aggregate, was persistently below the Reserve Bank's target band of 16%-20% Preliminary figures for November put M3 growth at 9,71% year-on-year to R78,3 billion, compared with the revised figure for October of R78,5 billion, a growth of 10,37% year-on-year

Still off target
Money supply



INFLATION 158 FMfau 9/1/87

Food snag

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

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

Meat prices also surged in December

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

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

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

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

Steenkamp predicts a marginally lower inflation rate of 16,75% for 1987, which, of course, "is still very high" He suggests relief could stem from the slightly better performance of the rand and the recent cut in maize prices (see *Business).*

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

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

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

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

The underlying concern of economists is the volatile times A serious anti-inflation strategy could help diminish volatility and restore fragile business confidence ■

Food hikes to hit soon

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

Many of the increases were expected before the end of this month CITY PRESS 153

The 15% increase in the sugar price was expected to have a ripple effect on products ranging from jam, condensed milk and biscuits to soft drinks, the SABC said.

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

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

11/11/87

11/1/87
SUN TIMES

153 244

Soaring prices raise new inflation bogy

By David Southey

INFLATION shudders are once again rippling through the economy

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

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

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

Supply

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

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

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

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

Warning

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

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

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

Old Mutual found that the Budget deficit, expressed as a percentage of gross domestic savings, had declined from an average of 16,4% for 1970-1980 to an average of 13,3% since 1981

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

Flexibility

Another positive factor in the fight against inflation, says Mr Moore, has been the "remarkable flexibility in recent years in real wages" Except for a brief spell in the 1970s, real — inflation adjusted — wage increases have consistently fallen short of the inflation rate

Of course, there is no guarantee that economists will be right in their predictions of a slightly lower inflation rate for 1987, but there is insufficient evidence available for them to revise their views

Inflation set to decline — report

(153) BDay 12/1/87

HELENA PATTEN

THE SHARP decline in the value of the rand and distortions in the free-market system are the major reasons for SA's continued high inflation rate, says Trustbank's latest *Economic Report*.

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

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

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

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

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

It also criticised government's plans for a separate tax system for the regional service councils, on the grounds that it penalised labour-intensive businesses and businesses operating on a high turnover and a low profit margin. The administration of the system would also be expensive."

Cars sales crash as prices spiral

BUSDAY 153 16/1/87

DAVID FURLONGER
Industrial Editor

SALES of new cars are at their lowest level for 10 years — while truck and bus sales have plummeted to a 24-year low.

Motor industry figures released today confirm that 1986 was the year motorists finally gave up the unequal struggle against spiralling prices

Industry officials say car prices have risen by between 85% and 93% in three years — more than double the rate of most pay increases.

National Association of Automobile Manufacturers (Naamsa) director Nico Vermeulen says that in an average year between 8% and 9% of the car population — currently estimated at 3,2-million — is replaced. In 1986, this fell to around 5%.

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

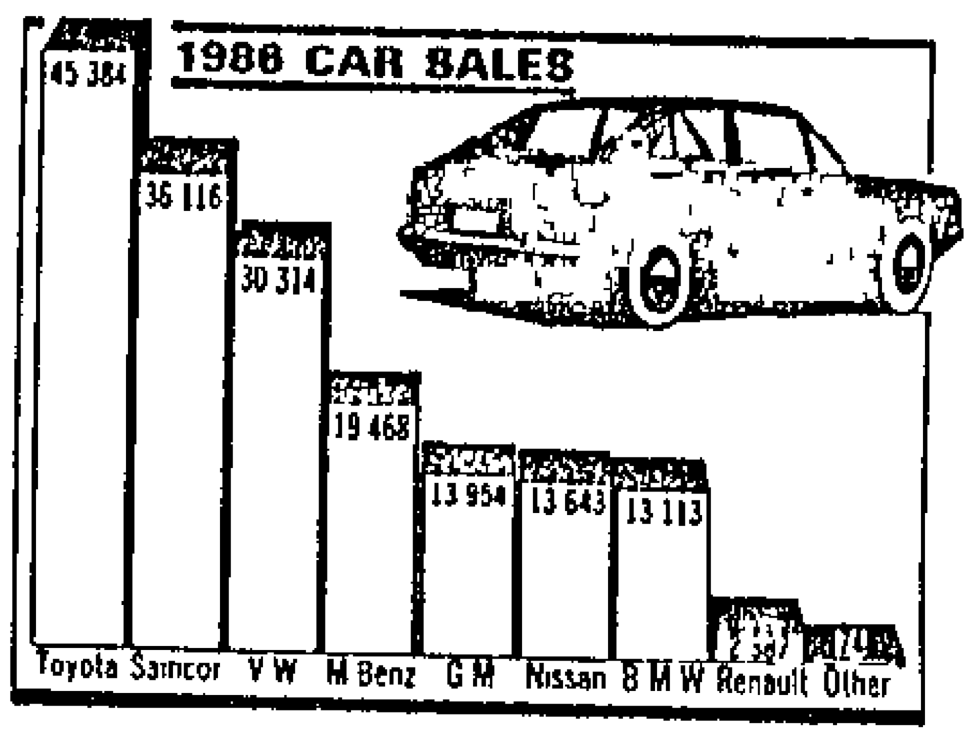
The latest figures show that car sales in December fell to 12 076, the lowest monthly performance for 10 years. The total number of cars sold in 1986, 174 453, was also the worst for 10 years and 14,6% down on the previous year's 204 000.

Only two manufacturers — Volkswagen and BMW — actually increased car sales in 1985, both by a few hundred The big losers were General Motors, which saw sales crash from 19 000 to 14 000, and Samcor with a drop from 42 000 to 36 000.

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

Truck and bus sales, however, were a disaster — the total of 6 839 was the worst since 1962 and over 34% down on 1985

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



● To Page 2

New vehicle sales plummet

17/1/87 BUSDAY 192 153

● From Page 1

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

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

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

Nevertheless, they expect sales in all sectors to increase during 1987.

San Times
18/1/87
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Inflation rise looms as oil prices firm

By Lee-Ann Louverdis, Barclays Bank international economist

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

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

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

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

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

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

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

Interest

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

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

The markets expect the Federal Reserve to adopt an easier monetary policy.

It appears that all the major factors are in place to effect an uptick in international inflation this year.

153 BDAY 16/1/87

Continuing high inflation is SA's most pressing economic problem. As part of the debate on this important issue, *Business Day* has commissioned the views of several prominent economists on the causes of SA's double-digit inflation and their suggested solutions. This is the first article in the series, to be published over the next few weeks

The crucial cause of inflation lies in the fiscal field

☐ GELDENHUYS "public frustrated and without confidence in the policy-makers"

LOUIS GELDENHUYS of George Huysamer and Partners

SOUTH AFRICA'S inflation experience in recent years is not to be explained by one or two simplistic considerations Moreover, the role of the various forces tend to assume varying degrees of prominence over time

Within this framework, the main causes of our unhappy experience can be traced to a combination of:

☐ The general level of uncertainty Political and related uncertainties influence the behaviour of market participants, and as these uncertainties reduce the time horizons within which subjects plan and operate, upward pressures on prices are inevitable.

The role of uncertainty and concern in our inflation should not be underestimated

☐ Unsound fiscal policies It is important to realise that fiscal policy entails much more than the deficit before borrowing.

In my opinion, the crucial cause of inflation is in the fiscal field and it embraces (i) the excessive level of government expenditure; (ii) the unsound nature (distribution) of government expenditure; (iii) the rising tax burden, (iv) the increasing emphasis on indirect taxation in an inflationary climate, while (v) the size of the deficit and the way in which it was financed also contributed periodically to the problem

☐ Stop/go (or too-much-too-late) monetary and fiscal policy approach This has been a feature of economic policy for years, but in an inflationary environment it adds additional fuel to inflation

This is particularly so in our case where economic policy has left the public frustrated and without confidence in the policy-makers

☐ The collapse of the rand The rand's plunge and the short period within which it occurred made an escalation of inflation inevitable.

In my opinion, the authorities have been too relaxed by far about the exchange rate given the deteriorating political and economic conditions

The inflationary impact is not only felt through imports, but domestic suppliers obviously relate their selling prices to internationally converted prices (viz wool)

☐ A cycle of salary and wage escalation There is every reason to conclude that considerations such as the closure of the wage gap, the stage of trade unionism in SA, the shortage of skills and election sweeteners form an important basis for almost continued undue escalations in the price of employed labour

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

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

It is not easy to change this characteristic and it tends to neutralise minor successes on the inflation front.

What may be true of behaviour today may not necessarily follow tomorrow Moreover, behaviour could be influenced by a different set of circumstances as time elapses

This and measurement problems make it virtually impossible to quantify the contribution of specific impulses to the price level.

Efforts to quantify the role of different factors are nevertheless of great value, because they should reveal more of the intricacies of behaviour

Care should nevertheless be exercised, in that conclusions are largely dependent on the way of thinking of the analyst.

It is easier to identify the causes of inflation (even although analysts may disagree on the causes) than to halt the process The reason for this is simple, as in the real world the political price for achieving success against inflation is perceived to be high

If left unabated, the same will obviously also occur and, given the devastating economic effects of inflation, there should be every reason to reduce the rate of inflation.

In brief, I recommend the following on the economic front — although, as outlined, I regard political confidence also as of significant importance.

☐ Set realistic targets The confidence of the public in economic policies has to be regained, and this will only come about with success

Efforts to stamp out inflation in one or two years are doomed. Do not make promises that cannot be delivered. Inflation will have to be curbed within an overall strategy

☐ Ensure that policy is not of the stop/go type.

As prices tend not to fall, a prime challenge in the fight against inflation is preventing excess monetary demand (and/or creating the scope for future excesses) in the expansion phase of the business cycle.

☐ Start to rectify the unhealthy fiscal situation. Particular emphasis should be placed on the mix of expenditure and ensuring that the overall level of expenditure (say, relative to GDP) be curbed. Price implications of tax changes should also be taken note of

☐ Shield the rand from speculative and political pressures. The rand exchange rate should be allowed to reflect foreign trade developments, but as in our extraordinary circumstances speculative and political pressures mostly depress the rand, the float of the currency should be managed through intervention and suitable regulations

I think that this has in any case increasingly been realised and implemented.

☐ Achieve salary and wage restraint. As public sector salary increases serve as an important signal to others, modest (responsible) increases could be important in breaking the wage spiral referred to earlier

To call for a salary freeze will create serious future tensions and therefore modest increases (say 50% of CPI), combined with more flexible employment practices, will be more appropriate.

☐ Critical questioning of proposed administered price increases Price increases can probably not be prevented, but given the inclination to "rectify" problems through the easy option of price increase, positive results could be obtained by critical questioning of the circumstances and the use of alternative action plans to face rising costs and financing problems.

Car prices already on the way up

18/1/87 SUNTIMES (153)

By Don Robertson

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

Price increases of 35% last year and 30% in 1985 led to a plunge in sales last year They were the lowest in 10 years

All manufacturers will have raised prices by up to 6% by the beginning of February

However, the January increases will be lower than the average last year Manufacturers fear that even if increases are held well below the inflation rate, it will be 18 months before the average person's disposable income will be sufficient for a new car

First time

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

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

A popular 1,3l car today costs R15 460 A buyer has to pay R433 a month over four years after a 10% deposit In addition, comprehensive insurance costs about R100 a month

To meet those payments a buyer must earn about R620 a month before tax at 40%

Last year's car sales were the lowest since 1977 at only 174 453 units — and down 14,6% on the 204 322 in 1985

Light commercial vehicles (LCVs) were also at a 10-year low at 78 934 units — and 7,4% off the 85 261 units sold in the previous year

Heavy-truck and bus sales plummeted to a 24-year low of 6 839 compared with 10 430 in 1985

Luxury manufacturer Mercedes-Benz will raise the price of all its models by 6% tomorrow Prices of the Honda Ballade, made by Mercedes, will be increased by 2,3% for the 130 model and 6% for the 150i

Although December's total car sales fell by 7,8% from November, Mercedes-Benz recorded a 36% increase to gain its best-ever market share The improvement came largely from Honda Ballade and Mercedes 124 sales Its share of the car market last year rose by 0,5% to 11,2%, and it dominated the heavy-truck market with 35,5%

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

New Skyline

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

Toyota continued to set records in market share last year with 29,8% of the total — 26% of cars and 37,1% of light and heavy commercials Its Corolla alone held 17,5% of the car market It held almost 40% of the LCV market

Toyota will raise prices on February 2 Marketing director Brand Pretorius, although not disclosing the

● To Page 3

Abra[hamsen] off [to] Neth[erlands]

By David Carte[r]

ROB Abrahamsen, d[e]posed chief execut[ive] of Nedbank, is retu[rn]ing to his native Netherlands to take up banking job

Mr Abrahamsen starts new career as an adviser [to] the Nationale Investering[s] Bank, an investment [bank] headquartered in The H[ague] at the end of this month.

Since leaving Nedbank year ago, he has worked as stockbroker at Frankel K[ru]ger Inc He sought to arr[ange] loans between institut[ions] and blue- chip companies keener rates than th[ose] offered by banks

Profitable

He says "It was an [...] which has proven prof[itable] overseas, but which was te[m]porarily thwarted here by [the] decline in interest rates [...] slack demand for money [I] am grateful to the Fran[kel] for giving me an opportuni[ty] but I think I am a bank[er] more than a broker"

Mr Abrahamsen chose t[he] from several number offe[rs] to him in SA and other co[un]tries, including the US. [He] will not elaborate on the ot[h]er offers

"I thought this offer const[i]tuted the most interest[ing] new challenge Nationale I[n]vestering Bank is unusual

Argus, Caxton Hortors spin Waltons web

18/1/87 SUNTIMES (232) (194)

Business Times Reporter

WALTONS Stationers, Business Times Top Company for 1986, may become further ensnared in the control spiderweb connecting Argus, Caxton and Hortors.

Argus has 49% of Caxton, the magazine and suburban newspaper printer and publisher, and 50% of Hortors

In December, Hortors warned shareholders to be cautious in dealing with their shares as negotiations which could affect their value were taking place

It appears that Caxton is [...] he has had discussions with Caxton

It appears that the discussions concern the 8% stake Hortors already has in Walhold and stationery operations in Hortors and in CTP that Waltons desires

Mr Robarts will not be drawn, but says his management team and that of Caxton "get on famously"

Merry Short, chairman of Caxton, says Waltons and Caxton have similar styles, have been similarly successful — and both have money

But he will not be drawn on the precise direction of negotiations between Caxton and Waltons

Brighter outlook for inflation-battered construction industry

56r

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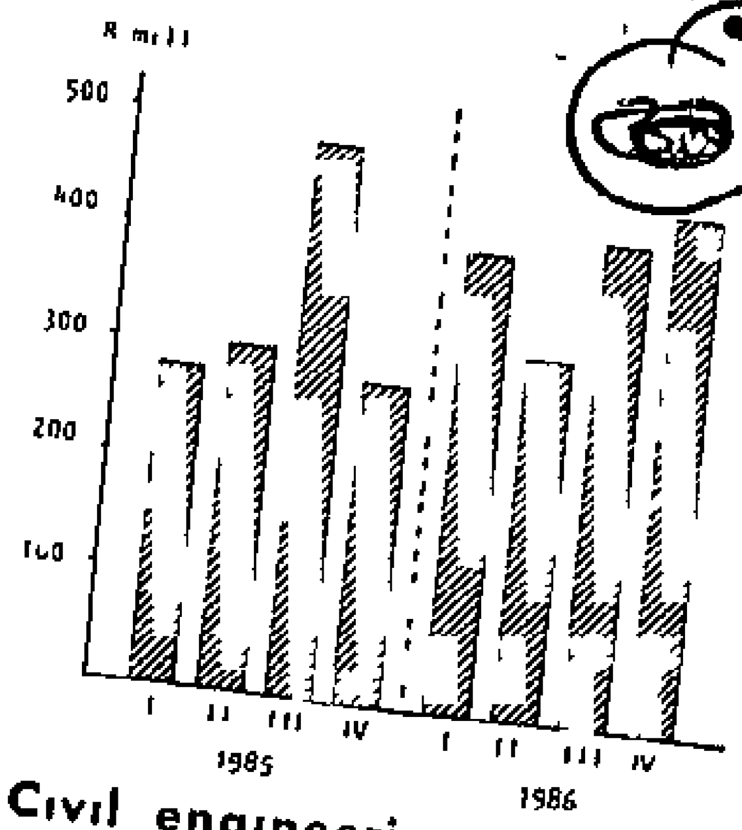
20/1/87

By Frank Jeans

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

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



Civil engineering contract awards

ROADS SECTOR

The 40 new contracts, amounting to a total of R85 million hoisted the value of work for 1986 to 1 165 contracts worth a total of R1 585 million

"As a result," says Safcec, "even after adjusting for the inflation of construction costs of 15 percent or more last year, the total for 1986 in terms of volume of new contracts is on a par with the total of R1 350 million (950 contracts) record in 1985 "

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

It was the roads sector again, which boosted the new work intake in December, with R35 million in National Transport Commission contracts

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

Inflation rate down slightly in December

ARGUS 21/1/87

153

Finance Editor

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

The index rose 1,0 percent to 244,9 This followed a rise of 1,3 percent in November, Central Statistical Services reports.

It led to a reduction in the year-on-year increase to 18,1 percent — from 19,2 percent in the 12 months ended November.

Prices of gilt-edged stock rallied on the capital market on news of the drop in the inflation rate, reports Reuter It resulted in yields on Government stock dropping to 15,17 percent from 15,28 percent

December drop in inflation rate

BUSDAY 22/1/87 153

HELENA PATTEN

INFLATION, as measured by the consumer price index (CPI), remained above 18% in December 1986, dropping marginally from a year-on-year increase of 19,2% in November.

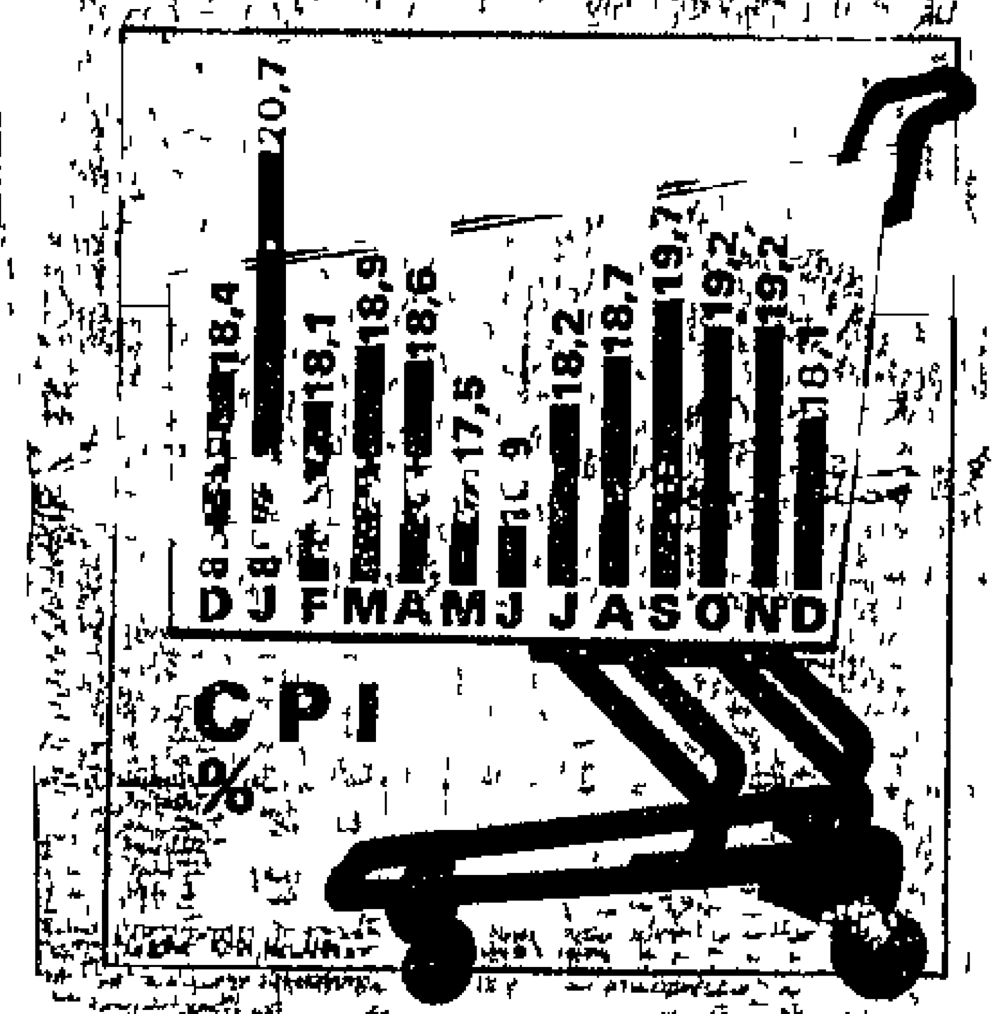
The December rate of 18,1% made for a 1986 average rate of 18,6%, compared with 16,2% in 1985 and 11,7% in 1984.

Economists said the December drop was expected, especially in view of a stronger rand. Further declines for "technical reasons" could be expected for January and February owing to large increases in the index for those months in 1986 However, hikes in administered prices are expected to filter through in March and April.

Consumer prices rose 1% from November to December, after rising 1,3% from October to November and 1,1% from September to October. Expressed at an annual rate, the increase over those months was an encouraging 14,7%.

The lower-income group experienced worst inflation in December with an 18,5% increase. The price index of the middle-income group rose 18,3% while the higher-income group experienced a rise of 17,8%.

Food prices rose 1,7% in December, giving a year-on-year increase of 20,8% compared with 22,9% in November.



BUS DAY 153 22/1/87

"THE VITAL VIEWPOINT"

Petrol prices may increase again later this year

DAVID FURLONGER
Industrial Editor

STOCKPILING of fuel reserves is slowing down because the country can no longer handle the rate of fuel coming in

The slowdown is only temporary, however, and stockpiling will build up again later this year.

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

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

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

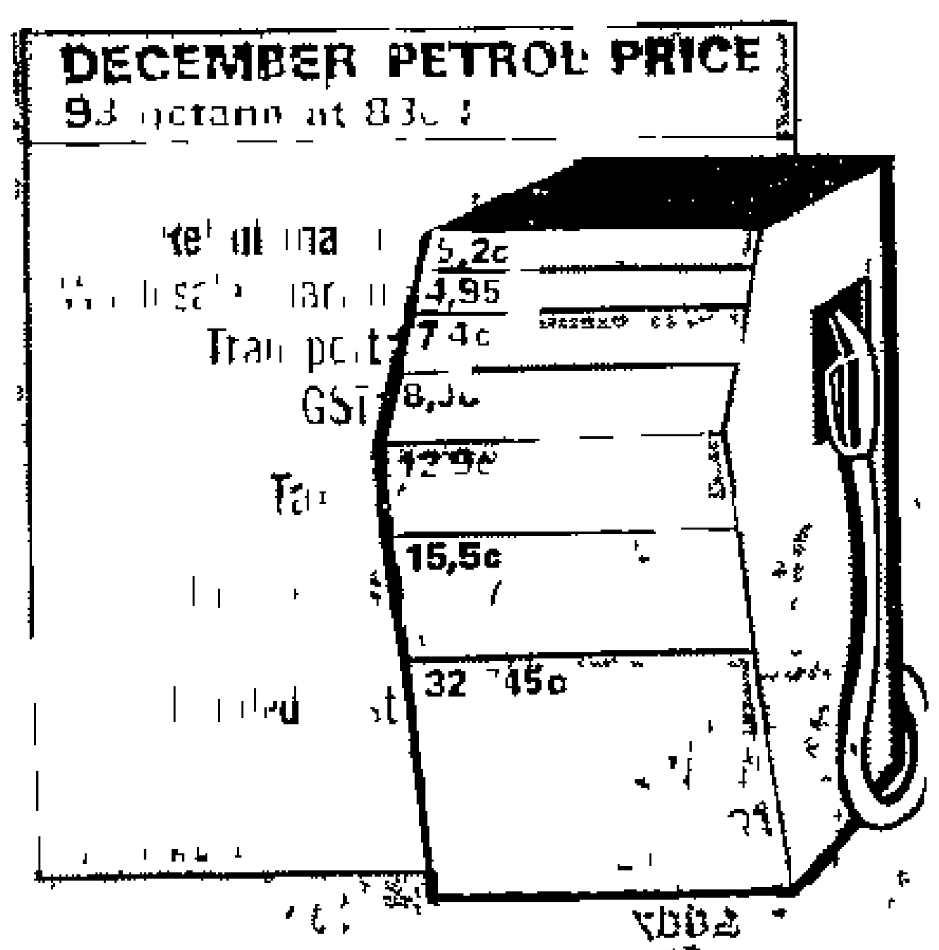
The present slowdown is the reason why the 5c "stockpile" levy on a litre of petrol is being withdrawn Government sources told *Business Day* this week the 5c was being transferred to the slate to prevent an immediate increase in petrol prices

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

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

Retailers currently receive a 5,2c profit margin on each litre of petrol sold, and wholesalers 4,958c. Alberts says retailers want "a few cents more" and wholesalers "a fraction of that".

"Their margins have been constant for a long time," he says "With wages and expenses going up, they may have a valid argument We want to look very carefully at their needs."



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

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

BUS DAY 153 21/1/87

☐ CLOETE .. "Product markets are to a considerable degree imperfectly competitive

JOHAN CLOETE/Former chief economist at Barclays

THE South African economy has been experiencing cost push inflation in the form of a continuous price/wage spiral ever since production and living costs were sharply raised under the impact of the substantial fuel price increases in 1973/74

It is true that at times — such as during the 1980/81 boom — conditions of excess demand engendered by the sharp rise in the gold price pushed the underlying price/wage spiral upward, while on other occasions (as during the 1981/83 recession), a contraction in demand exerted downward pressure on this spiral.

For the greater part of the past 12 years or so, however, the economy has operated with surplus production capacity — i e., in conditions of insufficient demand where there could not have been upward pressure on the general price level because of too much demand.

Thus, the continuous increase in prices since 1973/74 must be mainly attributed to a price/wage spiral which once it had been firmly established, continued to feed on its [illegible], with producers and firms constantly raising their prices in response to prior wage cost increases and on expectations that wage and other costs would continue to increase in the future and with employees also demanding constant wage increases in reaction to prior price increases and to compensate them for expected continued further inflation.

Conditions in the South African economy are, of course, very conducive to the generation of a price/wage spiral Product markets are to a considerable degree imperfectly competitive, which means that producers and suppliers react to wage and other cost increases by raising prices in the first instance and rather cut down on output and employment to support their higher prices and protect profit margins

In the labour markets, too, conditions are conducive to wage demands that exceed labour productivity increases

The structural shortage of skilled labour, together with strong upward pressure on black wages, accompanied by a low level of productivity, are important factors in this respect, making for wage increases that exceed productivity growth

Furthermore, a large part of wage and price formation in the economy takes place in the public sector and is thus subject to discretionary decisions partly based on political considerations and not on the competitive forces of demand and supply

This means, in effect, that prices and wages are to a considerable extent under the influence of government's price and wage policy at all times

The excessive inflation rate prevalent since 1973/74 has, of course, had to be financed and a continuous excessive increase in the money supply (mainly in the form of bank credit extended to the private sector) has, in fact, been forthcoming during the period

This has, however, been mainly a case of the price/wage spiral — i e , of prior increases in prices and wages, causing the excessive increases in the money supply rather than the other way round.

There are only two ways (or a mixture of the two) in which a price/wage spiral can be reversed once it has taken firm root and expectations that it will continue in the future have been generated, thereby inducing both employers and employees to automatically "index" their budgets, forward planning and their wage contracts to the current rate of inflation plus something extra

One way is to depress demand and thus sales by means of restrictive monetary and fiscal measures, thereby generating production cutbacks, unemployment and business insolvencies, which force both employers and employees to moderate their price increases and their wage demands

Thus, to bring the strong price/wage spiral already underway under control by applying restrictive monetary or fiscal measures would mean the imposition of a recession on the economy which will probably have to be severe and prolonged in the face of the strength of this spiral

The medicine of deep and prolonged recession and the large-scale unemployment which would accompany such a recession, however, could not and still cannot be administered in the case of SA because of the likely disastrous social and political consequences of such a policy in the circumstances prevailing in this country

For this reason, the monetary authorities were forced to abandon their recent attempt to bring inflation under control through the imposition of record high interest rates on the economy with the underlying price/wage spiral still largely intact

In the absence of enforcing the necessary price and wage discipline through recession and unemployment, the only other way of reversing a firmly rooted price/wage spiral is for the fiscal and monetary authorities to persuade the country's main price and wage makers that it will be in their own best longer-term interests to practise such discipline themselves

They must be persuaded and shown that, by moderating their annual price and wage increases of their own accord, the constant increases in wage costs (the main cost element) would be reduced at the same time

This, in turn, would mean that price increases can be moderated and thus the inflation rate can be brought down without "real" sales and profits and "real" wage incomes and employment having to be depressed by recession

And since wage and price increases under government direction play such an important role in price and wage formation overall, it is crucial that such a process self-discipline should be [illegible] by government in the first [illegible]

Disciplined wage and pri[illegible]ting behaviour by gov[illegible] (which also implies discipline [illegible] government expenditure) strongly encourage such [illegible] in the private sector as well

Moreover, as wage incomes [illegible]erated in the public sector [illegible]tute such a substantial part of demand in the economy, [illegible]tion in public sector wage [illegible]creases would force the [illegible] sector to moderate their price [illegible]creases

To be successful, a policy to [illegible]verse the price/wage spiral require that a definite target be [illegible] for the level to which the infla[illegible] rate — and thus also the rate [illegible] increase — in average [illegible] wages are to be reduced in [illegible] year ahead

In this respect, the Rese[illegible] Bank has recently taken a [illegible]cant step forward in setting a [illegible]nite target for monetary [illegible] But this does not go far enoug[illegible]

The money supply target [illegible] to be supported by definite [illegible] publicly announced, for the rate [illegible] increase in government [illegible]tered wages and prices, in gove[illegible]ment expenditure and in real [illegible]

In this way, monetary and [illegible] measures and wage and price [illegible]straint will be reinforcing [illegible] other, thereby greatly [illegible] the chances of achieving the [illegible]tion and growth targets [illegible] upon

With government [illegible] committed to such a set of [illegible] economic and anti-infla[illegible] policy would not only gain in [illegible]bility (thereby influencing [illegible]tionary expectations in the [illegible] direction) but the fiscal and [illegible]tary authorities are also likely [illegible] apply the policy measures [illegible] to achieve the targets set [illegible] greater resolution than they [illegible] shown in the application of [illegible] over the past 12 years (no [illegible] inflationary policy — [illegible] monetary, fiscal or prices and [illegible]comes policy — will work if it [illegible] not properly applied)

Moreover, decision makers [illegible] the private sector would also [illegible] provided with a clearer picture [illegible] the macro-economic situation [illegible] is likely to prevail in the [illegible] ahead and of the price and [illegible] behaviour which they will need [illegible] observe if growth is to be [illegible]guarded

They can align their budgets [illegible] their wage and price decisions [illegible]cordingly, which would [illegible] the policy measures of the [illegible]ties and also improve the [illegible] of the growth and inflation [illegible] set being achieved

"No anti-inflationary policy will work if it is not properly applied"

BUSDAY 23/1/87

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The race to get in front in the wage battle must stop

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

☐ **GEERT L DE WET is Professor and head of the Department of Economics at the University of Pretoria**

GEERT L de WET

MY VIEW on inflation in South Africa is based on an extensive study which I conducted last year at the RAU, in co-operation with some colleagues and students of mine for the AHI.

We covered the literature and empirical studies, abroad and locally, before preceding to analyse the situation in SA.

World-wide inflation escalated between the mid-Sixties and the beginning of the Eighties, since when it has been declining, but — in contrast to our main trading partners — SA is still faced with an inflation rate which pushes upwards.

Those countries that succeeded in bringing down inflation had to go beyond monetary and fiscal discipline. The US and Britain have been remarkably successful in bringing down inflation by, *inter alia*, turning away from socialism and socialistic practices towards a free market.

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

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

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

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

Yet other forces are present in causing such a trend. Starting at well below 5% in the mid-Sixties, the rate touched 20% in 1986 Along the way the rate accelerated and decelerated in cyclical fashion, as the cyclical causes revived and faded alternatively, but the upward trend was unmistakably present.

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

First, there are cost-push factors. Wage-per-unit-output, which is nothing else but the inverse of a crude productivity measure, moved horizontally between 1910 and 1965, but ever since 1965 it has shot steeply upwards, although cyclical accelerations and decelerations have still occurred Import prices have also shown a similar pattern ever since 1965

Behind them lie foreign inflation and especially a chronic, weakening rand. Although the rand has weakened considerably over the last two years, the downward trend has already been noticeable over the last two decades

Both these cost-factors are normally influenced by inflation, but both also contain exogenous elements which have driven them continuously upward. In fact, it is important to note that once inflation is underway there is very little sense in talking about causes and symptoms.

What is a symptom from one angle turns out to be a cause from another angle, and vice versa

The distinction between underlying, initiating and propagating forces is much more useful, and in this context even endogenous variables become causal factors insofar as they propagate inflation

This holds, of course, also for excess demand factors, such as government expenditure and monetary expansion.

A second set of upward-trend factors comprises market disturbances and intrusions when the normal decentralised price-forming and production process under competitive conditions is absent They form underlying, initiating and propagating forces

In this respect prices, controlled through special legislation — such as electricity tariffs, postal tariffs, transport tariffs, the steel price, the petrol price and the whole set of agricultural prices controlled by the marketing boards — have played a major role in the upward inflationary trend.

Empirical research shows that over the past two decades these prices have caused a continuous set of shocks.

In almost every year some of them increased by much more than the rate of inflation, ensuring that the upward trend in the general price level has been sustained without interruption since they are all important prices, each of which cause cost increases over a wide front

Even the shocks caused by GST increases become inflationary when viewed as part of this set of price shocks Under normal market conditions, these prices would not have been able to cause inflation, but being controlled the way they are they form a set of factors which constitute initiating and propagating forces.

Also part of market disturbances is the wide range of mono and oligopolistic conditions. There is no evidence that bigger concentrations cause more inflation than smaller ones, but empirical research shows that all of them keep prices from declining during recessions and cause prices to rise, especially towards the end of a recovery phase.

Import tariffs and import control show no continuous rising pattern, but certainly distort the market and form part of the underlying inflation-friendly structure.

The third upward trend cause ties up with the first When wage-per-unit-output is studied in different sectors, one finds a continuous race between all sectors, private and public, to get on top.

This is certainly one of the major reasons why overall productivity is continuously declining

The dualistic nature of the South African economy may also cause structural inflation, but it is almost impossible to test this empirically due to a lack of data

Now — how should inflation be curtailed? First, monetary and fiscal discipline is necessary to prevent excess demand forces from causing cyclical increases in the general price level

Excess demand — and especially government expenditure and monetary expansion — may very well become chronic inflationary elements if left unattended.

Yet one could not deal with the structural element — the upward trend — through monetary and fiscal discipline, simply because such discipline will not touch upon the structural causes unless you want to halt all action through killing the entire economy.

Monetary and fiscal discipline means that the budget should be balanced and, to the extent that it is not, the deficit should not be financed by the Reserve Bank or the monetary banking sector, but by genuine long-term loans

If one wishes to go further, one is asking the monetary authority to start to tamper with interest rates and the money supply, which are normal market variables and should be left alone

No human being could know better than the market what interest rates and the rate of money growth should be.

Furthermore, for political and technical reasons, the Reserve Bank will in any case not be able to keep continuous control over the money supply, while it can be shown that, even if it could, that will not stop inflation if the other causes are not addressed Space does not permit to dwell further on this point.

How should the upward trend forces be removed? Over the long-run the only solution is privatisation and deregulation, so that all prices, wages and rates are determined through decentralised bargaining in the market

Over the short-run those prices, wages and rates that are already controlled should be controlled by way of market simulation and not the way they have been controlled up to now.

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

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

The wrong way to do it would be for government to freeze wages. The right way would be for the various employee organisations and the employers to get around the table, face up to the consequences of this race and to find a way to halt it.

There are a few possible ways to to do it, but space once again does not permit to elaborate on it.

If we don't act, inflation may soften somewhat in 1987, but over the medium-term it will go up and in the long-term it will be heading for 30% and higher.

Sanlam pessimistic over prospects

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Pay demands are fuelling SA inflation

BUS DAY 27/1/87

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Business Day Reporters

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

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

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

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

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

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

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

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

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

SEVENTH IN A SERIES

Dr BETHLEHEM is group economics consultant, JCI

Inflation in SA: obstacle to growth and stability

B/Day 11/2/87

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RONNIE BETHLEHEM

TO BE meaningful, any assessment of inflation in SA must do two things. It must examine SA inflation in global perspective and it must examine it in the perspective of the SA socio-political situation.

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

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

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

Particularly interesting of the Eighties is the fact that there has been a major downward correction in world inflation, but inflation in SA has not followed On the contrary, it has actually increased

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

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

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

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

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

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

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

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

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

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

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

Space dictates that they be mentioned only·

- Political pressure for closing wage gaps faster than productivity would otherwise have allowed,
- The large rise in defence and security spending relative to GDP,
- The elephantine and growing non-productive public sector; and
- The role of administered prices.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

If these things are done, the possibilities of dealing with inflation effectively will be increased. If the challenge they present is not met, the hope of getting down the adverse inflation gap between SA and its main trading partners will be frustrated, with all that that implies for a further collapse of the rand exchange rate

SA's growth requirements and its fear of socio-political destabilisation both foster the belief that measures that could contain inflation effectively cannot be afforded.

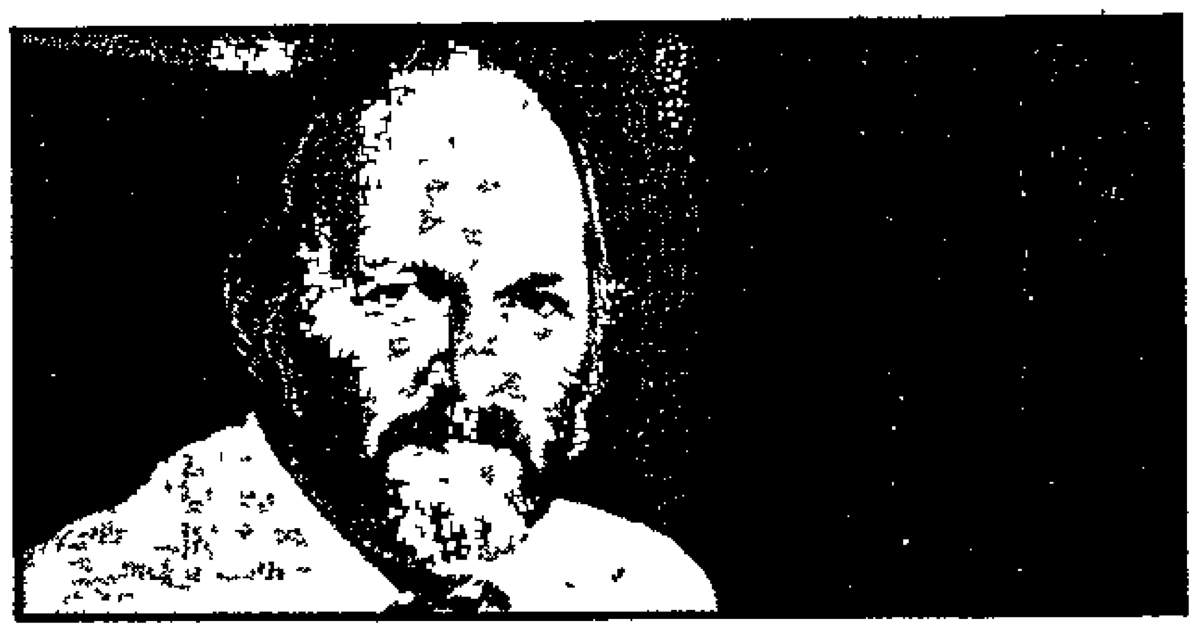
So inflation comes to be seen as a necessary consequence of adjustment — i.e., money illusion is required to obscure unpleasant effects or policy errors

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

Perils of applying an economic state of emergency

BDay (153) 30/1/87

PHILIP P J MOHR



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

I HAVE been asked to comment briefly on the causes of South African inflation, the quantification of these causes and the appropriate policy responses to current inflation.

As to causes, two important facts have to be kept in mind when dealing with the current inflation in SA. Firstly, inflation is a *dynamic process*. Secondly, it is as much a social and political phenomenon as an economic one.

Unfortunately, these two basic facts are often ignored or neglected. The result is that many diagnoses of inflation and their accompanying policy implications have little relevance to the real world situation.

There are various analytical procedures which can be employed to emphasise the fact that inflation is a process. For present purposes it is, however, sufficient to view inflation as the inevitable result of a chronic imbalance between the rate of growth of the effective claims on the national product or income and the rate of growth of the product itself.

In other words, inflation is the inevitable result of the efforts of the various economic groups to take more out of the economy than they are contributing towards it.

These efforts are backed by their economic and political power, which enables them to thwart the discipline of the market and/or any other form of economic discipline that the authorities may try to impose.

In terms of this little model, the high inflation rate in SA during the past decade can be attributed to the rapid growth of income claims, along with the lower rate of growth of the real national product.

In other words, South Africans claimed increasing slices of the national pie at a time when the pie itself grew relatively slowly and even shrank in certain years.

Who, then, are the main culprits? The answer is just about everybody. Government, skilled labour, unskilled labour, firms and even the foreign sector (e.g., the Arab oil sheiks) have all contributed to the rapid growth of the claims on SA's national product.

In any particular period some have, of course, been more guilty than others. But that does not absolve the relatively less guilty. For example, public servants have often had to contend with pay freezes but on other occasions they received mammoth increases.

Moreover, a wide range of factors underlie these income claims. They include: the various aspects of government policy (e.g., defence, homeland development and education) which result in increased government spending; trade union power; the power of the big corporations; and a socio-political concern with the position of the less skilled or powerful.

The question as to whether the major causes of inflation can be quantified may be answered in both the affirmative and the negative.

Most of the important elements of the inflation process can be measured, in an attempt to determine whether they have become more, or less, important over time.

But a given inflation rate cannot be apportioned quantitatively to each of a given set of causes. That is, one cannot calculate that X% of the inflation rate for a certain period has been caused by factor A, Y% by factor B, etc.

Turning to anti-inflation policy, the first important question is whether the authorities *should* try to combat inflation. This might appear to be a heretical suggestion. Surely, inflation is a serious problem that we can well do without?

But is it more serious than other problems? And, given the nature of the current inflation, what can be done about it? Moreover, is there not a distinct possibility that the remedy could be more painful than the disease?

Our current inflation is indeed a serious problem which distorts the functioning of our economic system. But, before prescribing harsh medicine to rid the economy of this disease, one should pause to consider the nature of the inflation currently being experienced.

In terms of our little model, inflation can only be combated effectively by striking a better (and lasting) balance between the effective claims on the national product and the contributions to it.

In other words, economic discipline has to be restored.

There are two broad options in this regard. One can either try to limit the income claims indirectly, by applying a restrictive monetary and fiscal policy, or directly, via an incomes policy of sorts.

In principle, the latter would be the most desirable. Especially if all the various interest groups (including government, business, labour and the monetary authorities) could decide on — and stick to — a certain rate of increase in nominal incomes.

Unfortunately, the present socio-political climate and the official commitment to "market-orientated" policies precludes such an approach.

The only real option, therefore, is restrictive monetary and fiscal policies. But we already have an example from recent history which points to the dangers of such an approach.

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

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

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

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

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

Until such time, however, it is better to err on the permissive side, rather than to apply inappropriate policies which could cause greater damage than the inflation which they would be supposed to combat.

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Barend du Plessis . . . inflation a complex problem

'Top-level' inflation probe

JOHANNESBURG. — The Department of Finance was involved in a "top-priority" study of inflation, the Minister of Finance, Barend du Plessis, said at an investment conference here yesterday.

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

Its main causes could change from time to time.

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

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

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

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

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

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

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

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

Rand eases

Old Mutual fund

Power concentration 'fuelling inflation'

153 12/2/87

Finance Staff

Star

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

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

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

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

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

They add that this does not, however, prove that rapid monetary expansion has little effect on inflation "It just seems that monetary control is not really relevant in the current high inflation scenario in South Africa In the long run, however, it could become very important"

Concluding their analysis, Trust Bank say they expect the inflation rate to be lower again for January, although this decline will be mainly statistical, as the sharp rise of January 1986 will then fall away from the index

Business Day
C (45c + 5c tax)
For other prices, see Back Page
Natal, Western Province, Eastern Province 80c (71c + 9c tax)

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BUSDAY 28/1/87.

Economists dismiss prices and income policy

CHRIS CAIRNCROSS

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

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

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

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

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

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

"McCrystal's proposal is certainly not in line with government thinking," says Sanlam's chief economist Johann Louw.

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

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

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

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

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

● See Comment Page 4

Economists warn of consequences

B/Pay

Public pay hikes will fuel inflation

(153)

29/1/87

GERALD REILLY

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

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

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

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

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

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

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

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

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

INFLATION F/M 20/1/87

Still kicking

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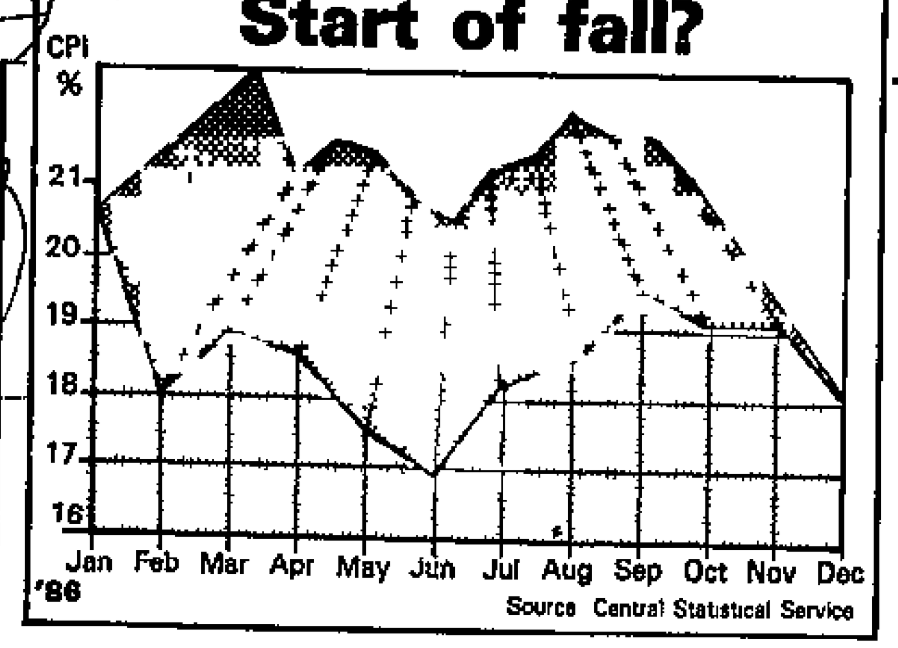
The rate of increase in the annualised CPI slowed marginally in December to 18,1% compared with the November 19,2%. This brought the 1986 average to 18,6%, still significantly higher than 11,7% in 1984 and 16,2% in 1985

Food prices rose at an annualised rate of 20,8% and were a major contributor to the December rate Food is weighted at 25% of the CPI. Month-on-month meat increased 3,4%, coffee and tea 2,1%, fruit 2,4% and fats and oils 2,4%. However, overall the month-on-month increase slowed to 1%, compared with 1,3% from October to November.

On the other hand, sugar prices rose by

Start of fall?



Source Central Statistical Service

only 0,2%; the effects of the January sugar price hike will be felt in the next few months.

Vehicle prices were surprisingly stable between November and December, but increased on average by 38% in 1986. The average cost of housing increased in 1986 by 14,8%, less than the 1985 average of 17,1% This is reflected in generally lower house prices and falling interest rates.

Of all consumers, the lower income group experienced the worst inflation, with an annualised increase of 18,5% in December The middle and higher income groups were not far behind, with 18,3% and 17,8% respectively.

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

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

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

Five traders control 74% of market

Supermarket giants in inflation row

153 B/Day 29/1/87

WILLY STERN

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

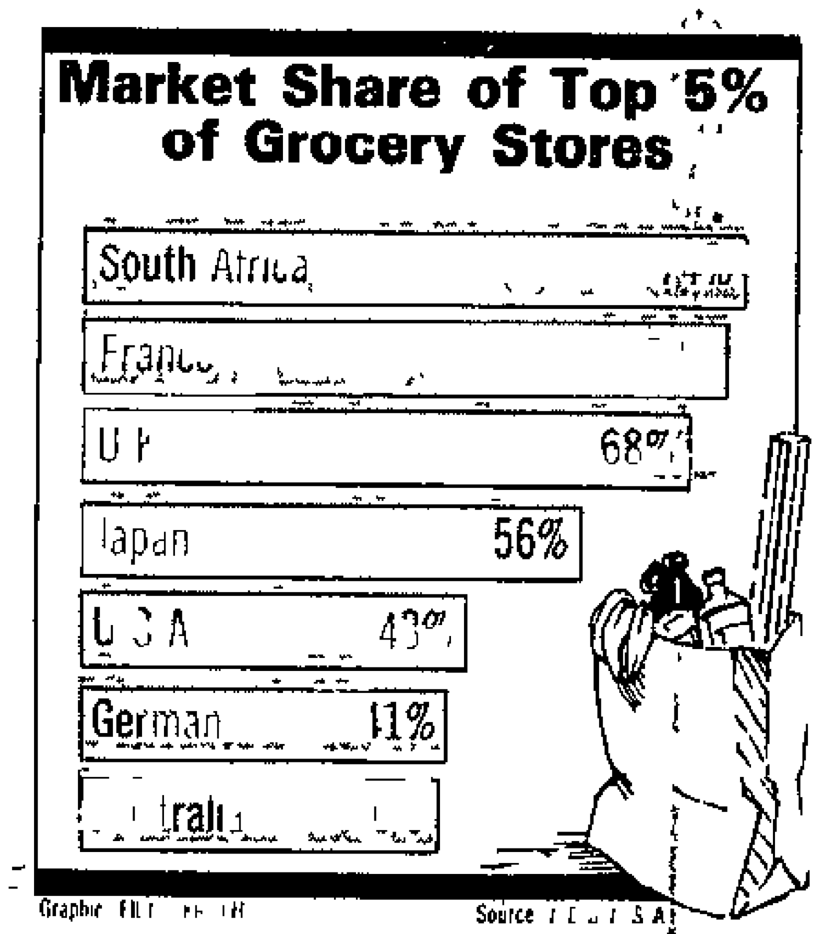
Checkers MD Clive Weil says the concentration of power has led to "structural inflation" from which return is virtually impossible.

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

Meanwhile, Pick 'n Pay, and OK Bazaars admit the industry is highly concentrated but say vigorous competition and low margins have kept prices down

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

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



Several retailers say with increasing power in the hands of fewer players at the retail and supplier ends, the direct result has been a concentration of negotiating power, leading to strong inflation-

● To Page 2

Supermarket giants in row

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● From Page 1

ary pressures

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

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

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

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

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

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

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

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

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

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

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

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

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

Grocery Manufacturers' Association executive-director Jeremy Hele says "When one major customer can do 25% of a manufacturers' total business while accounting for less than 1% of that retailer's trade, there is a terrible imbalance of power in the negotiating situation"

Inflation, bond rate hit builders

153 W Post 2/2/87

Post Correspondent

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

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

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

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

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

The largest decrease in the value of building plans passed occurred in Durban urgan areas This was 53,8% compared with 25,5% in the Witwatersrand area

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ECONOMY

Scrap taxes on cash investments, Government urged

The Argus Correspondent

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

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

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

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

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

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

Such a response would not be factual.

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

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

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

Unless this is done, South Africa will become known as a nation of spenders whose entire population will become indigent and dependent on world charity in later years.

VENTURES

SIXTH IN A SERIES ON THE CAUSES AND CURES OF INFLATION IN SA

Price and income policies do more harm than good

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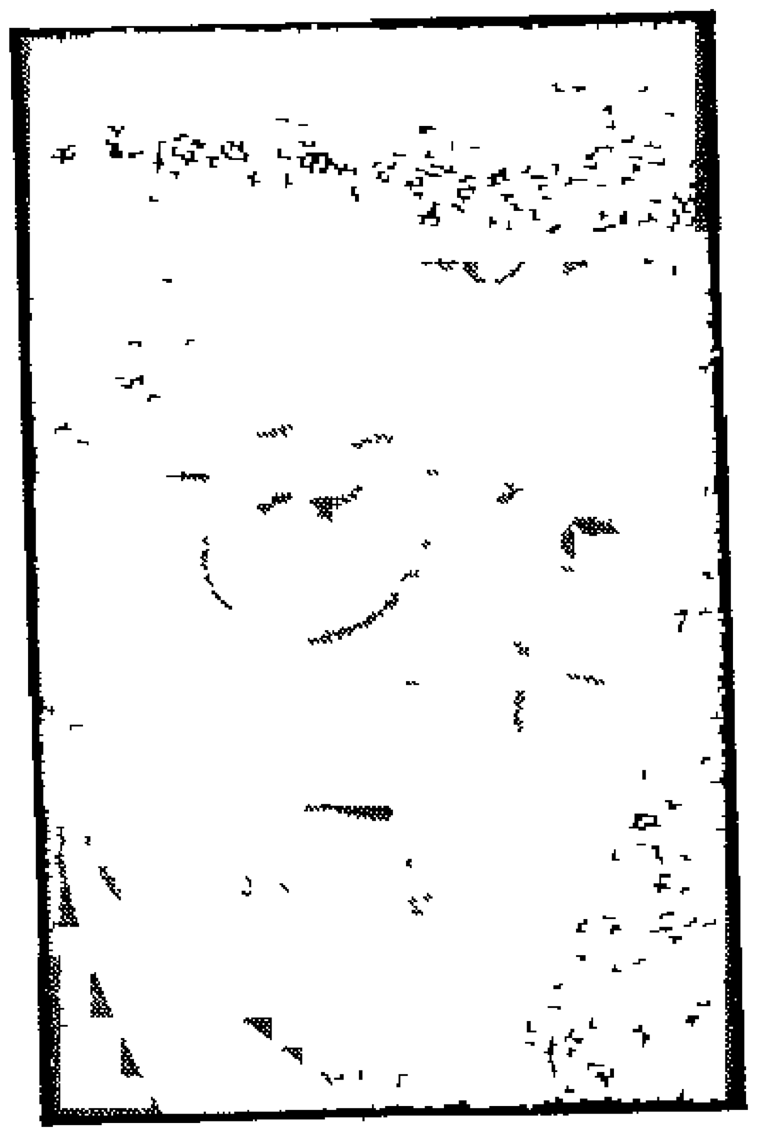
RUDOLF GOUWS



☐ RUDOLF GOUWS is group economist, Rand Merchant Bank

A POLICY that will deal effectively with South Africa's present inflation has to address as many causes as possible of this multifaceted problem.

It is therefore heartening that no economist involved in the current debate about what is to be done denies the importance of responsible monetary and fiscal policy nor of the other factors that have made the economy more inflation-prone over the past 15 years or so

A few of these factors are the greater economic power of the trade unions, the pricing of certain goods and services supplied by State-controlled entities, the pricing of certain agricultural products, the growing share of government spending in total domestic spending and the largely politically-induced capital outflow and sharp consequent fall in the value of the rand.

Some of these forces have impoverished the country as a whole, some have led to a different distribution of income and wealth than would otherwise have obtained and some have led to a misallocation of resources and unnecessary shortages and surpluses

Those of us who attach greater weight to the role of monetary factors argue that all of this could theoretically have happened in a low-inflation environment as well as in a high-inflation environment

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

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

Almost all people have greater needs and wants than resources to satisfy these. Economics, as a science or discipline, derives one of its oldest and most common definitions from this fact.

It is, therefore, not very useful to ascribe economic ills, such as inflation, solely or predominantly to workers' desire for higher wages or to businessmen wanting higher profits

Except in those economies that are certainly planned, it is the very desire for higher living standards and high profits that makes economies produce wealth The suppression of these urges through exhortation or decree will not remove economic ills such as inflation, but rather inhibit the creation of wealth

Inflation is perfectly possible in economies with no trade unions or no cartelised industry Even an unambitious, disorganised island community will discover inflation if one of them suddenly discovered a large new cache of cowry shells or whatever is used as medium of exchange on the island. Prices of goods and services will rise to match the addition to the existing stock of the medium of exchange.

Governments can, of course, produce the latter-day equivalent of the earlier mediums of exchange, and in modern economies the banking system can also create money — and therefore inflation

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

But the extent to which banks can create money depends on

☐ The system of control over their ability to create credit, and

☐ The prevailing stance or attitude of the monetary authorities

The monetary control system with which the South African monetary authorities equipped themselves in 1965 (and which was retained until recently) suffered from a number of inherent weaknesses and was, moreover, hardly ever adequately implemented.

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

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

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

The point is that the choice of monetary control system, the manner of its implementation, the decisions to keep interest rates artificially low and the way in which government's deficit was funded were all *policy decisions.*

The extraordinary monetary expansion that resulted is therefore not part of an automatic monetary accommodation of other (more important) inflationary forces, as economists who prefer direct intervention in the process of price and wage formation would have it.

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

The point was made in my earlier article (*Business Day*, November 10, 1986) that these exhortations — however convincingly put across — will have little or no effect

Consumers have cut back on luxuries and are buying necessities at today's prices, because they know these will be more expensive tomorrow Having already suffered a major decline in real living standards, wage and salary earners have no option but to 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 An 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 efforts elsewhere, an "Anti-Inflation Manifesto" was implemented in SA, but this also was unsuccessful and had to be abandoned

The chances of reaching general agreement about matters so close to the bone are perhaps even smaller now than in 1975 At present our society is even more divided than 10 years ago, with suspicious groups vying for larger portions of a shrinking economic pie

We will also not get very far with calls for specific groups, such as mineworkers or public servants, not to ask for or be granted wage and salary adjustments for a two to three year period, as has been suggested

This being so, arguments are also being put forward that some or all prices and wages should be frozen by decree, even if only for a short time The most recent call for a "prices and incomes policy has come from the chairman of the Board of Trade, who helped draw up the earlier "Manifesto"

Apart from raising the spectre of long queues, shortages, black markets, a larger bureaucracy and so on, this would be an inappropriate policy to follow for a country facing sanctions and major economic dislocations

SA should now, more than ever before, try to make the most of scarce resources, and *relative prices* should be allowed to reflect relative scarcities of goods, services and skills as closely as possible

The general price level (as measured) may be artificially constrained with some short-term success, but the costs to the economy at large in terms of lost flexibility and efficiency will be very great indeed

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

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

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

Govt handling of inflation, unemployment under attack

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Political Staff

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

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

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

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

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

"IMMORAL"

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

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

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

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

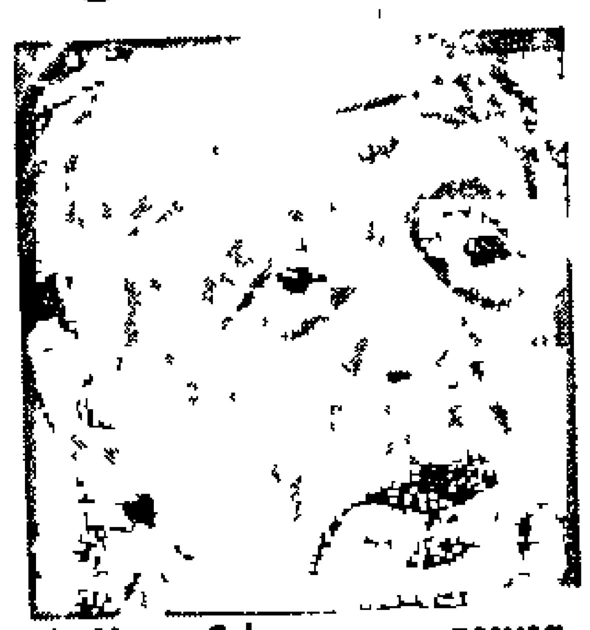
Mr Schwarz said there was clearly no enthusiasm, not even on the Government side, for the mini-budget proposals from the Minister of Finance, Mr Barend du Plessis

The Minister had underestimated the intelligence of voters

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

The Minister had also underestimated the intelligence of women

"The women of South Africa cannot be bought They can be wooed with love, but they cannot be bought," Mr Schwarz said in a reference to the proposed increase in the tax rebate for married women



Mr Harry Schwarz accusation of "unethical methods"

Mr Schwarz also accused the Government of having destroyed the confidence of businessmen, consumers and investors

Referring to President Botha's controversial remarks last week about Barclays Bank managing director Mr Chris Ball's alleged involvement in the funding of pro-ANC advertisements, Mr Schwarz said

"If anything was calculated to do harm to business confidence it is what we witnessed last week"

Mr Jan van Zyl people being "taxed to death"

Mr Schwarz said his advice to President Botha was to "keep out of economic affairs"

The Conservative Party's finance spokesman, Mr Jan van Zyl (CP Pretoria Sunnyside) said the Minister of Finance was "taxing the people to death"

People had to pay so much tax that they could no longer buy what they needed, let alone save any money

Mr van Zyl proposed an amendment that the House decline to pass the mini-budget because the Cabinet had not taken effective steps to combat inflation, price increases, unemployment and unrest The Government had also failed to give adequate aid to certain sectors of agriculture

Mr Derrick Watterson (NRP Umbilo) said his party hoped the Government would not try to "buy" support from voters in the election, even if this was done with promises

Mr Charles Simkin (NP Smithfield) said "This is not a fat-cat budget"

Opposition criticism had been vague and did not offer any concrete proposals to solve the country's economic problems

Mr Karel Swanepoel (NP Gezina) rejected opposition claims that the mini-budget would be inflationary He said what was inflationary was irresponsible price increases after salary adjustments for civil servants

Introducing the Part Appropriation Bill yesterday, Minister Barend du Plessis announced cuts in income tax rates, an increase in the tax concession for working wives, the repayment of the 1983 loan levy, and higher Government pensions

Mr du Plessis said the Government would be injecting the economy with a total of R1 billion

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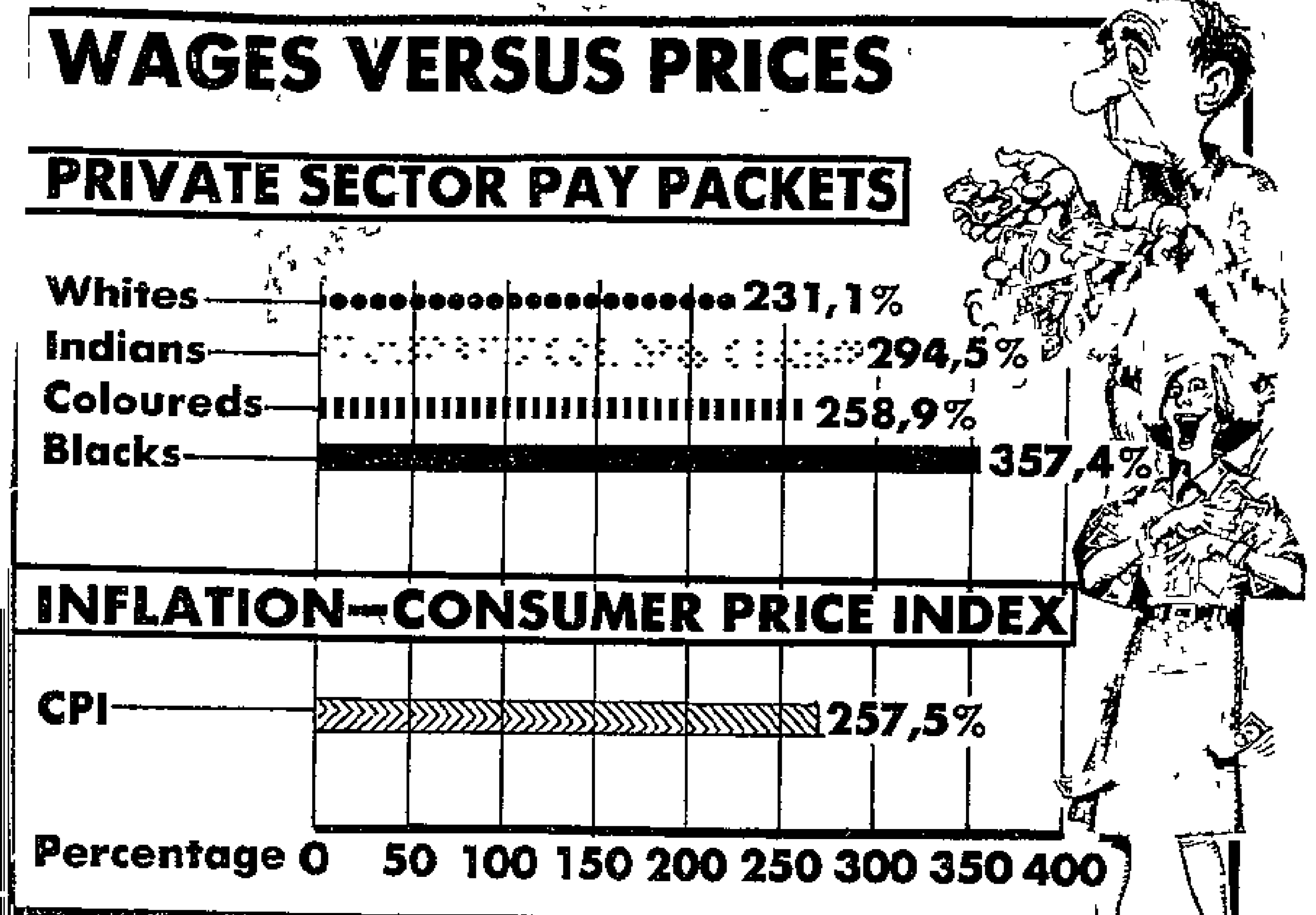


BASIC SALARY INCREASES

PERIOD	WHITES	INDIANS	BLACKS	COLOUREDS	CPI
76 to 77	7,3	17,1	16,7	13,2	10,6
77 to 78	8,2	10,5	28,1	13,9	9,2
78 to 79	10,9	12,4	13,2	14,5	13,5
79 to 80	16,4	17,1	13,8	18,2	14,6
80 to 81	15,6	22,1	24,6	14,3	14,5
81 to 82	14,6	24,2	20,3	18,0	14,4
82 to 83	12,3	12,1	13,6	12,3	12,8
83 to 84	10,0	10,3	11,6	11,5	12,4
84 to 85	9,9	10,7	12,3	10,3	16,4
85 to 86	11,0	11,6	11,3	10,4	16,9

Wages/prices spiral should be priority, most economists agree

Michael Chester

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

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

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

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

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

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

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

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

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

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

The intensity of opposition to direct controls was demonstrated when the notion of a price and wage freeze was mooted a few months ago in the furore over pay increases for the civil service

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

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

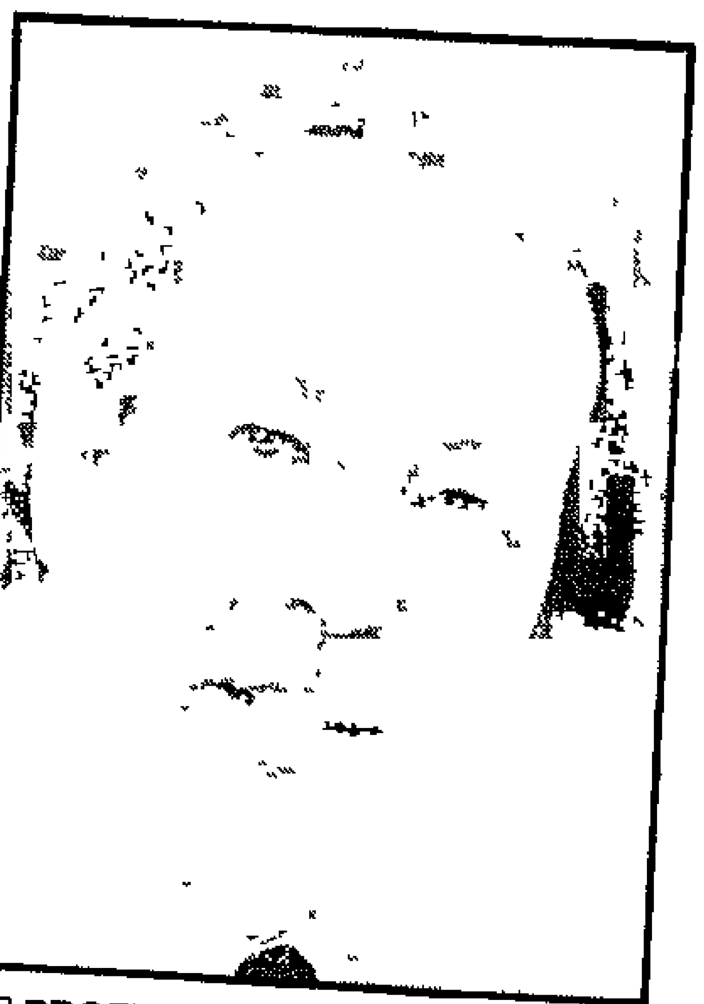
The notion of a prices and incomes policy as a solution is also viewed with suspicion by Dr Rudolf Gouws, group economist at Rand Merchant Bank "Apart from raising the spectre of long queues, shortages, black markets, a larger bureaucracy and so on", he argues, "it would be an inappropriate policy to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

But Dr Johan Cloete, doyen of the bank economists, will argue in an article that it is the wages/prices spiral that holds the key to the entire problem — and that there do exist ways of breaking it.

EIGHTH IN A SERIES

The causes of inflation — and what can be done

B/Day 13/2/87 153



☐ PROFESSOR Kantor is director, School of Economics, at the University of Cape Town

BRIAN KANTOR

THERE HAS been nothing unusual about recent inflation in South Africa. The increases in consumer prices were an entirely predictable and unavoidable response to the increase in import and export prices that follows a major devaluation.

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

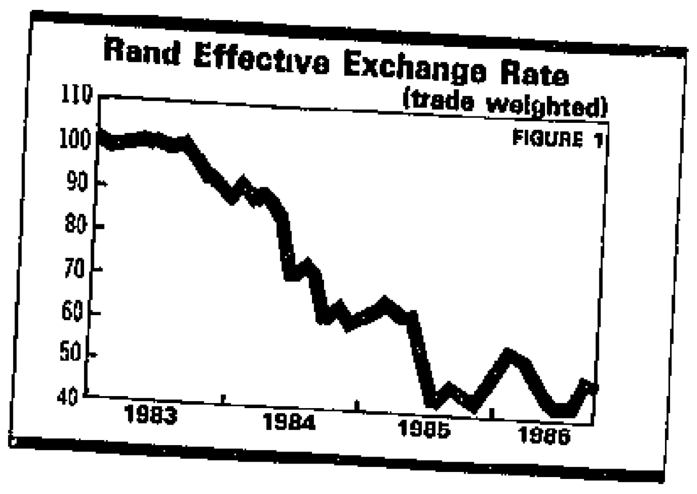
The criticism one can make is that the reduction in demand was, if anything, too severe and more, rather than less, monetary accommodation was called for

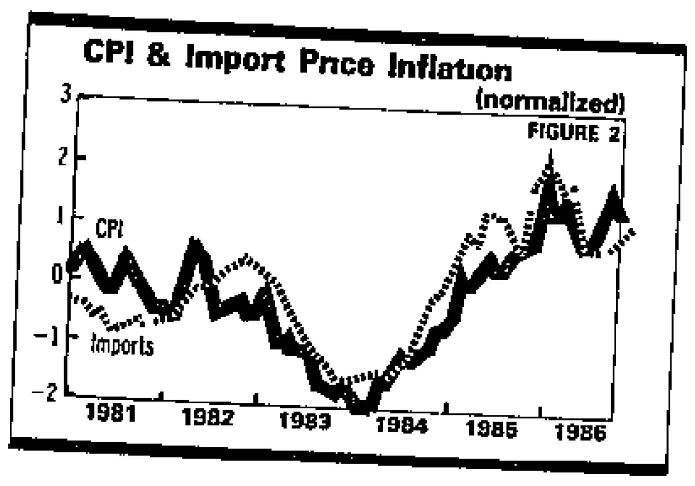
The devaluation of the rand, against the currencies of our trading partners which began in 1984, accelerated after we crossed the Rubicon in July 1985, and continued through most of 1986.

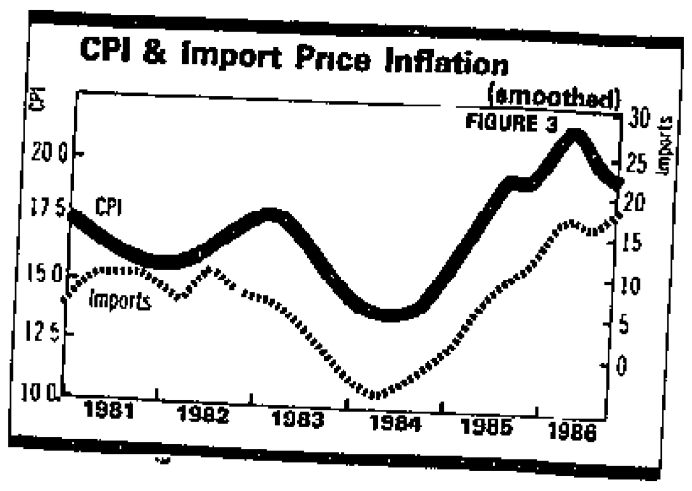
The volatile performance of the trade-weighted foreign exchange value of the rand is illustrated in Fig 1. Had the rand held its gains of early 1986, the inflation would have been substantially lower by the end of the year.

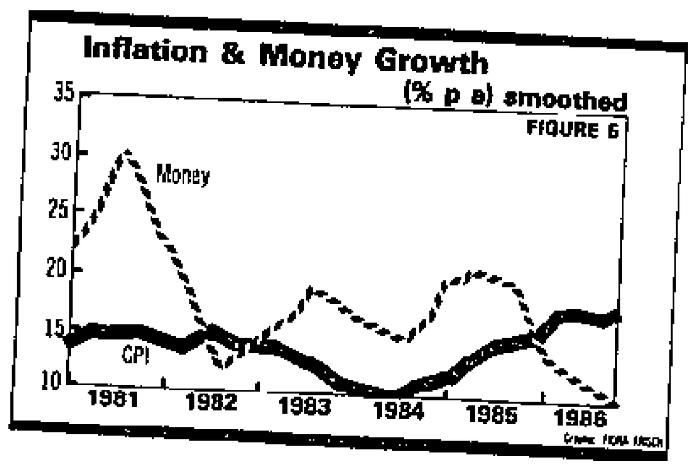
Unfortunately, we had to suffer a further substantial devaluation in mid-year. The rand is now back to where it was in early 1986 and the benefits of this recovery for the inflation rate are still to be seen.

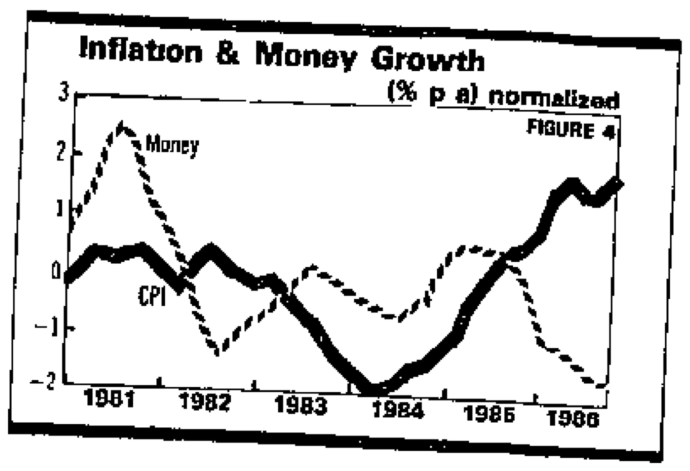
The devaluation has caused the prices of imported goods to rise rapidly and almost continuously between mid 1984 and November 1986, the latest month for which import price statistics are available. Imported price declines were recorded in only three months — April 1985, and May and June 1986.











There are very strong links between import and consumer price inflation and this is best illustrated graphically, as in Fig 2.

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

Fig 3 illustrates the relationship when some of the variability of the year-on-year inflation rate has been smoothed. It should be noticed that import price inflation since 1983 has been much faster than consumer price inflation, but that recently consumer price and import price inflation have moved in opposite directions, a movement which can be attributed to relatively fast price inflation in the latter half of 1986.

Such food price behaviour is also not exceptional and occurred noticeably before in 1981, when the economy was enjoying boom time conditions and when food producers could take advantage of buoyant demand and the absence of direct imported competition

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

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

The recent reduction in the price of yellow maize was a reaction to poor demand and came despite rising costs of production. This was a strong pointer to the demand forces that restrain the prices set by producers with monopoly power

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

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

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

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

Capital resources previously made available for use in SA were being withdrawn on a large scale. The demand for foreign exchange to satisfy capital withdrawals led to the devaluation which, in turn, brought higher prices, lower disposable incomes and depressed levels of domestic demand

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

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

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

The outlook for inflation in 1987 and beyond will be determined approximately as before by the performance of the rand against other currencies and world inflation There are three major forces at work that influence the foreign exchange value of the rand They are

☐ Political shocks and their effects on capital withdrawals,

☐ Changes in the terms of trade, particularly in the price of gold, is another major influence; and

☐ Money supply growth, by affecting the demand for goods and so for imports and, in turn, trade surpluses, also affects the exchange rate and so prices

The monetary influence on prices works mainly through the effects of money on demand and, therefore, on the trade balance and, in turn, the exchange rate in what may be a highly lagged way

It is possible to have an appreciating exchange rate and fast money supply growth, as may happen when the gold price rises rapidly.

However, should the gold price reverse itself or stop rising, the exchange rate will fall, as the trade balance deteriorates because import demands remain at high levels, the result of the previously rapid growth in the money supply

It would be theoretically possible to counter every negative influence on the exchange rate — for example, capital withdrawals or gold price reductions — with a sufficient decline in money supply growth

The money supply might be reduced sufficiently to produce enough of a decline in imports necessary to stabilise the exchange rate and so prices As may be imagined, such a policy could be very severe indeed, should either foreign capital be withdrawn on a large scale or the gold price fall dramatically as occurred over recent years.

Such a policy of maintaining price stability at all costs is surely not to be recommended Exchange rate flexibility, and all it implies for higher prices, can help the economy adjust to adverse circumstances more easily

The money supply should best be made to grow highly predictably at a rate consistent with low inflation over the long run That is to say, the money supply growth rates should not decline when the economy is under stress or accelerate when the economy is booming.

It is the failure of money supply policies to remain neutral in the face of real shocks to the economy, either favourable or unfavourable, that has made inflation and recessions unnecessarily difficult to control in SA

Should the economy continue to recover, and confidence with it, money supply growth rates will be pushed upwards Unless the growth in the money supply is then limited, the exchange rate sooner or later will again come under downward pressure, irrespective of the gold price factor or the confidence factor

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

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

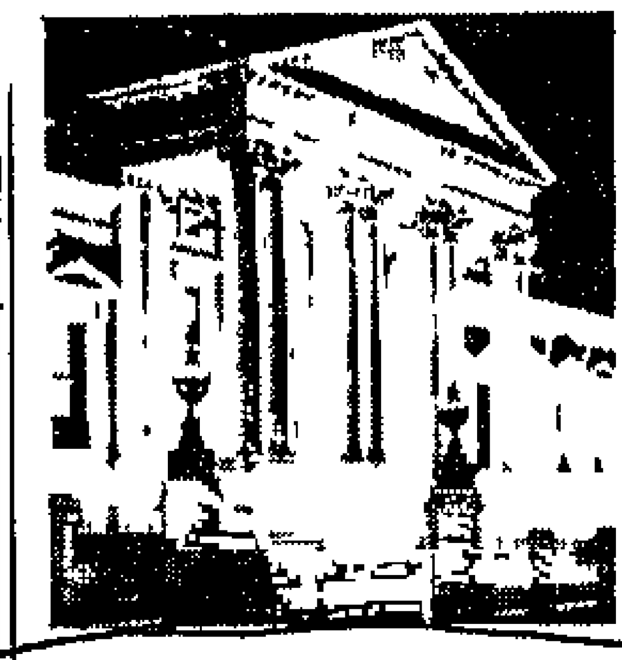
Any attempts to interfere further with the necessary adjustments of prices to any of the real or monetary forces at work would be highly counterproductive

The monetary causes of inflation can be treated and the real factors causing prices to rise are best understood for what they are, and tolerated accordingly.

Dear Sir

PARLIAMENT

Argus 17/2/87



MINI-BUDGET

Barend apologises for loan levy interest error

By FRANS ESTERHUYSE
Parliamentary Staff

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

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

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

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

Promised figure

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

Yet the figure given by the Minister in his recent mini-budget speech was only 7,5 percent — a half percent less than the promised figure

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

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

Replying, Mr du Plessis said Mr Schwarz was right — the interest rate was eight and not 7,5 percent as stated in the mini-budget speech

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

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

Sats 'notes the needs of its clients'

Parliamentary Staff

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

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

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

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

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

TAKEN BY CAR

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

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

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

The whites were then taken by car

Mr Hoon said Sats should go back to its old policy of racial segregation This would prevent racial friction

Argus 17/2/87

Govt denies having manufactured inflation

(153) 17/2/87 Argus

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

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

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

SOCIAL WELFARE

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

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

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

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

Mr Derrick Watterson

Earlier, Mr Derrick Watterson (NRP Umbilo) said he wondered whether inflation was "deliberately being maintained" by the Government for its own purposes

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

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

'Squeegee affair harms SA'

Parliamentary Staff

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

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

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

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

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

argus 17/2/87

'Inflation will offset benefits' CIT(?) Times 18/2/87

Hefty pay increases 'will affect all sectors'

153

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

The survey covers all projected salary and wage increments for 1987 and was conducted among 457 companies with more than 1m employees

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

'Inflation'

This is more than 20% up on last year's actual increase of 11,1% It is also the highest projected rise since the tail-end of the mini-boom in 1982 when employees last received increases above 14%.

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

"The downward spiral in living standards will continue "

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

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

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

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

"These employees have had to contend with low increases while watching inflation soar to unprecedented heights

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

The industry sector in line for the highest increases this year is industrial equipment manufacturers and suppliers with an overall projected hike of 15,2% for all categories of staff.

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

'17,5% increase'

The lowest projected increases are for service industries where an overall 12,2% has been predicted Included here are hotels public relations companies and management consultancies

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

According to the survey, these categories stand to enjoy a 17,5% increase in 1987 — Sapa

Look before you leap away into retirement

(153)

Inflation can turn your last days to misery

21/2/87 W/E Post

Weekend Post Reporter

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

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

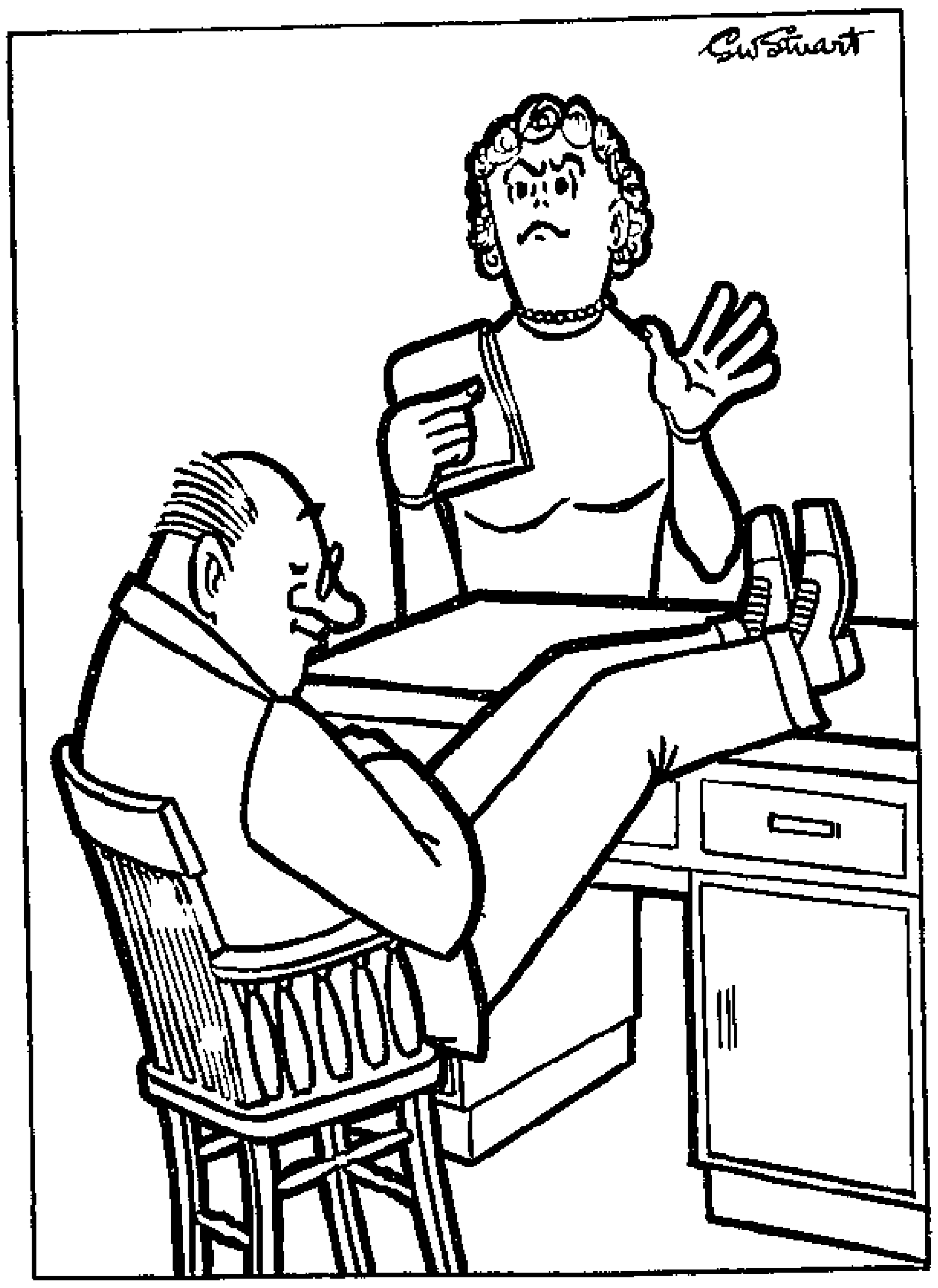
Mr Francis Maytham, manager of Old Mutual in Port Elizabeth, sounded this warning in response to complaints that insurance companies were "hounding" prospective retirees and trying to sell them unnecessary additional investments.

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

"With the present escalating inflation rate a pensioner should bear in mind that if he retired now with a monthly pension of R2 000, it will probably be worth R1·055 in six years' time and only R490 in 12 years," he said

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

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



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

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

Experts said these include

- Failing to make full allowances for the rapidly escalating rate of inflation
- Being unfamiliar with more lucrative investments, apart from their normal "safe" fixed deposits
- Relying on the advice of their children, as they considered them to be the younger, well-informed and "with-it" generation.
- Not being acquainted with tax-free investments
- Not being aware of what proportion of their pension was taxable
- Leaving their financial planning for retirement far too late
- Deciding to retire when, experts estimated, about 50% of men retiring could not afford to do so and would have great difficulties in keeping up their living standards

Mr Maytham said the awareness of the high inflation rate, even by Government, was evident from the fact that the amount of the tax-free bulk payment of pension had recently been increased from R80 000 to R120 000

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

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

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

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

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

Expert advice was essential, he said

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

Banks show 4% rise, but . . .

153

Savings thwarted by 18% inflation

CH/L Times 23/2/87

Own Correspondent

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

Statistics revealed by Nedfin Bank show that at the end of December South Africans held R6 381,1m in savings accounts with banks, almost 4% more than a year ago.

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

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

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

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

Predictably the selected liabilities of the country's banks declined slightly during the December quarter — for Christmas spending from R47 652,5m to R47 358,8m. On a year's basis this represents an increase of 2,2%

Looking at the total selected liabilities market, the Standard group holds the largest share with 27,3% of the total market This is 1,4% higher than the previous quarter

The Barclays group is not far behind, holding 26,8% (September 26,7%) of the market

The Bankorp group holds 17,4% (16,8%) of the market, Nedbank 15% (16%) and Volkskas 13,5% (14,6%).

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

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

Of this figure about R8 342,5m arises out of hire-purchase contracts and R4 112,3m out of lease agreements.

For the December quarter the Barclays group was by far the most dominant group, holding 30,6% of the market, followed by Standard with 26,2%, Bankorp held 19,5%, Nedbank 11,7% and Volkskas 6,9%.

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will

s limited (Registration number 84/07492/06) ("Harwill")

e referred to Harwill's interim profit lated 4 February 1987 when, inter alia, it that Mayo Surgical (Pty) Limited iscontinue a loss-making agency The o have now decided to reduce, and as le, discontinue the activities of the

e discontinuation of the agency certain ok value of approximately R3,4 million posed of which could cause a material the current financial year The directors xpected loss but at a leaner Mayo al industry The rwill's net asset recapitalise the

aution in dealing rmed of further

Savings not enough to counter inflation

23/2/87

By Sven Lünsche

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

Statistics revealed by Nedfin Bank show that at the end of December, South Africans held R6,4 billion in savings accounts with the banks, almost four percent more than a year ago — and in the December quarter savings grew by R186,5 million or three percent over the previous quarter

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

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

However, the low rise in savings also suggests that the majority of personal savings have recently moved into pension funds and retirement annuities so that the R500 increase will only have a limited effect on boosting savings with the banks

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

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

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

Inflation rate drop welcomed but food three points higher

153

By Susan Pleming

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

The Department of Central Statistics announced in Pretoria yesterday that the inflation rate had dropped by two percent to 16,1 percent in January Food prices continued their steady rise of the last few months and the index rose at an annual rate of 19,3 percent

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

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

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

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

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

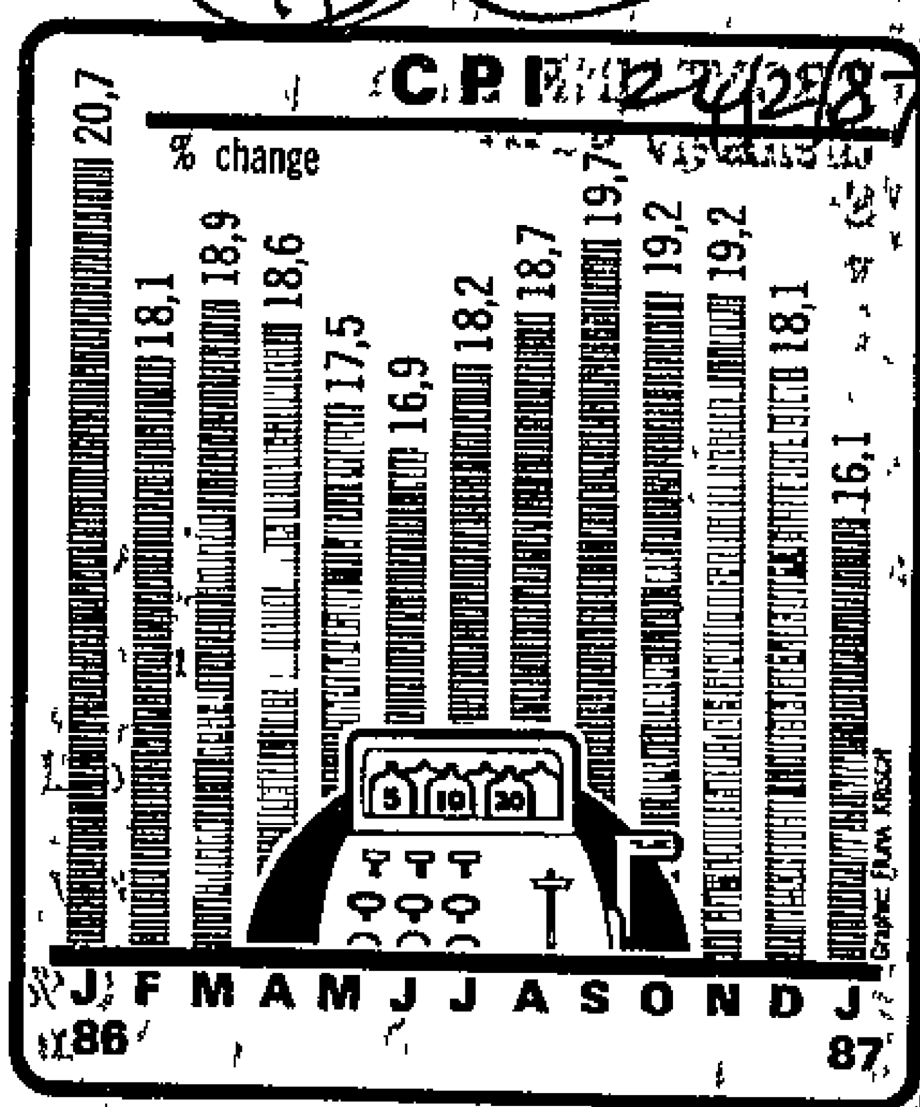
"I hope this trend continues, but I am pessimistic about food prices, which increase all the time. I do not think the man in the street would agree that the inflation rate has dropped when he goes shopping," he said

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

The president of the Consumer Union, Mrs Lillibeth Moolman, expressed concern about high food prices "There is a continual upward spiral of food prices and people are finding it difficult to cope."

Mrs Moolman said all commodity prices should be frozen. "Prices should be stabilised "

153 B/Day



27/2/87

CPI inflation rate drops 2%

HELENA PATTEN

INFLATION, as measured by the consumer price index (CPI), dropped by 2% to 16,1% in January, Central Statistical Services said.

This was the lowest year-on-year increase since July 1985, when the increase was 15,9%.

The increase was 18,2% in December and 19,2% in November.

The CPI rose 1,4% in January to 248,3, compared with a 1% rise in December to 244,9, indicating that inflationary pressures have not yet eased.

The lower year-on-year rate was mainly because of the above-average monthly 3,1% increase in the CPI in January 1986, when inflation reached a peak of 20,7%. This year's increase therefore was taken off a high base.

Between January 1986 and 1987 the rate of increase in the price index was 16,3% for the lower income group, 16,4% for the middle income group and 15,9% for the higher income group.

Food prices contributed to more than half the 1,4% increase in the CPI last month, rising 3,1% — the highest since January 1986, when they rose 4,4%.

INFLATION (153) F/M 27/2/87

Price indigestion

Inflation in January as measured by the consumer price index (CPI) slowed to 16,1% on a year-on-year basis, compared to 18,1% in December This figure is the lowest since July 1985's 15,9%. However there is still little reason to rejoice in the latest Central Statistical Service figures

For a start, this decline should not be taken at face value Once again statistical factors exaggerated the slight downward trend A large monthly CPI increase of 3,1% was recorded in January 1986, which pushed that month's year-on-year increase to 20,7% So the January 1987 figures are calculated from a very high base, the real slowing in inflation may be less dramatic

The month-on-month rise of 1,4% is up on December's 1% Once again food prices made certain that the inflationary push did not abate Meat rose on a monthly basis by 4,6%, fruit 4,8%, vegetables 6,5%, and other food 2,1%

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

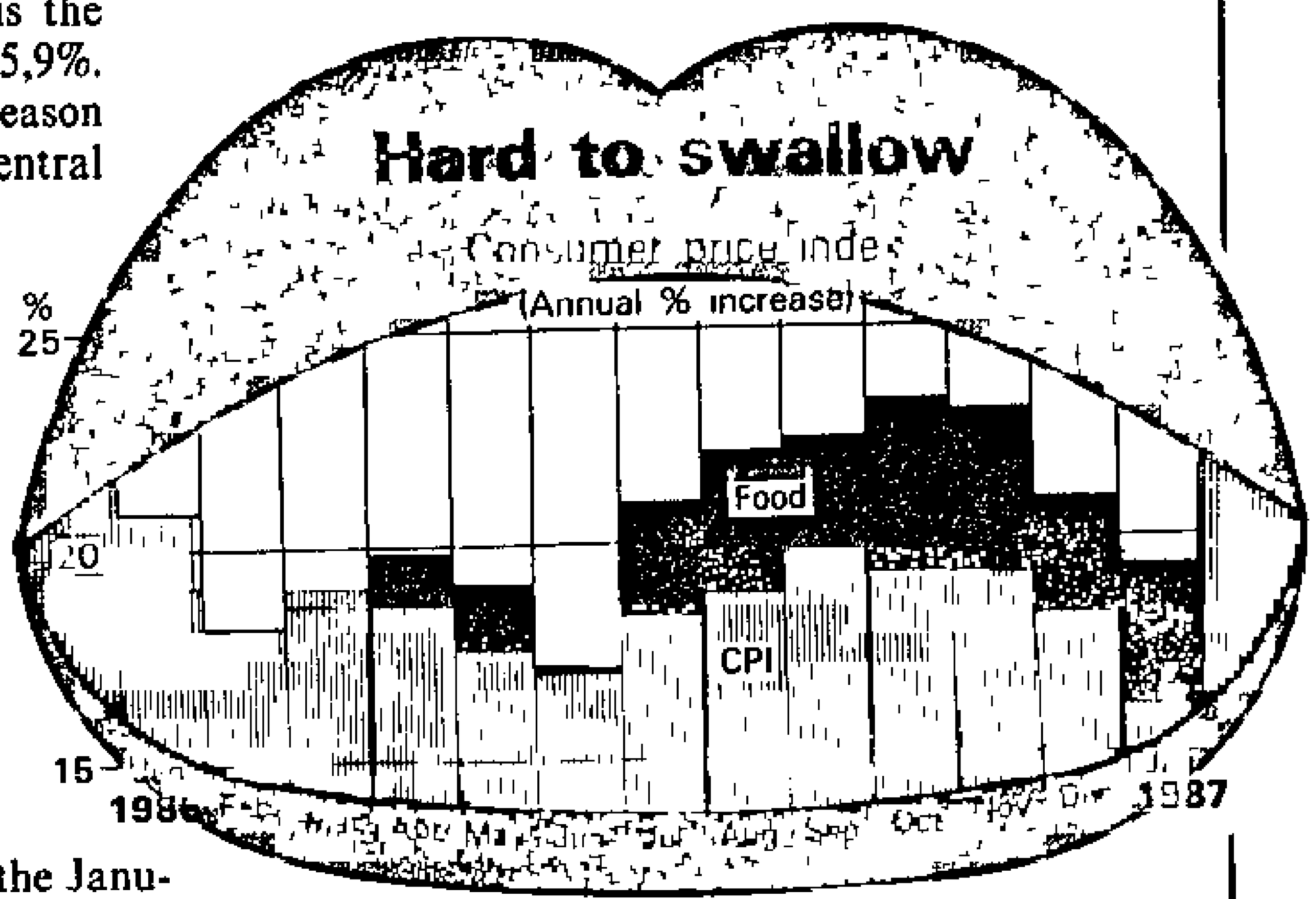
Food prices only, as measured by CPI, rose at an annualised rate of 19,3% for January 1987, for the past three months, the average annualised rate is even more alarming, at 22,3%

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

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

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

Sanlam's January *Economic Survey* suggests that as a result of recession and continued high inflation, the traditional aix- to 12-month lag between the production price and



consumer price changes has been shortening It explains "As a result of exceptionally low inventory levels and the contraction of profit margins companies have wasted no time in passing higher production costs on to the consumer"

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

Sanlam believes it has been " all but eliminated The turning points in the two price series now occur almost simultaneously" ■

Cape Times 28/2/87 (153)

Ca

BUSINESS

Govt plans anti-inflation drive

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Government sets up inflation probe

28/2/87 (13) w\m

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

Because of the 'Very serious concern' of the government, submissions would be requested from all organisations studying the problem such as the heads of department in the ministry of finance, the Treasury and the Reserve Bank, and the Federated Chambers of Industry, the Associated Chambers of Commerce, the Afrikaanse Sakekamer, the Afrikaanse Handelsinstituut and others

No firm timetable could be fixed for the investigation, said Dr Human, but a 'flexible' target of early May had been agreed

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

Stemming

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

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

'We are not forming just one more cosmetic programme to work aga[illegible] inflation Our job will be to gather the wealth of re[illegible]search and opinion [illegible] prevalent th[illegible] country and [illegible] into a coherent realistic plan of action

'The [illegible]ti-inflation committee will be chaired by M[illegible] Steggmann of Sasol but the names of other committee members have not yet been disclosed.'

Dr Human said 'Our sustained high rate of inflation is highly undesirable It has a detrimental effect on economic growth by contributing to a mis-allocation of scarce resources and by undermining business and consumer confidence

Burden

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

'It is a complex problem with causes so interwoven that it is difficult to distinguish cause and effect

'It is accepted that inflation cannot be contained painlessly, and our investigation will take proper cognisance of the realities in South Africa and possible solutions against this background

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

The announcement of the new programme to fight inflation was generally well-received but most of those questioned the FCI, Assocom, the AHI and others, said they would be unable to offer informed opinions until it was clear whether this latest attempt to 'slay the in[illegible] dragon' was substantially-motivated [illegible] supported, unlike some of the previous anti-inflation programmes (Sapa)

Inflation — the money eater

In his mini-budget the Minister of Finance promised, as a measure of relief to pensioners whose savings have been severely eroded by the current high level of inflation, to increase the amount of tax-free investment There was no mention, though, of the strategies that are to be adopted to curtail the high level of our inflation rate

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

High

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

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

Unfortunately because this would be voluntary the success of such a persuasive policy would depend on everyone co-operating Getting co-operation on a national basis would not be an easy task There would always be a temptation to try and cheat on the system It has been suggested that such a scheme could be coupled to some incentives e g tax incentive programs in order to entice great co-operation Under a tax incentive plan companies would be given tax breaks for limiting wage demands to a certain level In the South African situation, though, the labour market is very much imperfect Trade unionism is only now broadening its base, and is very much driven by an agenda of its own On the one hand it is addressing industrial issues, while on the other hand it is also enmeshed in politics An attempt at voluntary wage and price control is unlikely to succeed under these circumstances

Freezer

In his mini-budget, the Minister of Finance appeared to intimate that a wage and price freeze is specifically not under consideration Much hope appears to be focused on the recent stabilisation of the rand and how this has contributed to reducing the inflation rate from 18 1% in December to 16,1% in January However more than just watching the rand will be necessary to tame the widespread expectation of higher inflation ahead and the pricing behaviour that follows from that among households companies and government departments

NCEDO Mlamla, an economist with Barclays Bank, says that it will take much more than just watching the rand to tame inflation ...

High inflation in SA could become endemic - bank MD

5/3/87
Bus Day

By DENISE BOUTTALL

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

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

He suggested

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

Dr Strauss dismissed the imposition of a price/wage freeze Outlining the causes of SA's inflation, he said it was accepted that as a society became more democratic, there would be more demand by people for a greater share in the economy

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

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

Dr Strauss also warned that self-sufficiency such as the Agulhas Bay gas project also had its costs.

'Largest debtor has most to gain'

Govt to blame for inflation, says bank chief

B/Day 16/3/87 (153)

HELENA PATTEN

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

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

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

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

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

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

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

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

'Sluggish recovery had benefits'

High inflation rate studied

Cape Times 21/3/87

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

Chris Stals

Stals said the 1986 balance of payment figures reflected the sluggish passage of the domestic economy Although imports were lower than expected as a result of the lower level of internal expenditure, exports were particularly good and showed a volume growth of 6%.

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

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

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

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

SA's hardship in recent years had not been fruitless, Stals said The low growth rate in the domestic economy had made the surplus on the current account possible and had enabled the country to reduce its repayable foreign debt — measured against the value of the US dollar of September 1, 1985 — from 24 billion dollars on August 31, 1985 to 20,4 billion dollars on December 31, 1986 By June 30, 1987 when the second interim debt arrangements come into effect the figure would be still lower

Return won't be easy

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

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

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

BUILDING SOCIETIES 153 FM 20/3/8

Fixing bonds

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

Though these rates are much higher than the 12,5% mortgage rate available from Standard, Barclays, Trust or Volkskas, Allied is at least offering home owners some certainty in the uncertain world of interest rate movements Potential homeowners will be able to calculate more accurately the longer-term cost of owning a home, bearing in mind average bond life is about seven years On conventional bond business Allied charges 14%.

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

Many who suffered from the steep climb in rates from about 9% in 1980 to over 20% in 1985 would perhaps see the advantage

When rising property values and increasing incomes moved ahead or in tandem with interest rates, the homeowner knew the investment was sound But when values and employment opportunities shrank and interest rates climbed, owners were often hard put to meet their bonds, as the large increase in the number of properties in possession over the past two years demonstrates

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

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

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

Food prices continue to soar

Finance Staff

The inflation rate for February rose slightly to 16,3 percent, 0,2 percentage points up on January's 16,1 percent. However, food prices continue to soar On an annual basis prices for food products have risen by 21,8 percent, while on a monthly basis they have increased by 1,6 percent from January to February

This is the eighth month in succession in which food price increases were above those of all other commodities.

STAR 23/3/87

Kritzman in 1982 when the accused became his client.

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

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

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

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

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

The hearing continues. — Sapa

Inflation continues to creep upwards

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E Post 24/3/87

PRETORIA — The inflation rate as measured by the consumer price index had increased slightly to 16,3% in February, from 16,1% in January, the Central Statistical Service said in Pretoria yesterday.

It was 18,1% in December 1986 and averaged 18,6% last year.

From February, 1986, to February, 1987, the indices for the lower, middle and higher income groups increased by 16,8%, 16,7% and 16% respectively.

The monthly increases (February, 1987, compared with January, 1987) were 0,9%, 1,1% and 1,1% for the lower, middle and higher income groups respectively.

Food prices increased by 1,6%, down from 3,1% in January.

Fish prices increased by 2,5%, milk and eggs by 2,9%, vegetables by 3,9%, sugar by 5,8%, cigarettes and tobacco by 4,9% and motor vehicles by 3,6%.

Aged home poisoning death toll reaches 18

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

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

3 killed in IRA terror

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

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

Landslide kills man

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

F/M 27/3/87

HOME LOANS

Entering secondary markets

Now that building societies are moving from the comfortable world of friendly societies into the demanding environment of big business, it is not surprising to find them seeking new types of funding

Traditionally, housing finance has come from small investors In the past few years this has increasingly been supplemented by corporate funds Now societies plan further moves from conventional sources of funding

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

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

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

Secondary markets in home loans had existed in the US since the late Forties, thrift organisations buying and selling mortgages to each other But in 1970, the process was refined to broaden the market and make loans more saleable So successful was the move that *Euromoney* estimates mortgage securities worth $1 trillion were traded last year alone

In SA, the idea has a long way to go Not all building societies share Allied's interest

That it could require changes to the Building Societies Act is seen as a considerable obstacle by some, while others believe it cheaper to raise funds via Negotiable Certificates of Deposit (NCDs) and other existing instruments

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

From the building societies' perspective, there is good reason for exploring new avenues of funding

While financial institutions continue to press money on reluctant consumers, they remain acutely concerned about future fund flows Liquid as they are now, they are very aware of the need to build up longer-term funds to match longer-term commitments

Building societies are particularly vulnerable With limited access to the money market, while lending for periods of up to 30 years, they are firmly locked into the longer end So their reliance on medium- to long-term money is greater than banks', which have considerable term flexibility in both borrowing and lending

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

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

Not that securitisation is the instant answer to all funding problems

To start with, Allied is still investigating the legal implications of ceding bonds to a third party Legislation may be needed

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

Instead they will have to resort to selling the idea

Should they succeed, there are still several problems, including variable interest rates and the possibility that homeowners will prepay debts or default These can be resolved the first through the introduction of fixed rates, the second if the purchaser of the security is willing to accept the risk, the third if the building society is prepared to stand good

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

INFLATION

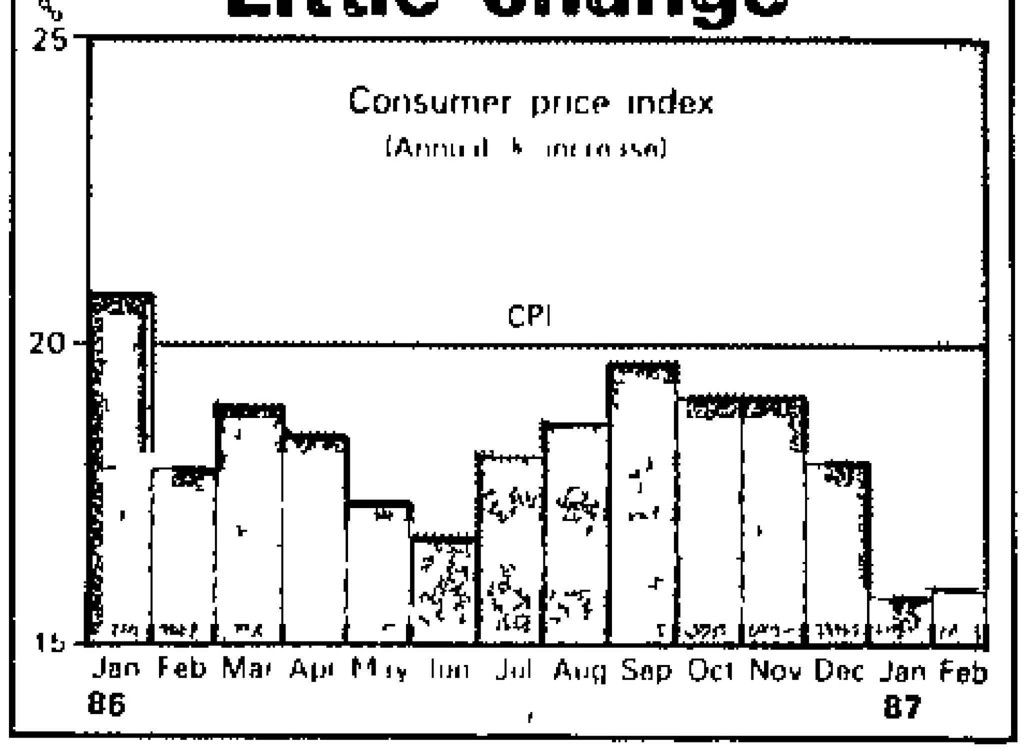
Trend still down

Economists do not see the overall downward trend in inflation being halted, despite the slight increase in the consumer price index (CPI) in February to an annual 16,3% from 16,1% in January

Food prices are still one of the main inflationary forces, the food index rising by 21,8% in the year to February against 19,3% in January

The decline in the month-on-month increase in CPI from 1,4% in January to 1,1% is seen as encouraging by most economists "This indicates that CPI should continue its downward trend this year, although individual monthly figures may deviate," says At Engelbrecht, senior economist at Volkskas. He expects inflation to average between 15,5%-16% for the year

Little change



However, this decline, especially in the second half, will be due more to statistical reasons than to anything fundamental. Monthly increases in inflation in the second half of 1986 were much higher than the present figures for example, CPI rose by 2% in July and 1,5% in August

"In the second half of this year, CPI will be calculated off a high base, implying a decline in the inflation rate on a yearly basis," says Peet Strydom, economist at Sankorp He calculates that if the monthly increase in CPI remains at 1%, inflation this year would decline to 14,2% and the year-to-year figure for December would be 10,3%.

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

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

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

☐ See *Leaders*

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F/M 27/3/87

Sharp inflation rate fall is predicted by Matie economists

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31/3/87

By DENISE BOUTAL

AN inflation rate of 15% this year, substantially down on last year's 18,6%, and an even lower rate in 1988 have been projected by the University of Stellenbosch's Bureau for Economic Affairs

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

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

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

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

This will allow the country to continue building its foreign reserves which will provide strong support for the Rand and prevent serious depreciation of the currency As a result import prices will rise at a much slower rate than in 1985-86 This trend will be reflected in the CPI which is projected at 15% for 1987 "and a considerably lower figure is possible in 1988"

Lower inflation and rising foreign reserves will increase the scope for consumer spending and economic growth "Real GDP growth rates of 2,9% and 3,5% are now projected for 1987 and 1988 respectively"

Lower inflation and a rise in reserves would also neutralise pressure on interest rates

Tariffs for standard mail go up from 14 to 16 c

1/4/87

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SAPA

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

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

50 G LIMIT

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

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

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

Johannesburg enquiries may be directed to Mr Kobus Laubscher, senior public relations officer at the Jeppe Street Post Office — (011) 222-0588.

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FINANCE

Rising costs forcing new house prices ever higher


Mr Davis . Bifsa director.

FRANK JEANS

The cost of building the cheapest three-bedroom house is expected to soar by 20 percent as economic recovery gathers momentum.

This means the contract price of a new home will rise from the present R55 000 level to almost R80 000 over the next two years.

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

At a Press conference, Mr Lou Davis, executive director of Bifsa, said.

"When the economy really takes off we can expect building costs generally to rise by 30 percent to 35 percent as material suppliers push up prices

"This pattern will eventually settle down to an annualised 20 percent increase in costs for the foreseeable future."

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

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

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

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

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

What is clearly evident, however, is the fact that the industry must accept what Mr Davis sees as a "total structural change"

And this infers a still greater involvement in the most crucial sector of building — low-cost housing is an area which has been virtually a life-saver during the prolonged slump

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

"We should remember that blacks don't want something cheaper,' said Mr Jacobsen. "And we should realise, too, that it is imperative that we incorporate the 75 percent of the rest of South Africa's population into the economic process."

Water price rise comes into effect today

(153) 1/4/87

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

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

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

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

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

Rising costs hit owner builders

By RAYMOND HILL

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

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

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

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

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

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

Rising costs of building materials were highlighted this week with the announcment that the price of cement at the only cement factory in the Eastern Cape, Pretoria Portland Cement, Port Elizabeth, was to rise by more than 5% from R4,68 to R4,93 for 50 kilograms.

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

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

Rail delivery charges are added where necessary.

This is the third increase since December, 1985.

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

The price of facebricks, manufactured by a Port Elizabeth company, went up 4,2% from R240 to R250 a thousand this week. Prices previously went up in November, 1986.

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

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

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

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

"Self-builders" mistakenly thought it was cheaper to do the work themselves

They could, for example, spend more money than necessary because they did not have bargaining power when dealing with suppliers and sub-contractors, said Mr Grotsius.

Mr Keith Miller, a partner in Arctic Construction, Port Elizabeth, said his firm would be losing between R15 000 and R25 000 a month because of the increase in the price of cement and bricks.

He said timber prices rose in January, resulting in a loss of R200 on every home built by his firm.

Mr Miller explained that the extra costs could not be recovered on contracts undertaken before price increases were announced.

The necessary adjustments had been made for contracts undertaken after April 1

Labour costs, he said, were "astronomical", and there had been a 7,5% increase in all work categories recently

Mr Miller also discouraged people from building their own homes because of the high costs and time involved

The self-builder often never completed the job because of a lack of time and money, he said.

Experts could construct a house within eight to 10 weeks, whereas the self-builder took between three months and six months to do it, Mr Miller said.

Mr Victor van Rensburg, managing director of Wonderwonings, said his company tried to absorb price increases

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Skirmishes, stranded commuters, a bomb and arson all raise a burning question

Is station unrest strike related?

By Jo-Anne Collinge

The South African Transport Services strike which began quietly on March 13 with about 600 workers and is now said to involve 22 000 strikers has become associated with images of burning coaches, stranded commuters and skirmishes at stations

What has brought this labour dispute to the point of dramatic public disturbance? Is all recent unrest" at stations in fact strike-related?

For instance, early this month Mr Johannes Semong of Tembisa died when he jumped from a moving train after police threw a smoke grenade into the carriage Another 11 passengers were injured The incident at Kaalfontein near Tembisa was not linked explicitly to the strike, but passengers were reported to have been singing freedom songs when police intervened

Strike-related violence

There are many other more certain, officially reported instances of strike-related violence and conflict.

- Coaches in at least 21 trains have been burnt in Johannesburg and Soweto over the last week
- A bomb exploded near Dube station on March 23
- About 200 strikers were dispersed by police using teargas in Park Station as they met to discuss grievances early on in the strike
- Days later 305 strikers were arrested near Ogies in the Eastern Transvaal The Bureau for Information said the 305 had 'gathered illegally" while the South African Railways and Harbour Workers Union (Sarhwu) said the mass arrest was an attempt to block rural strikers from meetings with East Rand workers
- This week about 2 000 people were dispersed with teargas at Oakmoor station on the East Rand
- Passengers have been hurt in the stoning of trains — for instance on the Trans-Natal train on Monday
- Civilians have been hurt in police action at stations The Bureau for Information said such an injury occurred when police acted during a stoning incident at Mayfair station last week.
- Policemen have been hurt during stoning of trains — as at Doornfontein Station a week ago, where four were injured
- Black and white commuters have become involved in fights as at Boksburg last week.

Clearly the heated conflict has not been created simply by the chief protagonists in the strike — SATS and Sarhwu.

The events itemised above show that in addition to SATS and Sarhwu, the clearly identifiable actors include non-Sarhwu strikers, commuters and members of the security forces.

But when it comes to the questions of "Who sets fire to the trains in the townships and the stations of Johannesburg?' and "Who planted the bomb at Dube Station on March 23?", the actors are no longer clearly indentifiable.

In its latest unrest release the Bureau for Information ascribes the burning and stoning of eight coaches in Soweto yesterday to "riotous vandals"

Sarhwu has vehemently rejected speculation that it has been involved

Civic and youth organisations have dissociated themselves from such violence just as Sarhwu has done But they have acknowledged their campaigns might draw support beyond their formal membership This might be expressed in ways not foreseen by the organisations

In relation to the Dube Station blast it may be worth noting that in recent years there have been several attacks on the property of managements locked in dispute with unions or those who have taken punitive action against strikers

The most recent of these was the bomb placed in the Eloff Street branch of the OK Bazaars early this year during a protracted strike. No organisation claimed responsibility for the blast.

Finally in discussing the creation of the drama of public disorder from the fabric of a strike we must look at the backdrop and the people behind the scenes.

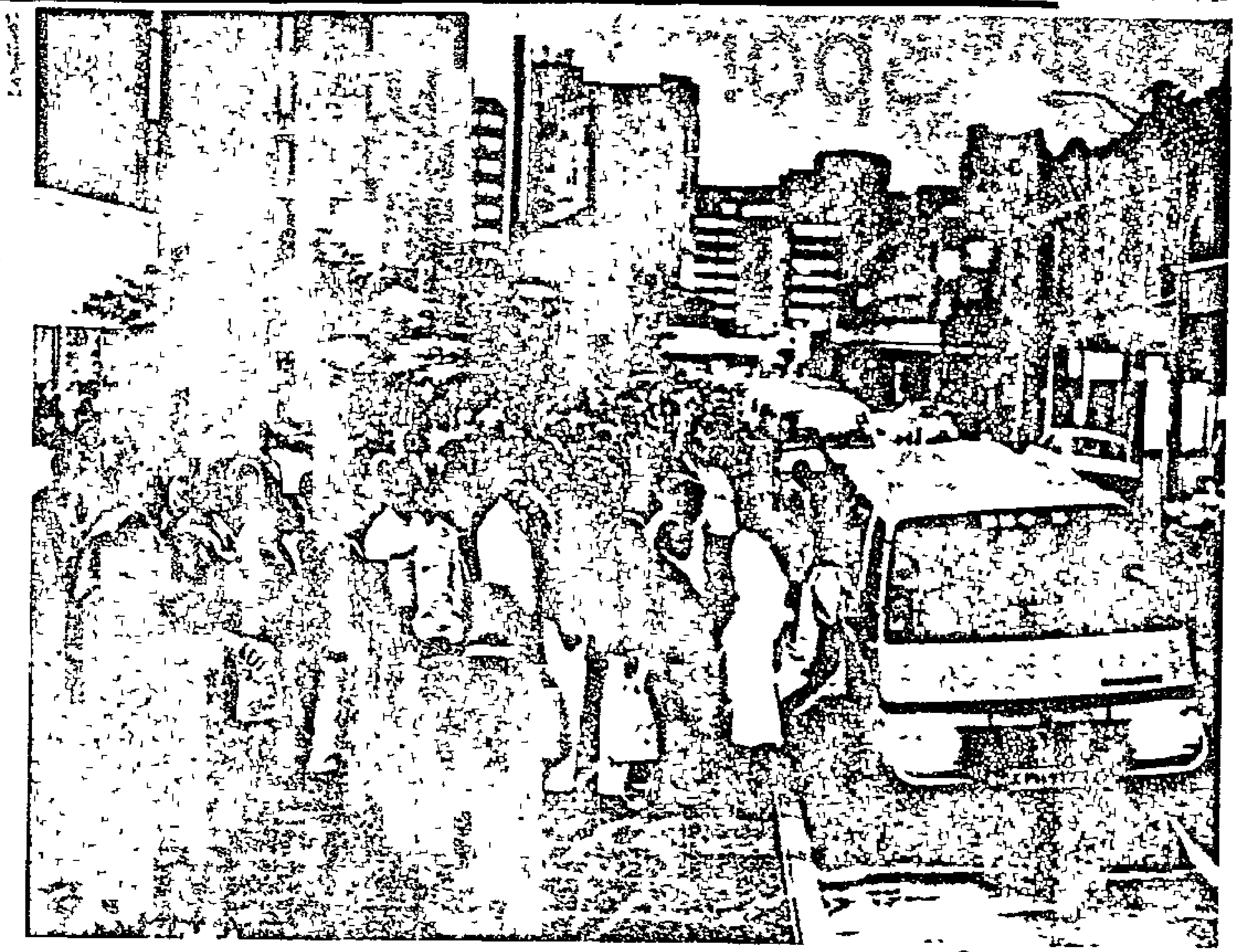
The SATS strike is taking place during a nationwide state of emergency It occurs in a situation where all outdoor meetings are automatically illegal where spontaneous strikes are out lawed and where emergency powers have been used to allow for the summary firing of workers.

It is happening in the public service sector where only the in-house union approved by management is accorded the right to organise and gain recognition from the employer

The question of recognition of Sarhwu — an affiliate of the mammoth Congress of South African Trade Unions — has prolonged the strike and eclipsed the initial grievances which centred on the dismissal of a single worker

Finally the SATS strike is taking place in the context of burgeoning demands for democratic control in every walk of life and most especially in political control of the country Unions and popular political organisations have formally pledged support for each other in their day to-day struggles to control their own lifes.

With almost monotonous regularity liberal and leftwing politicians say violence becomes inevitable when all other means of collective political expression are closed off The SATS strike poses a parallel question What happens when discontented workers are denied the rights of organisa setdunion and recognition?



Queues — which stretched for several blocks — lined Johannesburg's streets late yesterday afternoon as desperate commuters tried to get home after several trains had been burnt These workers queued for taxis in Commissioner Street

● Picture by Alf Kumalo

Appeal for return to work

The black "sweetheart" trad union in the South Africa Transport Services today ap pealed for striking railwayme to return to work before th Government implemented it threat to dismiss them.

The strike by 13 000 mem bers of the South African Rail way and Harbour Workers Union (Sarhwu) is in its fift' week.

Mr S M Matloba, genera secretary of Blatu SATS in house union said the only rea son strikers had not yet bee dismissed was because Blat had argued against this

"I once again appeal to then to stop their self destructio and return to work," Mr Matlo ha said.

Although both SATS an Sarhwu have expressed a wi lingness to resolve the strike talks between the two partie last took place on April 10

The stumbling block is tha SATS refuses to negotiate wit Sarhwu.

A spokesman for SATS strike committee said the or ganisation was waiting for a indication from worker repre sentatives' on the resumption of negotiations.

Yesterday, the Congress o South African Trade Unions (Cosatu) to which Sarhwu is af filiated repeated its willing ness to assist in getting talks back on course

Cosatu also vehemently denied that its Johannesburg property Cosatu House was being used as a 'torture chamber" in the strike

Call for use of shock tactics on inflation

23/4/87 B/Day

MICK COLLINS

ORGANISED agriculture and the Consumer Council have called on government to use urgent shock tactics to reduce inflation

In a joint statement, the SA Agricultural Union (SAAU) and the Consumer Council said promises of co-operation to curb inflation had produced nothing All concerned parties, especially government, would have to act

The statement also called for more, rather than less, involvement by government in agriculture.

The call is in sharp contrast to government's stated policy of less involvement

Urgent steps would have to be taken to prevent farmers from going bankrupt, the statement said

"Agriculture, and by implication agricultural producers, are frequently singled out as the chief contributors to inflation. This is an unfair accusation which stems mainly from ignorance or the inability to distinguish between producer prices on farm level and food prices on retail level," said SAAU chief economist Koos du Toit.

"The rise in the food price index in December 1986 was, for example, 20,8% higher than a year ago, compared with an increase of 18,1% in the consumer price index It is evident that food prices in their own right contributed to the general rise in inflation during this period," he said

He pointed out that automatically tracing back the rise in food prices to agriculture was the wrong approach since the increase in producer prices amounted to a mere 11% in 1986, which implied agriculture in fact had a restraining effect on inflation

Du Toit said a recent report by brokers Davis, Borkhum and Hare arrived at the conclusion agriculture was a follower rather than a leader in the inflation process, and that the biggest contributors to inflation were the sector for processed agricultural products

...ributes early 1990s, the pr ... this, combined with
h or two A would have increased by 50% ... the fact that OECD coun-

Cape Times 23/4/87

Food prices push up consumer index

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By AUDREY D'ANGELO
Financial Editor

THE CONTINUING rise in the cost of living and a slight fall in the gold price and the rand as the dollar strengthened gave a damper to growing optimism about the SA economy yesterday

Gold closed $3,50 lower on the day in London yesterday — apparently due to profit-taking and to the strengthening of the dollar after encouraging US economic data

The All Gold Index and Over All Index on the Johannesburg Stock Exchange closed lower

But industrial shares closed mixed to firmer, pushing the industrial index to a new high of 1 804 shortly before the close, compared with 1 798 on Tuesday

More disturbing news was that the consumer price index — expected by many to drop — continued its gradual rise to 16,8% for the 12 months to the end of March, compared with 16,3% in February and 16,1% in January

The food only index rose to 265,1 in March from a base rate in 1980 giving a monthly rise of 1,9% and year-on-year gain of 24,2%

The continuing rise was due mainly to food prices the director of the Stellenbosch Bureau for Economic Research, Ockie Stuart, said, suggesting that higher meat prices were a major factor

This was due to farmers rebuilding herds reduced by the drought He expected the rise to "abate in a few months' time"

There were no fundamental reasons why the inflation rate should go on rising, since the stronger rand meant less imported inflation, Stuart said,

Recent research by the bureau showed that retailers and wholesalers expected the inflation rate to decline.

But, he pointed out, the mood of rising confidence was creating an environment in which some businessmen "might use sanctions as an excuse to put up prices"

Forecast subject to govt reform

Inflation to dip as incomes rise

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Cape Times 28/4/87

By AUDREY D'ANGELO
Financial Editor

THE Stellenbosch Bureau for Economic Research (BER) foresees a two-year period of steady improvement with real personal incomes rising and the inflation rate falling — provided there are moves towards reform after next month's election

In its latest survey of economic prospects it forecasts that spending will "accelerate" as the consumer price index falls from an average of 16% in the first half of this year to 13,6% in the second and 11,2% in the third

It foresees average wage increases of 15,8% this year, moderate tax relief in the June budget and continuing low interest rates.

Joint taxation

"Married couples can expect further relief in terms of lower joint taxation, and savers should be rewarded by further reductions in the taxation of interest incomes," the report says

Pointing out that the real spending power of the average individual fell by 20% between 1980 and 1986 to the lowest level for 17 years, the bureau forecasts that it will rise by 2,9% in the first half of 1986 and more than 3% in the first half of 1988

"Although high personal debt ratios and the large-scale drawing down of savings in recent years will constrain consumer spending, low interest rates and the continued relatively free availability of credit will play a supportive role

"Real consumer spending is expected to rise at an accelerating pace"

It forecasts that sales of durable goods, in particular will benefit from the improved financial position of the individual and from higher levels of confidence

They will also be boosted by pent-up demand in recent years

Forecasting real Gross Domestic Product growth of 4,4% in 1987, rising to 5% in the first half of 1988, the bureau says "The recent healthy upsurge in car sales provides an effective illustration of the improved potential for higher durable consumption levels

"The anticipated livelier housebuilding activity in black residential areas will also boost the demand for basic household furniture and appliances

"Average growth of 6,4% is foresen for real private consumption of durables in 1987 and this growth rate should rise still further in the first half of 1988

Replacement demand

"Sales of semi-durable goods will also benefit from higher personal incomes and top some extent from pent-up and replacement demand

"Household textiles in particular should benefit from the projected residential activity in black areas"

It says that after five successive years of inventory depletion restocking will be necessary

"The turnaround in the inventory cycle, foreseen to begin in the first half of 1987, will make an important contribution to economic growth"

OPTIMISTIC forecasts made by the Stellenbosch Bureau for Economic Research depend on political factors, economists Ockie Stuart, N J Barnardt and G E Moore stress

In an introduction to their report they say it is made on assumptions which include "that the outcome of the May 6 election will not retard further political reform in SA and consequently it will not have any negative effect on domestic or foreign confidence regarding the country's future

"It is also assumed that there will not be undue delay in the implementation of further reform after the election

"These assumptions are crucial to our forecast"

Their statement continues "The state of emergency is expected to remain in force but it is assumed that the SADF will not undertake any incursions into neighbouring states"

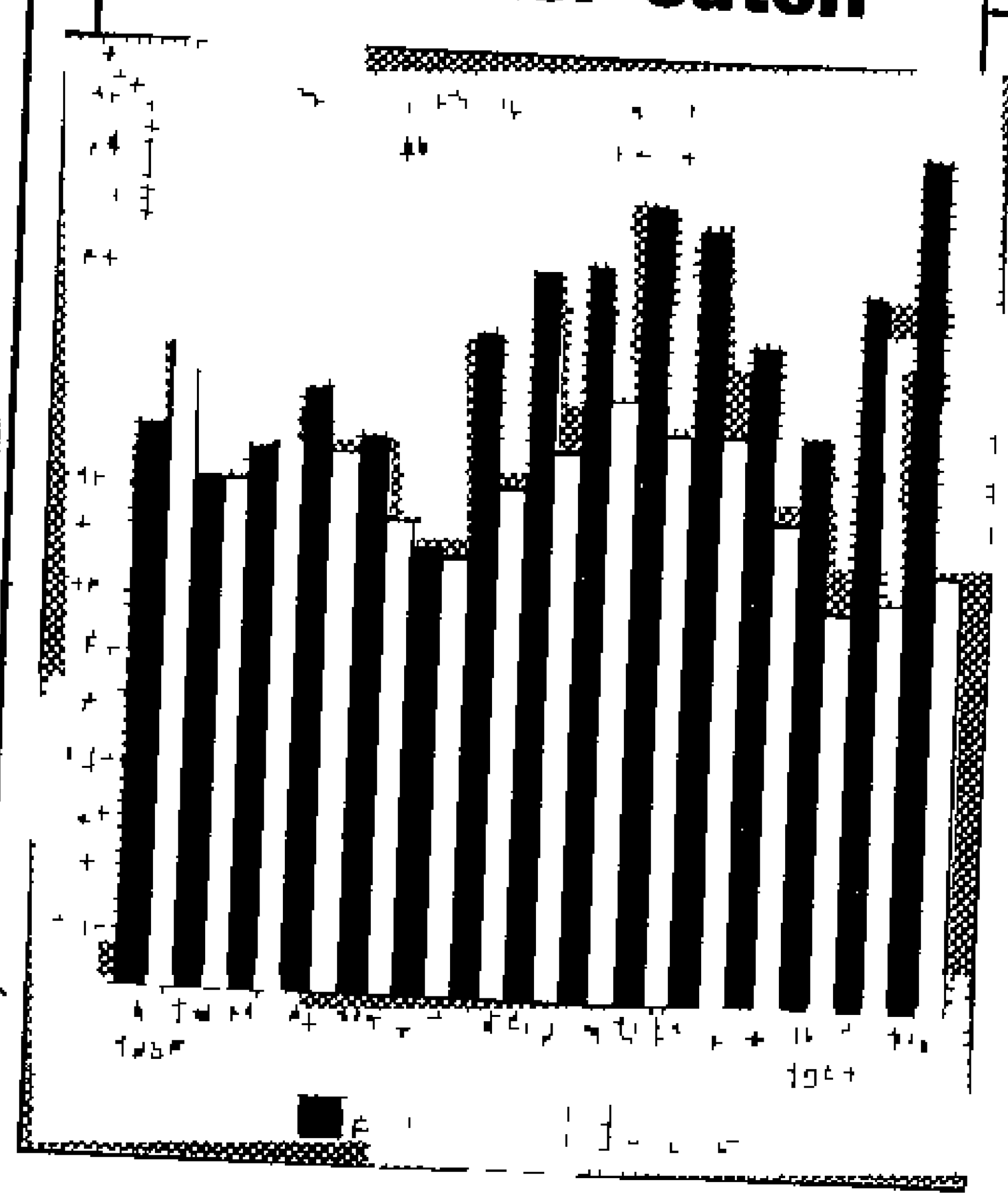
INFLATION

Who's to blame?

The inflation rate could have taken an upward turn if March figures are anything to go by. The trend is strongly against expectations

The March Consumer Price Index (CPI) reflected annualised growth of 16,8%, up on February's 16,3% Food prices alone rose 24,2% for the year to March, and remain the major component of inflation The overall monthly increase was 1,6%, compared to 1,1% in February. Food accounted for over

Consumer catch



30% of this

Yet Koos du Toit, economist at the SA Agricultural Union (SAAU), believes agricultural producers have exerted a "braking" effect, "contrary to the popular view which singles them out as the chief contributors." He bases his argument on comparisons of consumer and producer food prices "Last year producer prices of food increased by only 11% while the all-commodities index food component rose by 20,8%"

Du Toit blames the difference on the agricultural business sector, and those involved in the distribution, processing and retailing of food and food products He admits that all parties, including food producers, are guilty to an extent, but questions whether the intermediaries are simply passing on cost increases.

153 E P Post 6/5/87

Living costs climb again

Post Correspondent

JOHANNESBURG — The latest cost of living figures, released yesterday by Central Statistical Services, show an increase in the inflation rate to 16,8% compared with 16,3% in February.

After a slight drop at the beginning of the year, the inflation rate is climbing again

And of the different income groups, the largest annual increase — March, 1987, compared with March, 1986 — was for the group which could afford it the least, the lower income group

For them the overall inflation rate jumped by 17,8% in the past year

The annual food increase was 24,2% which was the highest increase since June, 1981, when the rate was 25,7%

- A basket of groceries which cost R100 only seven years ago now costs nearly R300

Plan to fight inflation approved

Drastic steps were needed to fight inflation, representatives of the South African Agricultural Union (SAAU) and the Co-ordinating Consumer Council decided at a meeting in Pretoria yesterday

The consumer council pledged its suppport for a SAAU programme to combat inflation

The meeting agreed that the immediate fight against inflation through a multifaceted strategy called for a re-orientation of economic thought and policy with the co-operation and support of all interested groups

The SAAU also gave a detailed account of the critical situation of producers in summer crop areas

The council was told about short-term problems, of plans to avoid widespread sequestrations in the agricultural sector and of attempts to restore the profitability of agriculture in the long term

14/5/87 (153)

Assocom warns on inflation

HELENA PATTEN

INFLATION had become a deep-rooted structural feature of SA's economic system, amounting to an inflationary psychosis, for which there were no "quick-fix" solutions, Assocom economist Bill Lacey said yesterday

He said the public and private sectors should be involved in breaking the "psychosis", although the public sector should lead by making a clear commitment to combating inflation

Lacey said the restoration of government's credibility would require strict adherence to expenditure budgets, periodic reviews of "bracket creep" on marginal tax rates, a reduction in costly First World standards and a continuation of efforts to improve productivity

"The fiscal authorities must act very circumspectly in considering indirect tax rates because every indirect tax is automatically absorbed into the cost of goods to the ultimate consumer," he said

INFLATION

Banking up?

Enormous inflationary potential lies in the banking sector's ability to create credit, says Davis Borkum Hare analyst Richard Lomberg. He calculates that banks, given demand, could increase lending by 50%

He fears that a significant revival of credit demand would create a real danger of hyperinflation. Lomberg attributes the situation to the low priority accorded cash reserve requirements as a tool of monetary control, and questions whether the present level of cash reserve requirements will effectively contain inflation

"The ratio was reduced in 1986 from 8% of short-term liabilities and 5% of medium-term, to 5% and 2% respectively The result is that banks can lend 68% more than they would have been able to under the cash reserve system proposed in the De Kock Report "

Leon Steenkamp, of Senekal Mouton & Kitshoff, does not see this situation as necessarily inflationary "What Lomberg has forgotten is that the cash reserve ratio is not the only factor Availability of cash is also crucial "

As banks extend credit, they have to put cash into reserves There is an effective shortage. So, notwithstanding banks' ability to create credit, in terms of statutory liquidity and solvency standards they won't necessarily be able to lay their hands on actual cash

Senekal's Steenkamp . . . reserve ratios not only factor

Indeed, the Reserve Bank is going out of its way to facilitate bank shortages Contrary to the spirit of the new tender system in the money market, banks seem to be using money from the Corporation for Public Deposits to balance daily requirements Many banks have run down liquid asset and cash surpluses

Then, as Gill Raine of Frankel Kruger says "As long as banks have liquid assets, they can also get more cash at the discount window — but at a price "

Price is not a negligible factor By raising interest rates the authorities could reduce the value of liquid assets, reducing a bank's willingness to trade in these assets for cash

Says Steenkamp "It could be argued that the authorities are being too restrictive, mopping up liquidity in open market operations at a time when demand for credit is still low In view of underlying liquidity, the BA rate, for instance, should be considerably lower The fact that it isn't is testimony to the Bank's intervention "

In the previous era — prior to the De Kock Commission — the authorities controlled the supply of money via the availability of liquid assets These were strategically influenced by changes in net foreign reserves and by the way the deficit on the Exchequer account was financed

Now official policy is to manage short-term interest rates by controlling the amount of money in the banking system ■

It may be bad news on PO and Sats tariffs next week

By PATRICK CULL
Political Correspondent

SOME of the post-election medicine forecast by the PFP's Mr Harry Schwarz is likely to be handed to the consumer next week when both the Post Office and South African Transport Services (Sats) budgets are presented

The Post Office budget will be presented by Mr Stoffel Botha, Minister of Communications, on Monday Mr Eli Louw will present the Sats budget the following day

A wide range of increases seems inevitable, particularly in the light of the 12,5% increase given to all Government employees this week

The two part appropriations (mini-budgets) presented in February this year were particularly mild and the only increase announced was a 2c rise to 16c, in the standard letter rate

But there were hints at the time that more increases would be announced later — after the election.

In February, Mr Botha said that the current cross-subsidisation of services could not continue at current levels and would have to be phased out

Just how he is going to do this will be disclosed on Monday

Across-the-board increases in postal tariffs seem likely Bearing in mind the R130-million loss projected for this year, it is likely that telephone tariffs will also rise.

A warning of further increases in this area was given in last year's budget.

A general round of increases has also been predicted when the Sats budget is presented on Tuesday

Again a mild mini-budget was delivered in February prior to the election And, safely back in power, the Government can now hand out the medicine

The main Budget will be tabled on June 3

PERSONAL FINANCE/PENSIONS

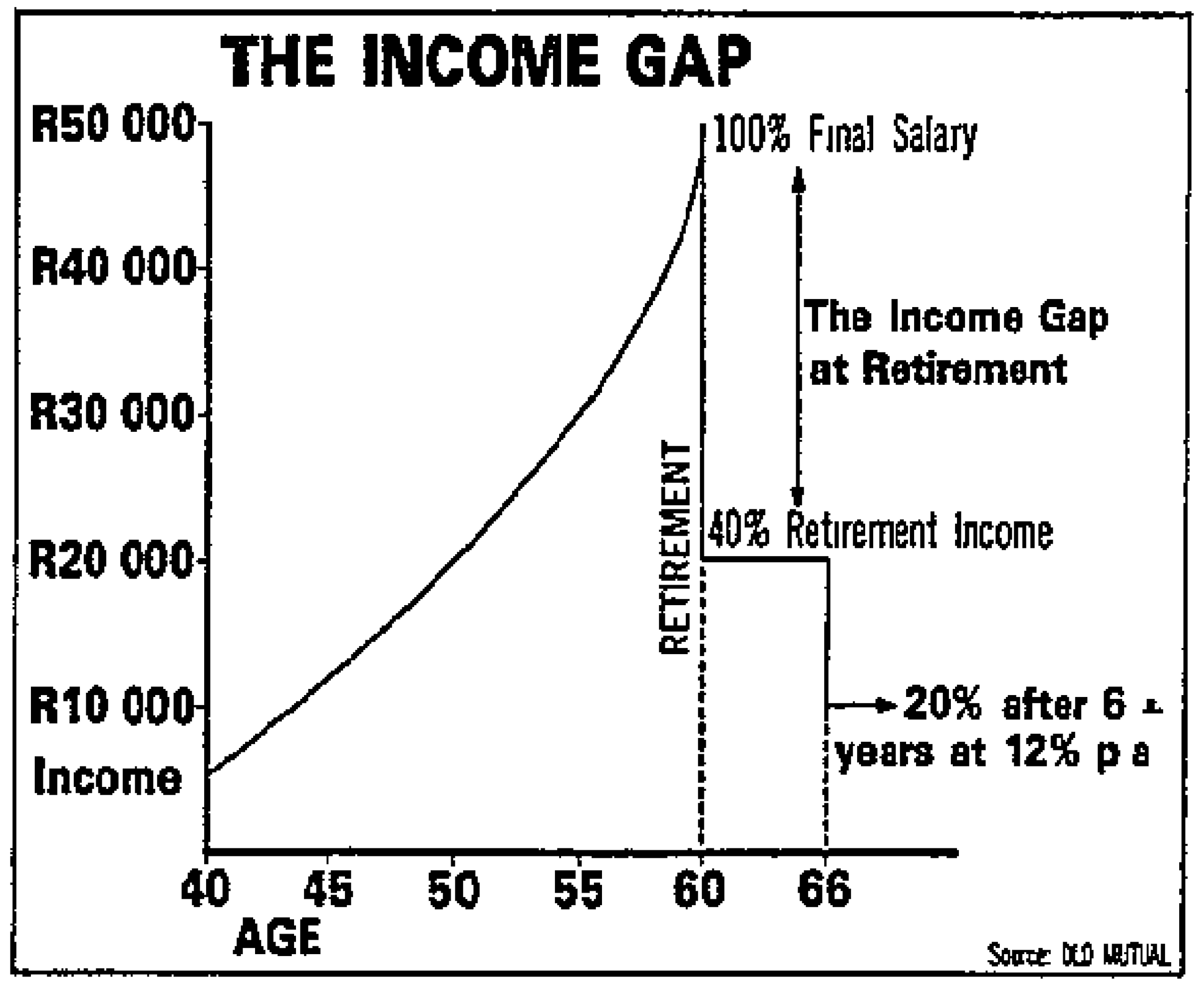
153 whole page excerpted

The inflation-buster

A PLAN to protect pensioners against spiralling inflation — introduced by Old Mutual pensions more than a decade ago — has proved itself the top long-term inflation-buster in the pensions industry, says the Mutual.

Under the Mutual's "Pension Plus" system, pensioners' income increased by an average of 13,59% a year during the past six years — a higher increment than salary increases for the same period.

"After giving our 'Pension-Plus' system sufficient time to prove itself over the long-term, we are now satisfied that it is a major mechanism to protect pensioners against inflation," says Old Mutual pensions GM Gerhard van Niekerk.



Record total

For the year ending December 31, 1986, Old Mutual declared a record total "Pension-Plus" bonus of 14.65%. This is split into a basic bonus of 6,4% — which is added to monthly pensions — and a terminal bonus of 8,25%. The latter is paid in a lump sum.

It is common knowledge, says Van Niekerk, that fixed income pensioners are "most vulnerable" to the ravages of inflation.

The reason is simple. Inflation escalated from 5,5% in 1971 to 11,5% in 1976, touched 20% recently, drastically diminishing the buying power of the fixed-income pensioner (the present dip to 16% "cannot be relied upon to continue").

For many pensioners, "the older they get the poorer they get" Van Niekerk tells that "we realised in the late Sixties that inflation was becoming a reality of life, and what this would mean to pensioners".

By the time inflation reached the double-digit level (10% in April 1973) "our 'Pension-Plus' product was already established on the market".

"Pension Plus" enables a pensioner to expect his pension to keep on increasing each year throughout retirement, with the added guarantee that his increased monthly pension will never be reduced, even in the case of a serious depression — through offering pensioners a direct share in Old Mutual profits in the form of annual increases in pension as well as cash bonuses.

This is achieved, says Van Niekerk, "by withdrawing his pension entitlement from a specific fund at retirement and investing it directly with Old Mutual as part of its 'Pension-Plus' investment pool".

"Obviously, the kind of growth 'Pension-Plus' offers means additional funding." And while the Mutual carries the risk of ensuring continued growth after retirement, "we look to employers to pay the additional costs involved while a person is still employed".

Van Niekerk pays tribute "to the measure of social awareness displayed by many South African businessmen" — more than 300 business concerns employing thousands of potential pensioners participate in "Pension-Plus".

One of the worst

There are already 2 824 pensioners participating in "Pension-Plus," in terms of a contract between the pensioner himself and Old Mutual.

The cash bonuses paid out to the 2 824 "Pension-Plus" pensioners on February 1, 1987, totalled R2,4m, concludes Van Niekerk.

☐ BUSINESS DAY concurs that inflation after retirement is one of the worst financial problems that anyone faces.

Employees should do their best to ensure that they have access to a pension which provides for as much escalation as possible to take care of the problem.

Protect post-retirement position

ACCORDING to Liberty Life, there are several ways to protect your post retirement position aginst inflation. Where possible, one should buy an escalating pension, but augmentation of one's contributions before retirement — where cash flow permits — will also help. Ben Lipschitz, Liberty's GM (pensions), recommends that.

☐ Pensioners in "money-purchase plans" (i.e., where the credit at retirement date is used to buy an annuity) — who are generally free to choose their pension fund format — "should seriously consider buying a pension with a built-in increase".

(Business Day notes that this will be at the cost of a lower initial pension — but retirees should bite the bullet, as the alternative of a pegged pension carries an illusory *initial* impression of being better off than you really are in inflationary times).

Lipschitz notes, when considering pensions generally, that there has been criticism of pension funds "for reporting excellent investment returns and not matching these with inflation increases granted to pensioners". The practice has been to limit increases to 50% of the CPI in most cases — because to give more "may raise pensioners' expectations" to levels which may not be capable of being met in future years.

And to inflation-proof pensions completely "would mean trebling or quadrupling the costs of funding" and very few employers "are willing to underwrite inflation". Suggestions have been made to link all or part of a pension to a portfolio of assets, "but the fluctation in income may prove unpopular".

☐ One other avenue is to augment one's pension fund contributions. Lipschitz urges everyone to "start augmenting as early in your working life as you can".

Other future options like "save as you earn" have proved popular in the UK. Monthly payments, tax-deductible, are accumulated, together with interest "in various investment media" for a minimum period of five years, after which they are payable free of tax. "Government in SA should consider this option."

Augmentation, says Federated

ONE WAY to protect yourself against inflation during the period of employment is through augmentation of your corporate pension scheme by additional retirement contracts. Arnold Basserabie, MD of Federated Life says that pension fund returns have, over the past few years, "been high enough to handsomely counter inflation". But he cautions people not to assume "automatically" that their pension fund will provide fully for their retirement.

A further major problem is loss of purchasing power through further high inflation *after* retirement. While the number of funds providing pensions which grow after retirement is increasing, the inflation rate "is simply too high to allow this benefit to be provided at a realistic level while keeping the cost reasonable".

This means, says Bassarabie, "that the onus to supplement his pension continues to rest with the individual". Admittedly, the amount which can be set aside for additional retirement benefits varies from person to person, "but a figure of 15% of income less the individual's pension fund contribution is usually accepted as being within the reach of most employees".

The additional savings, says Bassarabie, "can well be any variety of investments" — amongst the most popular being a retirement annuity either with or without life cover.

Federated's deputy GM (occupational pensions) Hennie Snyman adds a note of warning about corporate pension funding. Some employers are reluctant to assume liability for pension schemes which offer benefits based on the level of salaries at or near retirement, because of the risk of making a lifetime pension commitment based on rapidly-rising salaries towards retirement date — because inflation is expected to make an unquantifiable contribution towards much higher nominal money salaries in the future.

Says Snyman. "Inflation can easily upset estimates of future costs," leaving pension funds uncovered in terms of their liabilities to retirees. So companies are tending to favour pensions based on "money purchase schemes" — i.e., pensions based on the credit in the fund at retirement date, which is then used to purchase an annuity calculated actuarially by a life office.

INDIVIDUALS about to retire should consult a pensions bureau or other independent adviser, as much crucial information about selecting a pension will not be imparted to them by many pension fund managers.

Wally Pope, MD of Wally Pope Computerised Pension Bureau, argues that personal attention to pension pre-planning is vital. To take one important issue — all retirement annuity funds and "a great many" pensions funds are untied which means that the credit accruing to the retiree may be used to purchase the pension from *any* registered insurer in the market at the time of retirement "at the best rates available".

But despite this degree of flexibility, there is "minimal competition" in this sector of the market. The reason is that there is no obligation on the insurer which manages the pension fund to remind the retiree of his rights, although he would have been informed of them at the time he entered the pension fund in question.

Evidence

By the time the pension plan matures, says Pope most members have forgotten their rights, and "it is not in the insurer's interest" to do so — since it "could lead to loss of business to competitors".

Pope says there is evidence that more than 90% of retirees merely accept the pension offered by the insurer who managed the fund to which he or she belonged. Backing up this argument, says Pope, is evidence of the disparity in pension rates offered by various insurers (see this page).

But the issue of pension rates does not exhaust the value of the advice which a pensions bureau can offer its clients. Says Pope: "The timing of retirement can make a material difference to benefits, too." The pension rates quoted by insurers will depend on several factors — like life expectancy, which relates to age and sex, as well as current interest rates at the time of retirement, coupled with the insurer's expectations about the trend in interest rates over the calculated life expectancy of the retiree.

If interest rates are high but on a downward trend at the time of retirement, argues Pope, it becomes advantageous to retire from a pension fund earlier rather than later.

Business Day, in this feature, has long argued that retirement from formal employment — which would, of course, imply retirement from a corporate pension fund — need not, and frequently should not, imply the end of active endeavour.

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Pensions bureaux — a vital service

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But the resources made available through forced retirement from a pension fund (or voluntary retirement from an RA fund) can be deployed most effectivly at this juncture. One possibility is to deploy a portion of the pension to pay the premiums on "matching" life assurance, which is frequently available as part of the contract to supply a pension without medical evidence and at standard rates for age and sex.

On the death of the pensioner, the proceeds of the life policy become payable to the surviving spouse and can be used to purchase a pension for the duration of that survivor's life As the survivor will be older, the rates obtainable will be higher than when the retiring spouse acquired the original pension.

Another possibility — depending on precise circumstances — is to invest in an RA scheme (i.e, while there is earned income to justify the deduction for the contributions) When the pensioner reaches the age of 70 or factually retires from economic activity, the proceeds of the RA will augment the original pension

Another possibility is to purchase a (reduced) joint life and survivor pension for the retiree and his or her spouse. Yet another option, which Pope dismisses as "strangely popular" — but not amongst his clients "who are given fuller details of all their options" — is a pension guaranteed for life but with a minimum period of 10 years

Pope charges a small nominal fee for his services, refundable in part if he earns commission from his client through the purchase of a pension on his behalf

☐BUSINESS DAY endorses Pope's arguments in the main, but subject to one important qualification — the need to hedge against inflation *after* retirement.

☐POPE personal attention vital

Three case studies show disparities

A MALE attorney aged 70, with a credit of R211 506 available, was offered pensions for life ranging from R3 850 to R3 370 per month — a difference of some 12,5% measured against the higher amount.

An ex-mine captain aged 60 was offered monthly pensions ranging between R2 859 and R2 296 — a difference of close to 20% A male chartered accountant aged 64 was offered pensions between R1 005 and R905 per month, showing a disparity of about 10%

Pension fund vs deferred compensation — be warned

DEFERRED compensation schemes, while sometimes superficially attractive, are not nearly as well protected legally as a properly constituted corporate pension fund

AA Mutual Life's assistant GM (pensions and group schemes) Joe Gates warns of many pitfalls in deferred compensation schemes. "Beware," he says, "the gift-bearing employer." An employee offered such a facility — usually funded

Care needed

MD OF Vantage Pension Administrators Leslie Zulberg says that the factor "most likely to have an influence" is the state of health of the pensioner The importance of health in determining rates is such that it pays the pensioner himself to put sentiment aside if he is in poor health. Under these circumstances "it makes good business sense" for him to opt for a form of continuity of payment after death.

One way is to purchase a pension guaranteed for a fixed period (but see Pope's strictures on this form of contract — Business Day) Another is to buy a pension payable over the joint life expentancy of the retiree and his or her spouse

An example of relative costs is as follows. assuming a (male) member of a fund retiring at 65 has a wife who is three years younger, then a pension over their joint lives will pay R457 per month, against R500 per month over the life of the retiree alone Zulberg argues that the small difference makes the joint life pension far preferable

Another attractive option for the retiree whose health is questionable is to buy a "back-to-back" life policy funded out of the pension without evidence of health, as recommended also by Pope.

On the other hand, if the retiree is in apparently robust health, especially if he has few personal responsibilities, he might decide "to take the highest possible pension" and ignore any form of guarantees or back-to-back arrangement.

life expectancy of the retiree

If interest rates are high but on a downward trend at the time of retirement, argues Pope, it becomes advantageous to retire from a pension fund earlier rather than later

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— be warned

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AA Mutual Life's assistant GM (pensions and group schemes) Joe Gates warns of many pitfalls in deferred compensation schemes "Beware," he says, "the gift-bearing employer." An employee offered such a facility — usually funded by way of a salary sacrifice — must beware t: "hidden potential flaws"

A pension fund is constituted as a separate legal entity, distinct from both employer and employee Its assets are secure from the "fortunes and failure of both parties" The employer may not benefit from the fund, and the only claim against its assets is "in terms of the registered rules"

Creditor

In the case of deferred compensation, all that the employee has is what the lawyers would call "a personal claim" against his employer The assets underlying the service agreement belong to the employer, who may deal freely with them even with the employee's knowledge

If the employer becomes insolvent, the employee will be no more than a concurrent creditor for the amount of salary sacrificed to the scheme, for what that may be worth in the particular case.

Gates says that, "restrictive as the Income Tax Act and the Pension Funds Act may be," they protect members in ways which deferred compensation schemes cannot. Thus contributions must be paid to a fund within seven days.

And as a pension fund does not have to meet the requirements of a "conforming" or "standard" policy under the 6th Schedule of the Income Tax Act, flexibility in benefit design is readily achieved. There is also relative certainty that the earnings of the fund itself will remain untaxed

There is also no risk of a defective or even non-existent service agreement — "an important ingredient" making for the tax efficiency of a deferred compensation scheme

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S/Tau 25/5/87

FOCUS

THE AIM SHOULD BE TO CUT INFLATION

AS South Africa waits with bated breath for the Government's budget for this year, our columnist, Ncedo Mlamla, an economist with Barclays Bank, points at the direction he thinks Mr Barend du Plessis, the Minister of Finance, should be taking.

THE main instrument which lays down the government's fiscal policy is the annual budget

The fiscal policy can be viewed as an attempt on the part of the government to influence the economy by means of changes in expenditures and/or taxes in such a manner as to have an impact on aggregates such as unemployment, inflation and economic growth

The budget has therefore to be drawn up within the framework of what the key objectives of the economic policy are, and appropriate targets must be set

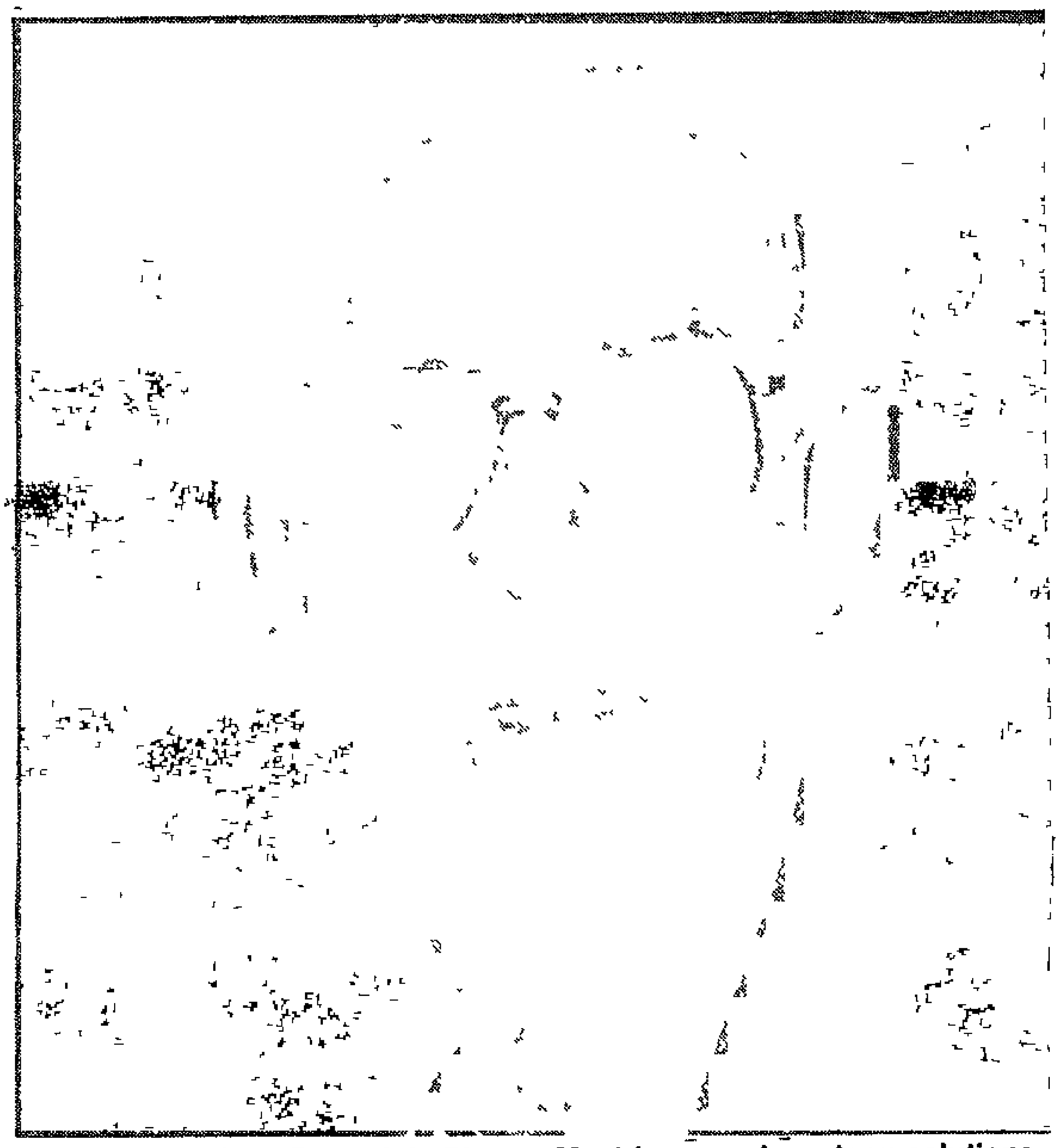
This year's budget will be tabled against some positive economic developments The favourable debt rescheduling agreement has helped to ease the perceived strain on the capital account of the balance of payments

The relatively high gold price is providing the authorities with the much-needed currency reserves to protect the now fairly stable rand exchange rate Inflation seems to be on a downward trend, due to the appreciated rand

Economic growth which in 1985 was minus 1,5 percent, marginally improved to 0,7 percent in 1986, suggesting that recovery, albeit still very weak, was getting underway

All these variables which broadly reflect the core of the economy, seem to suggest that if there could be an economic stimulus by the authorities, sustained growth can be achieved

It has been said many a time that what is lacking to really boost the economy is vibrant consumer spending This is probably one aspect on which the budget should focus



FINANCE Minister Barend du Plessis. Must focus on long-term solutions.

Spending

Consumer spending is primarily a function of real wages and employment in the economy Real wage increases have been negative over the past two years, mainly because of the high inflation rate Unemployment is still a problem

This lack of consumer spending is further clouded by the socio-political perception of the consumers The authorities should approach this problem by channelling more funds into investment spending This could alleviate unemployment and boost incomes

In other words, the budget should really focus on long-term solutions Current spending should be limited to a specified reasonable target, which would be in line with the stated manifesto of deregulation, while also taking cognisance of the current socio-political problems

It need not be reiterated that over the past years, the government's share of the gross domestic product has been steadily increasing This means that although the stated intention has been to deregulate the economy, what has been taking place is in effect the opposite

One should not, however, underestimate the difficulty of responsible level of government spending under the present political and economic climate.

However, a starting point may well be a restraint in wage increases in the public sector

The other factor that should be addressed by the budget is curbing the inflation rate The inflation - differential with our trading partners has long been our undoing

The current decline of the dollar suggests a possible rising trend in the inflation rate of our partners Curbing our domestic inflation would therefore aid our exporting sector while easing the burden on households

Burden

Although unlikely to be exhaustively addressed by the budget in the light of the fact that the Margo Commission report on taxation has not been tabled as yet, tax relief, especially on individuals, should be considered

The increasing tax burden has been a constraint on increased investment spending by corporations With ordinary individuals the tax burden has served to restrain their consumption spending

The tax relief should at least be of such magnitude as to offset the bracket creep effect (taxpayers move into higher income brackets because of inflation and are subsequently taxed accordingly)

In turn this increases the share of income that is taken by the government Such an approach could do well in stimulating the economy

(153) 27/5/87

Rail or plane about the same

Dispatch Correspondent

CAPE TOWN — Whether travelling by train or plane, it now costs just as much to travel from Cape Town to Johannesburg and back.

The increases announced in yesterday's Transport budget mean that the previous first class single train fare has gone up by R33, from R197 to R230 (or R460 return), a South African Transport Services spokesman said.

A call to South African Airways established that the return economy class airfare to Johannesburg is also R460, while the "midnight flight" fare stands at R230 return.

The Sats spokesman said the average 15 per cent increase in main line fares followed a decrease of 32 per cent in use of these trains over the last year

"We attribute that decrease mainly to cheaper, alternative forms of transport—the midnight flight and the new inter-city buses run both by private companies and Sats," he said.

He added that the increase was necessary because at the moment only 30 per cent of the cost of running main line train was recovered by passenger fees.

"The increase is also accompanied by an ongoing process of rationalisation of the main line service," he said — DDC

Train ride to cost you more cash

THE Minister of Transport services, Mr Eli Louw, yesterday announced that a wide range of tariff increases would come into effect on July 1.

Introducing the SA Transport Services budget for the second reading, he said that the increases, calculated over 18 months since the last tariff increase, equalled an annual rate of slightly over six percent, well below the prevailing rate of inflation They will average 10 percent.

Among the higher rates of increases he announced were parcels and post, livestock and intercity passengers (15 percent), empty containers (20 percent) and wood traffic and road transport goods (16 percent)

27/5/87 SA Press Association

Star

153 289

Road transport tariffs, including goods and passengers, were being increased by an average of 13,9 percent with goods rising by 16 and passenger fares by 12,5 percent.

Here are the new first-class passenger fares between Naledi and Johannesburg The old prices are in brackets.

Single R2,10 (R1,90). Weekly R16 (R14,50) and monthly R60 (R55)

The fares between Dube and Johannesburg are Single R1,50 (R1,40), weekly R11,50 (R10,50) and monthly R43,50 (R39)

New third-class fares will be Single 80c (70c), weekly R4,50 (R4,10) and monthly R17,50 (R16,50)

Mr Louw said that as far as rail fares were concerned, intercity train services were being rationalised to improve the financial position Costs were also being kept to a minimum by enhancing productivity and curtailing labour costs and expenditure on material and energy

"In spite of all these efforts the loss on passenger services remains unacceptably high and it is necessary to adjust fares," Mr Louw said

Most Sats tariffs set to increase by 10 per cent

From NICO MULLER
Parliamentary Reporter

CAPE TOWN — Most South African Transport Services (Sats) tariffs, excluding airfares, are to increase by an average 10 per cent in July, with further "structural" increases on the cards for October — a move that was described by opposition spokesmen as "shocking, alarming and inflationary"

The tariff increases will also push up the price of petrol

Inter-city passenger rail fares are going up on July 1 by an average 15 per cent (Johannesburg to East London 1st and 2nd class, 15 per cent, 3rd class 16 per cent) and suburban commuter rail fares — including third class tickets — by 10 per cent.

Tariffs on goods conveyed by rail will go up an average 11,9 per cent.

When the Minister of Transport Affairs, Mr Eli Louw, delivered his R10 287 million Sats Appropriation Bill here yesterday, he said commuter fares will also go up in October "to be determined by the prevailing conditions" then.

The minister said he believed that "smaller" fare increases twice a year would be more acceptable to the public than a relatively big increase once a year

Airfares were not being increased "at this stage", Mr Louw said However, he did not rule out an increase in airfares this year

He said a "further announcement will be made in this regard" if the situation changed In a press briefing he said that he hoped the economy developed in such a way that increased air tariffs could be avoided, adding that an increase in air seat occupancy was expected since the catering was being improved and cabins refurbished

Road transport tariffs have been upped by an average 13,9 per cent. Goods fares by 16 per cent and passenger fares, parcels, post and miscellaneous by 12,5 per cent.

Harbour tariffs have been upped by an average 6,8 per cent, while marine services are to go up on average by 13,9 per cent.

The pipeline tariff for petrol and diesel will go up by 7,4 and 12,1 per cent respectively

The increased tariffs were given against a background of a 32 and 6 per cent drop in inter-city and commuter passenger journey, a decline of under one per cent in the total tonnage of revenue earning goods rail traffic, a four per cent drop in domestic and international air passengers, a 12 and 6 per cent drop in the number of road transport passengers and goods tonnage, a two per cent drop in the total tonnage of cargo handled by South African harbours, imports and exports that were 5 and 1,8 per cent lower and a two per cent drop in the volumes of products handled in pipelines and the fact that 1 300 inter-city coaches are only utilised a few days of the year over April and December

The new upped transport tariffs will also mean an "inevitable" increase in the petrol price in July "that is not expected" to be more than 1c a liter Details of pump prices for the different regions will be announced later by the Minister of Economic Affairs and Technology, Mr Danie Steyn.

● The Progressive Federal Party spokesman on Sats, Mr John Malcomess (MP PE Central) said the increases were shocking and that he failed to understand how "they can claim this to be only a ten per cent increase"

Mr Malcomess said he guessed that the increases as they affected the railways would be closer to 15 per cent.

He said the inflationary effect would be felt through the whole economy and he criticised the increase of the pipeline tariff that would have an impact on petrol and diesel prices — and thus on inflation

"The profits on the pipeline are already excessive and the latest increase is nothing but blatant cross-subsidisation at a stage when cross subsidisation is meant to be phased out " he said

Mr Malcomess called on the minister to immediately start implementing the de-regulation of the transport industry "as a matter of urgency"

● The PFP spokesman on economic affairs and technology, Mr Roger Hulley (MP Constantia), said he had serious misgivings about the petrol price increase announced yesterday

Mr Hulley said he did not believe that the full amount of the increase had to be passed on to the consumer at this stage as there had recently been "a considerable inflow of cash into the Fuel Price Equalisation Fund as a result of the favourable exchange rate"

He said a fuel price increase would have a ripple effect on the rate of inflation

● The Official Opposition Conservative Party spokesman on Sats, Mr Tom Langley (MP Soutpansberg), said the budget was not only inflationary, but alarming

Mr Langley said the increases would affect all consumers adversely, adding that the increase in petrol and diesel before the planting season would have adverse affects on the inset costs of the crops for the next season

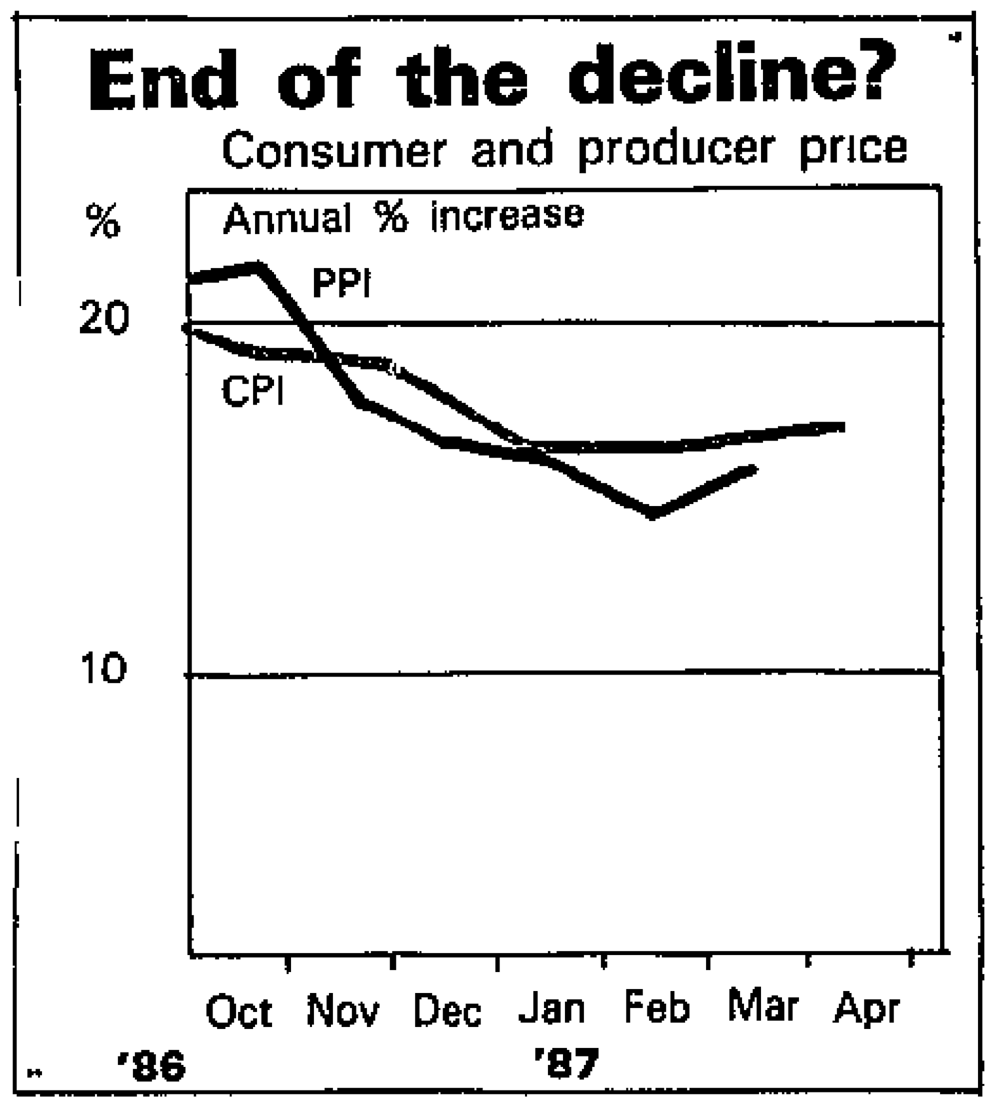
INFLATION (153) AM 29/4/87

Every which way

Mixed fortunes are reflected in the latest inflation figures

While the Producer Price Index (PPI) went up to 15,8% in March from 14,5% in February, the Consumer Price Index (CPI) fell to 16,2% in April from 16,8% the previous month CPI traditionally lags PPI by two months, suggesting an uptick in the rate of inflation in the months ahead

Economists, however, always warn of the danger of reading too much into monthly figures, often distorted by statistical hiccups. For instance, since the monthly rate for May 1986 CPI was only 0,4% next month will see an increase for this reason alone Similarly, the PPI increase for March was largely technical, as it compares with a negligible increase in March 1986



More significant is the underlying trend. Monthly increases these days are rarely below 1,3%

Says Louis Geldenhuys, economist for George Huysamer "This suggests a worrying trend In the past one could usually determine a specific source of inflation. Now it is difficult If you break down CPI, you find upward pressures across the board"

He says the pressure on inflation is "still vast" He cites the exchequer position and government spending, sanctions, the labour position in terms of wage demands and disruption of production, and general uncertainty

"This last factor," he says, "means a shortening of time horizons, so people try to recoup investments sooner"

On the positive side, he does not believe RSC levies will have much impact Another heartening pattern is the reduced unit costs of production as manufacturing volumes increase

But in the long term, given the stalemate on confidence, there is the danger government will go too far in an attempt to get the economy off the ground Sanctions will continue to underpin the shortage of capital, while exporters will continue to press for a relatively cheap rand These factors could continue to promote the need in the eyes of the authorities for an undervalued currency.

In detail, the local component of PPI rose from 16,9% to 18,1% in March, the imported component from 7,3% to 8,7% The highest monthly increases were in fishing (9%), clothing (7%), and textiles (5%)

Ockie Stuart, of the Stellenbosch Bureau for Economic Research, believes higher oil prices and international inflation accounted for the import rise

In CPI the food index increased 2,9% in April, up from 1,9% the previous month. Meat prices, which have a weighting of 9%, rose by 1,8% (1,6%) and vegetables by 13,3% (8,8%)

SA Agricultural Union economist Koos du Toit expects meat prices to continue rising. He points out that large price rises at this time of the year are seasonal, with vegetables in short supply

Azar Jammine of Econometrix says: "The monthly increases are a reflection of structural factors which prevent the rate of inflation falling rapidly," These include administered prices in the public sector, the increased concentration of industry in the private sector and the narrowing of the gap in inter-racial wages without compensating increases in productivity

Though Stuart expects CPI to continue falling, to average 15% this year and 12% for 1988, he warns "The inflationary cycle continues to peak and bottom out at increasingly higher levels," suggesting the longer-term trend is upwards.

Hospital fees to rise 8 pc

By Melanie Gosling

Private hospital fees will go up by eight percent on July 1

The increase will be restricted to ward fees, and will not apply to theatres or intensive care units, the chairman of the National Association of Private Hospitals, Mr Dick Williamson, said in Johannesburg yesterday

The present rate for private hospital ward fees is R82,50. It will increase to R89,10

Mr Williamson said his association is worried about the private hospital industry because fees have not kept pace with the rate of inflation, nor the increase in the cost of living It has negotiated an increase with medical aid schemes.

"The man in the street compares our prices with those of provincial hospitals, which are subsidised by the Government We're not cheap, but when you compare our rates with those of private hospitals overseas, we are certainly not expensive either," Mr Williamson said

In Australia the daily ward rate is nearly R400 The intensive care unit's daily fee in South Africa is R163 In Britain it is R1 165 and R1 314 in Australia

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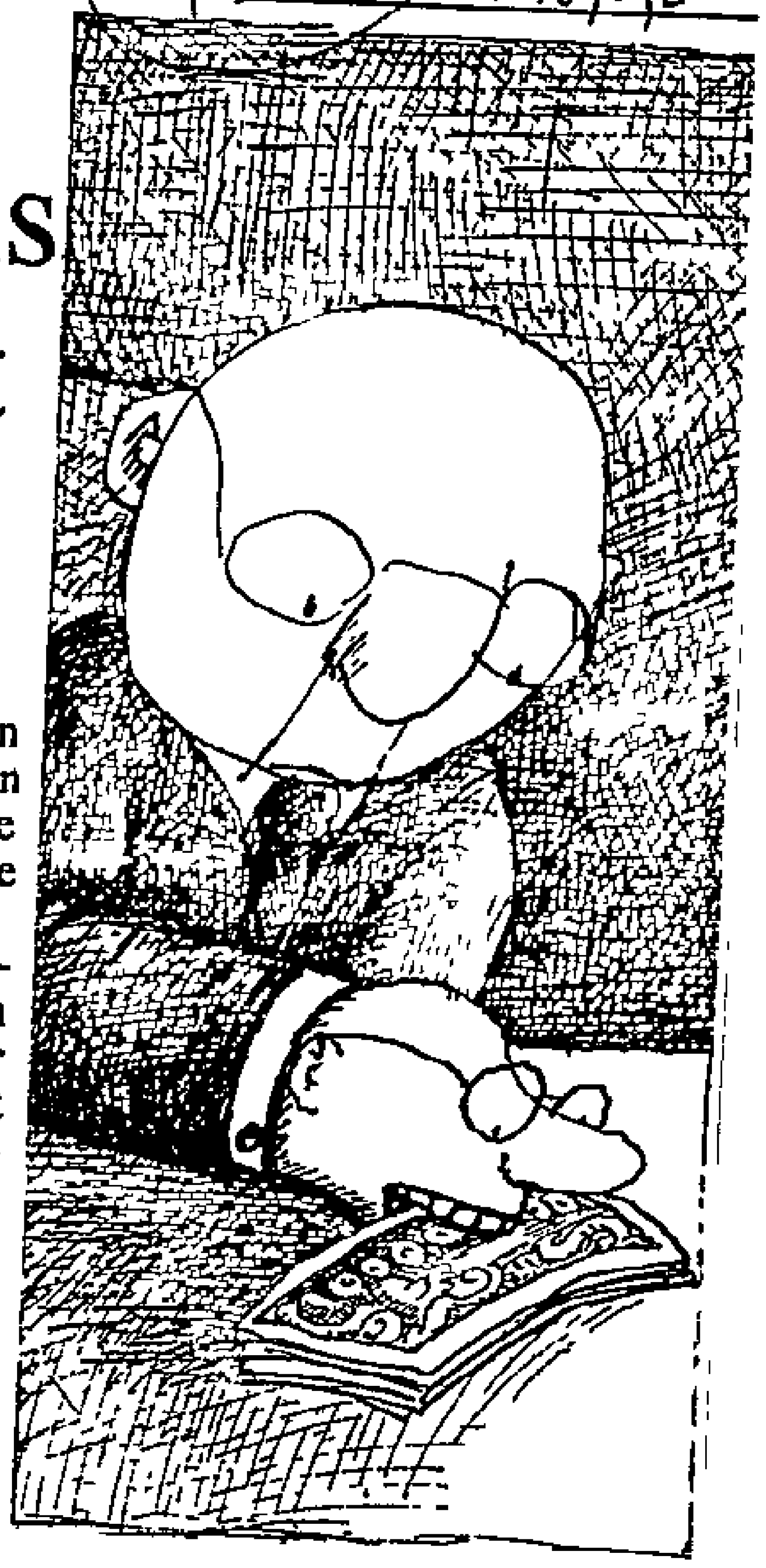
W Mail 12-18/6/87

THE ECONOMY

Inflation's victims this year aren't born equal



By HILARY JOFFE

THE good news is that the inflation rate is likely to be lower this year than last year's record 18,6 percent The bad news is that it's still likely to be around 16 percent this year

Latest Central Statistics Office figures show that the yearly inflation rate, as measured by the consumer price index (CPI), ran at 16,2 percent for April. And all are not equally affected. The cost of living went up more for the poor than for the rich, with "low income groups" experiencing a 17,8 percent inflation rate, compared with one of 15,4 percent for "high income groups".

When prices of luxury goods are rising fastest, inflation rates for those with high incomes run ahead of the average.

But when food prices soar, it is the poor, who spend a large proportion of the household budget on food, who experience greatest inflation In the year to April, food inflation was almost 25 percent. Without food, price increases would have been a mere 13,3 percent.

Food prices were the main culprit in rising prices between March and April this year, contributing over half of the month's inflation. Some of the biggest monthly increases were in the price of vegetables, meat, milk and eggs. In the past year, the price of meat has gone up by almost 33 percent, while vegetable prices have increased by 45 percent.

Whether things will improve will depend partly on the weather, since drought and a shortage of commodities such as fruit and vegetables are in part responsible for recent food price increases. Government financial support for farmers, for example the R1-billion voted in the recent budget to those farmers facing bankruptcy, tends to keep unproductive farmers in business and to fuel inflationary tendencies.

On the other hand, government subsidies do help to limit rises in some food prices, such as the bread price. This year's maize subsidy to farmers is, however, expected to run out before the end of the year, so that prices may rise again.

For all that, it was not the farmers or the food producers who were the main inflationary culprits over the past 18 months.

Last year's huge price increases were mainly due to the fall in the value of the rand, so that imported goods were costing more With the rand stronger this year, it's expected that the rate of increase of prices will slow somewhat. Where consumer prices were rising by 21 percent in the first three months of last year, the figure for the same period this year was just over 16 percent.

The inflation which South Africans have been experiencing in the past couple of years is not the "demand pull" type, characteristic of economic conditions when too much money, or too much demand, chases too few goods. Rather it has been of the "cost push" variety, with costs rising in 1986, especially as a result of the exchange rate.

What this meant was that prices of imported goods were pulling the inflation rate up. The increase in the production price index (PPI) for imported goods was 22,6 percent last year, whereas that for South African goods was 18,7 percent. Overall, prices as measured by this index rose by 19,6 percent. The fact that consumer prices went up by slightly less than this in 1986 reflects the lesser rise in the cost of services last year.

The PPI measures the wholesale prices of local and imported commodities. It excludes services, such as housing or medical care, which are included in the consumer price index. The effects of rises in wholesale prices tend to be reflected in retail price rises, as measured by the CPI, about two months later.

The annual increase in the PPI for all goods for South African consumption to March this year was 15,8 percent, lower than the April CPI annual increase of 16,2 percent, and thus relatively encouraging for the inflation outlook.

PPI figures for March also reflect the change in inflationary pressures compared with last year. Whereas last year prices of imported goods increased by more than the average, this year the prime inflationary push is coming from local production In the year to March, wholesale prices of goods produced in South Africa rose by 18 percent, while the cost of imported commodities rose by only 8,7 percent.

The outlook for consumer prices this year looks a little better than it did last year, although the effects of recent increases in rail and post office tariffs have still to be felt. Sanlam predicts an average inflation rate of 16,5 percent for 1987, while Old Mutual's economists forecast a figure of between 15 and 16percent.

Not that this is anything to cheer about

Consumer spending power will have decreased by the end of theyear to only 84 percent of what it was at the beginning of the year. Particularly hard hit will be those who can least afford it.

Price rises may be compensated for to some extent by wage and salary increases. But in the last two years these have not kept pace with inflation. While inflation ran at close to 19 percent last year, average wage and salary increases outside agriculture were an estimated 14 percent.

In addition, rising unemployment means that the wage packet has to stretch to support more people. High inflation also means less saving and thus it ultimately has serious consequences for the level of investment and employment creation in the economy.

The rate of inflation in South Africa is presently running way ahead of the rates of its main trading partners. Britain's inflation rate last year was 3,5 percent, while that of the USA was between three and four percent This bodes ill for exports, with South African products becoming steadily less and less competitive on the international market.

Inflation slows

STP 21/6/87

INFLATION eased substantially in the developing countries in 1986, according to the International Monetary Funds's International Financial Statistics (IFS).

The overall decline was paced by steep decreases for the Western hemisphere and African countries, with negative inflation experienced by a several nations.

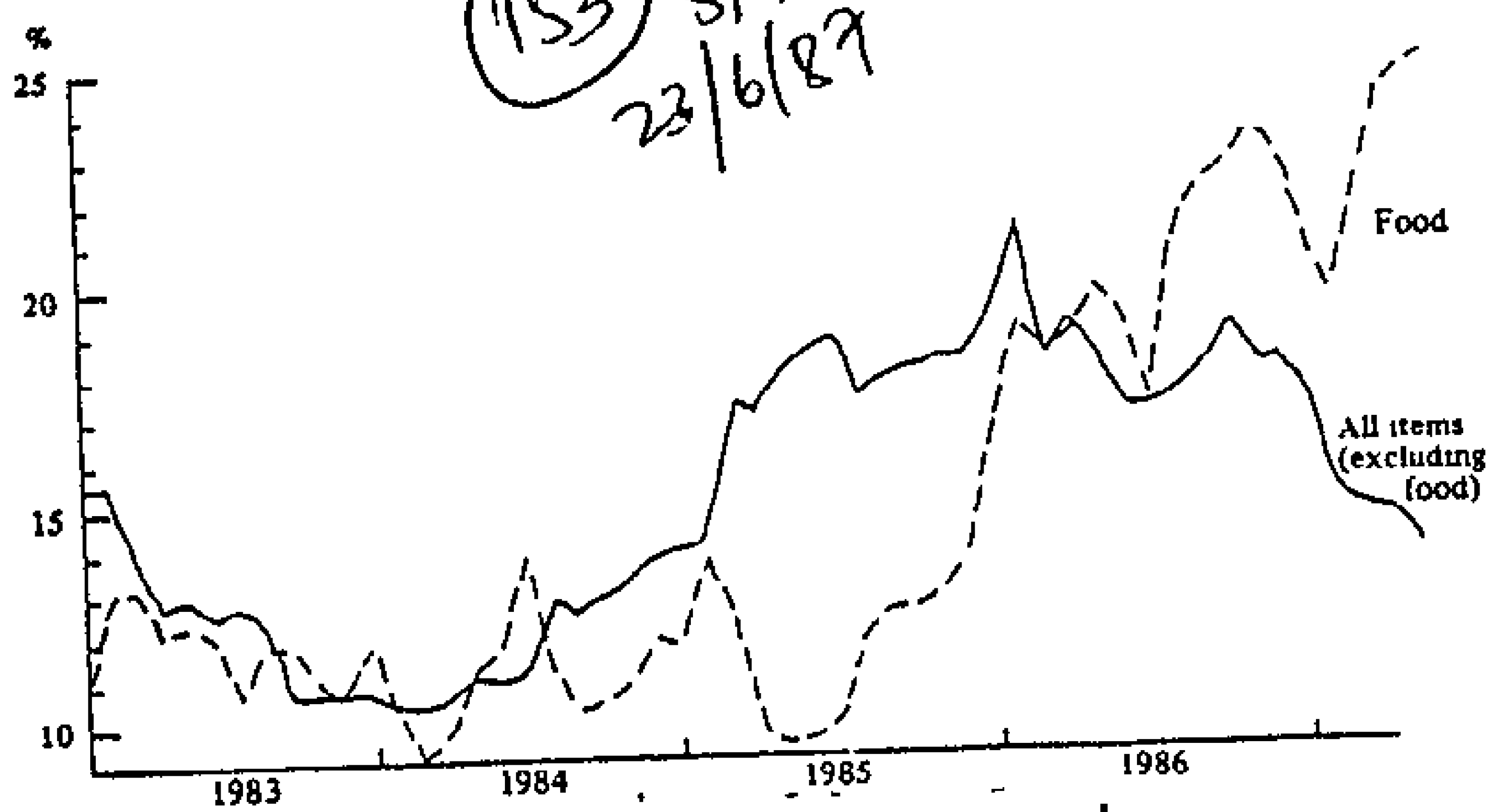
Consumer prices rose by an average of 33,8% in 1986 — the lowest annual rate since 1982 and well below the 50,3% of 1985 Inflation moderated in both oil-exporting and non-oil developing countries in 1986, but the non-oil nations showed the sharper fall

Inflation in non-oil developing countries averaged 42,9% compared with 64,8% in 1985 The rate was 3,2% for the oil exporters against 4% in 1985

Sanlam warns on high inflation rate

(153) SM 23/6/87

By Magnus Heystek
Finance Editor



Percentage change in consumer price indices

It is particularly disappointing that the country has had to enter the present economic upturn with an inflation rate much higher than most of its important trading partners, says Sanlam in its latest economic review, predicting an average inflation rate of 16,5 percent this year

It also warns that the danger of demand inflation should not be under-estimated, bearing in mind the cumulative effects on pent-up demand of lower taxes, higher remuneration levels, increased government spending and greater employment as the economy expands

In this respect Sanlam sounds a note of caution on the apparent surplus in the economy, warning that a great deal of capacity was lost in the last recession as a result of many companies going under Moreover, much equipment is outdated and will have to be replaced at significantly higher costs

Sanlam's warning on the dangers of high inflation comes barely a day after it was announced that the consumer price index (CPI) jumped from 16,2 percent in April to 17,3 percent in May

Sharp increases in food prices remain one of the major obstacles in efforts to force the inflation rate down to lower levels Owing to the large weight of food expenditure in the total spending of consumers, representing roughly 25 percent of the consumer price index, increases in food prices have a ripple effect on the total CPI

Consumer prices, excluding food, have eased perceptibly during the past few months as inflationary pressures from abroad has subsided due to the relative strengthening of the rand against the dollar

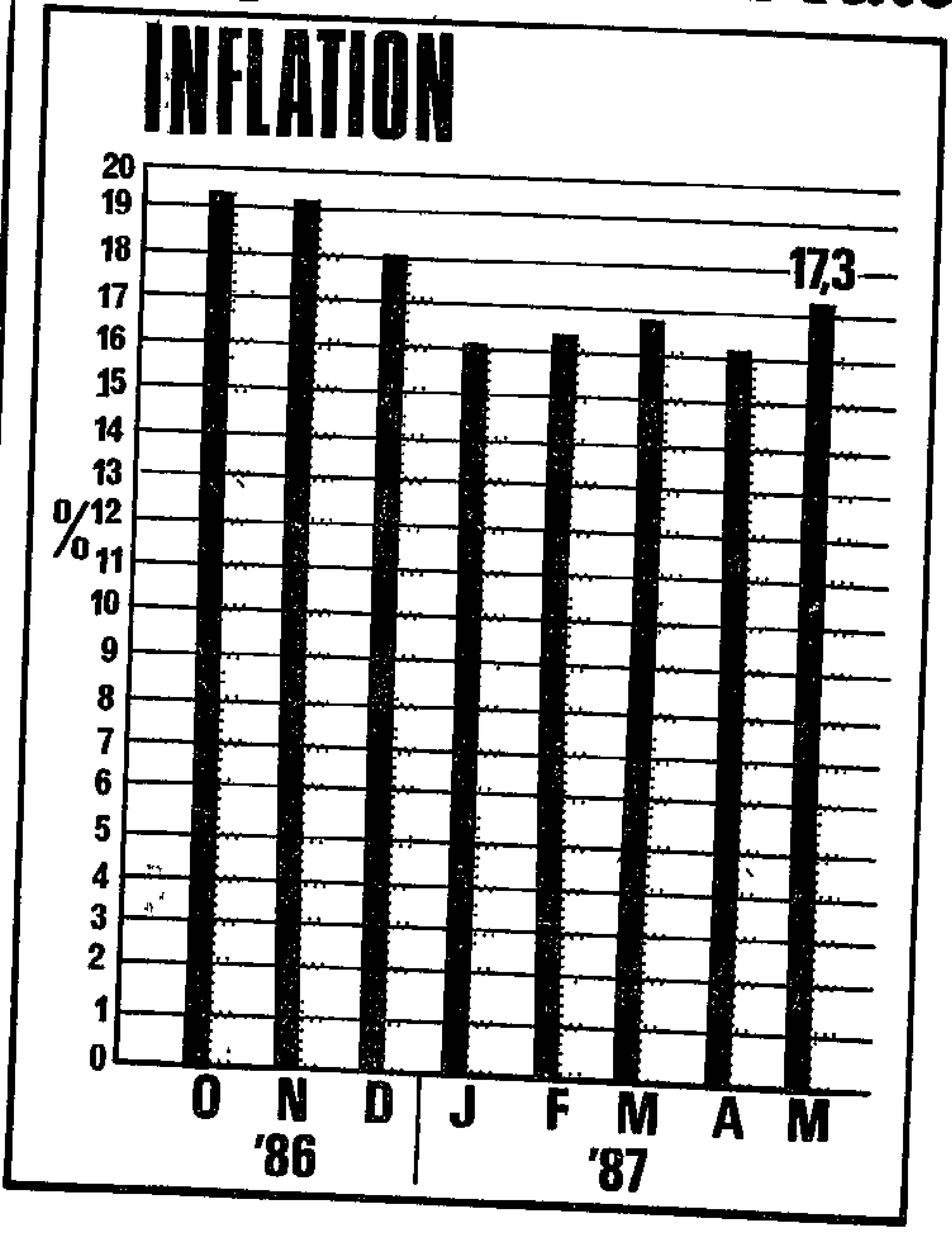
Sanlam expects that the relatively sharp acceleration in food prices, particularly of meat which represents more than 9 percent of the total CPI, will continue to have a negative effect on inflation

On prospects for economic growth Sanlam points to several factors which are hampering the upswing at present, including

- The slow growth-trend in foreign economies which has led to a sluggish demand for South African goods, indicating that the country cannot depend on a continued, export-led recovery in the near future
- The fact that the higher spending by consumers has not been bolstered by an increase in real disposable income as yet The recent salary increases for public sector officials, which will almost certainly be followed by the private sector, should nevertheless lead to a marked rise in the total buying power in the country
- The fact that a considerable portion of the funds set aside during the past financial year for public sector capital projects has not been spent.

Sanlam, however, is fairly confident that the country can experience a real growth rate of between 2,5 and 3 percent after last year's dismal 0,7 percent

Jump in inflation rate worries economists



Staff Reporters Star 23/6/87 (153)

South Africa's inflation rate as measured by the consumer price index (CPI) last month rose sharply to an annualised rate of 17,3 percent — up from 16,2 percent in April — and economists are concerned about the underlying inflationary pressures and warn of even higher inflation to come

According to the Central Statistical Services (CSS), people in the lower income groups were hardest hit by increased costs last month with prices increasing at an annualised rate of 18,7 percent.

The sharp increase of 25,8 percent in the price of food was the highest since April 1981 and contributed largely to the inflation rate not dropping to lower levels as forecast in some economic circles

People in middle-income groups experienced an inflation rate of 17,9 percent with high income-earners having an inflation rate of "only" 16,6 percent

Commenting on these figures the head of the CSS, Dr Treurnicht du Toit, expressed his concern at the inflationary forces prevalent in the economy.

"Although increases in foodstuffs are playing a major role in forcing the CPI higher, the last couple of months have seen the prices of other goods and services increasing steadily across a broad spectrum."

Mr Adam Jacobs, economist for Volkskas, warned that inflation could be heading higher in the months to come as the economy moves into higher gear with consumer demand for goods and services increasing.

Consumer spokesmen have expressed dismay at the jump in the inflation rate. Past chairman of the Consumer Union, Mrs Betty Hirzel, said: "We cannot accept that the Government is taking the problem of inflation seriously."

Consumer Council spokesman Mr Paul Roos said: "The increase is disconcerting for all consumers."

Inflation major threat to exports

153

WR 23/6/87

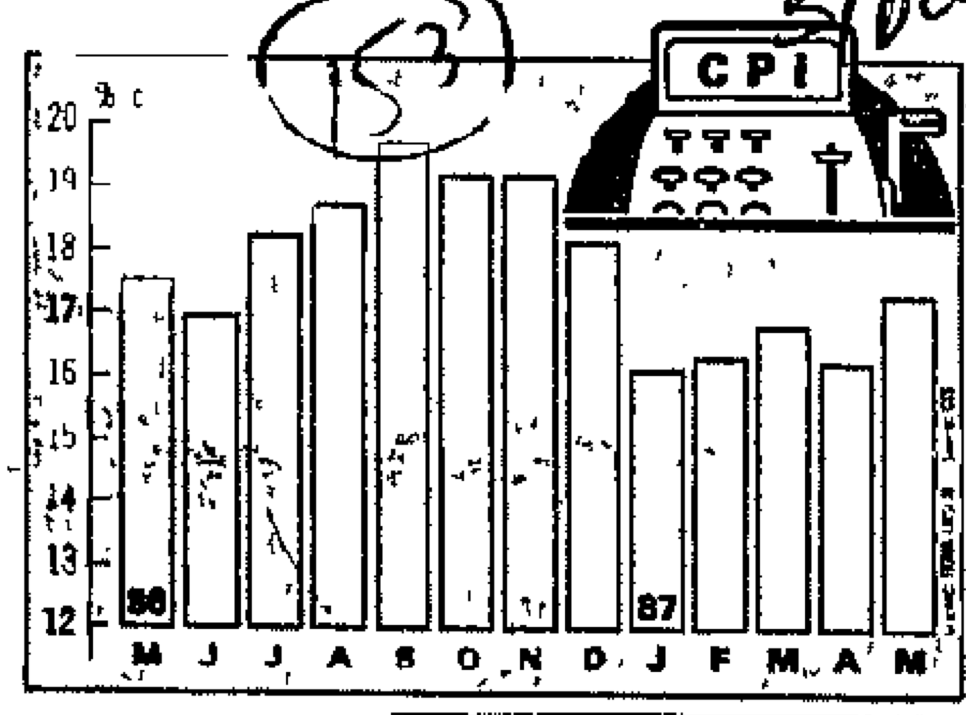
VENICE — The high rate of inflation was a major threat to the country's export industries, and had an adverse impact on the cost of production of the gold mining industry, the Director General of Finance, Dr Chris Stals, said here

Addressing the World Gold Conference in Venice, he said although the inflation rate declined from more than 16% last year to an adjusted annual rate of slightly below 15% in the first third of 1987, it remained unacceptably high, when compared with the relatively low rates of its major trading partners

In the House of Assembly in Cape Town the PFP spokesman on finance, Mr Harry Schwarz, said the figures announced yesterday of 17,3% for the general inflation rate and of 25,8% for food should be of great concern to every South African,

He said in the committee stage debate on the own affairs budget that inflation was "strangling our people, the poor, the low income groups" — Sapa

Inflation hits 17,3% in May as food prices rocket



INFLATION in May, as measured by the CPI, rose to 17,3% from 16,2% in April, following several months of lower rates of year-on-year inflation

The return to higher rates was fuelled particularly by an "alarmingly high" 25,8% rise in food prices during the year ending May, says Central Statistical Services This was the highest year-on-year rate of increase for food prices since April 1981, when it reached 27%

Pick 'n Pay CE Raymond Ackerman

HELENA PATTEN and DAVID McKAY

says the figures are "exorbitant", although there are reasons why such inflation in food prices could have taken place

These include the effect of the drought on suppliers (particularly of meat and chickens), union pressure for increased wages, the drop in the rand-dollar rate

● To Page 2

Inflation rate higher as price of food soars

● From Page 1

and the fact that suppliers are trying to make too much profit to compensate for the adverse exchange rate last year.

"We are fighting tooth and nail against supplier increases," he says

Government might contribute towards the lowering of food inflation if it came up with an improved plan on privatisation, which could reduce the inflation level to 12%, he says.

Economists, however, are quick to say the apparently higher inflation rate is really a technical aberration because of unusually low rates of monthly price increases in May 1986

Germiston rates expected to go up 15,4 pc

153 SOWN 24/4/87

Germiston ratepayers face a 15,4 percent increase in the average monthly household bill.

This was announced at the 1987/88 estimates meeting yesterday when the city council approved a record R254 million budget

Mrs Winnie Haveloh, a member of the opposition group, rejected the budget and launched a scathing attack on the management committee for "irresponsible spending".

Assessment rates are up by 20 percent, sewerage fees by 17 percent and refuse by 41 percent Water goes up 6,9 percent for each 25 kl and electricity by 12,2 percent.

On the rebate of 39 percent approved for homeowners, Mrs Haveloh said the council had made provision in 1984/85 for a 40 percent rebate, which had never materialised.

On the R80 000 allocated for the replacement of parking meters at R800 each, she said: "Alberton has no meters in its business area and it is thriving. Ours is dying."

Management committee chairman Mr Stan van Eeden highlighted a strategic plan, already approved in July last year, parts of which are to be financed in this budget

The plan includes the Knox Street Mall which is nearly complete, interlocking paving blocks and upgrading and beautifying industrial areas

INFLATION (153) FM

Fearful factors

Behind the latest consumer price index (CPI) figures experts discern a slowing rate of price increases However, they expect such disturbing factors as administered prices, higher profit margins and union militancy to keep the rate persistently high

Up to now we have been told that the rand's decline played a major part in the high inflation rate The Reserve Bank's June *Quarterly Bulletin* says that short-term price movements "mainly reflected the lagged effects of the depreciation of the rand in 1985 and fluctuations in its exchange rate in 1986 on the prices of imported goods"

But the rand has remained relatively stable for most of this year and is up against most currencies from a year ago According to the *Bulletin* the effective exchange rate has risen from a 43,5 low in August 1986 (January 1979=100) to 53,2 in April

As one economist says "The rand is now obscuring strong domestic pressure on prices" The imported component of the producer price index rose only 10,2% over the year to April, while the local component rose 17,9%, to give an overall 16,1% increase (*FM* June 19)

Now, figures for May show that CPI increased 17,3% over the year, and 1,2% over the month In April the respective figures were 16,2% and 1,3% A jump was expected as the month-on-month increase in May 1986 was only 0,2%, thanks largely to a petrol price cut

26/6/87

For similar reasons, in June the annual inflation rate should increase slightly as the rise in that month last year was also relatively modest, at 0,8%

The 17,3% rise is for the average consumer Lower income earners are not so fortunate, with an annual increase of 18,7% Prices for those in the upper income bracket rose on average by 16,6%

This is little surprise given that food, now rising at an annual 26%, is yet again the major factor Excluding food — which is a quarter of the basket — the index would have risen just 14,4% over the year

Perhaps more significant is the underlying inflation rate Central Statistical Service calculates for the *FM* that, annualising the index over a three-month period, the seasonally adjusted increase for January-March was 14,6%, while for the latest period it shot up to 17,7%

Taking a longer-term view Rand Merchant Bank's Rudolf Gouws calculates that over the first five months of 1987 CPI increased by an annualised 16,7%, compared to 19,3% in the second half of 1986 "So the underlying trend of rising prices is gradually slowing"

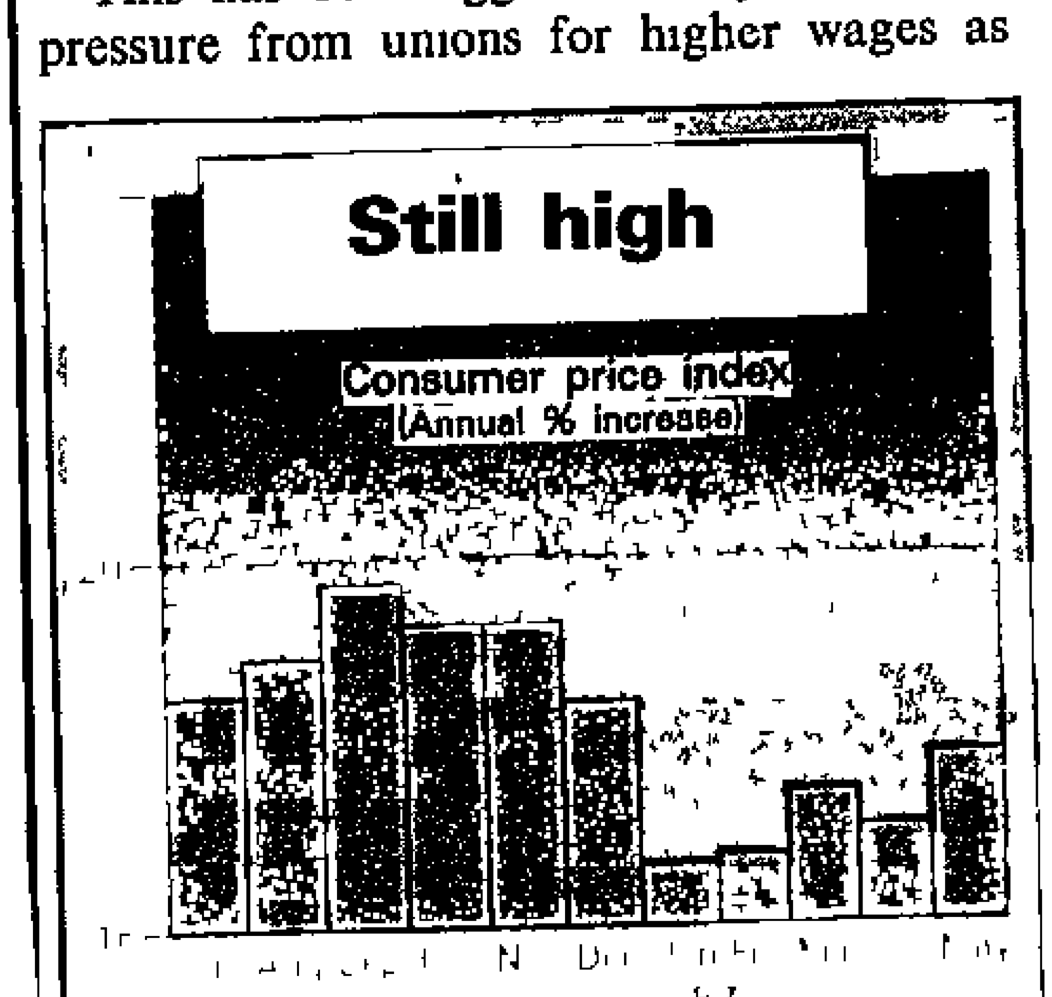
The May figures reflect rises in the prices of meat, motor-cars, fats and oils, vegetables, clothing, housing and fuel and power The only decline was fruit (mainly pineapples and oranges)

The average consumer now pays 35% more for meat than a year ago, 12% for grain products, 28% for fish, 21% for milk, milk products and eggs, 14% for fruit, 19% for sugar and 18% for coffee and tea

Administered price increases for milk and eggs were announced last Monday In particular, milk was said to be "in short supply" The Bank *Bulletin* says that food price rises "to some extent represented the effect of relative undersupply of items such as meat and vegetables"

Some economists say that rising prices are now a consequence of battered companies restoring balance sheets through higher profits and lower debt ratios, instead of passing the benefits of a firmer rand on to the consumer

This has been aggravated by increasing pressure from unions for higher wages as strikers try to make up for lost ground The highly-concentrated nature of the economy also remains significant in the behaviour of prices ■



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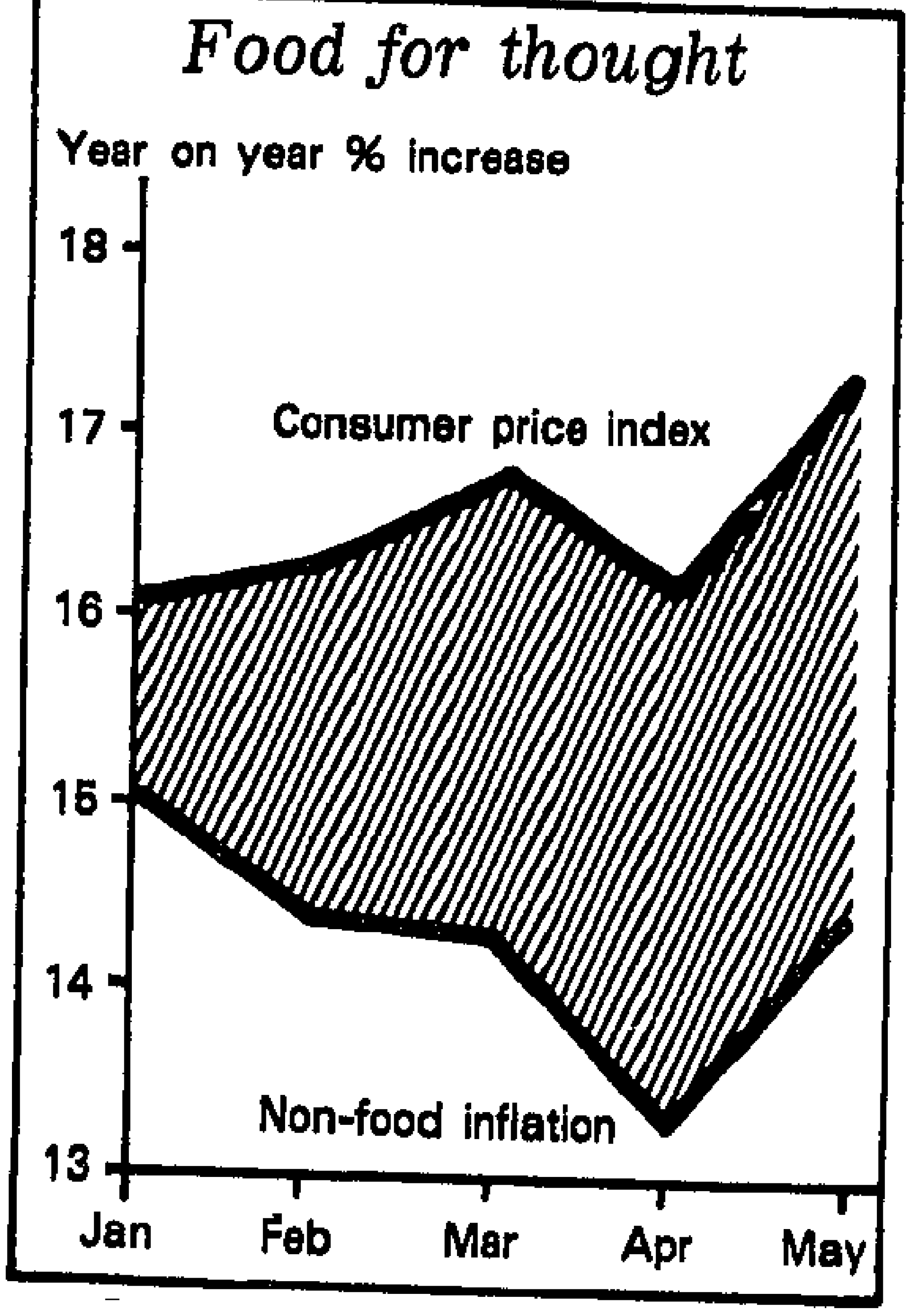


Food prices to come off the boil by yearend

By Stephen Rogers

AFTER soaring at record rates for the past few months, food-price inflation is expected to start declining by the end of the year.

Food has the heaviest single weighting in the consumer-price index and since the rand stabilised has been the biggest cause of inflation in SA

Price increases in meat, vegetables, milk and grain products, which on a weighted basis, make up 75% of the food index, are possible this year

But they are expected to be lower than before, depressing the rate of increase in the food index.

Andre Louw, agricultural economist at Volkskas, says: "Food prices should not increase significantly in the rest of the year."

Margins

Retailers have been rebuilding their profit margins after a three-year decline. For instance, the consumer price of certain cuts of meat has risen faster than the auction figure.

However, most experts say that price increases will be kept to a minimum. Consumer resistance, competition and changing patterns of consumption have persuaded retailers to limit price increases.

Red meat lost out heavily in the market to white meat in the past decade. Now red meat is trying to make a comeback in market share and efforts are being made to keep it price competitive.

On the production side economists do not expect major increases although some items, such as red meat and vegetables, are still in short supply.

This augurs well for the food index which rose at a record year-on-year rate of 25,8% in May.

Easing

Dr Louw predicts the index will fall to about 17% by the end of the year. Lower-income earners spend more than 50% of their money on food.

Economists expect the decline in food index to be shown in the July CPI figures. The high monthly increases in the second half of last year will limit the rise in the index over 12 months.

But what effect will lower food inflation have on the CPI?

In January this year the food index, which has a 25% weighting in the overall index, rose by 19,3% on the year before and added 1,1 percentage points to the CPI In May the food index rose by 25,8% and lifted the CPI by 2,9 percentage points to 17,3%.

The graph on the left shows the effect of high food inflation on the CPI. Non-food inflation fell from 15% at the begining of the year to 14,4% in May, but the rise in food prices more than negated the fall, lifting the CPI from 16,1% to 17,3%.

The expected decline in the food index will ease the pressure on the CPI.

ARGUS 14/7/87 153

Inflation rate down, may drop even more

Business Editor

INFLATION dropped sharply in May as measured by the country's producer price index

The year-on-year producer price inflation fell to 14,6 percent after rising to 16,1 percent in April.

This could result in the consumer price index falling this month because the effect of producer prices usually takes about two months to show up at retail level.

A year ago producer price inflation stood at 19,6 percent

The consumer price index, currently at 17,2 percent, could fall to 13,2 percent this time next year, the Stellenbosch Bureau for Economic Affairs said.

IMPORT PRICES

The reduced rate of increase in import prices this year will have a significant effect on the producer price index and, in turn, the consumer price index

The bureau sees the rand worth $0,4550 in a year's time, fractionally lower than today's $0,4854

South Africa should be able to look forward to lower inflation rates (14,4 percent) in the second half of this year and the first half of next year (13,6 percent), say bureau economist Mr Glen Moore and deputy director of the bureau Dr Okkie Stuart

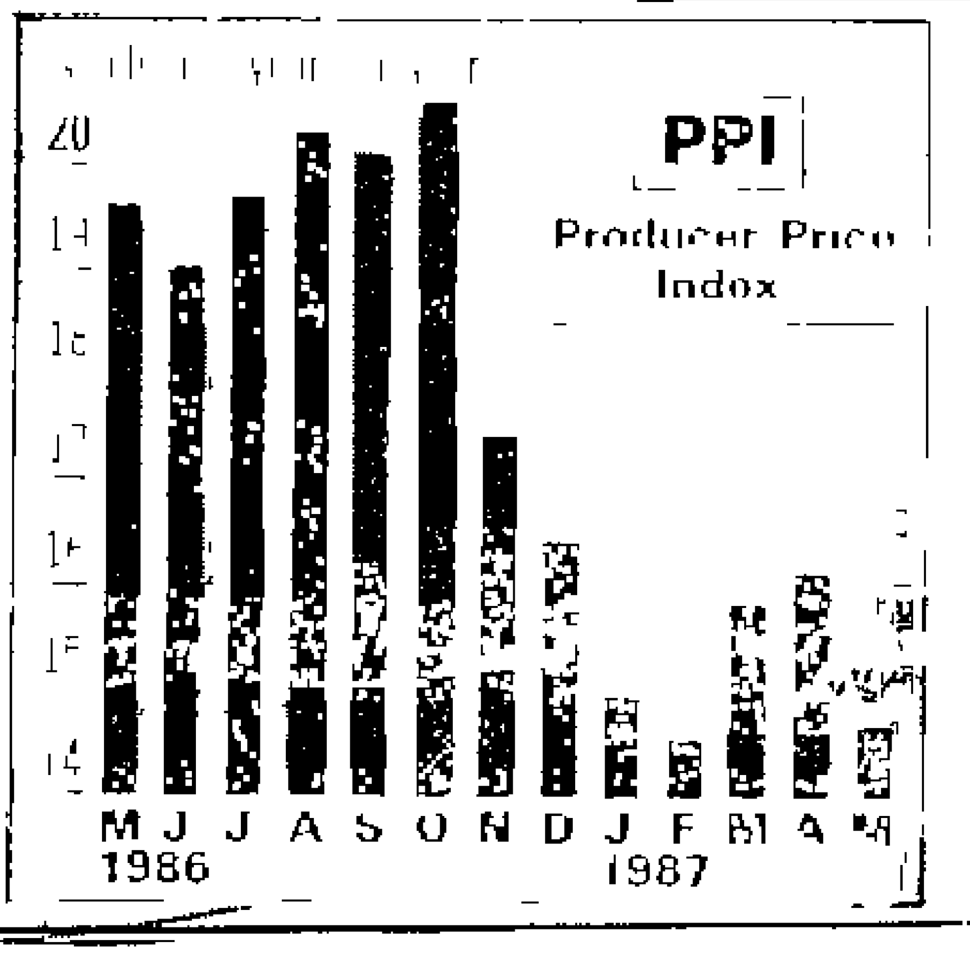
"The most-recent bout of consumer price increases has been characterised by large increases in food prices, particularly meat prices. It is hazardous to predict likely food price increases due to the conditions in agriculture," the bureau said

WARNING

Interest rates are expected to stabilise, with the banks' prime lending rate rising only 0,5 percent to 13 percent over the next 12 months

But the economists warn that inflation could get a boost next year from:

- High risks attached to business in a country plagued by political problems, which result in "short-term profit maximisation attempts"
- The "belligerent attitude" adopted by trade unions in wage negotiations
- Costs attached to economic sanctions and financial isolation.
- The fact that government spending has consistently overshot budget estimates.



Inflation takes a tumble

GRETA STEYN

YEAR-on-year producer price inflation dropped sharply to 14,6% in May from 16,1% in April, Central Statistical Services figures show

The decline is partly technical because the PPI jumped 1,72% between April and May last year, which means this year's came off a relatively higher base

However, month-on-month figures have this year shown a decline in their rate of increase Between April and May this year, the PPI increased by 0,45%, compared with a month-on-month rise of 1,2% in April and 1,14% in March 1987

For imported commodities, the month-on-month increase between April and May was only 0,2% — substantially lower than the increase of 1,3% recorded between February and March this year, 0,9% between January and February

The index advanced to 243,6 in May from 242,5 in April and 212,5 a year earlier

Chain store to slash meat prices on Monday

Sunday Post 17/7/87

(59)

By DEBBIE MARCH

PORT ELIZABETH consumers can look forward to a meat price war, following the announcement today by a major chain store that prices would be slashed by up to 32% from Monday

Family butchers, however, are unlikely to enter the price-on-price contest as their prices are apparently already well below those now charged by chain store butcheries

From Monday, Pick 'n Pay butcheries throughout the country will start dropping their prices in an attempt to "get meat sales going again"

"It's going to be an ongoing campaign that will see different lines of meat drop week by week We want to get the public to buy red meat again," Mr Ian Crooks, butchery manager at the Pick 'n Pay Hypermarket in Port Elizabeth, said

"We expect other chain stores to follow suit"

The first price cuts will be introduced on Monday and will be made on regular mince, stewing steak, steak and brisket

These would drop by between 15% and 32%, Mr Crooks said

On Wednesday, more prices would be cut, with regular cuts every few days thereafter.

Chairman of the Meat Traders Association in Port Elizabeth, Mr Peppy Lochner, a family butcher, described the campaign as "a big publicity stunt"

Speaking in his personal capacity he said "It's no big deal, really Any family butcher can compete with these cuts Our prices are generally R2 a kilogram cheaper than those charged at supermarkets"

However, as chairman of the MTA, he welcomed any drop in the price of meat

At the moment there was a chronic national shortage of beef

Within a week the price of beef had risen by 20% Super-beef had escalated from R3,90/kg on Monday to R4,68/kg on Thursday Today no cattle had come in for slaughter, he said

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INFLATION

Producing lower prices?

The latest production price index (PPI) figures from Central Statistical Service (CSS) are remarkable — some say unbelievable Compared to April's 16,1% annual increase, the rate for May is just 14,6%

Even more remarkable is that the locally produced component went up just 0,5%, on a month-on-month basis "I haven't seen such a low figure in months," comments one economist The annual rate was down from 17,9% to 15,8%

The imported component rose by just 0,2% month on month. The annual rate of increase here rose from 10,2% to 10,9%

A CSS spokesman can't remember when he had so many zero or minimal increases. "Prices on a tremendous number of items haven't gone up, while many have increased by less than 1%."

The biggest monthly drop was in agricultural products, down by 1,7% — partly through the lower maize price, but probably also because of cheaper vegetables and fruit, according to CSS

Certainly good news, and there's no doubt inflation is on a downward path. The big question is how far will it drop And, comments Louis Geldenhuys, economic consultant to George Huysamer: "One must be careful about reading too much into monthly figures."

He says price volatility is a factor. And he questions the reliability of the returns, suggesting an uncertain economic environment is likely to confuse respondents assessing cost increases. Nor are all items reviewed each month.

Economists also talk of "statistical noise" The very low increase in the local component is based on a relatively high May 1986 figure, which leapt by almost 2,1% On the other hand, the imported price component dropped by 0,8% in May 1986, making the latest figure look even better

"I still believe inflation will be down for this year, to 14%-15%," says Geldenhuys Last November he was expecting between 16%-18%

"Overall, these seem positive figures," says Leon Steenkamp, economist at Senekal, Mouton & Kitshoff. "But it remains to be seen whether the trend is maintained. Bearing in mind the long list of zeros, it could just be a month in which people held prices I'd be surprised if we see inflation below 15% for the year"

He expects higher price increases as manufacturers make up for margins squeezed during periods of slack demand. He says businesses will be inclined to push prices up a bit, given.

- ☐ Improving demand,
- ☐ Shortage of skilled labour,
- ☐ Union wage pressures, and
- ☐ The danger of a depreciating rand

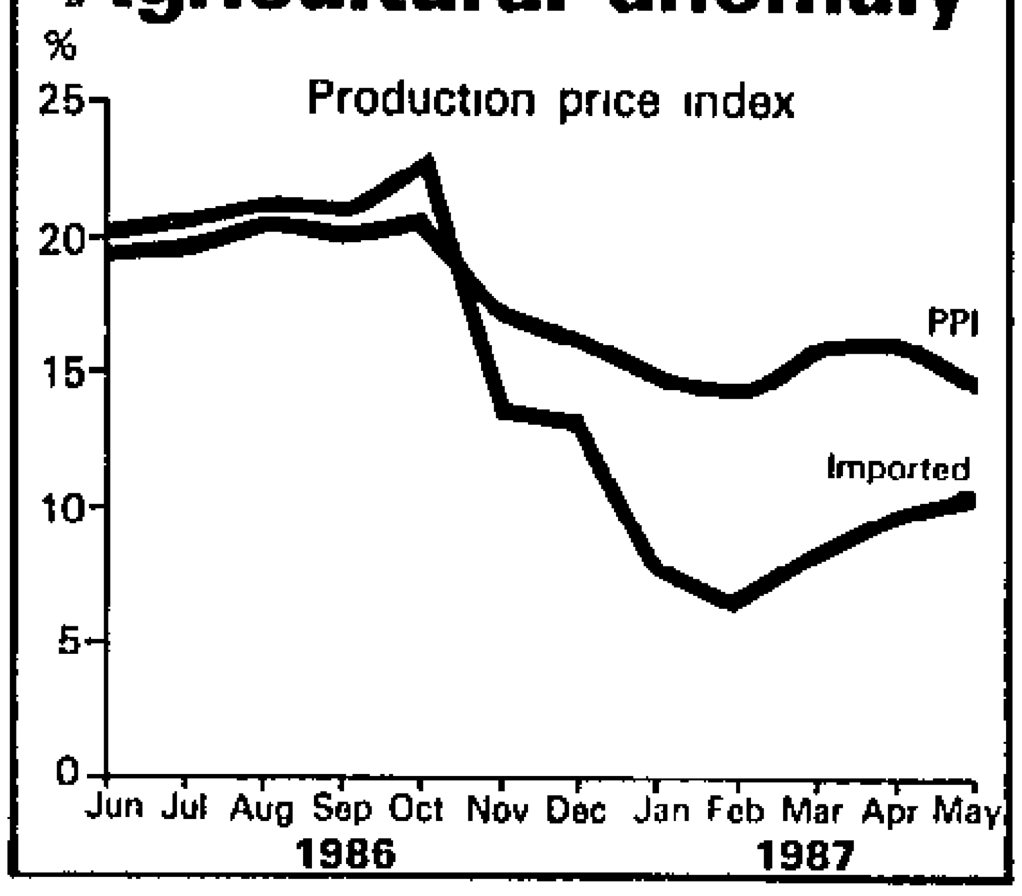
The economy is concentrated, so it lacks sufficient competition to ward off general price increases, he adds

Future wage increases are indeed a major concern for inflation watchers Checkers recently agreed to substantial pay increases for July *and* next January — an unusual step, pointing to the growing bargaining power and militancy of unions

Behind all this lie some confusing trends

Comments another economist "I'm puzzled by the picture suggested by the latest PPI statistics I wouldn't be surprised if the 0,5% increase for May was a one-off thing I haven't seen evidence elsewhere of price increases softening"

Agricultural anomaly



He also believes that the benefit of a strengthening rand has run its course, and that the imported price component will pick up Dangers leading to higher imported prices include rising inflation rates of our trading partners, higher oil prices, and sanctions busting costs

"My hope, that the rand will go over US50c, has gone It's significantly down from US50c — where it held for several months — to around US48,50c Coal exporters, in particular, are complaining about squeezed margins, having cut prices in dollar terms to compete on international markets"

Exports are generally becoming only marginally profitable, he believes "Also, increased rail tariffs have pushed up costs to exporters"

Another puzzle is the strangely unseasonal pattern of food prices Normally fresh producer prices decline at the end of summer, and increase in autumn and winter Instead the opposite has happened, with the latest fall in agricultural product prices

Other research shows a different story Robin McGregor recently found the cost of many food items has risen twice as fast as the inflation rate Over 1978-1987, against total inflation of 195%, margarine rose by 584%, mealie meal 327%, eggs 278% and chicken 253%, for example

Supermarket chains are continually accused of profiteering They have been successful in modifying purchasing habits Now most consumers expect to buy every food item under one roof But with daily price adjustments both up and down on items on the shelves, it's impossible for a consumer to know what he should really pay for a given item It adds to the confusing picture presented by various inflation statistics

Indeed, there seems as much confusion as clarity in economists' understanding of current trends It is perhaps to be expected that when economic upswing is moving so slowly it sometimes seems to be faltering, or not moving at all ■

LIFE ASSURANCE

Guarantee trouble

The Registrar of Insurance is hot on the heels of life assurers who are "round-tripping" bank borrowers' investments back into financial markets by offering guaranteed investment returns Some R500m is thought to be involved

The registrar is rightly concerned over the actuarial soundness of the guarantees since, for one thing, they could encourage assurers to mismatch investments in a bid to meet promised returns

A related problem is the use by non-taxpaying institutions, especially municipalities, of life assurers to earn higher returns on long-term investments than is available from building societies Again, some R500m is thought to be involved

The Life Offices' Association (LOA) rushed out a telex on July 1, asking members to suspend the sale and issue of all policies with guaranteed cash values within the first five years and annuities to non-taxpaying bodies with terms of under five years, "pending the outcome of negotiations with the Financial Institutions Office (FIO)" It adds "We believe the issue of such policies may be deemed an undesirable practice from July 1 1987 unless we demonstrate self-restraint"

The LOA also asked the FIO two weeks ago for details of an alleged instruction by Minister of Finance Barend du Plessis through provincial administrations to municipalities to cease purchase of annuities from

17/7/87

Survey: food prices shot up

DD 18/7/87

JOHANNESBURG — Prices of basic food items have increased by 230 per cent in the last decade and products like cheese, bacon and apricot jam are over 300 per cent more costly than they were 10 years ago, says a Housewives' League of SA survey.

The 22 items monitored during the 10-year period, beginning in 1978, ranged from washing powder, which increased in price by 216 per cent, to cornflakes — up 314 per cent.

A kilogram of first grade cheese, R1,70 in 1978, now costs R7,47 — an increase of 339 per cent. Tea bags, sugar and margarine are among many other staple dietary products whose prices have shot up.

Ten years ago, sliced peaches sold at 42c. They have increased 214 per cent. Rice was the most economical item surveyed and the only one not to double in price. — DDC

W/K ARGUS 8/7/87

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LABOUR AFFAIRS

DICK USHER

Inflation and poor pay packets are fuelling militancy of workers

THERE seems to be a widespread surge of worker militancy throughout the country.

Not only are the National Union of Mineworkers poised for a legal strike, so is the Food and Allied Workers' Union (Fawu) and the National Union of Metalworkers of South Africa has just backed off from a national strike

Then there is the local action by cleansing workers in the Cape Town Municipal Workers' Association, a strike in Johannesburg at Fidelity Guards, and the Electrical and Allied Workers' Trades Union is refusing to sign the industrial council agreement with the employers

And that's not nearly the end of it

The Paper, Wood and Allied Workers' Union (Pwawu) says that their members have had five strikes in recent weeks

One of the most basic causes of this is inflation, where pay packets are simply not keeping up with rising prices — especially food prices which have increased at rates well over inflation

Pwawu says that their members' actions were directly related to rising food prices and other unionists point out that food is the major component of worker spending

Fawu, which is threatening a national strike over a wages dispute with Premier and Sasko, points to a major contradiction in the food industry

According to their figures, Sakso profits increased by 31 percent to more than R30-million last year, while Premier's profits rose 22 percent to R152-million

"The huge profit increases have been accompanied by spiraling food prices," the union said in a statement

What they're saying is that while profits have been surging, workers are increasingly unable to buy the staple foods which they produce.

Whichever way you cut it, this is rather strange

But, the pressure on worker pay packets does not end there

With unemployment still rising, more and more people are becoming dependent on the wages of those still in employment

Nick Henwood, regional secretary of the Congress of South African Trade Unions, in a recent talk to a UDF meeting, said that there were now nine people dependent on every person employed

It's thus a double bind for the worker — food prices have gone up 27 percent nationally (and a massive 32,7 percent locally) while there are more mouths to feed on what you earn

For the workers in the food industry the solution seems plain the companies are making lots of money out of our labour, so let them share some of it with us

They can cut profits in one of two ways — drop prices or raise wages

Lower prices, the argument goes, would enable the poorest sections of the community to feed themselves better. In the more affluent sections it would free money to spend on other goods and thus help to stimulate demand and create employment.

Raising their wages would have the same effects, although perhaps not quite as widespread unless it was extended to workers in all sectors llon

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W/C ARGUS 8/7/87

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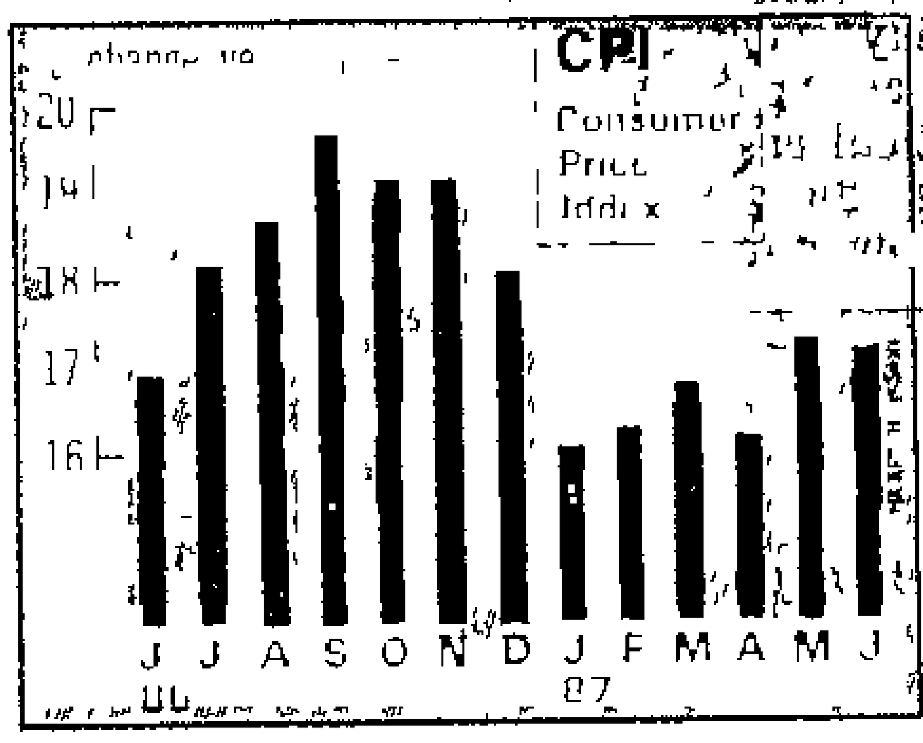
Year-on-year inflation dips

B/Day (153) 23/7/87

GRETA STEYN

INFLATION, as measured by the consumer price index, dipped slightly to a year-on-year rate of 17,2% in June, from 17,3% in May, Central Statistical Services' figures show.

But the 0,7% increase from May 1987 to June this year was the lowest monthly increase for the past year. The monthly



index increased by such a marginal percentage because food prices, which have a weighting of about 25% in the index, were up by only 0,2% from May to June.

Economists cautioned against becoming too optimistic about the low month-

● To Page 2

Warning against optimism over inflation

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● From Page 1

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on-month increase. Old Mutual's Dave Mohr said: "Postal tariffs, transport and medical costs increased in July. This means we will probably see a higher increase from June to July."

Meanwhile, capital market rates eased on the back of the lower inflation rate. The RSA 13% 2005 dipped to 15,34%, compared with Friday's rate of 15,72%. Dealers said they had expected a higher inflation rate.

Danger signs in the economy

Inflation forecast to soar above 20%

Finance Staff

Complacency over June's marginal dip in the inflation rate — to 17,2 percent from 17,3 percent in May — is misguided and dangerous

Indeed, the prospects for a marked reduction in inflation in the next 18 months are remote, contends Old Mutual's chief economist, Rob Lee, who warns that inflation could well soar above 20 percent by the end of 1988

He points to the following inflationary factors as particularly disturbing

- Rapidly rising government spending, which was 23 percent up in fiscal 1986-87 and probably close to 20 percent higher again in 1987-88
- Significantly higher budget deficits as a percentage of gross domestic product — probably above 5 percent in 1987-88
- Probable inflationary financing of this deficit
- Markedly negative real interest rates
- Rapid growth in the narrow monetary aggregates
- Black trade unions increasingly flexing their muscles
- The vulnerability of the rand exchange rate to a decline in current account surpluses, given the requirement to pay foreign debt

According to Mr Lee "Inflation in SA is by now deep rooted and endemic We have had double digit inflation for over a decade

"Experience the world over has shown that in these circumstances a significant and sustained reduction in inflation can only be achieved by the prolonged application of disciplined fiscal and monetary policies

"Such policies inevitably result in painful short-term consequences for economic growth and employment but if carried through lay the foundations for longer term sustainable economic growth

Politicians

"The reason that inflation remains so deep-seated is that it is difficult to persuade politicians to take the prescribed medicine long enough for success to occur.

Mr Lee suggests that countries which have succeeded in dramatically lowering their inflation rates have done so — at least in democratic societies — because politicians become convinced that their electorates wanted lower inflation more than any other political or economic objective and understood that this would require short term sacrifices

Regrettably, says Mr Lee, these electoral conditions manifestly do not exist in South Africa

"In 1986 we had the highest average inflation rate — 18,6 percent — since 1920 Despite so horrifying a spectre hanging over the economy, policy priority number one is quite explicitly the promotion of short term economic growth It has been for some time and is likely to remain so in coming months

"The authorities' reasons for giving growth priority are obvious and understandable, and arguably unavoidable in current socio-political circumstances However, this does mean that the prospects for a marked reduction in inflation rate in the years 1987/88 are remote."

ARGUS 23/7/87 BUSINESS

(153)

ECONOMY

'Outlook bleak for inflation drop'

Finance Staff

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STATE SPENDING

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"The reason that inflation remains so deep-seated is that it is difficult to persuade politicians to take the prescribed medicine long enough for success to occur

"This is an understandable, worldwide phenomenon, since strict anti-inflation policies require governments to forego spending which its own constituents constantly demand of it

"It is, after all, such socio-political pressures which cause governments to follow inflationary policies in the first place."

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HORRIFYING SPECTRE

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"The authorities' reasons for giving growth priority are obvious and understandable, and arguably unavoidable in current socio-political circumstances.

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FM 31/7/87

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INFLATION

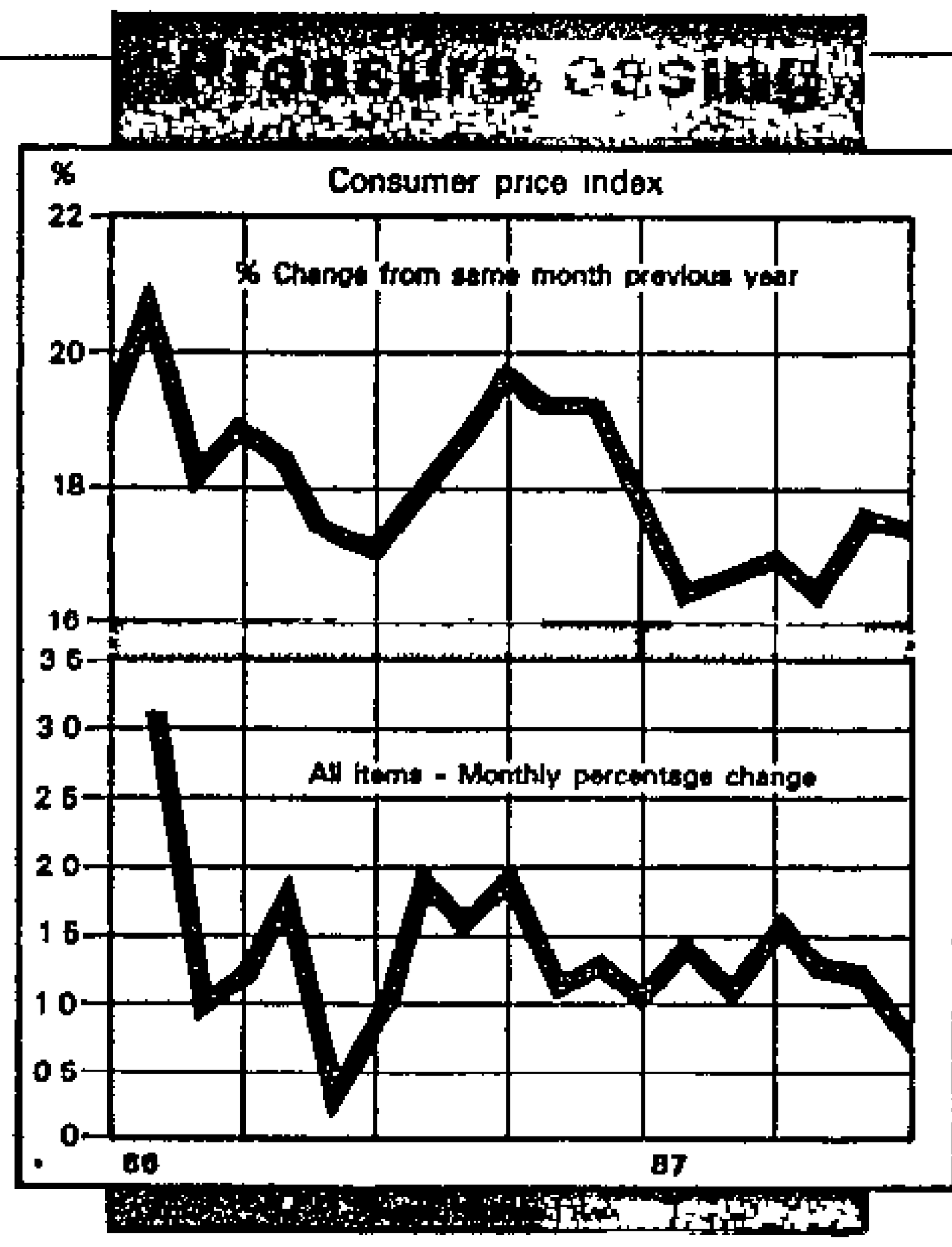
Down for some

The good news is that the year-on-year increase of the overall consumer price index (CPI) fell to 17,2% in June from May's 17,3%. The June 1986 monthly increase was only 0,8%, so observers were surprised by this June's 0,7% damping the year-on-year increase. The May month-on-month increase was 1,2%

But for the lower-income earner, prices are rising by an annual 19,2%, against 17,9% for middle-income and 16,3% for highest earners This is in stark contrast to last June, when the lowest group's cost of living (then a year-on-year 16,5%) was pulling down the overall index (16,9% up).

Since 1980, middle-income earners have borne the brunt of price increases The index for this group has now hit 267,3 (1980=100). The lower-income index, at 261,2, will soon pass the upper-income group's (now 261,3) The overall index is 263,1

Rand Merchant Bank's Rudolf Gouws calculates that the underlying rate of price increases slowed to an annualised 15,4% in the first half of 1987 from 19,3% in the last six months of 1986. And in the past three months the annualised rate of price rises is



only 13,3%

The major factor behind June's overall rise of 0,7% was a 4,5% increase in clothing — contributing 0,3% of the 0,7% rise, and attributed to a change in seasons Other rises include housing at 0,6% (0,1%), fish at 4,8% (0,1%), furniture at 2,8% (0,1%), and appliances at 4,1% (0,1%) The only significant decline was coffee, at 2,3%.

But, as is often the case, prices that have not risen much are probably more revealing Food, a major factor behind high inflation — comprising a quarter of the CPI basket — still rises year-on-year at 25,7% The monthly increase, however, dropped to 0,2% from May's 0,9% The impact of food prices has not been so marked over the past few months

This relatively modest rise in food prices is largely attributed to meat prices which did not, on average, rise in June This appears seasonal last June meat prices fell 0,3% and in June 1985 rose 0,6% Meat comprises almost 36% of the food index and 9% of the total index

Vegetables, a 3,5% weighting in the index, rose "only" 0,7% In perspective the picture is not nearly as comforting Meat has risen 35,2% over the year and vegetables 44%

Though many prices rose in the first seven days of July and will thus be reflected in the July CPI, the total increase is not expected to be near July 1986's 2% The overall year-on-year CPI increase should thus drop below 17%

This month wide-ranging medical tariffs rose, as did building society bond rates (bonds, including banks, comprise some 3,4% of the index), municipal tariffs (under 2%), postal tariffs (1%), public transport (3,2%); milk, milk products and eggs (2,7%) Depending on area, petrol both dropped and increased ■

Inflation: what most economists fear most

B/Day

3/8/87

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LONDON — What is it economists fear when the US, the world's biggest debtor, is unable to balance its books and an American consumer spending boom keeps factories abroad humming?

Inflation? "Bingo You've got it," said Sykes Wilford, an economist at investment bankers Drexel Burnham Lambert here.

For the moment, say economists, the world economy is in balance. The money Americans spend on imports is reinvested by foreigners in US government bonds.

But the strain is beginning to show — the world economy is slowing down. The dollar is weak, squeezing the export-led economies of Japan and Europe The Third World has to scramble for dollars to make payments on its $1-trillion debt

Wilford says printing more dollars will be one way of addressing all those problems — because more money gives an economy a kick and because, when prices are rising, it is great to be a debtor.

It eases the pain of paying last year's bills, if the money you pay your creditors is worth less than the money you borrowed.

That is what Bolivians discovered when their annual rate of inflation hit 23 000% in 1985.

Wilford says inflation means "the impact of Third World loans will fade into nothing"

Even at an annual rate of 5%, a rate the Spanish government has set as its target, the value of money halves in 14 years. — Sapa-Reuter

The wages of inflation

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Average wages in the big seven OECD countries increased by only three percent last year, compared with an average annual rise of 11 percent during the 1970's.

The typical American worker has had a pay rise of little more than two percent during the past 12 months — the smallest increase since the second World War In real terms, his pay packet is now worth eight percent less than in 1978

Despite rising inflation this year and falling unemployment, there are few signs that American wages are about to take off

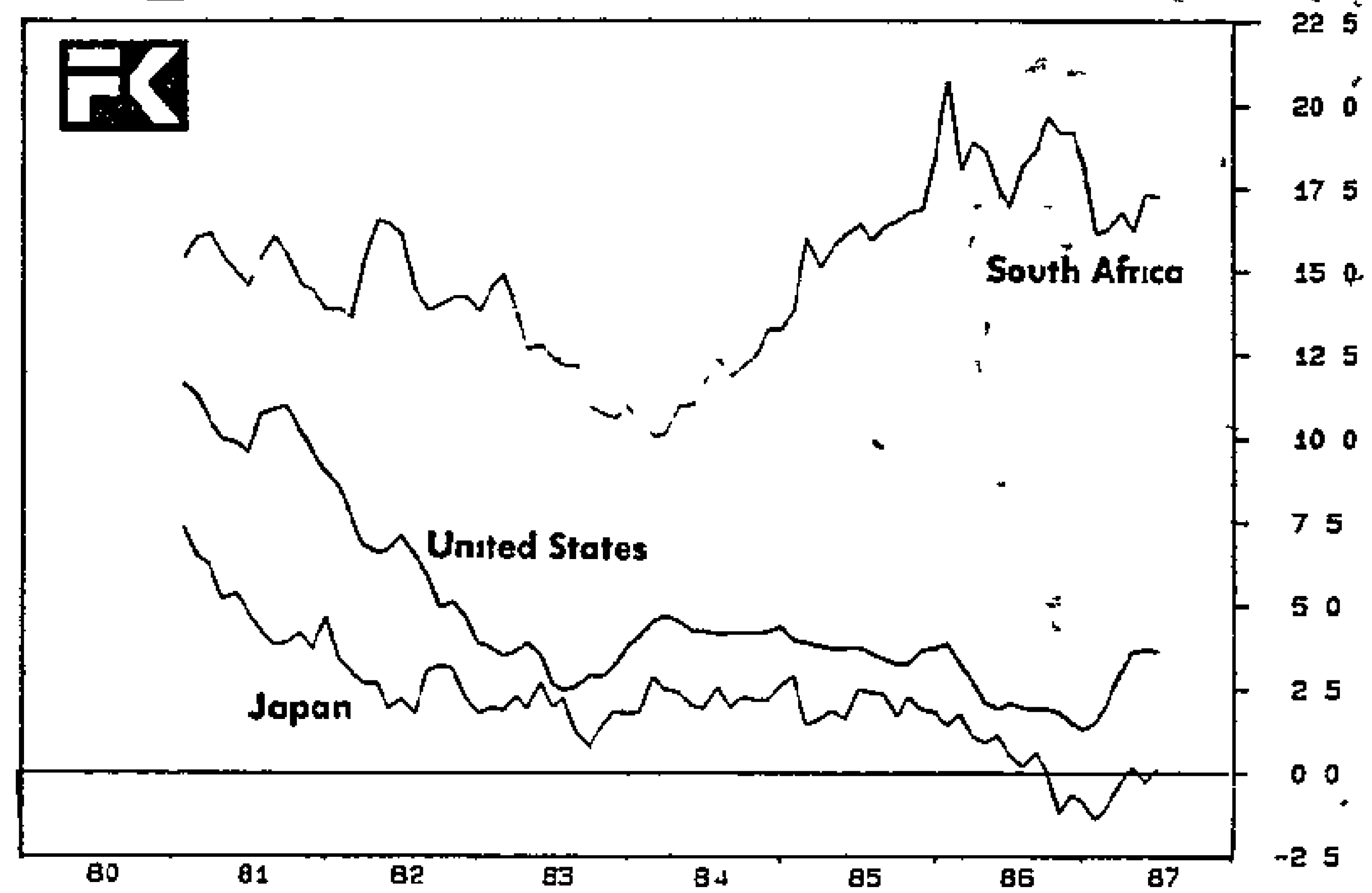
The rate of increase in both nominal and real earnings throughout the OECD has fallen sharply The slowdown is particularly marked in Italy and France

Italy's annual rate of wage increases declined from 23 percent in 1981 to 5 percent last year Only in Britain and West Germay have wages bucked the trend The average British worker has had a real pay rise of 20 percent in the past five years

In West Germany, despite negative inflation last year, workers have stuck out for wage increases of three percent at least This has brought them a big gain in real terms

In Japan, where consumer prices have also fallen, the growth of nominal earnings has fallen too This is partly because profit-related bonuses are a big chunk of Japanese workers' total take-home pay The appreciation of the yen has cut profits, and this in turn has squeezed wages

The wage moderation of the 1980s is partly explained by tighter monstary and fiscal policies. Tight monetary po licies have reduced inflationary expectations and meant that the money to pay much higher wages is simply not there



Both Japan and the US, among others, have brought inflation under control. South Africa, on the other hand, because of its commitment to provide more jobs, has failed to keep it under control

But the slowdown in pay rises also reflects a fundamental shift in the pattern of wage setting the effect of microeconomic measures to make labour markets more efficient

In a new study, the OECD has examined the progress which governments have recently made in loosening labour market regulations and other institutional drags It reports.

- Social security benefits have become less generous During the 1960s and 1970s, replacement ratios (unemployment benefits as a percentage of average wages) rose steadily Since the beginning of the 1980s, they have fallen in nine of the 16 countries considered by the OECD
- Minimum wages have been frozen in nominal terms in some countries, implying a cut in real terms America's minimum wage has fallen by about a fifth in real terms since 1980 But France's has risen by roughly the same amount over the same period
- Trade unions are on the defensive in most countries Fewer days have been lost by strikes in the 1980s than in the 1970s West Germany and France have given businesses more leeway in changing their hiring and firing laws
- Almost all governments have tried to squeeze public-sector pay Governments have been prepared to sit out prolonged strikes rather than give way to union demands — eg, in the disputes involving air traffic controllers in America in 1981 and British coal miners in 1984-85
- Indexation of wages to prices has been scrapped or weakened in several countries, including Italy, France and Holland In America and Canada fewer workers are now covered by cost of living agreements
- Incomes policies have become less popular, as governments have instead attempted to deregulate labour markets and to encourage a closer link between pay and the profits of individual companies or industries Yet France, Spain and Australia all still have incomes policies
- Wage-setting practices have become more flexible. In America, in particular, workers have accepted pay freezes or even pay cuts Some industries have introduced two-tier wage levels — eg, airlines — with new workers doing the same jobs being paid less than existing employees

How have these microeconomic changes affected wage developments? Most analysts agree that in the short run at least there is a trade-off between unemployment and wage inflation (known as the Phillips curve) the higher the rate of unemployment, the lower the pay rises workers are likely to accept

Weaker trade unions and less generous unemployment benefits might make wages more responsive to unemployment — ie, the short-run Phillips curve would become steeper, resulting in a bigger decline in wage growth for a given rise in unemployment.

Alternatively, the policies might lower inflationary expectations, or influence other variables which determine wage rises, this would shift the short-term Phillips curve rather than change its slope

It is hard to test directly for the influence of microeconomic policies on wage growth — eg, how can an economist measure deregulation of markets or trade union militancy?

The OECD finds that, with the exception of West Germany, equations which just relate wage movements to variables such as inflation and unemployment tend to over-predict the rate of increase in wages in the 1980s These errors may reflect the effect of the microeconomic changes on wages

The OECD concludes that some micro-economic measures have helped to moderate wage growth — for instance, by lowering inflationary expectations, but it finds little evidence that they have altered the way wages respond to unemployment and inflation.

If the OECD is right, the short-term trade-off between unemployment and wage inflation is no better today than in the 1970s. a fall in unemployment would probably be followed by faster wage rises

But because most countries' current unemployment rates are well above estimates of the level of unemployment which is consistent with stable inflation, the risk of a big pick-up in wage inflation is limited

The wage-price spiral of the 1970s is dormant, but it probably is not dead — The Economist

13

INFLATION IS BIG STUMBLING BLOCK

GERALD REILLY

PRETORIA — Inflation stood in the way of greater economic momentum and the creation of more jobs, Volksas chairman Albert Marias said in Pretoria on Friday.

Speaking at the banking group's AGM, Marais said the fact that an anwer for inflation had not been found, in spite of economic stagnation, was a cause for grave concern.

Economic developments for the beginning of the year indicated business momentum was starting to run out of steam, although there had been signs of resonable recovery during the first six months.

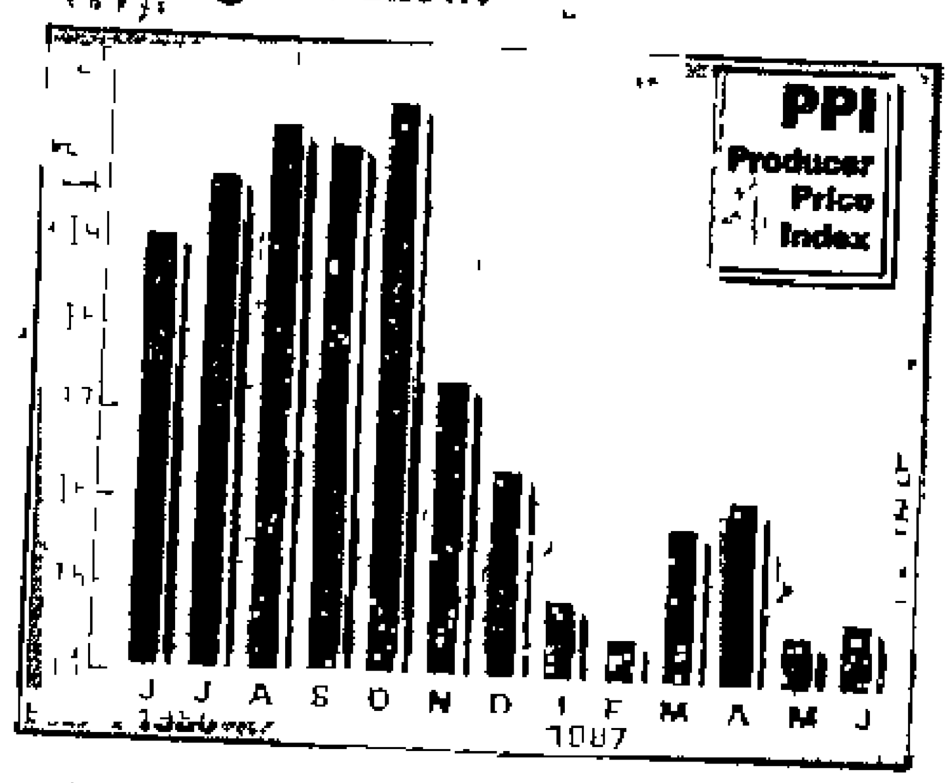
Signs of the economy losing momentum focused attention on government fiscal policy. The economy, Marais said, needed greater support than provided for in the Budget.

Rate of PPI increase slows

BDay 11/8/87

GRETA STEYN

YEAR-ON-YEAR producer price inflation increased in June to 14,8% from 14,6% in May, Central Statistical Services figures show.



The Producer Price Index (PPI) moved to 244,9 in June from 243,6 in May — an increase of 0,5% — and 213,3 a year earlier.

The slight increase of 0,5% from May to June indicates the slowdown in monthly producer price increases is continuing Between April and May, the increase in the PPI was also only 0,5% compared to a month-on-month rise of 1,2% in April

● To Page 2

June producer price inflation up to 14,8%

and 1,14% in March 1987.

Prices of imported commodities did not increase at all from May to June, after recording an increase of only 0,2% between April and May

Local commodities showed an increase of 0,7% from May to June following an increase of 0,5% between April and May

Rand Merchant Bank economist Ru-

● From Page 1

dolf Gouws said yesterday if the monthly increases for the first half of this year were annualised, the producer price inflation rate would be 11,3% compared with an annualised rate of 18,4% for the last half of 1986 Gouws said the PPI held a promise of improved Consumer Price Index figures in months to come

Britain defends minesweeper decision

We'll attack, Iran warns UK, France

(153) Star 13/8/87

The Star Bureau

London

Iran warned Britain and France yesterday that their ships might now be attacked in the Gulf following the decision of the two governments to send minesweepers to the region.

However British Prime Minister Mrs Margaret Thatcher defended her government's move, and Minister of State in the Foreign Office Mr David Mellor warned that Tehran would not be getting its own way in the area.

US Defence Secretary Mr Caspar Weinberger was also unbowed, saying Iranian threats would not force President Reagan to disband the United States naval force in the Gulf

Tehran radio said yesterday that "if England and France want to stand back-to-back with American forces to implement the aggressive policies of the Reagan administration, we are ready to repeat the events of Lebanon which resulted in their flight (from there) "

Britain's small contingent to the multinational force in Lebanon was the first to abandon Beirut in 1984, four months after pro-Iranian suicide bombers had destroyed the US marine and French military headquarters in the city

The Tehran radio broadcast clearly adds Britain's name to the list of "Satanic" enemies with which Iran sees itself in conflict in the Gulf

It came only a few hours after Iranian Prime Minister Mr Hussein Moussavi had himself warned that Britain and France had raised tensions by deciding to increase their presence in the region

The Tehran radio broadcast made a direct link between the desision on minesweepers and what it called "Iraqi trouble-making", an apparent reference to the resumption of Iraqi air attacks on Iranian oil installations three days ago

'Mischief'

"Iran is determined to respond decisively to this mischief if the trouble-making of the Iraqi regime continues," the broadcast said.

Mr Mellor, who is standing in for British Foreign Secretary Sir Geoffrey Howe, said he hoped other countries with minesweepers would send their vessels to the Gulf

The Iranian government, he said, was "capable of doing a whole number of unattractive things We cannot allow them to have their way in the Gulf because in the end our interest in getting oil, the interests of the West, our commercial and historically friendly ties with the Gulf would be threatened"

United States and British vessels are likely in the foreseeable future to avoid the anchorage at Fujierah where yet another mine was discovered yesterday, the fifth to be recorded in the area within three days

Tanker captains say they are fairly certain the Iranians laid the mines, although they agree that this does not account for the mining three days ago of the American-owned Texaco Caribbean which was carrying Iranian crude oil

Inflation is here to stay

20/8/87 Sowetan (153)

FORECASTS of short-term inflationary prospects tend to converge in a rather confused picture A mixture of signals are sending price expectations up, down and sideways Inflation has been hovering between 16 percent and 17,3 percent since the beginning of 1987 compared with 18,6 percent in 1986

It is likely to stay around these levels this year although a decline is possible in the very short term There is more unanimity among analysts concerning long-term inflationary prospects which are generally expected to rise *Food prices* will continue to rise while militant trade unions will be increasingly successful in enforcing *real wage* increases for their members This, together with *high prices of imports* and *rising capital replacement* costs will contribute to a higher inflation rate which may rise above 18% by the end of 1988

FOCUS

IN her column today Lynn Pikholz, an economist with the First National Bank, examines the problem of inflation and concludes that in the short term the rate of inflation might drop, but the long term prospects are bleak.

Prices

Meanwhile, the short-term seems brighter Changes in producer prices index (PPI) usually precede consumer prices by two months There has been a noticeable slowdown PPI rate of increase in recent months The year on year PPI increased in June to 14,8% from 14,6% in May The monthly increase in June increased only 0,5% from the May figure which in itself increased 0,5% from the April figure This slight increase compares favourably with a month-to-month rise of 1,2% in April and 1,14% in March, 1987

Prices of imports, the major impetus to an increased PPI in 1986 contributing as much as 37% to the overall producer price rises, did not increase at all from May to June This followed a slight increase of 0,2% between April and May Since the beginning of 1987 import volumes have been cut back considerably Local commodities, however, showed an increase of 0,7% from May to June following an increase of 0,5% between April and May It is clear that the major impact on producer prices seems to be arising out of rising costs (capital and labour) in the production process itself

Thus, following PPI trends, an inflation rate lower than our current 17% is a possibility provided retailers do not push up their profit margins instead of passing the benefit onto consumers Unfortunately there is evidence this is already taking place

Bleak

The longer term inflationary picture is bleaker The enormous economic power wielded by trade unions today is a clear indication that policies are going to have to move in favour of labour There is little doubt that real wages will rise This together with higher capital replacement costs will put upward pressure on prices especially when considering that retailers will probably try to retain present profit margins

Yet, whether an increase in costs is avoidable is in itself debatable When comparing labour's productivity which is averaging a positive growth rate of approximately 1% per year with the productivity of capital which is severely declining, one wonders whether rising costs could not be offset (at least to an extent) by increasing the efficiency of capital This becomes an extremely crucial issue when considering our chronic potential shortage of new capital and the escalating costs of replacing it

The *rising oil price* has also rekindled inflationary fears domestically and abroad Although the $20 a barrel today is a far cry from the $10 a barrel of 1986, there is little reason to worry in the near-term

Politics

The oil price, particularly the spot price is inflated by the political instability in the Gulf The OPEC nations have been cheating on their quotas leading to a surplus in supply, the effects of which are being well hidden by the current Gulf tensions

The demand-supply fundamentals point to an oil glut which, when tensions subside, will tend to depress the oil price As SA is tied into oil agreements, it is the contract price, not the spot price that really matters We are still receiving supplies bought in late 1986 at cheaper prices Fuel sources have confirmed that there is little reason why petrol prices should increase during the duration of this year though a long-term inflationary impact due to rising energy costs is probably inevitable

Although inflation may benefit some in the short term, inflation ultimately, either indirectly or directly, hurts us all Unfortunately the pain is not uniformly distributed Lower income groups who spend a relatively higher proportion of their income on food and clothing have been hardest hit

Foods

The prices of twenty-two staple foods and basic products have increased over 230% in the past decade Cheese, cornflakes and washing powder shot up over 300% While non-food items may be experiencing increases of less than 15% annualised, the food component of inflation is advancing at over 25% and as yet is not showing signs of reversing its trend

Thus, inflation this year can be expected to move sideways, perhaps even decline for a short while, but an increase in 1988 above current levels certainly seems probable.

MRS ELIZABETH Baloyi of Dube, Soweto, keeps tabs on rising prices.

Inflation eases as food price rise slows

ARGUS 24/8/87

153

Business Editor

INFLATION eased sharply last month, according to the latest consumer price index

The rate dipped almost a full point to 16,3 percent from 17,2 percent in June, Central Statistic Services said today

The monthly rate of increase as measured by the index was 1,2 percent compared with a full two percent in July last year

A slowdown in food price increases was the main reason for inflation easing Food prices rose by only 0,5 percent

Food price inflation soared by 2,8 percent in July last year

MILK, EGGS UP

Though July was the third consecutive month in which food prices rose by less than one percent the annual rate of increase remained a high 23 percent, the department said

In July, milk and egg prices increased by 5,7 percent but vegetable prices dropped by 3,8 percent

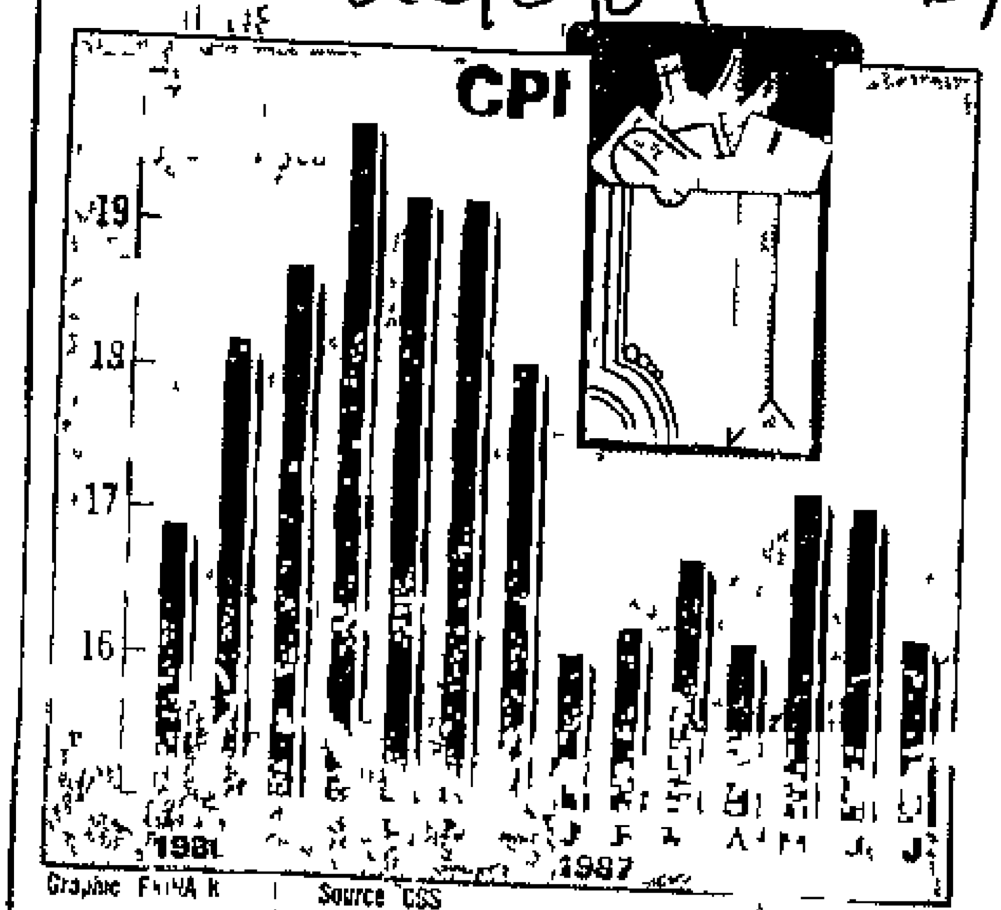
There were relatively high monthly price increases in softdrinks (10,2 percent), clothing (2,2 percent), housing (2,5 percent), medical care (6,1 percent), public transport (2,5 percent) and communication (18,3 percent, because of the July 1 tariff increases)

The inflation rate for the lower-income group — 18,2 percent — was still higher than for the middle and higher income groups, at 16,8 percent and 15,6 percent respectively.

● **Economic upswing predicted, page 2.**

Inflation drops sharply to 16,3%

25/8/87 B/Day 153



GRETA STEYN

INFLATION, as measured by the year-on-year change in the Consumer Price Index (CPI), fell sharply to 16,3% in July from 17,2% in June, Central Statistical Services figures show

Between June and July, the index increased by 1,2% compared with a monthly increase of 0,7% from May to June

The high monthly rate of increase can be ascribed to increases in postal and transport tariffs as well as medical costs which came into effect in July

● To Page 2

Inflation rate drops sharply to below 17%

153

● From Page 1

Other significant price increases between June and July were for cold drinks, clothing and housing

Although July was the third consecutive month in which food prices increased by less than 1%, the annual rate of increase was still high at 23%

Milk and egg prices increased 5,7% from June to July, but vegetable prices decreased 3,8%

Economists welcomed the lower year-on-year inflation rate, but cautioned against complacency

Said Volkskas economist Adam Jacobs "The year-on-year rate is often misleading."

He said the inflation rate declined for largely technical reasons, as the rate was measured off an already high base. Jacobs pointed out that the index increased by a significant 2% in July last year from the previous month.

Rand Merchant Bank economist Rudolf Gouws said although the year-on-year rate was still very high, he believed the underlying trend in inflation was downward

SA's inflation rate for July takes a dip

153

27/7/87 STAR

South Africa's year-on-year inflation rate for July decreased to 16,3 percent from 17,2 percent in June, the Department of Central Statistics said in Pretoria

The monthly rate of increase as measured by the Consumer Price Index was 1,2 percent, compared with 2 percent for the same period last year, a decrease which was largely attributable to food prices.

28/8/87

INFLATION

Maintaining trends

The 1,2% rise in the consumer price index (CPI) in July is in line with the trend of the past few months — indeed, this is the average monthly increase for the first half-year

This is well below last July's 2% increase, and the rate of increase in the overall index (the inflation rate) has dropped from 17,2% in June to 16,3%. The index itself, with a base of 100 in 1980, reached 266,2

The slowdown is largely due to the lower pace of food price rises (food comprises a quarter of the total basket) In July food prices rose by 0,5%, bringing the annual increase to 23% More encouragingly, the underlying rate of food price increases is slowing — from a seasonally adjusted annualised 31,2% in the first quarter to 18,7% in the second quarter and 14,9% in the three months ending July

Excluding food, the overall index is 14,1% up on a year ago

In July vegetable and fruit prices dropped by 3,8% and 1% respectively The largest monthly increases are for cooldrinks (10%), clothing (2,2%), housing (2,5%), medical care (6,1%), milk, milk products and eggs (5,7%); and communications (18,3%) — thanks to the postal telephone tariff hikes. The annual increase on this item is 20,3%.

Though the gap is narrowing, lower income earners still suffer the largest CPI increase — 18,2% over the last year compared to 16,8% for middle income earners and 15,6% for top earners

Over July CPI rose by 0,8% for the lowest group, 1% for the middle group, and 1,4% for the highest group This is explained by the slower food price increases, which comprise a larger portion of the lower-income basket.

If August CPI increases by 1987's monthly 1,2% average, the overall inflation rate will drop to 16% — the lowest since July 1985.

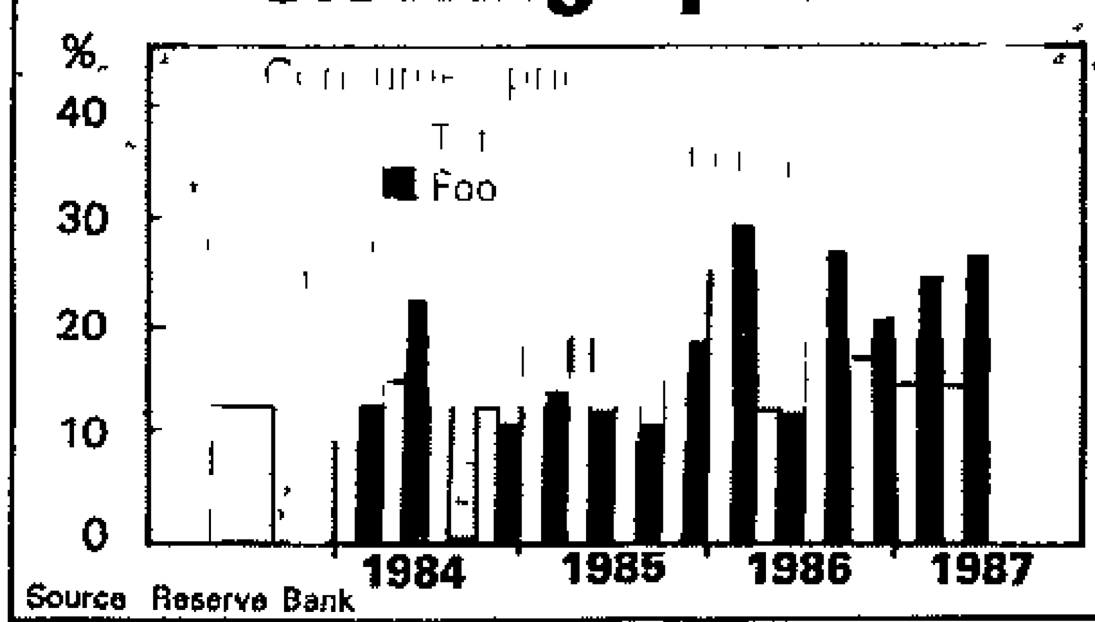
Factors which will militate against this include bond rate rises and hikes in cinema tickets, property insurance, motor cars and parts, and further rises in water and electricity (still to filter through from some areas)

Before being too hopeful over short-term prospects, it is worth noting Standard Bank's concerns, in its August *Review*, that the labour-business conflict "could lead to a severe wage-price spiral" if economic policy is accommodative.

"Only if government adopts a consistent and credible demand management policy will SA avoid a dangerous wage-price spiral " Policy, it says, should make trade-offs between wage rises — fewer jobs and price rises — lost sales inevitable, otherwise "growing industrial relations conflict will aggravate an already difficult inflation problem "

For its part, the Reserve Bank's *Annual Economic Report* notes that the "marked strengthening" of the rand from September 1986 "contributed materially" to lower inflation this year. It adds that "further filtering-through" of the higher rand will "continue to affect the inflation rate beneficially during the remainder of 1987 "

Slowing spiral



The Bank explains that further declines in inflation are limited by high food price increases and increases in the prices of basic metals, machinery, chemicals, furniture, clothing, and some administered prices ■

28/8/87

STAR 10/9/87

(153)

It depends on what you earn, how you spend and where you live

The uneven bite of inflation

By Michael Chester

While most Western nations have forced down their rates of inflation into low single digits, the South African consumer price index goes on rising between 15 and 20 percent every year. A series of special articles will spell out the implications not only for the consumer but for the whole economy — and will explore possible solutions. A first article delves behind the simple official figures that are released each month

INFLATION INFERNO

When the mandarins at Central Statistical Services (CSS) trot out news that inflation has slipped to 16,3 percent, many consumers can be forgiven for wondering why the rands and cents seem to disappear faster than ever

But, believe it or not, while the price spiral may still be above the new CSS rate for many families, the rate may be running a notch or two lower for other, more fortunate, family accountants

The credibility of the figure set out every month by the CSS may depend on where you live, personal spending patterns and lifestyles — and the size of your pay packet

First, incomes The 16,3 percent figure, said to be the current annual rate of increase on the consumer price index, is worked out from the average impact of inflation on everyone — from jet-setters to unemployed black labourers

'Have-nots'

Official statistics show that it is, in fact, the have-nots who carry the heaviest burden of inflation. Price increases have pushed the cost of living of families in the lower-income bracket, with earnings under R135 a week, to at least 18,2 percent more than a year ago

Families in what CSS call the middle-income group, earning between R7 000 and R18 000 a year, are being hit by price increases of 16,8 percent on the package of items that go into their household budgets — perhaps with a few non-essentials mixed in with basic necessities

Yet the official inflation rate for the higher income bracket, which covers anyone on annual incomes above R18 000, is trailing behind at 15,6 percent

Since, oddly enough, the CSS allow more than half of the overall weight of their indices to fall on the relatively small higher-income group, it is no wonder that poorer families find it hard to match the 16,3 percent average to their own experience

The next set of anomalies lies in spending patterns — the proportion of family budgets spent on basic needs compared with items that reach deeper and deeper into the luxury bracket

The first is that while the average inflation rate is said to be 16,3 percent, increases in food prices — which account for a much bigger slice of lower-income budgets — are a startling 23 percent up

Worst of all, vegetables cost 29,5 percent more than a year ago and meat prices are 32 percent higher Fish is up 29,3 percent

The cost of clothing and footwear, which hits the under-privileged relatively harder, as these basic items snatch bigger proportions of their budgets than those of people higher up the income scale, is 20,5 percent more than 12 months ago

Domestic servants

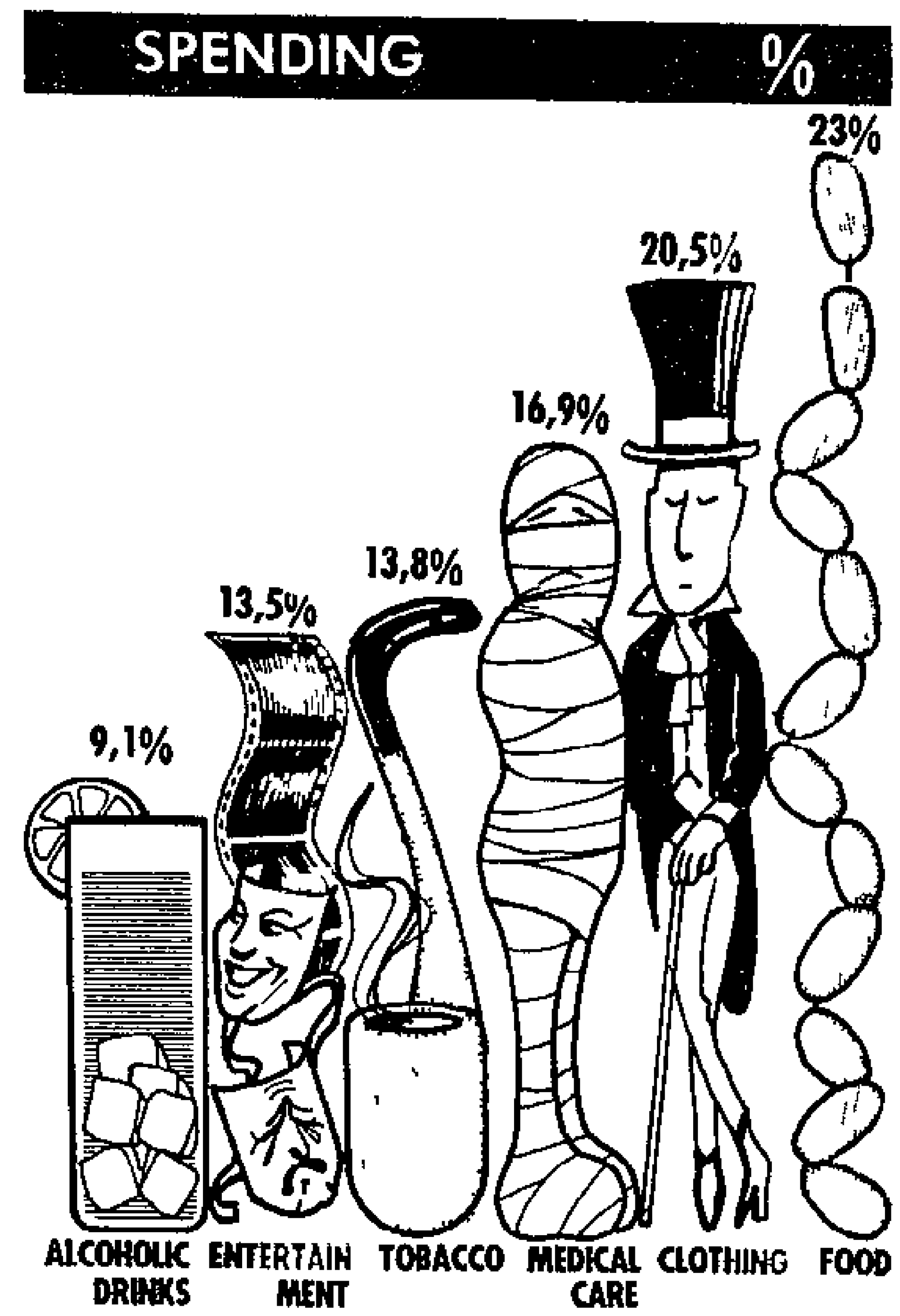
On the other hand, the cost of employing domestic servants is up only 13,5 percent The cost of running motor cars is up by a mere 4,9 percent Recreation and entertainment costs are also far below the average at 13,5 percent

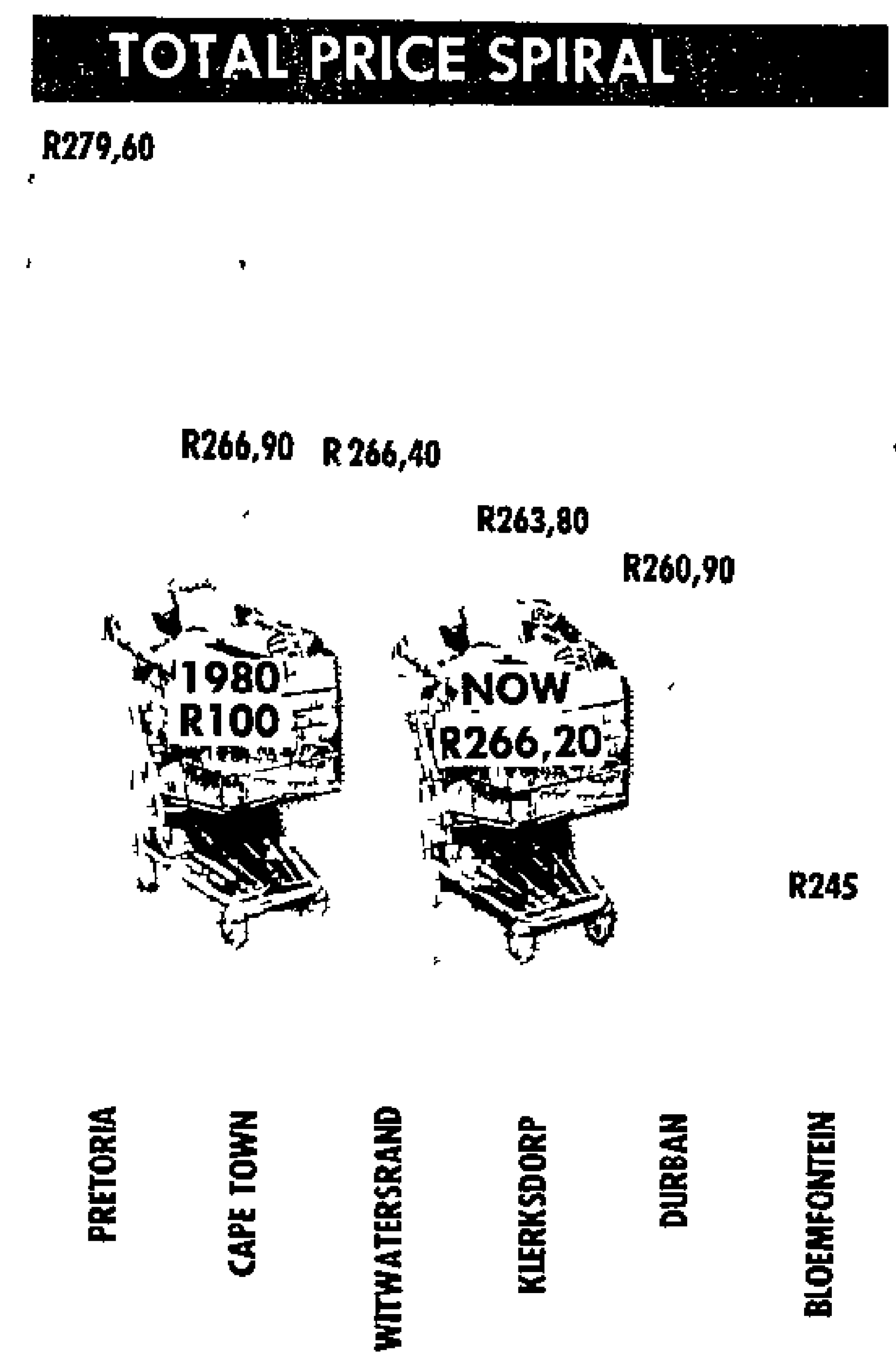
But, whatever the size of incomes and patterns of spending, the inflation picture is also coloured by where you live

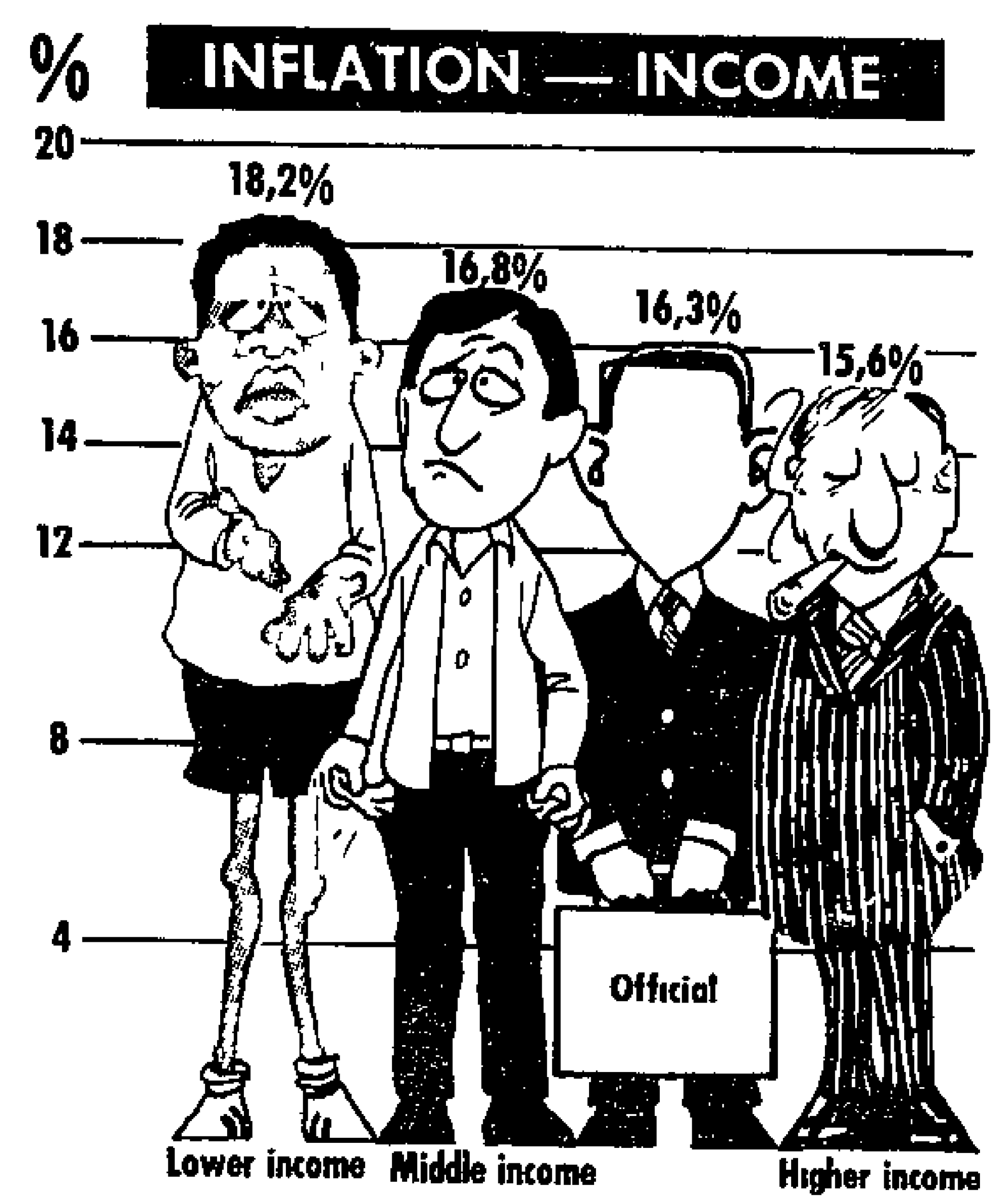
If you live in Johannesburg or elsewhere on the Witwatersrand, the cost of living has increased over the past year by less than the national average — a modest 16 percent

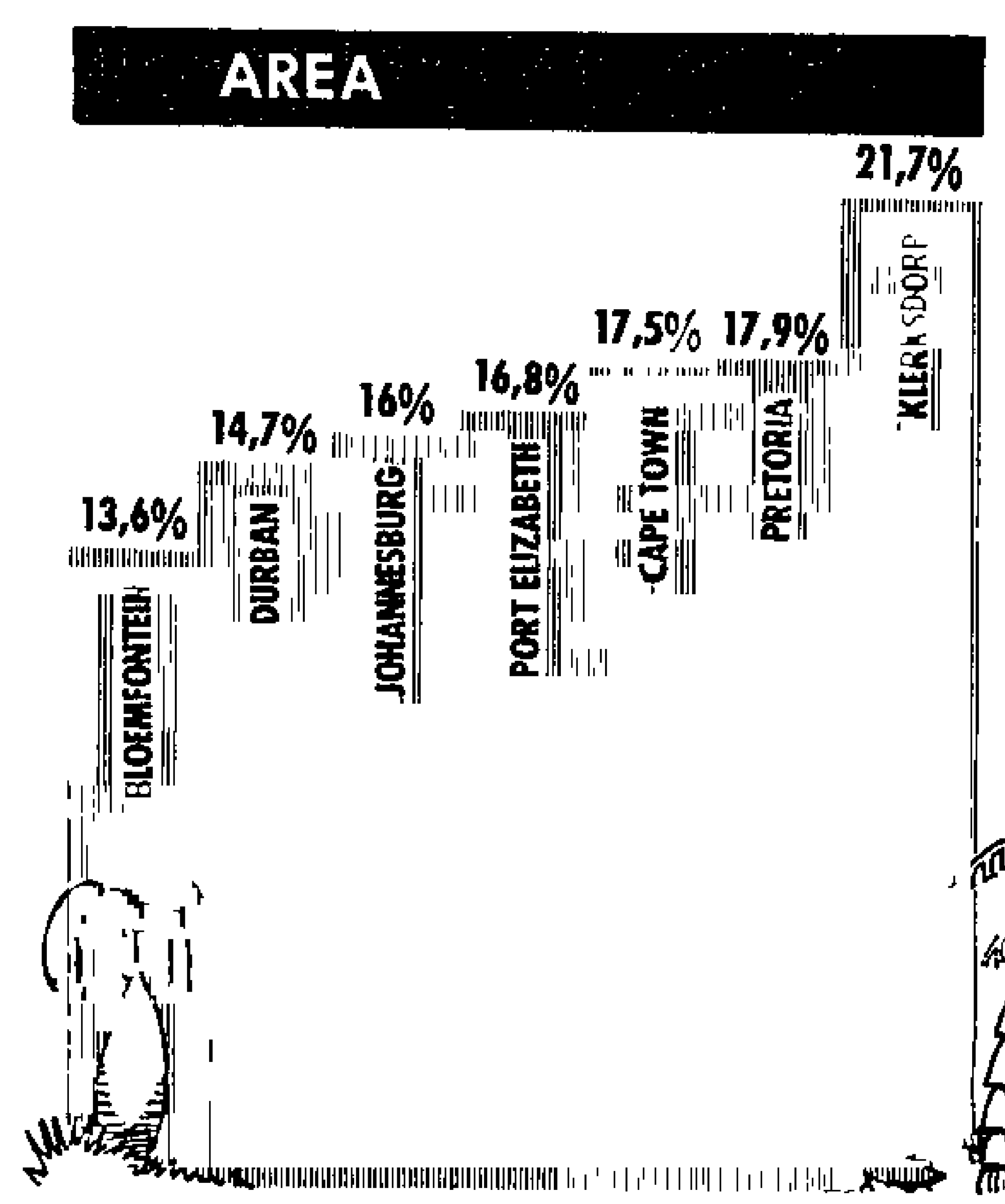
In Pretoria it is 17,9 percent, Durban 14,7 percent, Bloemfontein 13,6 percent, Port Elizabeth 16,8 percent and Cape Town 17,5 percent

But the hottest inflation spot of all in the past 12 months has been Klerksdorp where, on average, prices have zoomed by 21,7 percent









MONDAY, 31 AUGUST 1987

‡Indicates translated version

†For written reply

General Affairs

Hansard

Legal Aid Board

†210 Mr D J DALLING asked the Minister of Justice

(a) What were the unpaid (i) financial and (ii) contingent financial obligations of the Legal Aid Board as at 31 May 1987 and (b) what cash funds did this board have at its disposal as at that date?

The MINISTER OF JUSTICE

(a) (i) and (ii) A rough estimate done by the staff of the Legal Aid Board indicates that the Board may receive accounts for about R13 5 million in respect of live cases (some of them up to thirteen years old) over the next thirteen years During the present financial year up to and until 31 July 1987 R2 047 724 has already been paid in legal costs This amount includes the payment of accounts rendered in approximately 3 677 cases which have been finalised and the payment of provisional accounts rendered in approximately 1 967 live cases A rough estimate also indicates that during the remaining part of the present financial year approximately 7 526 cases will be finalised and that approximately 2 800 provisional accounts will be rendered for which, it is expected, a further R6 million will have to be paid

(b) R9 987 126 from which R8 668 910 was set aside for legal costs

I may add that due to the nature of the Legal Aid Board's activities it occurs that cases, especially civil cases, are only disposed of years after legal representatives are instructed and that moneys become payable only then It is usually also not possible to predict in which financial year a case will be disposed of and the moneys become payable It is therefore difficult to budget accurately However, in the case of a shortfall in any given year the Government has in the past always been prepared to arrange for additional funds

I also refer the Honourable Member to the discussion of the Department's vote during which I also dealt with the matter (Hansard Col 2 796)

Strikes: damage

†328 Mr P J PAULUS asked the Minister of Transport Affairs

Whether any railway coaches were damaged during the strikes by employees of the South African Transport Services this year, if so (a) what are the nature and extent of the damage (b) (i) how many coaches were damaged beyond repair and (ii) what is the total cost of these coaches and (c) what is the total amount of the damage suffered by the Transport Services in this connection?

The MINISTER OF TRANSPORT AFFAIRS

Hansard 31/8/87

Yes

(a) 136 railway coaches were damaged by fire

(b) (i) Thirty

(ii) R7 6 million

(c) The cost can only be determined once the damage has been repaired

Own Affairs

Technikons: non-White persons

†75 Mr R M BURROWS asked the Minister of Education and Culture

(1) Whether he has had talks with the rectors of the eight technikons falling under his control in connection with the admission of non-White persons to the technikons concerned, if not why not, if so, what resulted from these talks

(2) whether it is possible for a technikon council to admit students of all population groups to the technikon concerned, if not, why not,

(3) whether a quota system is still being applied at all technikons, if so, (a) to

Hansard S3 31/8/87

what extent and (b) what quotas are applied at each of these technikons,

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

The MINISTER OF EDUCATION AND CULTURE

(1) Yes, talks are currently in progress with the rectors regarding a policy for the admission of non-Whites to the technikons which is in accordance with the provisions and the spirit of the Constitution and which serves the interests of the country The discussions have not been concluded,

(2) Yes, subject to the policy of admission

(3) No, pending completion of the discussions on policy in this regard

(a) and (b) Fall away

(4) No

TUESDAY, 1 SEPTEMBER 1987

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†Indicates translated version

For oral reply

General Affairs

State President

Newspaper proprietors/publishers: talks

*1 Mr D J DALLING asked the State President

Whether he or any person delegated by him recently held talks with any representatives of newspaper proprietors or publishers, if so, (a) when were these talks held in each case and (b) (i) who was present at, (ii) what was the purpose of, and (iii) what resulted from, the talks in each case?

The DEPUTY MINISTER OF INFORMATION (for the State President)

I refer the hon member to my address in the House of Assembly on 17 August

1987. I have no further comments, considering that I do not supply details of my conversations with other parties, unless prior agreement has been reached with those parties

Mr P G SOAL Or they have been taped

Ministers

Waterpoort Police Force: representations

*1 Mr T LANGLEY asked the Minister of Law and Order †

(1) Whether the South African Police has received any (a) complaints and (b) representations in connection with certain members of the Police Force at Waterpoort if so, (i) when, (ii) what was the nature of the (aa) complaints and (bb) representations and (iii) what was the response to the representations

(2) whether the complaints have been investigated, if so (a) when and (b) what were the ranks of the investigating officers,

(3) whether he has received a report on this investigation, if so (a) when, (b) what was the purport thereof and (c) what were the findings,

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

†The MINISTER OF LAW AND ORDER

(1) (a) and (b) Yes

(i) 23 June 1987

(ii) and (iii) The complaints and representations dealt with departmental policy which I regard as an internal matter I am therefore, not prepared to furnish this information

(2) Yes

(a) From 7 until 31 July 1987

(b) The Divisional Commissioner of the Far Northern Transvaal Police Division investigated the complaints and representations

(3) Yes

Hansard 1/9/87

(a) 21 August 1987

(b) I refer the hon member to my answer to paragraph (1) (ii) and (iii) above

(c) The complaints and representations were false

(4) Yes The policy of the South African Police determines that members of the Force should serve all groups of the community impartially, irrespective of race, colour, religious and political affiliation The security of South Africa and all its people is an absolute priority with the South African Police, and it is for this reason, therefore, that I disapprove in the strongest terms of any attempt, whatsoever, to involve the Force or any member of the Force in petty party politicizing In any event, Standing Orders prohibit members of the Force from becoming members of any leftist or rightist radical organizations such as the ANC or AWB and from participating in party politics

Nieuwenhuizen Report

*2 Mr P J PAULUS asked the Minister of National Health and Population Development †

(1) Whether any amendments have been effected to the White Paper on the Nieuwenhuizen Report, if so, (a) when, (b) by whom and (c) what amendments,

(2) whether these amendments are to be tabled in the present session of Parliament, if so, when, if not, (a) why not and (b) when they are expected to be tabled

(3) whether all employers' and employees organizations will have an opportunity to discuss and/or comment on the proposed amendments, if not, why not?

The DEPUTY MINISTER OF NATIONAL HEALTH

(1) Yes

(a) 19 March 1986

(b) Cabinet

(c) That.

(i) the instruction by the Government in the White Paper that the uniform occupational diseases dispensation should be based completely on the principles of the Occupational Diseases in Mines and Works Act, 1973, be amended

(ii) the Interdepartmental working committee be authorised to prepare draft legislation whereby the administration of the compensation of irrevocable and incurable occupational diseases could be in tandem with the Workmen s Compensation Act, 1941 of the Department of Manpower and

(iii) if necessary, separate draft legislation for occupational medicine be prepared

(2) No

(a) As the amendments have a small effect on the work of the Interdepartmental Committee and as the draft legislation prepared by the committee will be published for discussion by employers and employee institutions, tabling of these minor amendments to the White Paper were not necessary

(b) Falls away

(3) Yes

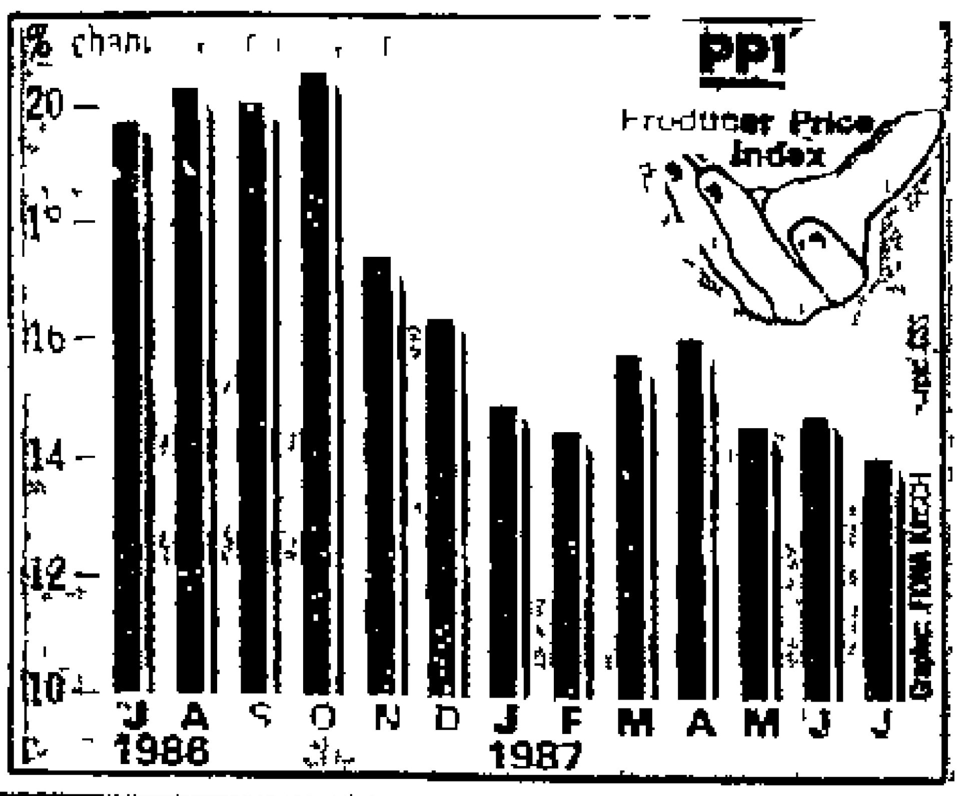
†Mr F J LE ROUX Mr Speaker arising from the hon the Deputy Minister s reply, I should like to ask him whether he is aware that in the original Nieuwenhuizen report the recommendation was that that payments in respect of accidents and so forth should be based on the pneumoconiosis legislation of 1973, and secondly whether he knows that this matter now has been outstanding since the end of 1980.

†The DEPUTY MINISTER Mr Speaker. it is true that this proposed legislation has been outstanding since 1980 but the inter-depart-

Hansard 1/9/87

153 15/9/87 B/day

Drop in producer price inflation



GRETA STEYN

YEAR-ON-YEAR producer price inflation fell to 14,1% in July from 14,8% in June, Central Statistical Services figures show

The monthly increase in the index was 0,8% from June to July — slightly up on the 0,5% between May and June

However, the month-on-month increase is still low — it was the third successive month the rise in the overall producer price index was below 1%

The stronger rand is one of the main reasons why producer price inflation has remained stable This is clear from the small monthly increase in the imported component of the index — it was up by only 0,2% from June to July, after not increasing at all the previous month

Local commodities prices increased by 1% from June to July, compared with the previous month's 0,7%

Rand Merchant Bank economist Rudolf Gouws described the latest inflation figures as "heartening"

Gouws pointed out that if monthly changes in the first seven months of this year were annualised, the producer price inflation rate came to 11,1% — much lower than 18,4% for the second half of 1986

Increased payouts from October 1 'too little — too late'

Old-age pensioners in parlous plight

INFLATION INFERNO

153 STAR 14/9/87

By Michael Chester

Mr Laurie Starfield, director of the Johannesburg Association for the Aged, has no problem in finding a concise summary of reaction to across-the-board increases the Government will pay on October 1 to people who depend on State social security old-age pensions for their survival

He says the increases are "Far too little — far too late"

The problems start with explaining to visitors how the association happens to be housed in a building named Happiness House — in Braamfontein

Sounds paradoxical

The business address sounds paradoxical as Mr Starfield talks about the growing problems of pensioners battling to make ends meet

The October 1 round of increases will nudge the social security pensions of nearly 145 000 white males aged over 65 and white women over 60 from R198 to R218 a month — as long as they have taken a means test to prove the pension is their only source of income

Pensions of retired coloured and Indian pensioners — nearly 150 000 of them — will be lifted from R147 to R167 a month

Black pensions will move from R97 to R117 a month — hardly enough for groceries for one week in more affluent households, yet still supposed to pay the bills for rent, clothing, coal and electricity, occasional bus rides and other items taken for granted in the homes of still-active breadwinners

"The imagination aborts when one reflects on how far a State social security pension can run against the tide of sky-high inflation," says Mr Starfield

"True, there are numerous organisations, such as Meals-on-Wheels, which try to cushion the blow But the fact remains that old-age pensions are losing out in the battle against inflation more and more every month that passes

"The real losses in the battle are camouflaged by the official figures on the average movements of the consumer price index When one homes in on the real basic necessities for pensioners, almost invariably one finds the very worst instances of inflation"

Purchasing power

Examinations behind the overall flat rate of inflation presented by Central Statistical Services begin to yield the answers First off, the purchasing power of R1 in 1980 has shrunk to only around 38c, and still goes on shrinking

The cost of housing has soared since 1980 by 183 percent, transport by 147 percent, furniture by 153 percent, clothing and footwear by 153 percent beverages and tobacco by 137 percent Food prices have jumped by 181 percent

Financial expert Mr Nic Nel reveals the impact on pensioners in new studies The buying power of social pensions is now 42 percent behind the increase in inflation since 1980 — even allowing for the October 1 increases

The hunt for solutions is not new Three years ago, Professor Joubert Botha, head of the economics department at the University of the Witwatersrand, wrote the foreword to a survey into the plight of aged whites in Johannesburg, which he found "disturbing"

Contrary to earlier global analyses he found that pensioners without outside income of any sort, were now being forced to spend as much as 50 percent on food alone Until then, it was always supposed that the biggest item in the budget was rent

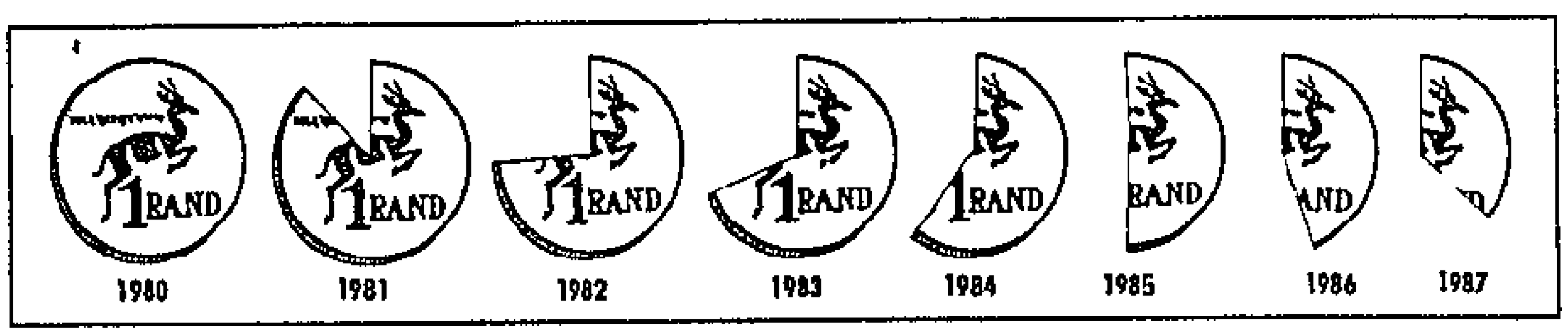
It was, he wrote, an "ominous figure", leaving no allowance for spending on recreation whatsoever

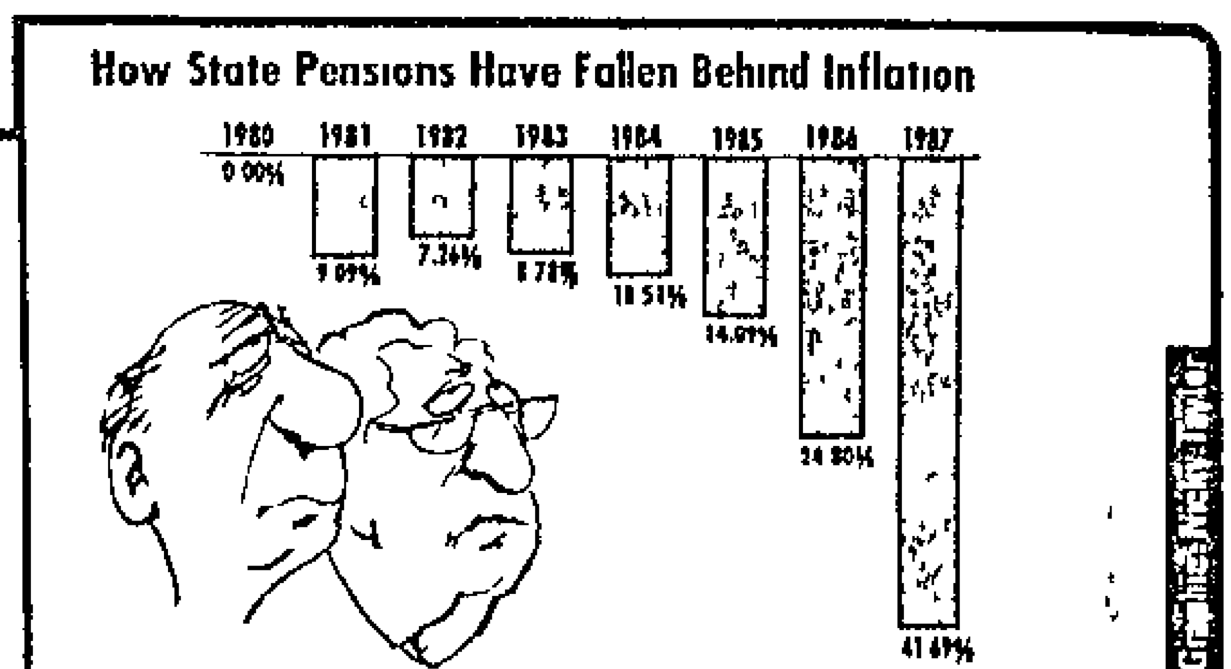
The author of the survey, Mr W A Pringle a lecturer in economics, called pensioners "the forgotten members of society" And Professor Botha feared that 'many of them eke out a living under incredible conditions

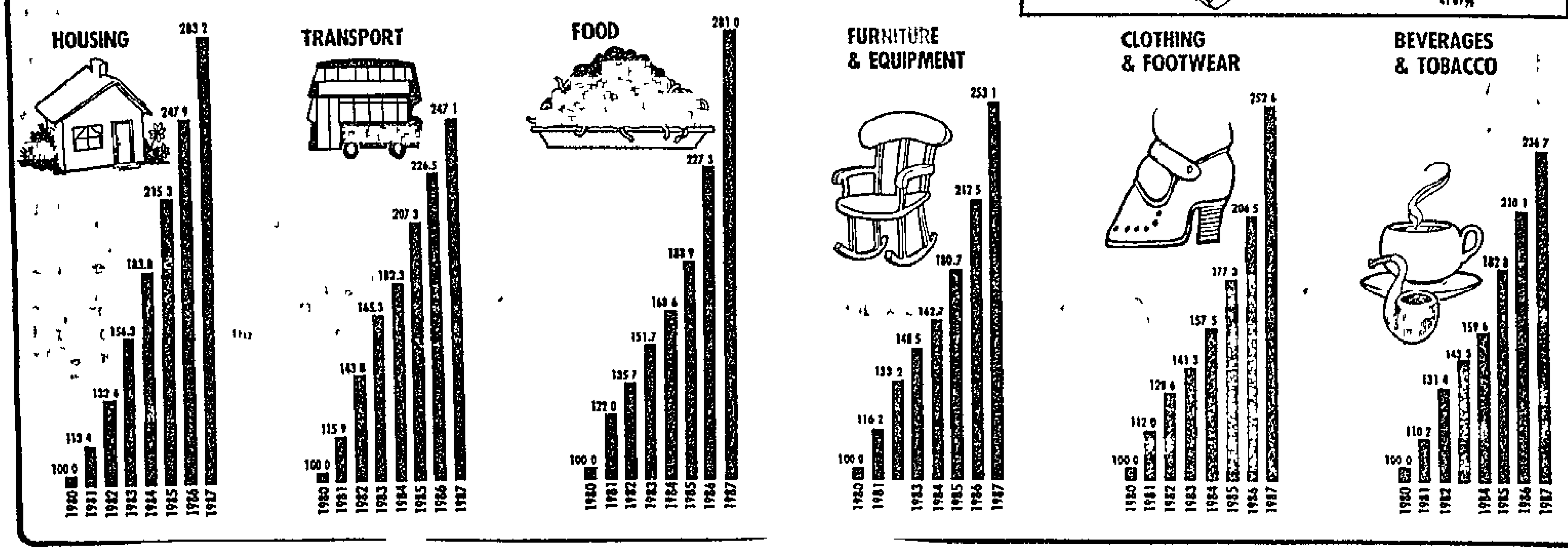
Three years later "the situation is worse," says Mr Starfield

Hard to understand

"Breadwinners who can do battle to keep salaries and wages more or less in line with inflation may find it hard to understand that even the increase in the price of bread, expected next month, may break the back of the weekly shopping budget of many pensioners"







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STAR 18/9/87

INFLATION INFERNO

Inflation overseas is under control — but it took tough action

By Neil Behrmann, The Star Bureau

While the prices spiral remains untamed in South Africa, overseas industrial leaders have all managed to bring inflation under control. But it took a dose of nasty medicine. Are there clues for South Africa to follow?

LONDON — Inflation in the United States, Europe and Japan is beginning to rise again, but all signs indicate that the powerful Western industrial nations are keeping the beast well in control.

West German, Swiss and Japanese inflation is almost non-existent, while the United States and the UK authorities are already tightening credit and raising interest rates to check any acceleration in price rises

Some economists fear that a surge in credit growth at the beginning of the year and a revival in oil and commodity prices imply that the disinflationary era is over.

But latest statistics and projections indicate that these fears are exaggerated

With the exception of the United States, inflation rates of the major industrial nations are currently at levels last seen in the early sixties (See table below)

Western nations were successful in conquering inflation because they applied tight money policies from the late seventies to the mid-eighties

But that medicine was nasty.

Real interest rates surged to record levels.

Unemployment soared as businesses failed.

Even though major international economies have recovered slowly since the deep slump in 1982, some 29 million people or 8,25 percent of the workforce are without jobs in North America and Europe

In poorer countries many more are looking for work

But the good news regarding the anti-inflationary medicine and subsequent recession is the curbing of trade unions' awesome power

Meanwhile, the recession, combined with production increases in Africa, South America and South East Asia, forced commodity prices downwards

Even Opec, the powerful oil cartel, could not cope with free market forces So the slump in oil, coal, uranium and other energy and raw material prices in turn helped pull down inflation in the industrialised world

The fall in inflation, however, is far from uniform.

Prices of grain, sugar, metals and steel are still relatively depressed even though they have rallied this year.

Retailers continue to offer discounts on consumer items such as cars, computers and television sets. Prices have remained stable or have even fallen

On the other hand, the UK and United States in particular have encountered virulent house-price inflation That inflationary increase is not regarded as too serious because an increase in the value of houses raises the net wealth of home-owners Yet first-time house buyers and households with growing families either must borrow much more money to buy bigger houses or move out of London.

A three-bedroomed house that cost £80 000 in a good London area four years ago is now trading around £250 000 to £300 000 (about R825 000 to R1 million)

Fearful that a sharp decline in the dollar and a revival in oil and other commodity prices will set off another bout of inflation, the United States and UK authorities are tightening the credit noose US and UK short-term interest rates have risen about 1 percent during the past six months

High real interest rates are expected to keep inflation in check and a wage spiral is unlikely

Wage increases of the seven largest OECD countries rose by only 3 percent last year, compared with 11 percent in the seventies

In real terms the pay packet of an American worker is 8 percent less than 1978, according to the *Economist*, and in the past twelve months the typical American worker's pay rise was around 2 percent In a paper the OECD says that trade unions around the world are on the defensive Minimum wages have been frozen in several countries, social security benefits are less generous and governments are squeezing public sector pay Indexation of wages to prices has been scrapped or weakened and workers in depressed industries, notably in America are accepting wage cuts

But the Western world is gradually beginning to prosper in a low inflationary environment Employment is increasing and standard of living is improving

AVERAGE INFLATION RATES

	1961-70	1980	1986	1987
America	2,8	13,5	2,0	4,8
Japan	5,8	8,0	0,4	0,3
West Germany	2,7	5,5	-0,2	0,2
France	4,0	13,6	2,7	3,4
Britain	4,1	18,0	3,4	4,4
Italy	3,9	21,2	6,1	4,2
OECD total	3,8	12,9	2,5	3,4
South Africa	6,0	11,0	18,0	16,0

(Source — Organisation for Economic Co-operation and Development)

Star 21/9/87

US licks inflation ogre, but fears remain

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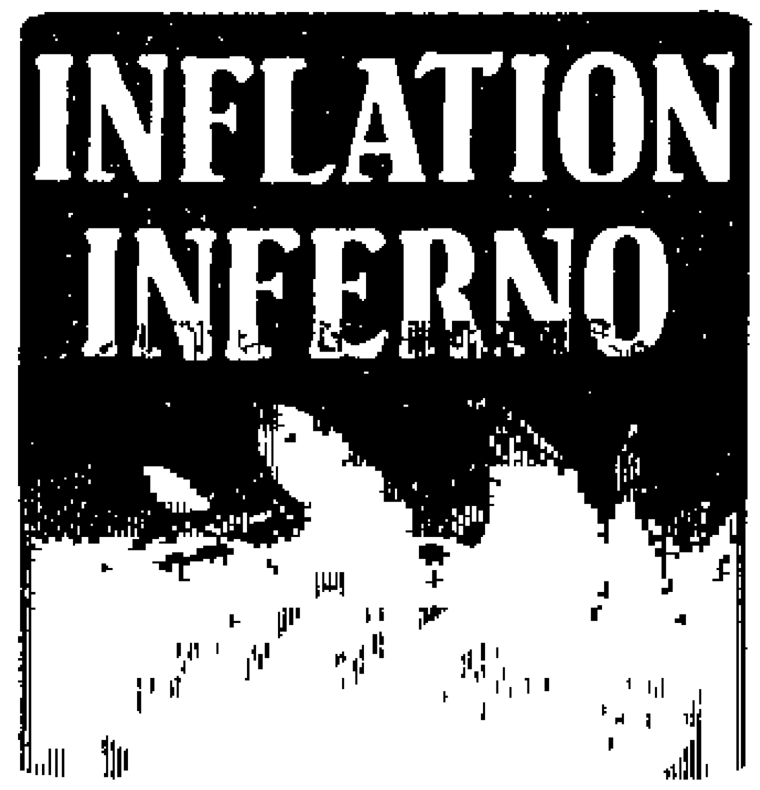

The United States has held inflation at less than a quarter of the South African rate for five years. But even Uncle Sam is finding that the battle never really seems to end.

By Ramsay Milne,
The Star's Foreign News Service

NEW YORK — With an average inflation rate of under four percent in the last five years of expansion — what some economists have described as "invisible" inflation — the United States might be considered one industrialised nation to have licked the ogre

Indeed it has licked it, if an inflationary rate as low as 3,7 percent and as high as 4,1 — four times lower than South Africa's now declining rate of 16,3 percent — over so long a period is a true measure of total victory over such an elusive foe.

Economists, of course, never talk in absolutes and none suggests the battle is over Indeed, the Fed's recent raising of interest rates has brought new warnings of a climb in inflation, one of the factors that has in recent days induced a bad attack of jitters among investors and sent the Dow to a succession of tumbles.

Chief architect of the sustained growth in the US economy since 1982 when the upsurge began — and chief slayer of the inflation dragon when expansion, with which inflation customarily goes hand in hand - was the former chairman of the Federal Reserve, Mr Paul Volcker, who had an Olympian reputation as an inflation fighter

INFLOW OF FOREIGN INVESTMENT

Most informed economists agree that it was the Volcker policy of tight monetary control, rigidly holding down interest rates to modest levels, that helped set in motion an impressive upsurge in the industrial economy. This not only reduced unemployment, but created millions of new jobs - and, for once, with rapid expansion not pushing inflation ahead of it or leading to widespread wage increases.

Not all the credit goes to Mr Volcker. For years he had unchallenged control of Fed policy But as the unfolding Reaganomics began to bite in 1983-84, he was criticised for his obsession with fighting inflation instead of spurring growth.

By the time he retired earlier this year, he, too, had been won over in favour of an easier monetary policy and, with four Reagan appointees on the Federal Reserve Board to do Reagan's bidding, no-one expects his successor, Mr Alan Greenspan, to get as tight-fisted as Mr Volcker once was

One effect of the economic upturn and a climb in the dollar in the early 80s was an impressive inflow of foreign investment, notably Japanese, British and West German, that has all but altered the face of modern America, without sending costs soaring

But inflation remains an ever-present fear.

The vice-chairman of the Fed, Mr Manuel Johnson, said recently that it was fears of revived inflation that led to the Fed's recent decision to raise interest rates, a move recognised as posing some risk to housing and other rate-sensitive sectors in the economy

In the end, who'll have the bread for the bread?

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STAR 23/9/87

By Michael Chester

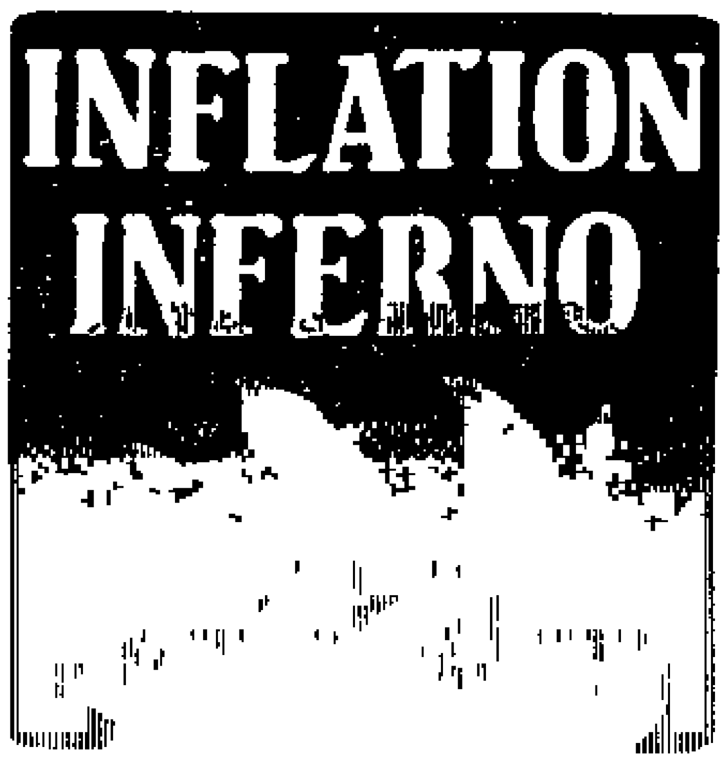
As consumers brace themselves for an October announcement on yet more increases in the price of standard loaves of white and brown bread, the mechanism that fixes bread price levels has again come under attack from retailers

Pick 'n Pay chairman Mr Ray Ackerman has repeated urgent appeals to the Government to allow supermarkets to produce their own bread in their own bakeries — hopefully at lower selling prices.

The request might sound simple and reasonable. But it opens a whole Pandora's box of controversy on the role played by monopolies and cartels in the inflation spiral — inside the private sector as well as State control boards

Bread prices make a classic example of what the hubbub is all about It starts when the Wheat Board lays down the law to the millers and registered bakers on the price of flour. The government listens to the recommendations of the control board — and lays down the law to retailers on new minimum selling prices

What irks Mr Ackerman is that the only bakeries permitted by law to produce the standard loaves that are the staple in shopping baskets — as compared with fancier kinds of bread — are the ones with special licences.



Huge power concentrations inside both the private and public sectors — monopolies to control boards — are often accused of fuelling the inflation spiral

MICHAEL CHESTER reports

The looming increase in bread prices has rekindled fresh passions about who must share the blame for sky-high inflation.

"Administered pricing by public corporations and agricultural marketing boards have been a source of upward bias in the price system for years," says Dr Azar Jammine, director of the Econometrix think-tank.

"Whether it is the Wheat Board, the Egg Board, the Milk Board, the Maize Board, or Escom, the Post Office or Iscor, prices have been set with little regard for market forces.

"Exploiting their monopolies, they have been setting domestic prices on a cost-push basis irrespective of levels of demand for their products or services The outcome is that prices are flexible upwards, but inflexible downwards"

But blame should not be confined to the public sector, says Dr Jammine "Over the past decade there has also been an enormous increase in the level of power concentration in the private sector as well.

"And, as with public corporations, the majority of private sector companies of any significance nowadays frequently have sufficient market share and financial backing to resist market forces when setting prices.

"Nowhere is the distortion of market forces more evident than in the food sector. At a time when food prices worldwide are at record low levels and surplus production abounds, food price inflation in South Africa is soaring well above the average rate.

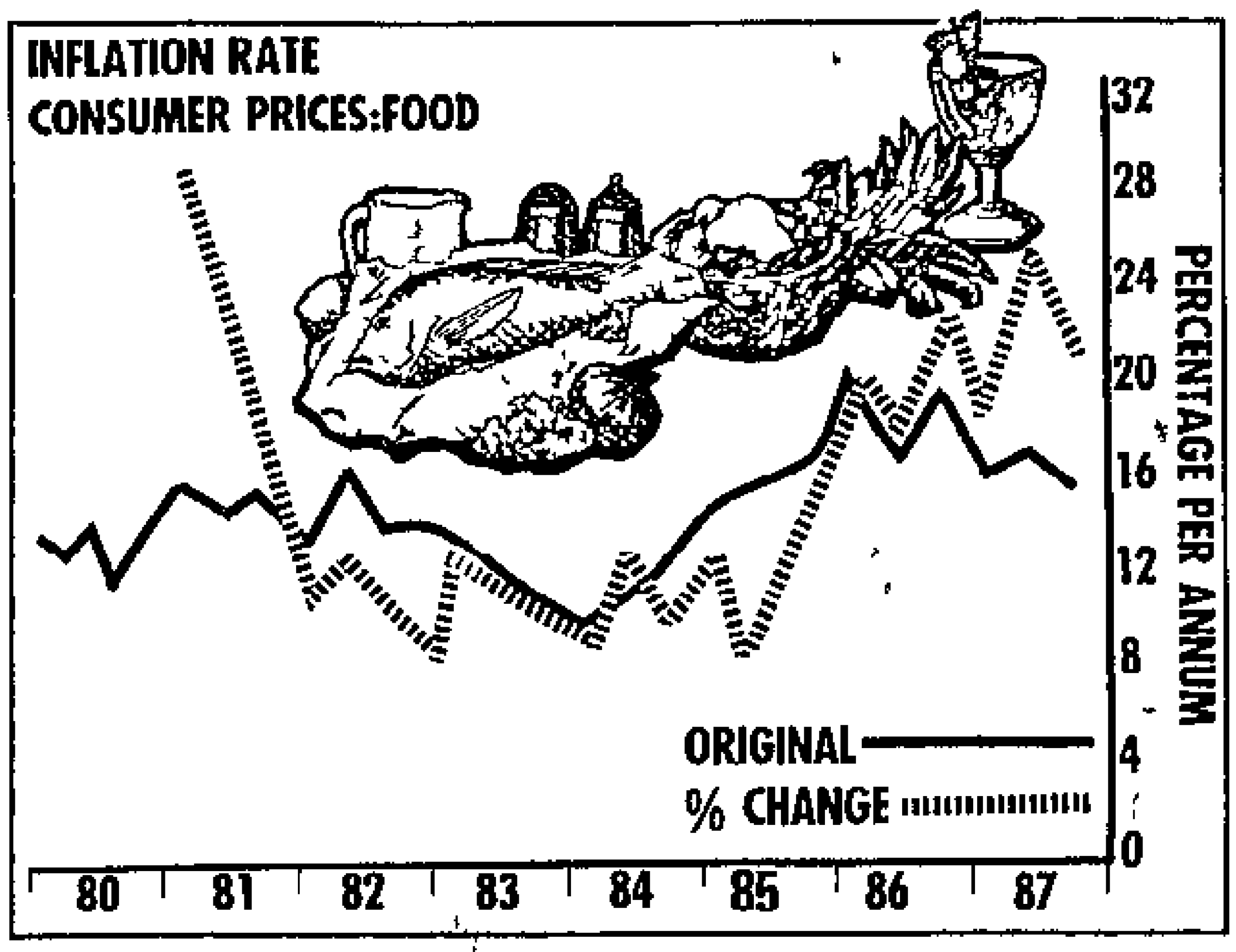
"The fault lies in the fact that all three tiers in the food industry — production, processing and distribution — tend to be controlled by a handful of powerful organisations employing monopolistic or quasi-monopolitistic practices.

"There is little point in arguing that inflation can be combated by acting against such monopolies. They are only a symptom of underlying causes which are driving corporations to acquire such power.

Wage demands seen adding to inflation rate

24/9/87

By Sven Lunsche



The year-on-year inflation rate remained unchanged at 16,3 percent in August, compared with July, but economists are now asking whether a forecast drop well below 15 percent by the end of 1988 is possible

Just when soaring food prices seem to have been brought under control, clouds are forming on the horizon in the form of increasing wage demands from the burgeoning union movement.

"There is a chance that inflation will decline below the 15-percent mark by the beginning of next year, but wage increases will make a further drop very difficult," says Rand Merchant Bank's Rudolf Gouws

Although the annual rate of increase in food prices remains high at 22 percent, a pleasing development was that for the fourth successive month food prices rose at a noticeably slower rate than the other items in the consumer price index

"A positive aspect of the 1,4 percent overall monthly increase from July to August was that 40 percent of this was due to premium rate increases in household policies, which rose by 67 percent over the year," says Dr Treurnicht du Toit, head of Central Statistical Services in Pretoria

He says the monthly 1,2 percent rise in food prices can be attributed to only one source a sharp 2,6 percent increase in the price of red meat, which, on an annualised basis has soared by over 32 percent

For almost a year, soaring food prices have been the major contributor to double-digit inflation, thereby replacing the high cost of imported products

With an improved outlook in agricultural conditions as a result of encouraging rainfall, economists are looking at a gradual drop in the rate — an average of 16 percent for 1987 has been generally forecast.

Now they might have to revise their estimates Wage increases in the mining and manufacturing sector have been on average well above 20 percent and the increasing clout of trade unions could ensure this trend will continue

"The recovery in profits over the past year has not escaped the notice of organised labour, while the corporate sector wants to protect its return on capital," Standard Bank said in a recent economic review It said the conflict between labour and business could lead to a severe wage spiral

Trust Bank's Ulrich Joubert agrees "Wage and salary increases will inevitably push up costs and although some companies can afford it in the wake of improved profits, the question remains whether the economy can stomach it."

Mr Gouws says: "We are not facing runaway inflation yet Tightening the money supply and higher interest rates will prevent inflation from keeping pace with expected high wage increases."

Standard Bank calls for conservative and credible demand management to prevent the wage-price spiral from getting out of control and that the best policy for South Africa would be to aim for steady growth in its total expenditure on goods and services produced.

Most economists agree that there should not be a trade-off between economic growth and higher inflation, but pragmatism seems to prevail.

As Mr Joubert puts it· "We have to bear a high inflation rate until the economy adjusts

"The short-term focus must be on economic growth, but in the long run we will have to do something about the high inflation rate, otherwise the political and economic costs will be too expensive to carry through to the future"

Train fares up 10%

SA TRANSPORT Services yesterday announced that fares on commuters train journeys will be increased by 10 percent from October.

This follows an announcement on May 26 that increases in commuter fares twice a year would be more acceptable than one big increase.

It was also announced in May, that SATS intended to again increase commuter fares in October

To help compensate for the shortfall in fares against the general increase in expenses, first and third class commuter fares will be increased by 10 percent

For example the new price of a monthly ticket between Johannesburg and Pretoria which was R107 will now be R118 while that of a third class monthly ticket between Mabopane and Belle Ombre which was R20 will become R22

A SATS statement says it has to be borne in mind that a monthly ticket is valid for unlimited travel between the two stations for which it was purchased

The total increase in fares for the financial year 1987/88 will be 13 percent for first and third class commuters.

SATS says that, just as any other enterprise, it is subject to increases in costs over which it has no control, and has to compensate for this.

On this basis, a fare increase of at least 17 percent would have been necessary for the 1987/88 financial year on top of the shortfall in the

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Living costs

• From Page 1

previous financial year — as a result of the fact percent, as against the increase of 17,9 percent in consumer prices

The fare paid by commuters will now cover only a small portion of their travelling costs For each R1 that it costs SATS to transport a commuter, the commuter will contribute only 30c and will thus be subsidised by 70c

Fares for road passenger services will be increased from November by an average of 5 percent

SATS says it appreciates the fact that passengers are also burdened with increasing living costs and therefore does everything possible to keep cost levels as low as possible.— Sapa

INFLATION INFERNO

'Govt can show way to beat inflation'

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Star 2/10/87

By Michael Chester

A leading economist yesterday challenged the Government to set the pace for a crackdown on the inflation syndrome with a public announcement of fixed targets to limit the wages/prices spiral inside the massive public sector and thus provide guidelines for the entire economy.

"If the Government orders discipline in its own sphere of influence — the size of civil service pay packets to price levels pegged by public corporations and all the control boards — it will set an example that the whole private sector will follow in an automatic reaction," said Dr Johan Cloete, doyen among bank economists and a regular lecturer at the University of the Witwatersrand.

"South Africa has been intimidated by the dimensions of inflation problems, wringing its hands in despair and dreading that solutions must necessarily entail still higher unemployment and the agonies of recession.

"There are too many myths tossed around by pseudo-economists when inflation comes under discussion, too much emphasis on the negative aspects of various text-book formulas.

'SOLUTION UNDER GOVT'S NOSE'

"Yet the solutions are under the Government's nose. If it quite simply decreed that wages and prices under its command would increase by no more than say 10 percent next year, 7,5 percent the next year, 5 percent the year after that, it would set a pattern that would spread quickly to all corners of the economy.

"It would set a pace that would discipline everyone, big business to trade unions, and, equally important, it would destroy the anticipation of future inflation that has allowed the wages/prices spiral to feed upon itself.

"The private sector would be able to carry smaller price increases because its labour costs would be all that much lower. Labour would be able to cope with smaller pay increases, because consumer prices would be in check.

"At the moment, no one — employer or worker or housewife — has a credible guideline to follow. Action by the State could set realistic targets — and prove by example that they can work.

"The aim must be to generate confidence in solutions. The ball is in the Government's court."

TWO COURSES OF ACTION

Dr Cloete argues there are only two ways to break a wages/prices syndrome once it has taken firm hold:

- Depress demand, and thus sales, by means of restrictive monetary and fiscal measures — meaning production cutbacks, unemployment and business insolvencies, with the likehood of disastrous social and political consequences.
- Action by the fiscal and monetary authorities to persuade the country's main price and wage decision-makers to follow the example of the Government in the exercise of discipline.

"Disciplined wage increases generated in the public sector, which also implies discipline over Government expenditure in general, would encourage such behaviour in the private sector too.

"Moreover, in view of the massive size of the public sector, moderation of pay increases here alone would force the private sector into moderation of the price spiral.

"The first step has to be taken by the Government with a public commitment to a set of targets — not only for wages and prices but also for monetary growth, State spending and economic growth in real terms.

"It would provide the private sector with a far clearer picture of the macro-economic scenario likely to prevail at least one year ahead and set out the guidelines that had to be observed to hit the targets."

(153) Star 7/10/87.

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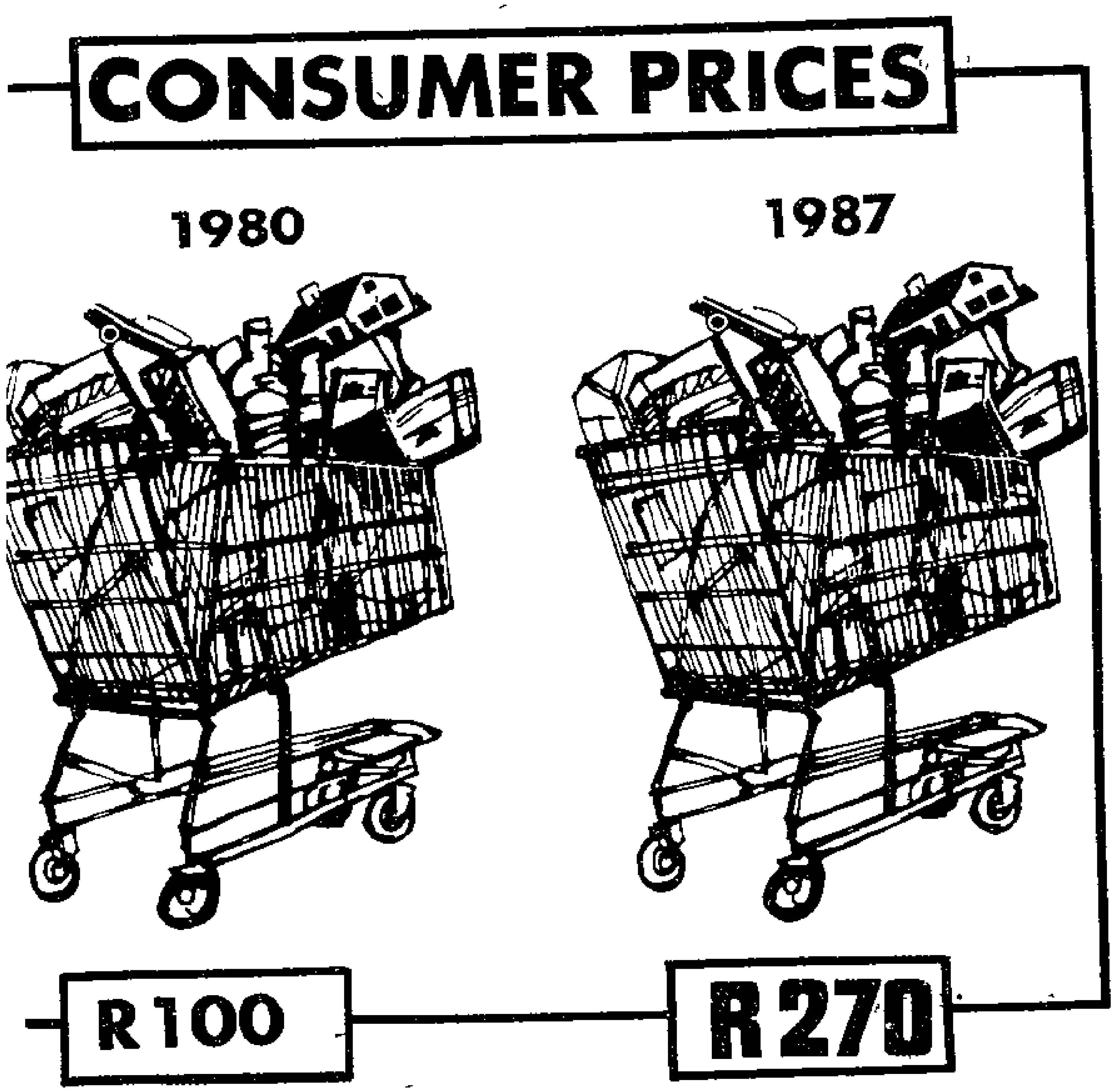
SA inflation outstrips the West



When the mandarins of the civil service released the news a few days ago that the annual inflation rate had stood at 16,3 percent for two months, it was widely regarded as a sort of triumph At least it hadn't worsened

PUNCH DRUNK

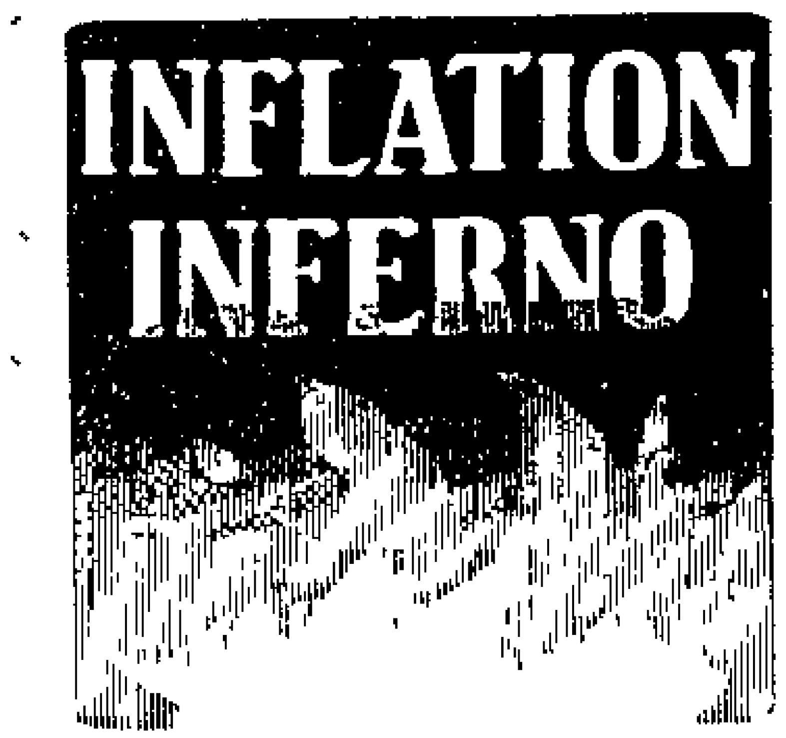
The reaction mirrored the way sky-high inflation has come to be accepted by many South Africans, punch-drunk by the repeated blows of price increases

Inflation had not stood still at all, of course The consumer price index was still rocketing at a speed that economists see as disastrous

The "Inflation Inferno" series in The Star has shown that all the leading western economies have licked the problem

While inflation in SA has stoked up from 11 percent in 1980 to the current 16,3 percent, the rate has been slashed in the United States from 13,5 percent to 4,8 percent, in Britain from 18 percent to 4,4 percent, in Italy from as high as 21,2 percent to 4,2 percent In West Germany and Japan, it has been virtually wiped out completely

The Inflation Inferno series has underscored the grave perils facing South Africa unless it breaks the prices wages syndrome and has set out proposals by various economists for finding remedies What has emerged is that it is the government that holds the master key to solutions MICHAEL CHESTER writes an overview



Economists have a wide variety of views on how to kill the dragon But there is unanimous agreement that unless solutions are found, SA will be in dire straits as exports crumble because of constant increases in production costs that whittle away any price advantages in overseas markets, as the costs of imports soar because of weak rand exchange rates, and as any domestic economic headway is gnawed away by inflation

Several economists point out that when inflation is taken out of the equation, South Africa needs an economic growth rate in real terms of at least 4,5 or 5 percent a year — twice the current pace in what is supposed to be a recovery period — even to hold the lid on an intolerably high unemployment rate

The only chance of achieving such a tempo, they say, is to extract the teeth of inflation and limit the size of the bite it takes from the economic pie

Blame for the dilemma has been hoisted on to a variety of issues — monetary and fiscal fumbling, the wages/prices spiral, the tax system, lack of progress with privatisation, government inertia and silent complacency over the way inflation keeps increasing the cash revenues to fall into the State coffers

Dr Johan Cloete said the Government should set an example in breaking the wages/spiral syndrome by exercising stern discipline and fixing specific annual targets for all State expenditure

Such a Government lead would avert the imposition of a wages/prices freeze, which almost everyone agrees would be a disaster, and provide an example that the entire private sector could follow

Moreover, argued Dr Cloete, inflation would be rattled without any encounter with the sort of unemployment problems often associated with assaults on the problem

There were also particularly warm rounds of applause for exposures of the degree of persistent Government overspending and the recommendations for sweeping tax reform going beyond the Margo proposals

rt Elizabeth, and

But the alert sounded by Mr Danie Steyn, Minister of Economic Affairs and Technology, about the "alarming" dimensions of collusion between companies to fix the prices of a number of commodities and services, underlined that not a single sector of the economy can take a Holier than Thou stance in the inflation issue

Nor do the trade unions escape criticism True, says Dr Azar Jammine of the Econometrix think-tank, the black/white wage gap needs to shrink "However, wealth cannot be created out of thin air," he reminds everyone

Ultimately the chances are dim, in the view of many pragmatic economists, that South Africa can realistically expect to follow the route taken by countries such as Australia and Israel and crack the inflation problem by bringing the Government, employers and trade unions round the conference table to reach a pact

Most economists dream of such a scenario as the ideal solution But they wag their heads in dismay that it must stay a dream for South Africa until the socio-political climate improves That, they agree, is largely in the hands of the Government

Indian MPs could have a language handicap

Political Staff

DURBAN — Next year's joint debates are partly designed to make for a meeting of the minds as members of the three Houses of Parliament discuss "general affairs" together — but Indian MPs are likely to be left right out unless they learn Afrikaans

The House of Delegates has only a handful of Afrikaans speakers and their monoglot colleagues have only until the end of February, when Parliament convenes for the new session, to learn Parliament's most-used language

Ministers tend to deliver sizeable chunks of their more important speeches in English but rank and file MPs from the NP and the CP use Afrikaans almost exclusively It is also to be expected that the Labour Party will use the "oppressor's" tongue when it wades into the CP

Former MP Mr Gordon Waddell, with little or no Afrikaans at his command, found it a lonely experience in trying to cope with Afrikaans asides and criticisms, not to mention long speeches addressed at him specifically His benchmates had to try to keep him up to date with a running commentary in English

NO SPECIAL HELP

The short answer is that there will be no special assistance for Indian MPs The Taal Monument Fund of Paarl paid for Afrikaans lessons for the new House of Delegates MPs when they came to Parliament in 1985 The next year they had to pay for themselves

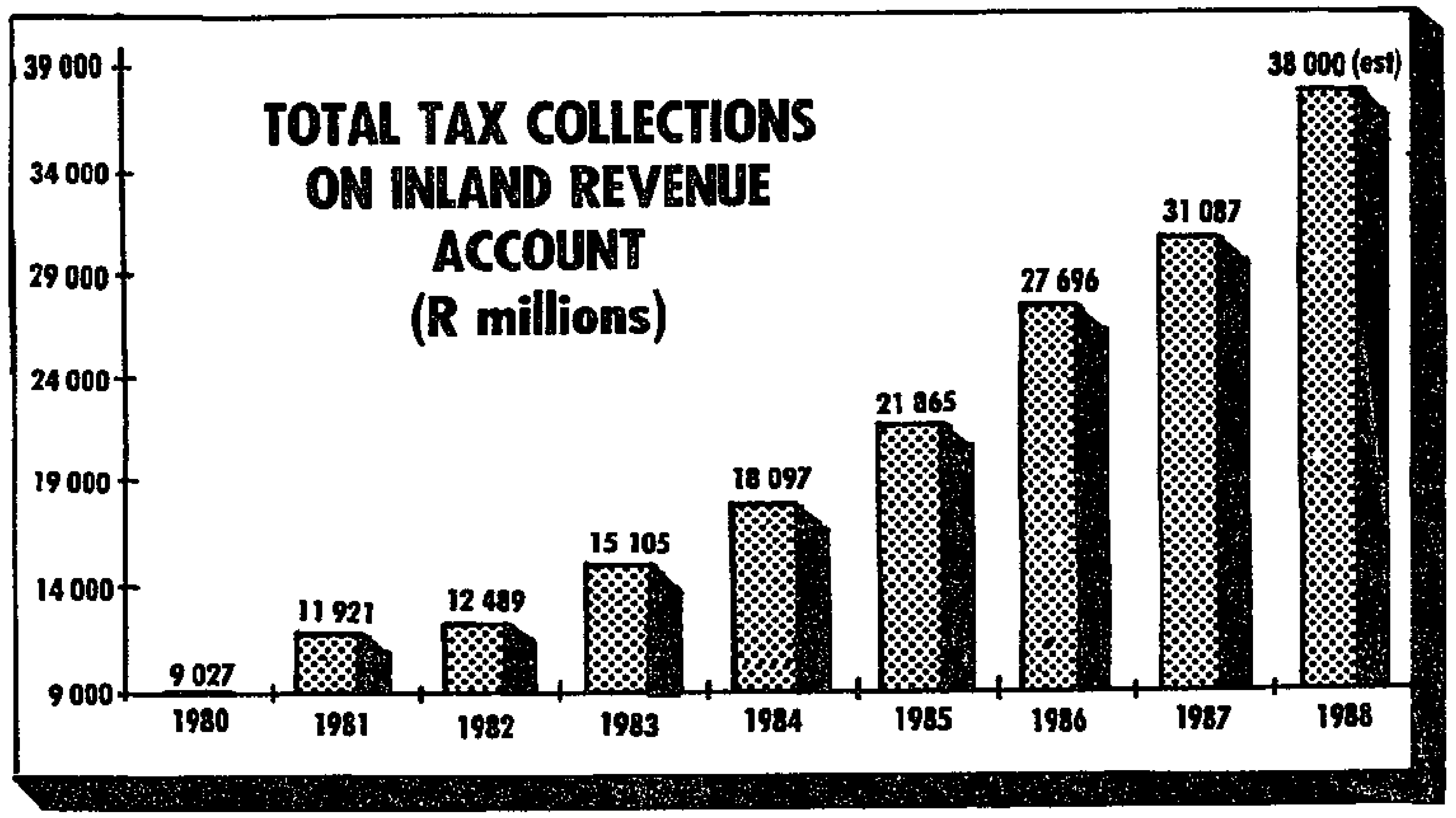
By next year they will be expected to fend for themselves, says the Secretary of Parliament, Mr Attie de Villiers

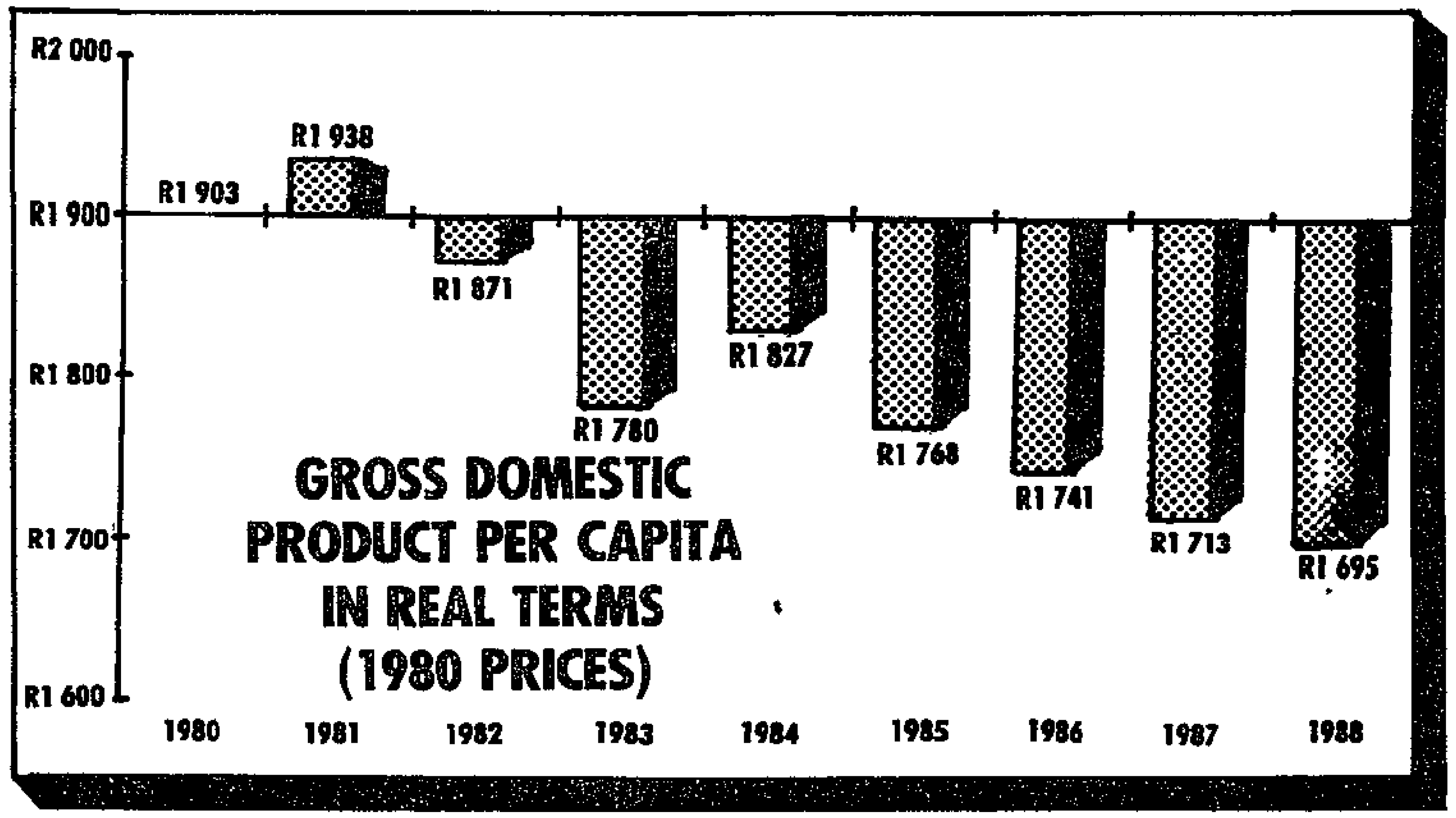
There are no plans to introduce a sort of simulcast translation service, similar to the one provided for diplomats when they attend Parliament for important debates

And some diplomats are schooled for about six months in Afrikaans before arrival here

Indian MP's will not even be able to score any revenge points by lapsing into Tamil as it is not an official language

● Monoglot a person who speaks one language





The Margo Commission failed to 'go for the jugular'

Another way to beat inflation bugbear

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By Michael Chester

If the Government aspires to crack the inflation conundrum, it must find strategies via the taxation system, according to tax consultants Nic Nel and Associates Alternative routes, they insist, may dent the hard core of the problem — but never devastate the main target with a direct hit

What makes the consultancy especially fretful is that the Government will do no more than tinker with solutions as it procrastinates over the recommendations of the Margo commission of inquiry into tax reform and again steer a course into compromises rather than a full-scale assault on the problem

Tax mess

"It is now three years since the Government, under more pressure from tax-payers than it cares to admit, handed the Margo commission the assignment to solve the tax mess," says Mr Nic Nel "We have all now seen the proposals that finally emerged

"True, there are elements that promise various improvements, but as a total package it is a great disappointment

"The commission has failed to go for the jugular, with the result that even if the Government acts on all the proposals there are grave risks that all the faults of the current system will resurface inside a year or two — while inflation stays in orbit"

The weapon to use in going for the jugular, says Mr Nel, is one he has devised himself and called the Tandem Tax System, radical in concept but simple in design

First, a flat rate of personal income tax, pegged at 18 percent

Next, a flat rate of 9 percent on all business profits

Also, a transaction tax set at a modest 0,5 percent, to be imposed every time a business or individual makes a transaction and to be collected mainly through the banking system

Mr Nel argues that the system, by broadening the whole tax base and allowing no loopholes anywhere, would generate all the revenue that the State should need — and still allow for the total abolition of general sales tax and all other forms of taxation

Dr Azar Jammine, director of the Econometrix research unit, who is equally enthusiastic about the radical approach, has double-checked on the arithmetic and agrees with it

Restore motivation

Among the immediate repercussions they envisage

The flat tax rate on individuals would restore the motivation of breadwinners, whose initiative has been stifled by the impact of fiscal drag

The productive sector would be spurred into faster tempo, with the chance of a significant slowing down in cost and price increases as more of the tax burden is shifted from manufacturing to the financial sector by an even spread of the taxation rate

Their slide rules check into current price/tax multipliers — and find that at the moment an item that costs R100 to produce will probably leave the factory with a price tag of R160 because of current company tax and a reasonable profit margin That, though, is only the start Then the multipliers really snap into action

Mr Nel is convinced that the impact of his tandem tax system on inflation in the short run — and more so in the long run — would be stunning

Mr Justice Cecil Margo remains unmoved Only a few days ago, he again dismissed the notion of a flat tax rate system The basic flaw, as he sees it, is that lower-income workers would carry too heavy a proportion of the tax load when set alongside the relative size of the burden to be carried by the high-income earner

"The standard rate approach simply would not work," he said The commission, at the end of its intensive and extensive studies, had concluded the key to tax reform lay in the proposed new comprehensive business tax that had all the merits of being equitable while allowing other tax rates to ease lower

Undaunted

Mr Nel is undaunted He has written to the Department of Finance with copies of the outline of the tandem tax system and pleaded for a delay in action on the Margo proposals until the commission gives second thoughts to the problem and solutions

"The issue of tax reform," he says, "should have been approached in the context of a total economy strategy — not an exercise of law enforcement"

"Radical tax reform needs to go hand in hand with radical new thinking about privatisation, productivity. . and the whole monetary system."

World's economic giant Japan spawns 'the new poor'

The Star's Foreign News Service

TOKYO — Japan has found that being the economic marvel of the 20th century is a double-edged sword

Although inflation is at only two percent and the nation is the wealthiest in the world, the Japanese refer to themselves as "the new poor".

They have succeeded by thinking long-term. While the West seeks quick profits, the Japanese plan far ahead. Planning is already extending well into the 21st century

The Japanese also learn quickly. When Western traders first started to penetrate Japan's isolation more than 100 years ago, the comparatively backward Japanese soon determined to make up the leeway in military and commercial might.

They handpicked their best scholars and sent them abroad to study what each of the leading nations excelled in.

The United States complains that Japan is still transforming basic research poached from it into world-beating products. However, evidence shows that Western basic research is advancing more slowly than Japanese applied research.

Western anger at Japanese success could also see new technology being refused to Japan so it has turned to frontier science. Top scientists in every field from cancer to super-conductivity research are offered highly-paid sabbaticals or positions in Japan, where they work with other leading scientists in search of breakthroughs.

While South Africa suffers all the agonies of double-digit leaps in consumer prices each year, Japan, with inflation held down to a mere two percent, is regarded as an economic marvel. But there are odd paradoxes amid all the affluence.

But the high yen, the fruit of decades of hard work, has a negative aspect. Exports have slumped and in May, unemployment hit 3,2 percent after years of almost zero unemployment.

Japan has also experienced a "hollowing out" of industry as more companies establish bases elsewhere — mainly in Pacific rim countries where production costs are lower or closer to big markets such as North America.

Direct Japanese investment abroad jumped to a record high of about R46,59 billion at the end of March, up 82,7 percent from the previous year. Much of this investment is inspired by the wish to escape the crippling costs of operating in the most expensive nation in the world.

A consequence of it has been that Japanese employers are becoming crucial in many nations. For example, with hundreds of thousands of Americans working in Japanese companies in the United States, any anti-Japanese sanctions adopted by the US would cost American workers their jobs and the US millions in tax income.

The export-bashing yen has honed Japanese thriftiness. Toyota Motor Company, which recorded the highest profits in Japan this year, reduced expenditure by cutting company meetings and reducing paperwork by half. Employees were also encouraged to cut overtime in half.

Most Japanese companies now have a five-day working week and are encouraging employees to follow the Western example and work only an eight-hour day. They have also appealed to workers to take longer holidays than the five days a year most of them are content with.

Japan has calculated that if work time is reduced to 1 600 hours a year instead of the present average of 2 100 hours, jobs for 2,2 million people could be created.

The Japanese have found that even success carries hardship. "Endaka," or the high yen, has made Japan a country four times costlier than South Africa.

Their staple food, rice, is nearly 25 times more expensive than any other country because of an over-protectionist agricultural policy.

Education is a major key to Japanese success and nowhere do schoolchildren work harder than here. They attend school five and a half days a week and most attend " Juku " cram schools, which means that many children have a 12-hour or 15-hour school day. About 95 percent of Japanese school leavers attend university.

This has resulted in middle-class affluence and few social evils.

The average Japanese — who would find a Soweto four-room home spacious and would pay about R4 000 a month for such accommodation, without the garden — does not have the space to keep the luxuries typical of affluence.

They save more money than any other nation in the world but few own cars. To own a car in Tokyo requires garage space at about R500 a month — Tokyoites could afford that, but they just cannot find the garage space.

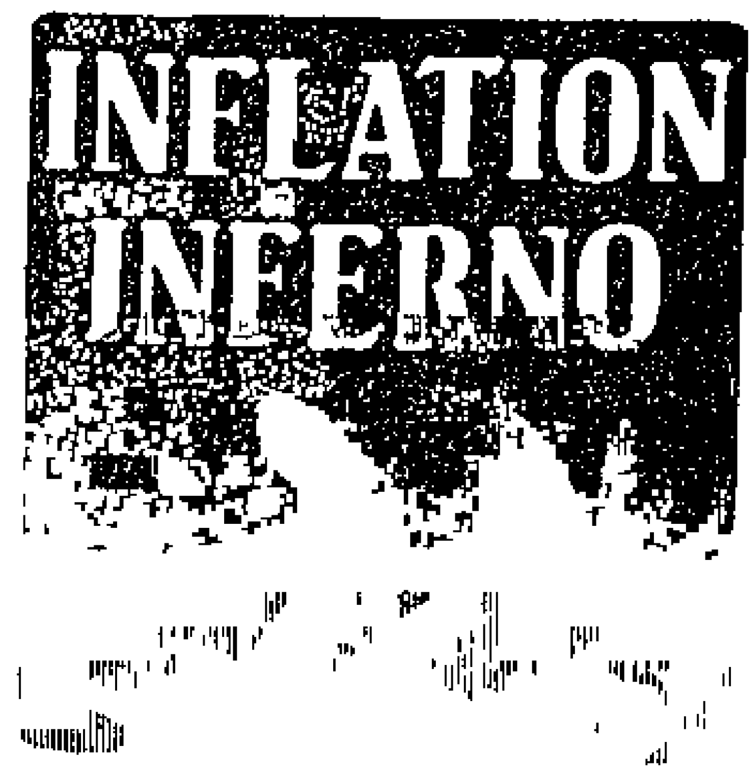
Under the surface of Japanese complacency, there is bitterness that their hard work has made their country and their bosses rich and powerful while the average man has, by Western standards, a raw deal.

Private sector angry as studies reveal overexpenditure

State policies blamed for high inflation rate

(153) STAR 6/10/87

The single biggest threat to the long-term economic future is that South Africa will be driven into a state of hyper-inflation because of constant government spending, according to new studies by the Econometrix research unit. MICHAEL CHESTER reports.



Studies by the Econometrix research unit reveal that budgeted State expenditure of R46 319 million for the current fiscal year is 154 percent higher than only five years ago — yet still looks certain to be overshot by R2 billion or more.

Even the record-breaking climb of 140 percent in revenue, boosted by Government reliance on inflation to increase tax income via the wages/prices spiral, has failed to cope with the surge in spending

Dr Azar Jammine, director of the Econometrix think-tank, forecasts that the current fiscal 1987/88 year will provide another example of failure by the Government to stay within the national budget, with predictions that the the gap between revenue and actual expenditure will widen to at least R8 400 million

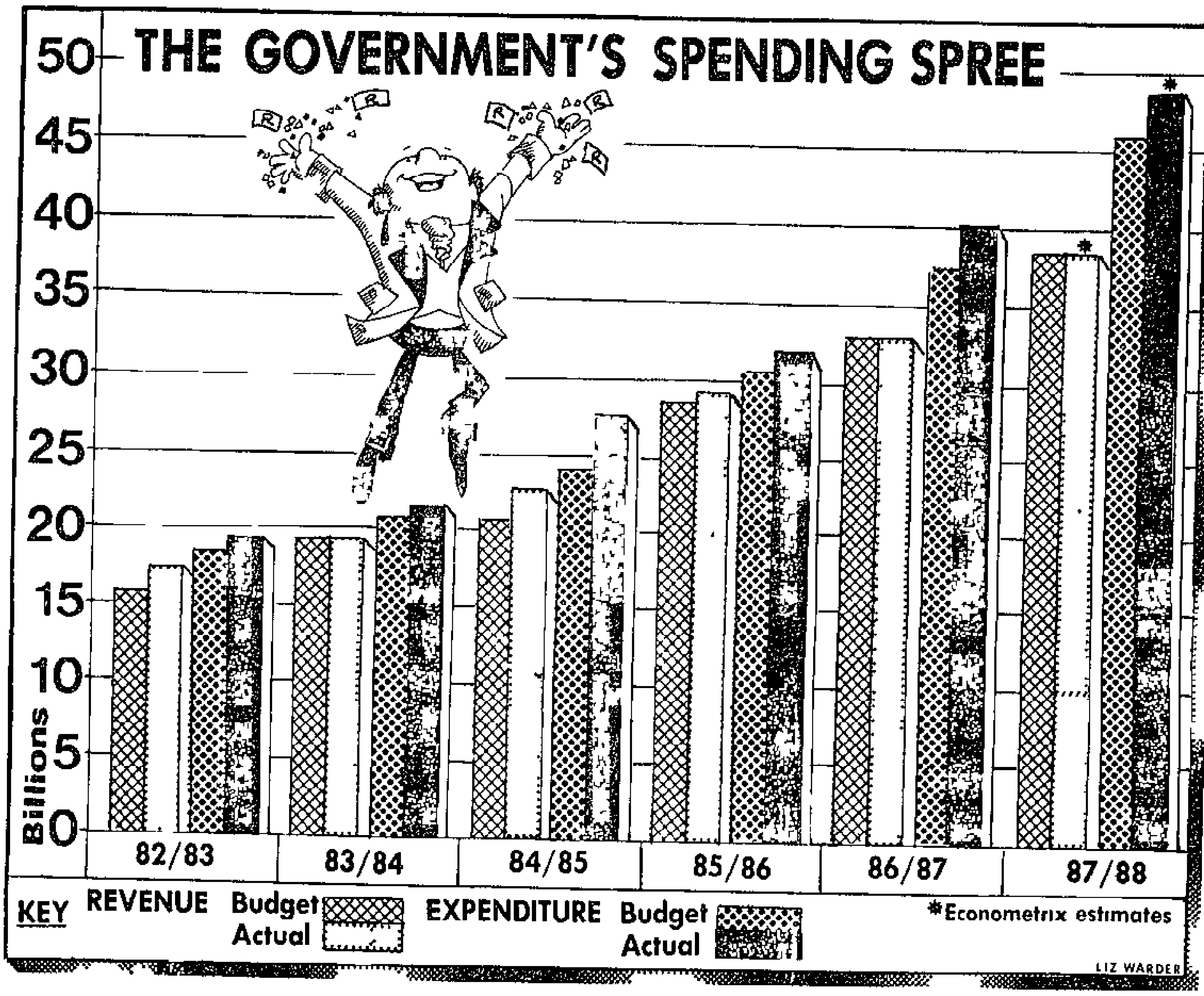
The anger of the private sector over Government profligacy is also reflected in the latest business review of the Association of Chambers of Commerce (Assocom)

It launches renewed attacks on the level of government spending and voices annoyance that the Margo Commission into Tax Reform was not accompanied by a Commission of Inquiry into State Expenditure

"Unless excessive government spending is curbed," says Assocom, "the hoped-for post-Margo dawn of a new era will never break"

More criticism comes from Mr Louis Geldenhuys, chief economist at stockbrokers George Huysamer and Partners, who criticises not only the excessive level of expenditure but also the unsound pattern of the distribution of spending

Mr Geldenhuys argues that weaknesses in monetary and fiscal policies must carry much of the blame for the inflation dilemma — especially the stop/go indecisiveness that switches from accelerator to brakes and punctures any confidence about the command that the Government exercises over strategies to deal with the South African economy.



"If one looks at economic history around the world," says the Econometrix study, "one sees that in nearly all instances where inflation has gone into three or even four digits, the underlying cause has been persistent over-spending by the State sector

"In South Africa, in particular, this threat is ever present because of a socio-political environment which requires that government keeps spending large amounts on defence and security — and social upliftment of the black population

"The sad part of such special brackets of expenditure is that the direct stimulatory effect on the rest of the economy is muted, especially expenditure on defence, where broader multiplier effects are limited

"What is particularly disturbing about Government expenditure in recent years is not only the rapid pace at which it has been increasing but that it has also continuously overshot budget estimates

"In the shorter term, such deficits and spending overruns need not be disastrous in themselves, but if they continue year after year at such high levels they stand to lead the economy either into recession or hyper-inflation"

Thus far, says Dr Jammine, the Government has leaned principally on tax increases — relying on inflation to generate more and more revenue via the fiscal drag phenomenon that pushes everyone into higher and higher marginal tax the harder they strive to keep incomes abreast of prices

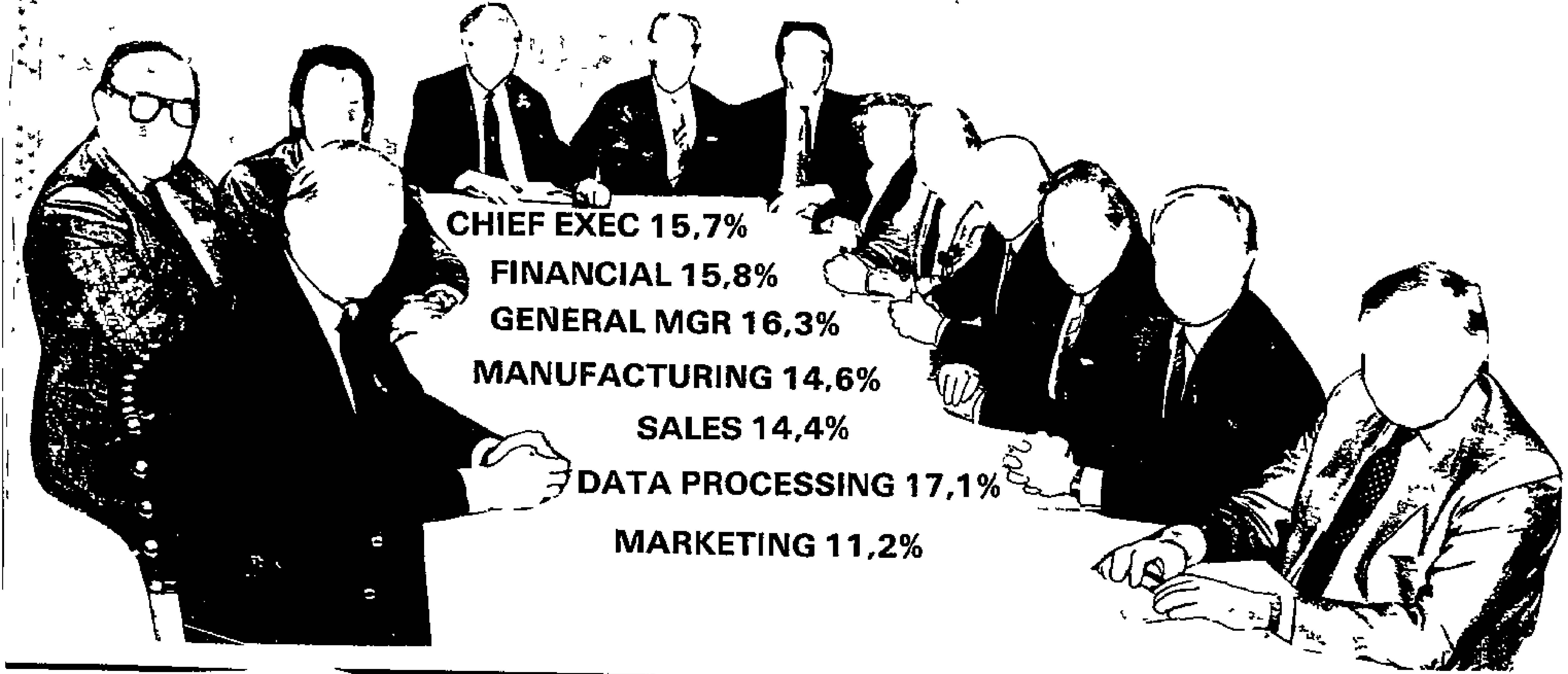
One of the solutions, argues Dr Jammine, is the launch of an energetic privatisation programme to sell various State-owned assets to the private sector and use the cash to finance remaining government activities

"Without privatisation, and unable to rely indefinitely on ever increasing taxation and borrowings to finance expenditure, the Government will eventually be forced into printing money

"Once Government resorts to the printing press in a big way, however, it faces hyper-inflation This is the real ultimate danger in the South African economy, because the hangover which follows any attempt to eliminate hyper-inflation can be devastating both socially and economically"

153 STAR 19/10/87

Executive salaries not keeping up with inflation rate



By Michael Chester

The average basic salary increases awarded to company executives over the past 12 months have fallen short of the inflation rate for the fourth year running — but at least the gap has shrunk.

An annual survey by PE Corporate Services shows that the salaries of bosses in the executive suite have been hoisted by 14,5 percent compared with the 16,3 percent climb in the consumer price.

Perks that were added to improve their full remuneration packages managed to lift the increase of average value of their pay scales to 15,8 percent, better than the overall 13,7 percent raises they had in 1985/86 yet still behind the inflation rate

The chronic shortage of

skills in specialist jobs was reflected in the fact that data processing executives topped the league table of pay package increases with a 17,1 percent jump

They were followed by personnel executives, now enjoying far higher status in corporate hierarchies as they fill key roles in handling delicate labour relations affairs Their pay packages rose by 16,6 percent

Pay and perks went up 16,3 percent for general managers, 15,8 percent for financial executives, 15,7 percent for chief executives and 14,6 percent for the heads of manufacturing divisions

Falling below the average line, came increases of 14,4 percent for sales executives, down to 11,2 percent for marketing executives

Also towards the tail end of the pecking order in salary reviews came technical/research executives, with increases of only 11,9 percent

PE Corporate Services predicts that bigger pay packets will be given to these executives as political isolation and sanctions swing priorities back to technological advances

Inflation rate of 15% predicted for 1988

(52) Evening Post 21/10/87

By KEITH ROSS

EAST LONDON — An average inflation rate of about 15% was today predicted for South Africa next year by Professor A J M de Vries, of the Business School of the University of Stellenbosch.

Professor de Vries made his prediction in East London when addressing the Congress of the Association of Chambers of Commerce.

He said that with the rand remaining fairly stable throughout the forecast period, the price of imported goods should remain fairly static.

"This together with a better utilisation of productive capacity should put a break on the rate of price increases," he said.

"Against this, the private sector will try to recoup some of its losses.

"The biggest single influence on the outlook for inflation in 1988 will be the action of labour. It has been argued that labour too, will try to recoup.

"In all, the inflation rate should decelerate further from its present levels but the average for 1988 will probably still be about 15% which will again be appreciably higher than that of South Africa's major trading partners.

"Eventually this must put downward pressure on the rand exchange rate or exports will be priced out of the market.

"The expected further improvement in the overall growth rate should lead to some improvement in the unemployment situation but not to the extent that it will have a significant positive impact on domestic political tensions."

Earlier the congress heard an address read on behalf of Mr Owen Horwood, chairman of Nedbank.

Mr Horwood predicted a growth rate of about 2% for South Africa this year and next.

See Page 7

21/10/88

Inflation down

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JOHANNESBURG — Consumer price inflation for the year to September dropped to 15,5 per cent from last month's 16,3 per cent, but high food prices continue to exert inflationary pressure.

The current drop in inflation is largely the result of the relatively stronger rand, which, economists say, may be a spent force

Last year, the weak rand caused significant increases in the inflation rate, so that the base from which price increases are measured is high

Thus the lower rate this year can be seen as a "technical correction" — and not necessarily a sign that inflationary forces have abated

Food prices rose by 2,2 per cent between August and September — DDC

LOW POINT FOR INFLATION?

Hitting its lowest rate of increase since March 1985, the September inflation rate dropped to 15,5% from August's 16,3% The consumer price index (CPI) for all income groups now stands at 236,7, a monthly increase of 1,3% compared to August's 1,4%.

The main reason for the fall is statistical, given that last September's increase was a steep 1,9%.

However, this was the last of 1986's large monthly price rises, so again for statistical reasons this month could see a reversal of the downward trend

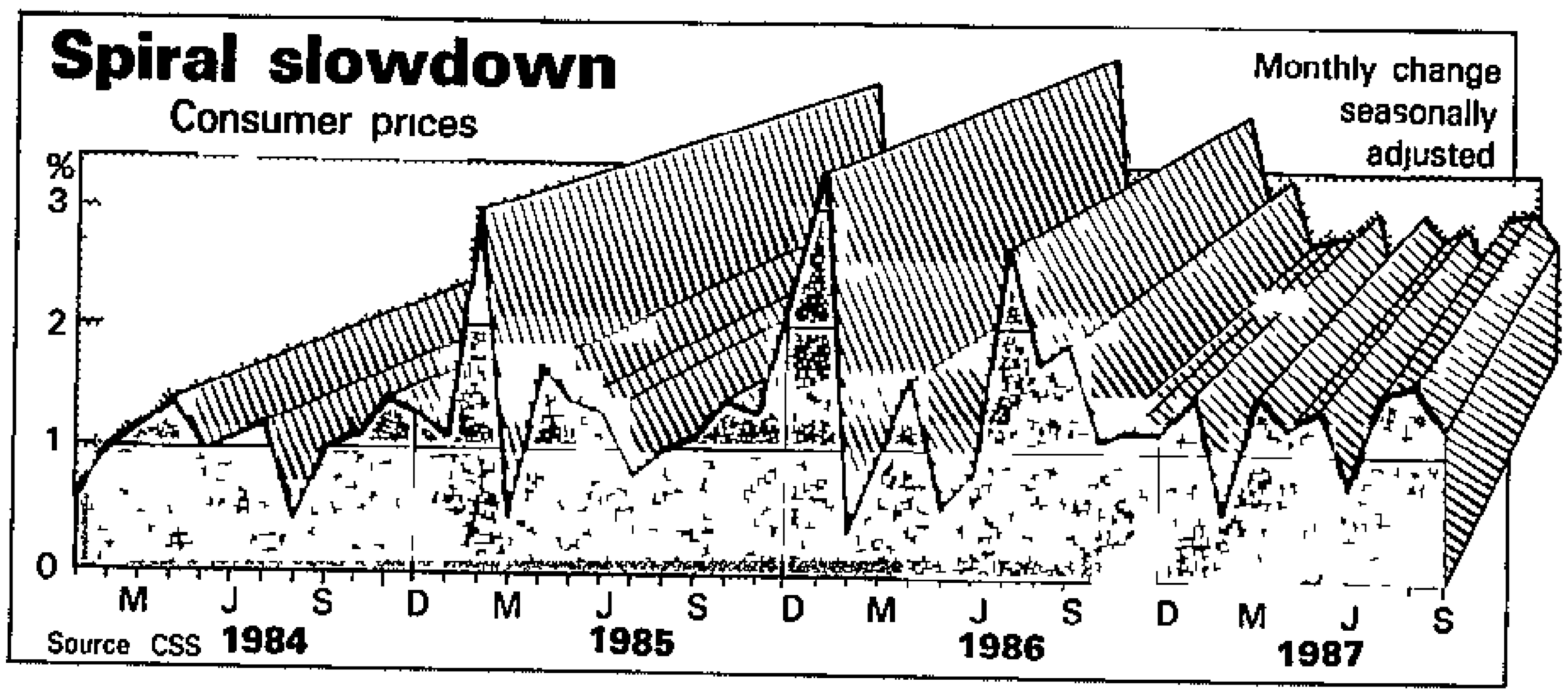
October 1986, for instance, saw a 1,1% rise, which is likely to be exceeded this October, thanks largely to a 10% rise in meat prices — which alone will add almost 1% to the inflation rate. Certain rail tariff increases and higher bread prices could add to renewed upward pressure

Last November and December saw rises of 1,3% and 1% which will not be easy to beat this year. So inflation could well exceed 16% again by year-end.

Again, food is the major contributor to the monthly jump The 13,4% vegetable price increase contributed 0,5% towards the 1,3% overall rise. Tomatoes (49,1%), potatoes (19,5%), and onions (16,7%) were the main causes. Milk, milk products and eggs, fruit; clothing; housing; and personal care, all contributed 0,1% to the overall increase and furniture 0,2%.

Overall, food rose 2,2% over September, which means it has risen by 22,8% over the past year with the food only index hitting 286,9.

More disturbingly, the rising cost of food shows little sign of abating. Central Statistical Service notes that this 2,2% monthly rate of increase in food is the highest since April and the third time this year that it has exceeded 2%.



FM 23/10/87

Perks become more popular

Executive pay loses to inflation

CAPE TIMES 23/10/87

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Financial Staff

EXECUTIVE salary increases still lag behind the annual inflation rate of 15,5% — although the gap is less than last year — according to the bi-annual survey by PE Corporate Services remuneration division

This shows that the average basic salary increase for all executives has been 14,5% But the gap has been partly off-set by fringe benefits, which have become more popular in spite of legislation meant to phase them out

Benefits

The survey points out that this reflects "the current concern with improving the after-tax effectiveness of top executive packages through the introduction of non-cash benefits"

"This trend — which took off in 1984 — underlines the fact that better perks are still preferable to cash increases

"The fringe benefits legislation has further strengthened this trend, instead of phasing it out, because the defined values on benefits are still lower than their true value To be taxed on perks is still preferable to being taxed at cash source"

Executives with scarce skills have done better than others And the increasing importance of industrial relations is shown by the fact that personnel officers are among those who have received the largest increases while marketing executives, who, in the past, were among the best rewarded, have done less well

The average increases for data processors were 15,6%, and those for personnel executives, financial executives and chief executives 15,3%

Naomi Brehm, who heads the salary survey team, says these figures underline the fact that the economy has not yet fully recovered from the recession

Recognized

"It is interesting to note that for the first time personnel executives are coming into their own. They are finally being recognized in the job market as performing a valuable service

"Such positions are now being taken by tough-talking, highly qualified people with specialist skills in industrial relations, wage negotiations and manpower planning — their brief being the optimization of the organization's people to meet its strategic objectives

"Decreased productivity or wildcat strike action can make or break an industry, especially in a sanctions-ridden and racially torn SA"

Executive general managers and manufacturing executives have received average increases of 14,9%

Those lagging behind were administrative executives with 9%, marketing executives with 9,4% and assistant chief executives with 9,6%

PUTCO FARES GO UP

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Sowetan 5/11/87

14% rise from December 14

PUTCO is to increase its fares on all its routes in the Transvaal by an average 14 percent from December 14.

By NAT DISEKO

In a statement yesterday, the bus company said the increase was to have come into effect on November 2 but that the date had been shifted because time was needed for administrative procedures.

Putco applied to the Department of Transport in March for fares increases and the department has now approved the application.

A spokesman for Putco said the increases would affect all bus routes in the Transvaal and the details about the fares hike would be announced at the end of the month.

Yesterday, Mr Simon Hanyane, a member of the Sats Consultative Committee, said Putco should not only care about its self-interests but should also care about the welfare of the commuters.

The Sats Consultative Committee is a body made up of delegates from municipalities, trade unions, business organisations and other parties including Putco. They make recommendations to the railways authorities.

Mrs ELLEN Khuzwayo

Mr Hanyane also said: "The weekly tickets must be valid for the whole week because there are people who work on Sundays.

"Putco's monthly tickets should also be valid on Sundays because they are valid on holidays. Railway tickets are valid to Sunday."

Reacting to Putco's announcement, president of the Black Consumer Union, Mrs Ellen Khuzwayo, asked how a caring company could raise fares when its commuters were battling with bread and butter issues.

She said Putco's increase of fares should be viewed against:

- The escalating cost of living and inflation,
- The stagnant wages of the majority of black workers who commute on these buses,
- The alarming unemployment figures in the black community ...

Putco fare hike under fire

Sowetan 6/11/87

PUTCO's intention to increase bus fares by 14 percent from December 14, could create "an explosive situation" and might result in boycott action, the Black Consumer Union said yesterday.

The union's executive director, Eldridge Mathebula, said the increase, which has reportedly been "approved" by the National Transport Commission, was not justified and "way overboard"

He said the BCU would fight the increase.

"If Putco goes ahead (with the increase), we will advise commuters to resist.

Inflation

"Putco is Government subsidised, inflation is above 16 percent and black salaries remain stagnant there is just no way the consumer is going to absorb this increase "

He said Putco had gone ahead with the increase without consulting either the Black Consumer Union or commuters

Boycott action in event of the increase "was a likelihood", said Mr Mathebula, "but should be avoided."

Commenting on the National Consumer Council's reported approval of the increase, Mr Mathebula said "They have approved it for themselves, the commuters have given no approval" — Sapa

Cape Times 12/11/87 (153)

Rise in personal incomes seen

By AUDREY D'ANGELO
Financial Editor

IMPROVEMENTS in real wages and salaries are expected to continue over the next 18 months, with personal disposable incomes rising by 23% in 1988, compared with an inflation rate of 17%, says the United Building Society's chief economist, Hans Falkema.

"Higher income levels will mainly result from successful trade union demands, the improved bargaining power of skilled staff owing to the massive emigration of highly qualified persons, and politically-induced wage increases," he writes in the UBS Economic Monitor.

As a result, he thinks that by the end of this year consumers will have spent 13% more on durable goods than they did in 1986. And he expects spending on such goods to rise by a further 10% in 1988

But he expects high unemployment to continue throughout the year.

"Although the government will continue its special training and job creation programmes during the foreseeable future, we do not foresee this will have any material impact on South Africa's job situation over the next 18 months."

He thinks the country will "remain burdened by several structural employment problems".

These include high population growth, large numbers of illegal job seekers from neighbouring states, accelerating black urbanization, disruptions in the black educational system and emigration of skilled staff, which will make it harder for firms to expand.

"As long as the money supply (M3) is growing well below the top range of the money supply target of 18%, no increase in short-term interest rates must be expected , which to us seems unlikely until the second quarter of 1988.

"At that point in time credit demand may start to rise more meaningfully, supported by factors such as reduced grey market activity — and thus a lower income velocity of money — and a declining surplus on the current account.

"Real economic growth will remain the primary determinant of monetary policy over the forecast period.

"Working on an average economic growth rate of some 2,5% for the next 12 months, we foresee the bank rate rising by only some 2% to 3% to about 12% during 1988, leaving it at roughly minus 6% in real terms."

"Underlying our forecast is the expected acceleration in inflation, the possibility of higher funding requirements by the government sector in the 1988-89 fiscal year" and the pick-up in short term rates expected later in the year

20/11/87 (153) B(day)

BUSINESS DAY,

'Direct control steps unlikely to halt inflation'

HELENA PATTEN

DIRECT control measures to combat inflation, such as wage and price controls, were not usually capable of being applied successfully, the State President's Economic Advisory Council said in a report today.

Its Proposed Plan of Action for Combating Inflation said unavoidable cost increases must necessarily be allowed, because it was virtually impossible in practice to distinguish between avoidable and unavoidable cost increases.

"If rigid regulations, aimed at forcing down the rate of inflation are adhered to, this will lead to a misallocation of production factors — not only to the disadvantage of economic growth and employment, but it will also give rise to the building up of inflationary pressure."

The report says in SA's relatively small economy attempts to force down inflation could well hamper the efficient operation of the market and price mechanisms and reduce the number of parties involved in the market.

Another argument that applying measures strictly and long enough will eventually force wage and price rigidities to yield as unemployment and bankruptcies increase, is only worth considering when there is reasonable certainty that unemployment will not assume unmanageable proportions in the process.

Inflation is 'feeding on itself'

INFLATION is largely institutionalised in SA, feeding on itself as a result of expectations based on experience.

So says the report released today by the State President's Economic Advisory Council on a proposed plan of action to combat inflation

The report says there is a "ripple effect of specific wage, salary and price increases".

Price increases in one sector of the economy lead to price increases in other sectors of the economy. The same interaction seems to take place between wage and price rises.

Curb spending urges report on inflation

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DD.

20/11/87

Daily Dispatch Correspondent

JOHANNESBURG — The government has been urged to impose strict discipline on its spending to fight South Africa's high rate of inflation.

A report by the State President's Economic Advisory Council, commissioned by President P W Botha before the May general election to recommend action to reduce inflation, was released today

It says

- State departments should be held to their budgets and overspending should be financed by reductions in other programmes
- Growth in public spending should be curbed in the longer term This could be done by establishing spending guidelines set by the State President's Committee on National Priorities and the cabinet
- Cuts by the government should focus on current spending, mainly on wages and salaries, rather than capital spending This can only be achieved by imposing restraint on manpower increases
- The government should finance its spending in a non-inflationary manner, that is, without the creation of money

The document has been [illegible] as the government's departmental budgets are being discussed and should strenghthen the hand of Treasury to keep increases to a minimum

It urges that a balance be struck between monetary and fiscal discipline Monetary measures should not be relied on alone

"The maintenance of monetary and fiscal discipline with a view to keeping a balance between the demand and supply of goods and services, and to avoiding conditions of surplus demand should, therefore, form the corner-stone of any anti-inlation policy strategy"

Further increases in the tax burden should be avoided "at all costs" and the aim should be to relieve the tax burden as far as possible

The government should limit increases in administered prices and its remuneration policies should be modelled more on market principles

The report rejected more direct control measures to fight inflation such as a wage and price freeze or incomes policy

"Experience has shown that such measures are hardly able to be applied successfully in order to force down the rate of inflation," it said

Other measures to fight inflation recommended by the report include

- Implementing the government's deregulation and privatisation programmes
- Applying the new policy directions of the Competition Board to promote competition
- Promoting the informal and small business sectors
- Encouraging competition in the labour market

CAPE TIMES 20/11/87

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Drastic moves urged to fight SA's inflation

PRETORIA. — South Africa's potentially "explosive" inflation rate could be slashed by half within three years to 9% if far-reaching and sometimes drastic measures recommended in a blueprint "inflation combat plan" are accepted and implemented "without fear or favour" by the government.

The recommendations, with an analysis of the cause and effect of inflation, have been compiled by the Economic Advisory Council of the State President.

The State President's office yesterday said the government had noted the report's contents, and found that it had implications, directly or indirectly, for every facet of South African society.

The EAC has urged government to impose strict discipline on its spending to combat SA's high rate of inflation. It says:

- State departments should be held to their budgets and that overspending should be financed by reductions in other programmes;
- Cuts by government should focus on current spending, mainly on wages and salaries, rather than capital spending. This can be achieved only by imposing restraint on manpower increases.

It urges a balance be struck between monetary and fiscal discipline.

Further increases in the tax burden should be avoided "at all costs" and the aim should be to relieve the tax burden as far as possible.

Other measures to fight inflation recommended by the report include:

- Implementing government's deregulation and privatization programmes;
- Promoting the informal and small business sectors;
- Encouraing competition in the labour market;
- Avoiding linking wages, salaries and prices to the official consumer price index.

The report was presented to government in September and has now been made available for public comment which will be examined by a working group under the Director General of Finance, Mr Chris Stals. — Sapa and Own Correspondent

● Guidelines to fight inflation — Page 8

Year of growth for industries in the Border

19/11/87

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by Matthew Moonieya
Business Editor

EAST LONDON — It was a year of great development for industry in the Border, it was revealed here last night.

The results of an economic survey by the Border Chamber of Industries were released in the presidential report at the sixth annual meeting last night by Mr John Rich and showed an upturn in several sectors in 1987

- Escom electricity demand up 10 per cent.
- Textiles up 10 per cent.
- White goods, printing and packaging up five per cent.
- Furniture up 20 per cent
- Electronics and certain engineering operations up 25 per cent
- Steel sales from Iscor's Berlin depot up nearly 50 per cent.

Mr Rich said unfortunately certain industries had remained static.

"These include chemicals and pharmaceuticals as well as the building trade which always lags in economic activity," Mr Rich said "The only sour notes are the well publicised strike at our local motor industry and harbour industry that is down a further 25 per cent year on year."

He said a more interesting trend according to the survey was that Border beer drinkers had increased consumption at the expense of wine drinkers

"The net result is that there has been an increase in overall employment within existing industries and that is encouraging for all of us," Mr Rich said

Other points made in Mr Rich's address were

- An urgent appeal to the government to start with the construction of the proposed new black town in East London to accommodate 150 000 people.
- Concern by the chamber that the Mosgas project would draw artisans away from industry here to Port Elizabeth
- A call on the East London City Council to remove its perceived internal political division and get on with the job of running the city.
- A warning that "unrealistic" wage demands by unions were landing industrialists in a Catch 22 situation of fuelling inflation or cutting down on job creation

More reports page 9

Bold plan to slash inflation to 9% by 1990

20/11/87

The Argus Correspondent

PRETORIA. — A plan of action to slash inflation to nine percent by 1990 has been proposed by the State President's Economic Advisory Council

The council emphasised that inflation could not be solved overnight and envisaged cutting South Africa's inflation rate by 2,1 percent to 14 percent next year and by 2,5 percent in each of the next two years.

It said it was possible to reduce the rate of inflation gradually to more-acceptable levels by means of "a cohesive package of policy measures, as well as the will and the ability to apply the relevant measures in a continuous, consistent and purposeful manner without fear or favour"

The council says the rate of inflation could be systematically reduced through the consistent implementation of their recommended measures and said the Government should set clear and quantified objectives to combat inflation for the current and ensuing year.

TWO PROVISOS

The council had two provisos for the success of the plan of action

These were that factors beyond the country's control did not again cause the prices of imported goods to rise sharply and that it was ensured that the prices, wages and salaries determined by the public sector increased at lower rates

It totally rejected wage and price control, stating that experience had shown that "such measures are hardly able to be applied successfully to force down the rate of inflation"

Recommendations focus largely on combating inflation through monetary and fiscal discipline and implementing measures to promote the improved operation of the market and price mechanism.

Among the recommendations are:

- Ensuring that State departments adhere to their budgets and authorisations to exceed budgeted expenditure be financed by concomitant reductions in other programmes,
- Endeavouring to finance Government spending in a non-inflationary manner by not financing it by merely creating money, and,
- Avoiding at all costs further increases in the tax burden and aim to relieve the tax burden

To promote the improved operation of the market, the council recommendations included

- Implementing comprehensive short and long-term economic policy strategies recently accepted by the Government and aimed at promoting economic growth and employment,
- Implementing the deregulation programme of the Government, the continued and further implementation of affordable building norms for the entire public sector, determining minimum norms and standards in the building, construction and other industries by revising existing specifications, and, revising the standards applicable to Government services to allow for what the country could afford

Inflation of 9% 'is ambitious'

(153) BDay GRETA STEYN 23/11/87

THE target of 9% inflation by 1990 set by the Economic Advisory Council is ambitious — but not impossible, Rand Merchant Bank economist Rudolf Gouws said at the weekend

Gouws said this goal would be attained only if the authorities followed consistently conservative monetary and fiscal policies. "It is implicit in the report that the monetary and fiscal policies of the past were the major contributions to the high inflation rate."

In his view, many of the recommendations in the report, while positively affecting growth, would not necessarily have a substantial effect on the inflation rate if they were not coupled with conservative monetary and fiscal policies.

Gouws was especially pleased that the report dispelled fears of direct government intervention to curb inflation in the form of a formal prices and incomes policy.

Stellenbosch economics professor Sampie Terreblanche, though welcoming the intention to reduce inflation, said it was "highly unlikely" the 9% target would be achieved within three years, given the "chronic stagnation in the SA economy"

Terreblanche notes the per capita income of South Africans has decreased by almost 1% in real terms every year since 1974 "How will we succeed in curbing inflation against this backdrop?"

Assocom, reacting to the EAC's report, said issues such as government spending, the burden of taxation, deregulation and privatisation would require urgent attention.

Excessive govt spending major cause of inflation

(153) B/day 24/11/87

GERALD REILLY

THE Economic Advisory Council has fingered excessive State spending as a major cause of inflation

Wages and salaries paid to the tens of thousands of public sector workers are part of the problem.

And Central Statistical Services figures highlight the enormous costs of a still expanding bureaucracy.

They show that this financial year nearly R15bn will be paid to 1 008 224 workers in central government, provincial administations, Sats and the Post Office, when the July 12% pay hikes are taken into account.

This is 3% more than were employed at the end of last year.

When the executive institutions for general and own affairs, the civil services of the self-governing states, local authorities, parastatal institutions, universities and technikons, control boards and public corporations are added, the total employed is 1 626 455

At the end of June, government and the provinces employed 712 224, 5,2 percent more than the number employed at the end of 1986

Total salaries and wages paid to these workers amounted to R2 589-million for the second quarter.

This is 19% more than paid in the second quarter of 1986, and 17,4% more than for the last quarter of 1986.

Total wages paid to whites have increased by 16,6% since the second quarter of 1986

'Adequate staff needed'

B|Day 24|11|87 (153) B|Day

GERALD REILLY

PRETORIA — SA's inflation problem could not be solved by cutting back on public servants' pay and numbers.

This is the reaction of the Public Servants Association (PSA) to the Economic Advisory Council's finding that State spending was a root cause of inflation.

The EAC said cuts by government should focus on current spending — mainly on salaries and wages — rather than capital spending.

This could only be achieved by imposing manpower restraints.

PSA GM Hans Olivier said SA had a complex political system which had to be serviced, and this demanded an adequate staff complement

A majority of voters and taxpayers voted for a tricameral system of government "and they must be prepared to pay for it" Olivier said the PSA kept clear of politics, but it was not public servants who were responsible for an expanding public service.

"We don't prescribe the system," Olivier said

And he stressed that to ensure quality of service, government workers had to be paid salaries compatible with the private sector

Efforts had recently been made to close the gap between private and public sector earnings — but the gap remained a wide one in many areas.

Olivier said the Commission for Administration had launched a staff shrinking programme about two years ago

In some departments, staff complements had been cut by as much as 50%.

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NEWS FOCUS

Inflation set to stay high

GRETA STEYN

ECONOMISTS paint a mildly encouraging picture for next year, with real growth at more than 2% and the JSE slump not causing too many problems. But inflation is expected to stay high, while interest rates remain negative in real terms.

Nedbank economist Edward Osborne forecasts growth for next year at 2,1%, with perhaps a percentage point less as a result of the JSE crash.

"There is no strong reason to expect that growth will be affected significantly by the crash," Osborne says He also does not foresee a serious recession developing internationally "We are light years away from the Thirties," he said

In his view, inflation will remain high — in the range 16,5% to 17,5%

Osborne is sceptical that the Economic Advisory Council report on inflation will have any effect on the inflation spiral "There is nothing in the EAC report which will put a damper on the inflation rate," he says.

Factors he believes could fuel inflation include, a weaker rand, strong trade union action and companies' desire to maintain high levels of profit

Pressure

Frankel Kruger's Gillian Raine sees inflation increasing to 17% next year — above this year's expected 16,6%. Raine notes that money supply growth is accelerating and, if government funds its deficit with bank credit, there should be upward pressure on the inflation rate In addition, she expects a weak rand to fuel imported inflation

Along with higher inflation, Raine forecasts moderate growth of 2,5% In this scenario, she sees a narrowing trade surplus and tighter liquidity. In her view, the prime rate should be 14% at the end of next year "or even as high as 15%"

But TrustBank economist Ulrich Joubert sees prime rate dropping marginally in the first half of next year before the rate starts edging up in the second half. This would be the result of a still-sluggish upswing in the first six months of 1988, coupled with a strong trade surplus boosting liquidity

Mildly optimistic about inflation, he sees the rate declining moderately to average at about 14,5% to 15,5% next year — based on the assumption that the exchange rate will remain stable and assuming a normal agricultural season.

Joubert, too, believes the JSE slump will not have a significant effect on the economy, despite a negative impact on sentiment. In his view, there will be little effect on consumer confidence, as the majority of consumers had not invested heavily in the JSE "It is the rich who have become less rich, not the man in the street who has suddenly become poor "

However, the international situation could affect SA through the balance of payments — but only if there is a world recession. "A world recession is not likely — we will probably only see a weakening of world growth."

Joubert sees real growth in the region of 2,5% to 3% next year. However, this outlook is based on the assumption that there will be a moderate increase in the gold price and, again, a normal agricultural season

Old Mutual's David Mohr, while stressing that he does not like to be tied to a specific figure, is quite bullish for growth next year. "The 3% we should have reached in 1987 we are likely to see next year," he said In this growth scenario he sees inflation at around the same level as in 1987.

Higher levels of economic activity should lead to increased imports and, consequently, a narrowing of the trade surplus and tighter liquidity Interest rates should then rise — but the difficult part is predicting when and by how much, Mohr says

In the wake of the JSE crash, interest rates should rise later rather than sooner, Mohr said

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SA house prices up about 11% on 1986

MICK COLLINS

DESPITE slack demand, house prices on average have risen by 11% during the third quarter of this year, compared with the same period in 1986

However, says the United Building Society (UBS) in its quarterly review, on a quarter-to-quarter basis there was virtually no price movement since the second quarter of 1987.

"The average price of a medium-sized house currently amounts to approximately R77 000

Smaller houses cost on average some R64 500 (up 12% on last year), while larger dwellings currently trade at about R107 000 (7% up on a year ago).

"The price differential between new and existing houses remains relatively large, which can mainly be attributed to the combined effect of relatively low demand for existing housing and the continuous increase in building costs — running at 16% a year, more or less in line with the general inflation rate"

As an example, the UBS gives the average price of a new house (medium-sized) at R88 800, while an existing house of the same size sells at about R75 600

"In all the regions average house prices were higher than a year ago, although on a quarter-to-quarter basis some regions experienced lower prices during the third quarter of the year."

These were Johannesburg (-5%), east Rand (-1%), Pretoria (-2%) and western Cape (-1%)

In contrast, noticeable increases were recorded in the Vaal Triangle (7%), Free State and northern Cape (9%), eastern Cape (8%) and the rest of Natal (6%) between the second and third quarters of 1987

Govt excesses set to boost inflation — Econometrix review

(153) 7/12/87

By Michael Chester

Government over-spending threatens to torpedo aims to curb inflation and to hamstring all ambitions to spur the economy into a crucial faster pace, a leading business think-tank's forecasts say.

Dr Azar Jammine, director of the Econometrix research unit, has warned that the annual rate of inflation looks set to surge into the danger zones of hyperinflation unless the Government changes course and slashes the size and cost of the swelling ranks of bureaucrats in the civil service

Econometrix fears the Government lacks the political will to pursue the recommendations of the State President's Economic Advisory Council about ways and means to tame inflation and reduce the prices spiral from around 16 percent to 9 percent inside the next three years — largely by more discipline over State spending

Instead, inflation looks likely to ease down to about 14 percent next year and then rocket upwards to 20 percent and higher by 1990 because of relentless trends in excessive government expenditure on bureaucracy

Dr Jammine believes the tell-tale signs are embedded in key indicators showing that the economy already looks unable to sustain the momentum of growth that emerged a year ago and appears incapable of growing any faster than a relatively feeble 2,5 percent a year, not even keeping pace with the population explosion.

"The primary reason why growth cannot accelerate would appear to be the manner in which the inexorable rise in government expenditure is bleeding the economy of scarce resources which could have been employed more profitably in the private sector," he writes in a year-end review.

Still heavier taxation — camouflaged by inflation and its impact on fiscal drag pushing everyone into higher tax brackets — looks inevitable to finance government excesses.

It is the high rate of State expenditure, "particularly on salaries and wages of public servants," that threatens the outlook for next year and beyond

While State expenditure roars ahead, the level of fixed investment has been in a dangerous non-stop decline since 1981 as a result of failure by the Government to match fixed investment by the private sector, says Dr Jammine in his review.

Tackling inflation in SA is a thorny issue

By AN ECONOMIST

IN the fifteen years to 1970, South Africa's consumer price inflation rate was a cumulative 12% lower than the rates of the major industrial countries in the OECD In the decade to 1980, it was a cumulative 20% higher In 1980, it was approximately the same as theirs, but by 1986 it was much higher

The burden of higher prices has tended to fall more heavily on the lower groups due to a higher proportion of their income being spent on food, transport and housing, which are all major components of consumer price inflation

Prices

Food prices increased at an annualised rate of 20,3% during 1986 In May this year it peaked at 25% and has since fallen back marginally to 22,8%. The chief contributors to the rise in the price of food have been red meat, fresh vegetables and fruit

The imported component of inflation has also played a major role in pushing prices upwards This is particularly noticeable when contrasted with the declining dollar/rand exchange rate since mid-1984 when the rand's average value was around $,69 The rand's average for 1985 was $,45 In 1986 the average had declined to $,44.

The effect of the depreciating rand was to cut back on the more expensive dollar dominated imports This development, together with a relatively stable but improved dollar/rand exchange rate during 1987, has contributed to the lower inflation we witness today

Inflation peaked during January 1986 when the annualised price increase was 20,7%. The latest figure out for consumer price inflation for October 1987 stands at 15,5%

Unfortunately, the lower inflation trend is not expected to persist well into 1988 The food component is unlikely to decline much further for the time being More importantly, though, we seem to be subtly entering a new phase of importer "cost push" pressure on prices

Steady

Since the end of 1986, until recently, the dollar/rand exchange rate held steady The dollar was kept in a very tight band against the major currencies As a result of this, the rand recouped some lost ground and averaged between 48 — 49 dollar cents until October 1987

Dollar imports became slightly cheaper and the rand held approximately steady against the Yen and Deutschemark. Since the international stock market collapse on October 19, a less certain environment has emerged

The dollar has been tracking downwards against all major currencies This has had the result of the rand breaking the $,50 level at the end of October and sustaining its gains.

The gains, however, are not all encompassing. Gains of the rand against the dollar do not compensate for the dollar's losses against third currencies This in effect means that the rand is beginning to lose substantial ground against the Deutschemark and the Yen

Approximately two thirds of South Africa's trade is denominated in non-dollar currencies This is expected to have an upward influence on prices as these imports are now relatively more expensive

Against the dollar, the rand has appreciated Imports on the dollar — leg will thus be cheaper The volume of US imports will probably increase due to the relatively higher rand value. this stepping up in import volumes itself may have an inflationary impact.

Decline

The oil price, which is now below the agreed upon $18 per barrel due to the 16,6 million barrels per day being overshot by some OPEC nations, may decline further unless OPEC gets its act together A lower oil price will tend to temper the imported component of inflation

Higher import prices have an indirect effect as well as the direct effect mentioned above A weakening of the rand encourages import-parity pricing as well as where local producers tend to put up their prices to levels equal, or almost equal, to their imported counterparts This further amplifies the upward impetus on prices and is thus inflationary

Higher wages also contribute to increasing prices Real wage increases will filter through into the economy and will constitute part of the "cost-push" inflation

The high wage demands by trade unions is likely to be a source of upward pressure on prices in the years to come

This contrasts greatly with the rate of increase in unit labour costs from 1983 to 1986 where the rise in wages was much lower than the rate of inflation Thus, excessive wage pressure cannot be advanced as a reason for the sharp acceleration of inflation over the past two to three years

A real GDP growth rate of 2% — 3% is anticipated for 1988 Closely associated with economic growth is the demand-pull inflation Increased demand for goods and services is likely to put upward pressure on prices In addition, when demand increases the need to import also increases

Inflation is caused by the large rise in Government spending particularly defence and security spending relative to the gross domestic product (GDP) in South Africa. The limited size of the economy and the existence of huge corporations and oligopolies tend to weaken price competition and thus any potential for prices to go lower

Tackling inflation in South Africa is a thorny issue, especially now, as the economy is battling to take off. The attitude of policy-makers in South Africa is growth-oriented Restimulation of the economy assumes more importance than fighting inflation

South Africa's monetary and fiscal policy is currently giving priority to encouraging economic growth and stability The managed exchange rate is thus a function of these end-goals, and therefore has to adjust itself and not the other way around.

The depreciation of the rand value of gold output, it kept the tax revenue from gold high and it protected the domestic manufacturing industry from imports

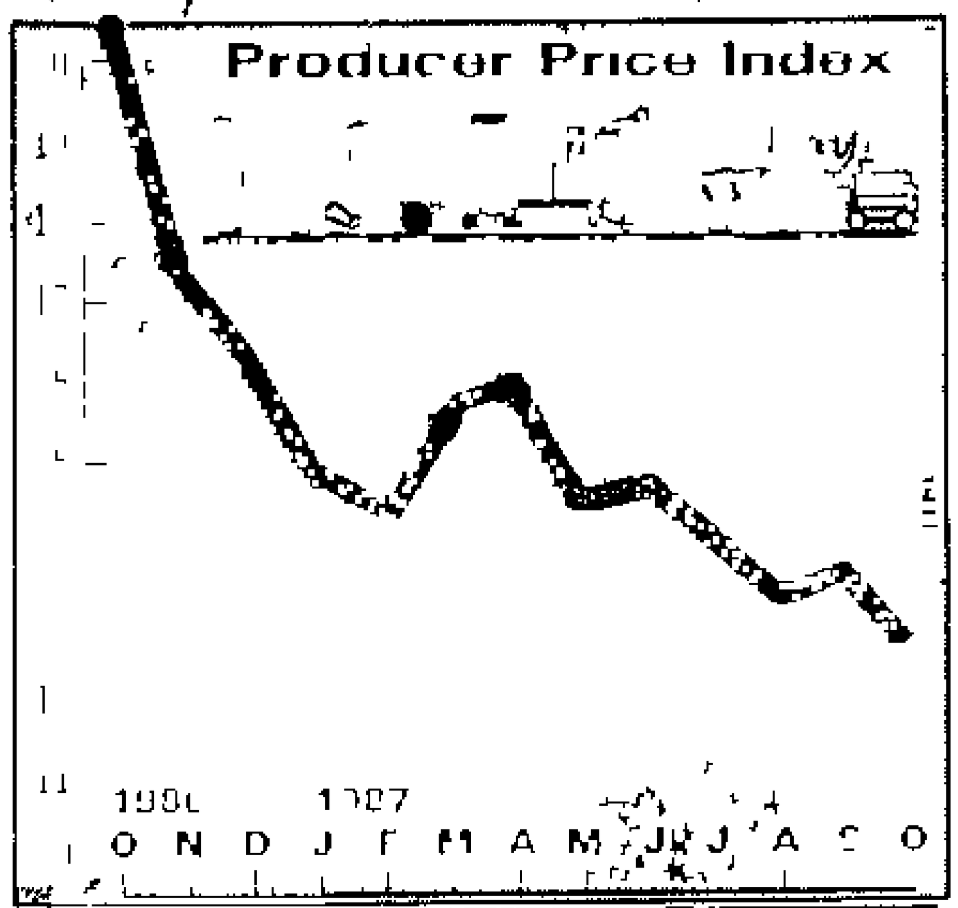
It is widely accepted that South Africa is presently close to seeing the bottoming out of inflation The hoped-for-boost in consumer spending (already in process in markets) may unlease demand pull pressures from what is already an unacceptably high cost base In addition, if trends in liquidity and credit demand materialise, market forces will tend to push inflation higher Unfortunately inflation is here to stay

Producer prices on the increase

GRETA STEYN

PRODUCER prices increased by more than 1% for the third successive month in October, indicating inflationary pressures could again be building up after a brief respite.

Central Statistical Services figures



show the producer price index (PPI) rose by 1,2% between October and September, after increases of 1% and 1,3% the previous two months. Thus the average for the past three months amounts to

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Inflation worry as producer prices rise 1%

From Page 1

1,2%, compared with an average of 0,6% for the previous three-month period.

October's figures show that domestic prices surged by 1,6% in October, compared with September. By contrast, imported inflation remained unchanged for the month, reflecting the stronger rand-dollar exchange rate.

But economists say the weakness of the rand against major currencies other than the dollar will start filtering through soon, which does not bode well for imported inflation.

Year-on-year producer price inflation fell to 12,7% in October, from 13,7% in September. But the decline is largely technical — the significant monthly increase of 2,2% between September and October last year fell away in the calculation of October's year rate.

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BUSINESS

(153) 12/12/87

Inflationary pressure up

JOHANNESBURG — Producer prices increased by over one per cent for the third successive month in October, indicating that inflationary pressures are again building up after a brief respite

Central Statistical Services figures show the producer price index (PPI) rose by 1,2 per cent between October and September, after increases of 1 per cent and 1,3 per cent the previous two months Thus the average for the past three months amounts to 1,2 per cent, compared with an average of 0,6 per cent for the previous three-month period

October's figures show that domestic prices surged by 1,6 per cent in October compared with September

By contrast, imported inflation remained unchanged for the month, reflecting the stronger rand-dollar exchange rate But economists say the weakness of the rand against major currencies other than the US dollar will start filtering through soon, which does not bode well for the imported inflation

Year-on-year producer price inflation fell to 12,7 per cent in October from 13,7 per cent in September But the decline is largely technical — the significant monthly increase of 2,2 per cent between September and October last year fell away in the calculation of October's year rate

Food-only index up 0,7%

Inflation rate drops to 15%

CT - Times 23/12/87

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By HELENA PATTEN

JOHANNESBURG — Inflation, as measured by the consumer price index (CPI), is continuing its downward run with figures for November showing year-on-year inflation at 15%, Central Statistical Services announced yesterday.

This compares with an inflation rate of 15,5% for both October and September, and is the lowest rate since January 1985 when the CPI increase was 13,9%

The apparently persistent decline in inflation in the latter months of this year, tends to confirm Reserve Bank governor Gerhard de Kock's comments at a recent international investment conference to the effect that SA had better prospects for lower inflation and higher growth in the coming year than did many other producers of primary products

The monthly rate of increase in inflation was 0,8% in November compared with a 1,1% rise in October, and competes only with June's 0,7% for the lowest monthly spot this year

The food-only index showed a monthly increase of 0,7% for November, but the year-on-year figure is still very high at 21,4%

Central statistics also shows the largest annual price increase occurred in the Pretoria, Verwoerdburg and Akasia areas — 16,1% — while the smallest annual price increase was in Bloemfontein, at 12,5%

● November's CPI is the first to be calculated on the new 1985 base, instead of the 1980 base CSS said the change might perplex users in interpreting trends

"It should be borne in mind this change is merely a change in the level of the indices and does not in any way affect trends

"Instead of comparing present price levels with average prices for 1980, which were equated to 100, they are now compared with average prices for 1985, also equated to 100"

OUTLOOK '88

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The fight against inflation goes on

SM 24/12/87

Rudolf Gouws, chief economist with the Rand Merchant Bank looks at inflation in our continuing series on what's in store next year.

Having fallen from nearly 21 percent in January 1986 to 15 percent in November 1987, the inflation rate will probably move in a fairly narrow band around this level in 1988

This rather unexciting (but fairly common) view is based on a variety of factors, which are summarised as follows.

- The improvement since 1986 of the rand's weighted average exchange rate has contributed markedly to the slowdown in inflation The rise and subsequent stability of the rand is not merely a flash in the pan, but reflects an important improvement that has occurred in the Balance of Payments

For most of next year, the state of the Balance of Payments should be such that the exchange rate should hold at least its present levels We should therefore continue to see very low rates of increase (and occasional decreases) in the average price of imports.

As has always been the case in the past, this should have an important restraining effect on domestic price rises International inflation should also remain low, while the renewed decline in oil prices will also help.

When, as I expect, the exchange rate starts declining late next yar, we shall again have to contend with some acceleration in import prices. While this should not be a sharp acceleration, it will pose a challenge to policy- makers to ensure this does not translate into generalised inflation in 1989.

- Two important clues to official thinking about inflation will be given early in the new year. One will be the Reserve Bank's announcement of its 1988 targets for money supply growth

Even if these are set only one percent lower than the 1987 targets of 14 to 18 percent (as I expect will be the case), they will reaffirm the authorities' intent slowly to wind down the rate of growth in the money supply

As there is bound to be upward pressure on the money supply in 1988, the authorities would then have to allow interest rates to rise, and I think they will be ready to do so

Some upward pressure on interest rates is likely to emanate from the Balance of Payments, on the one hand, and the growth in domestic demand for credit, on the other

Raymond Gouws, RMB's chief economist

Much of the reason for earlier rises in the South African inflation rate can be found in attempts to restrain interest rates from doing what they are supposed to do.

I am hopeful the authorities are sufficiently committed to long-term money supply targets so that earlier mistakes will not be repeated.

The second clue will be given by the official response to the report of the inflation subcommittee of the State President's Economic Advisory Council. Even if the targets of inflation suggested in the report (1988 14 percent, 1989 11,5 percent; 1990 9 percent) are not accepted explicitly, they will probably be accepted implicitly.

Acceptance will bring with it a commitment to conservative monetary and fiscal policies This will be crucial for two reasons. The first is that further wage pressures will be building up in the economy at large as the economic upswing continues in the new year, with potential inflationary side-effects

The second reason relates to the state of government finances There are warning signs in the figures for the first half of the present fiscal year, when about one fifth of the (rapidly growing) budget deficit was financed through the monetary banking sector

As the 1988/89 deficit will probably exceed R14 billion, there is a danger of this being funded in an inflationary way.

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Crash 'will affect inflation and growth'

LISE BOSMAN

THE recent global share correction has ramifications for worldwide inflation and growth, says Mendell, Jack Hyman, Rosenburg and Co in its latest report on the outlook for precious metals

The two principal factors influencing the prices of precious metals are inflationary expections in the Western world and the global level of economic activity. The price of gold is dominated by the need to hedge against inflation whereas platinum and diamond prices are more dependent on industrial demand

The report says there are three scenarios for the future after the global stock market crash

☐ A large-scale snowballing credit contraction and consequent severe recession, with people reluctant to borrow money for fear of being caught out a second time on the stock exchange,

☐ Prevention of a downturn in the US economy by the American government before the presidential elections, with people running up new credit;

☐ Co-ordination of global economic policies by using gold and a basket of commodities as early-warning indicators of inflation, thus reducing the volatility of movements in precious metal prices

The report says a substantial rise in the gold price will result in a tightening of monetary policy. A drop in the gold price would see a loosening of credit. It would, therefore, be unlikely that the gold price would rise astronomically for the rest of the decade, as it did in the seventies.

"All one can say conclusively is that there is a significant probability of the gold price and other precious metals continuing their bull trend in the year ahead."

The report says that movements in the gold price may provide a lead for either a period of inflation or deflation.

INFLATION - 1988

C TIMES. 4/1/88 (153)

Implied inflation rate can be influenced by 'new weights'

Own Correspondent

JOHANNESBURG — The implied inflation rate can be influenced to some extent by Central Statistical Services' (CSS) revision of the "weights" — or relative importance — of the items that make up the Consumer Price Index (CPI) basket, CSS says

To determine the influence of the new weights on the rate, CSS calculated the inflation rate for October 1987 using both the old and new weights, with 1985 as base year The "new" rate of 13,8% for October is significantly lower than the "old" rate of 15,6%.

This may prompt a response of "there are lies, damn lies — and statistics", but there is no sleight of hand to conjure up a lower inflation rate

CSS explains in a news release "The revision of the weights can influence the inflation rate to some extent, especially if the weight of an item changed relatively much while the trend in the price of that item at the same time differs from that of the other goods and services — as happened with mortgage bond rates"

An example the weight — or relative importance — of the item "housing" rose from 17,60 to 21,21, based on a survey of spending patterns in 1985 But mortgage rates have dropped significantly since 1985, so that the "price" of housing was down while other prices had risen in general At the same time, the item's relative importance to the inflation rate had increased from 17,60% to 21,21%

The weight of food in the index was revised downwards from 24,98 to 22,72, based on the 1985 survey The survey found, among others, that South Africans were spending less on food (2,4%), furniture and equipment (1,6%), clothing and footwear (1,5%), while more was being spent on housing (2,6%)

CSS intends undertaking a survey of SA spending patterns every five years in future to pin down accurate weights for CPI goods The last spending survey before 1985 was done in 1975 — clearly, the CPI basket was not an up-to-date reflection of consumer spending

The new-look CPI not only includes new weightings, but the base year was also changed from 1980 to 1985

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BUSINESS DAY, Monday, January 4 1988

Survey shows South Africans' spending habits

New 'weights' introduced for inflation calculation

GRETA STEYN

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The last spending survey before 1985 was done in 1975 — clearly the CPI basket was not an up-to-date reflection of consumer spending

The new-look CPI not only includes new weightings, but the base year was also changed from 1980 to 1985 The change in the base year, unlike the change in the weights, has no influence on the inflation rate.

CSS believes users interpreting trends could be perplexed by the change in the base period from 1980 to 1985. "It should, however, be borne in mind that this change is merely a change in the level of the indices and does not in any way affect trends," CSS says

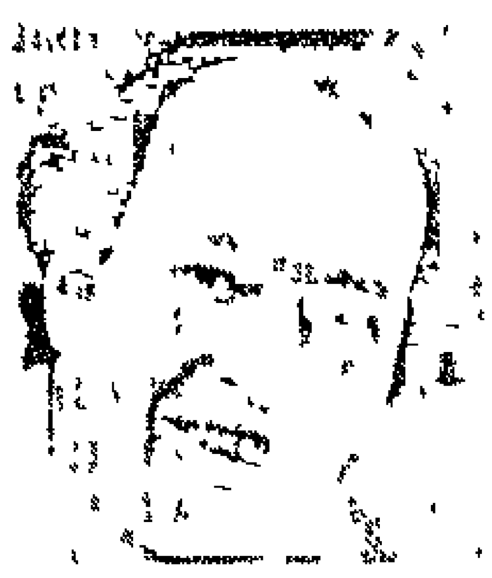
The monthly CPI figures have been re-calculated and published, using 1985 as base year, back to 1971 This was done because a percentage increase between two indices can only be calculated if the base year is the same for both.

It is important to note that the "old" weightings remain intact for historical indices — the "new" weightings are not applied to old figures because historical inflation rates cannot be allowed to change.

On interpreting the CPI, Unisa economics professor Philip Mohr said in an issue of the Securities Markets that, by itself, the CPI for a particular month contains very little information.

"A time series of index numbers does, however, contain useful information in an inflationary environment and this is frequently used, and abused, by eocnomists, politicians, employers, employees and consumers alike," Mohr said

Policy choices and inflation



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

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The best leading indicator for inflation in SA is the trend in import prices Import prices lead inflation in a consistent way, recent figures are no exception (see graph)

Inflation accelerated from the end of 1983 with the depreciation of the rand and increase in imported inflation The latter peaked towards the end of 1985 and inflation, as measured by CPI, then began to fall

In 1980-1981 food prices rose much faster than prices in general, as they have again recently, though they rose relatively slowly in 1985 I have calculated that in the period since August 1986, the exceptional increase in food prices has added between two to three percentage points to the inflation rate

But even subtracting this food price effect, inflation would still be very high

And unfortunately, 1986's decline in import price inflation has been reversed Import prices started increasing faster from early 1987 because the rand, while holding its own against the dollar, lost ground against our other major trading partners

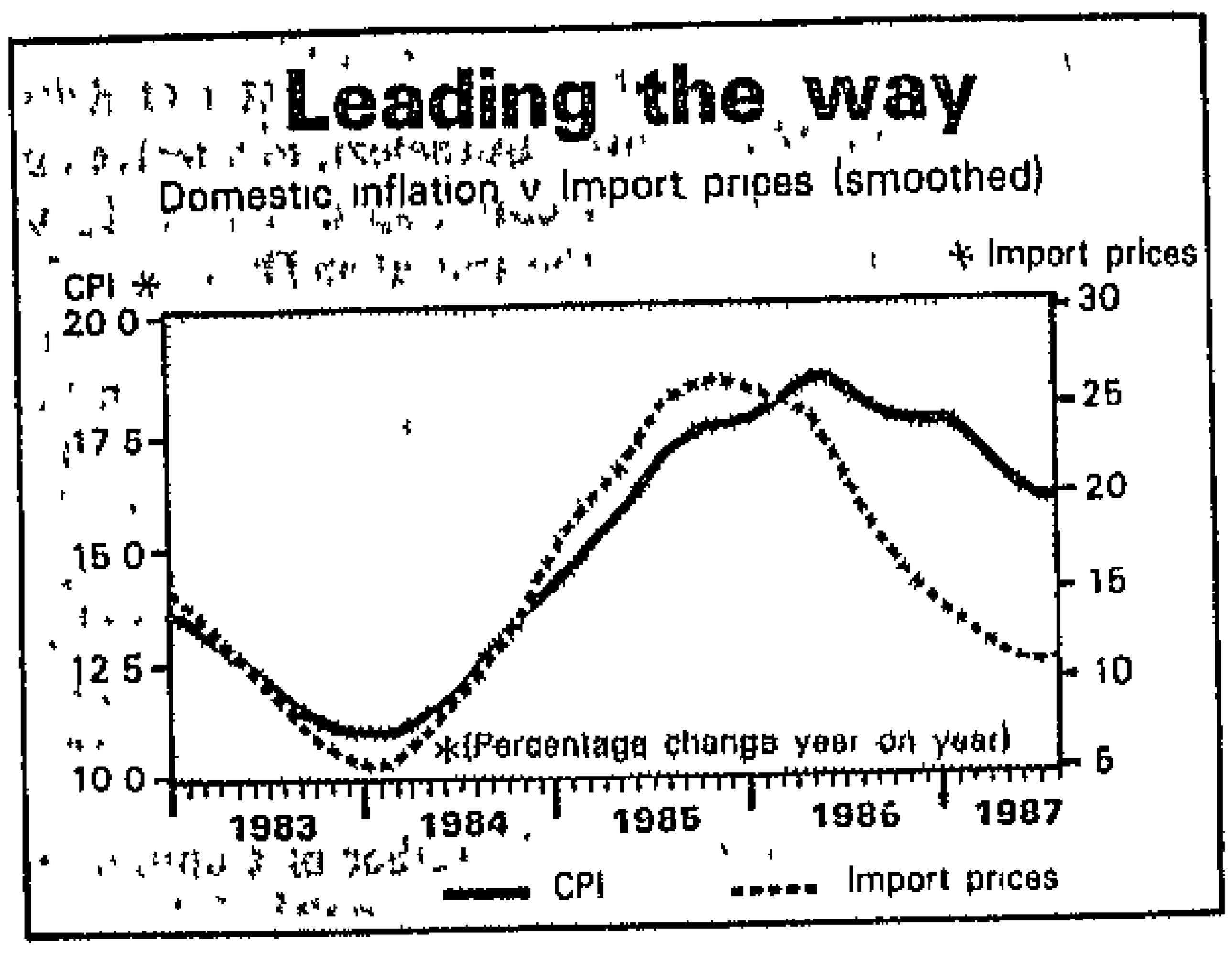
What was required to sustain the decline in imported inflation in 1987 was a higher, perhaps 10% higher, dollar/rand exchange rate But on a trade-weighted basis, the rand lost ground while the authorities accumulated dollars and gold The desire to increase foreign exchange reserves from very low levels and help exporters meant sacrificing the opportunity to reduce inflation

The price of gold in other currencies naturally performed much less strongly than in dollar and rand terms in 1987

The authorities in recent months have been stabilising the transactions-weighted value of the rand The US$ accounts for between 45%-50% of all transactions Thus for every one percentage point fall in the dollar against the strong currencies, the rand has only been allowed to appreciate by about half a percent against the US$

The official desire for increases in foreign exchange reserves and, perhaps of greater importance, sensitivity to gold mining and other exporters, is at the heart of persistently high South African inflation

The era of exchange rate flexibility has given an inflationary bias to economic policy When the gold price rises in dollars, the dollar/rand exchange rate lags, providing exporters of gold with higher rand receipts



The political advantages of a falling exchange rate are real — if temporary, because high inflation and thus higher costs of production catch up with higher receipts in the export or import replacement markets

The penalty of an appreciating exchange rate is also real and would also be temporary if inflation declined in response to a genuinely stronger rand However, producers simply carry more political weight than consumers

Very recent increases in the dollar price of gold and other commodities may herald faster dollar inflation Stagflation rather than deflation may be the prospect for the US It would suit SA even better if higher US inflation spread to the rest of the world

This would mean a higher price for gold in all currencies, not only in the weak ones But unless the higher price of gold were accompanied by a rand stronger against all currencies, inflation in SA will not fall

Should the Reserve Bank, as in the past, wish to accumulate dollar reserves and so hold back the appreciation of the rand, the real forces in SA's favour will be accompanied by rapid growth in money supply and domestic expenditure In turn, higher levels of domestic expenditure will bring much greater imports As in the past, even a sharply increased gold price may not avoid a deterioration in the balance of exports and imports — and, in turn, a weaker rand

In my simulations, it is impossible, on past behaviour, to escape the conclusion that economic recovery through 1988-1989 will bring a weaker dollar/rand exchange rate for 1989 Avoiding inflation would require genuine monetary stringency now

But for a number of good reasons officials will seek to avoid such stringency The uncertain effect of the stock market crash worldwide is one The difficulty in assessing the true state of our economy is another

Uncertainty about the price of gold and the value of the dollar remain a constant in their calculations Reducing inflation at the expense of economic growth, which would mean higher interest rates, would not be a popular choice Thus monetary growth will turn out to be too fast rather than too slow in the months to come and the rand will come to weaken rather than strengthen

In fairness, the choices between more or less inflation are not easy Probably the best that could be done to reduce the rate of inflation in the immediate future, given the unwillingness to tolerate a strong currency, would be to integrate domestic agriculture with world markets But such choices also do not come easily

It should, perhaps, be recognised that, given the likely policy choices, inflation may not come down though it will accelerate only if government expenditure comes to be financed by printing money

My judgment is that SA is not about to embark on such a disastrous course Policymakers are likely to remain fiscally conservative to a degree and the blame for inflation will continue to rest with exchange rate and monetary policies, rather than inflationary methods of financing government expenditure

Inflation — SA still on the rack

S/Times 10/1/88

(153)

HOPES that South Africa's embryo economic revival would be given new impetus this year by falling inflation are fading.

Although the President's Economic Advisory Council has set its sights on an inflation rate of 9% for 1990, there is little chance of much improvement this year

Reserve Bank Governor Gerhard de Kock's warning this week that fiscal discipline by the Government is imperative comes in the wake of increasingly pessimistic views on inflation

Key areas

Officials are still predicting that last year's hesitant falls in the inflation rate should continue, at least for the early part of this year, but cost pressures are mounting in key areas.

Manufacturers are warning that increases in basic input costs could result in sharp commodity price rises this year Eskom rates increased by 10% from January 1, and higher Sats tariffs are feared Increases in such basic costs have a multiplier effect on consumer prices

In the expectation of better times, manufacturers are also trying to return their profit margins to more normal levels, and wage increases in the light of greater tarde union militancy will also have to be covered

A factor re-emerging in the economy — stock shortages — could also have a profound effect on inflation in the months ahead Shortages have already occurred in consumer durables and the motor industry

The revival in the demand for credit has also led to forecasts that interest rates will move up again

Soaring food prices have been the

Business Times Reporters

driving force behind inflation, which has now been into double figures for more than a decade

The ordinary man has already been hit this year Meat prices, which contribute 7,7% to the overall consumer price index, have increased by 30,2% in the year from November 1986 Super beef, which was selling at a wholesale R4,86 a kilogram before Christmas, now costs about R5,20 That is not the end of the meat spiral, either

Vegetable prices have also increased sharply and a sugar price rise of 11,5% comes into effect on February 1

Mark and yen

Although motor manufacturers believe they will be able to keep increases below the general inflation level, some prices will rise by 15%

They have been particularly badly hit by the fall in the rand against the mark and the yen If imports pick up on the back of the consumer spending upswing, imported inflation will become increasingly important in SA. Many economists expect the rand to continue drifting lower against the currencies of SA's major trading partners

Senbank's Economic View says all three foreign sources of inflation — the exchange rate, foreign prices and import volumes — could well exert upward pressure this year

"International commodity prices and inflation rates have passed their lower turning points and are rising and a deflationary force from this angle should therefore not be expected," it warns

Assocom believes that inflation, as measured by the CPI, is not likely to be much lower than last year, and could run at the same level

Trade balance

A senior bank economist believes that the fall in the inflation rate — in November it was down to 15% — has already bottomed out

The University of Cape Town's Brian Kantor, who sees a deteriorating trade balance as investment picks up in the durable- and investment-goods sector, says that will put downward pressure on exchange rates and upward pressure on short-term interest rates

Professor Kantor says the chance of any reduction in the inflation rate is over

"Inflation is likely to continue at high, but not necessarily higher, levels"

13/1/88

Good signals on inflation outlook

By Sven Lünsche

The inflation rate is expected to fall below the 15 percent level in the wake of the decline in the producer price index (PPI) to a three-year low

The year-on-year PPI for November last year dropped to 11 percent, one percent lower than the 12,7 percent yearly increase recorded in October, and the lowest since December 1984's 11,4 percent

Of more importance is the news that the rate for locally produced goods amounted to 12,7 percent, the lowest rate since January 1985

The 8,6 percent rate for imported goods was a continuation of the relatively low rate which had been in evidence since the beginning of last year.

On a monthly basis the PPI showed an increase of only 0,6 percent in November, compared with October's 1 2 percent, and is a strong indication that costs are being effectively controlled

Changes in the PPI usually precede the consumer price index (CPI) by about three months, a trend which was evident during 1987, despite a general rise in profit margins by retailers

The decline in the PPI bodes well for the State President Economic Advisory Council's plan to bring inflation under control and is the latest in a number of financial trends and developments expected to push inflation below the 15 percent level this year.

The major contributor to the lower inflation rate has been the strong performance of the rand — as witnessed by the low increase in the imported component of the PPI

This factor should continue to exert downward pressure on inflation as the dollar is forecast to remain at its current low levels for some time to come, although the rand has been falling gradually against other currencies

Soaring food prices have been almost solely responsible for what remained of the large inflation price increases, but technical factors could help to reduce their impact on the inflation rate

Since November 1987 the Central Statistical Office has been publishing the CPI with a new base, namely 1985, while also introducing new weights for the various products and services

These new weights do make a substantial difference as they provide an indication of the relative shifts in spending patterns of the "average consumer" and since 1975 (the base year for the previous CPI) expenditure has moved away from commodities, especially foodstuffs, while that of services has increased accordingly

The 15,6 percent rate of inflation (on an annualised basis) recorded in October 1987 would have read only 13,8 percent had the new weights been used, as the weight of food commodities in the new CPI is only 22,72 percent of the total, compared with almost 25 percent previously

AHI taking aim at inflation

B|Day 18|1|88 153

LINDA ENSOR

FIGHTING inflation and stimulating exports are among the priorities identified by the Afrikaanse Handelsinstituut (AHI) for 1988

And AHI executive director Donald Masson adds that cuts in government expenditure and political security should also receive urgent attention

Masson blames the high inflation rate on the fact that people are earning too much in comparison with their productivity, and says salary increases this year should not be linked to the Consumer Price Index (CPI) which will have the effect of indexing inflation

"Salaries have gone up far beyond increases in productivity. While I do not go so far as to recommend a wage freeze, major employers such as the state and the mining companies should take a lead in keeping down salary increases."

Masson attacks some trade unions for what he terms their "irresponsible" wage demands and believes some companies will be experiencing "major knocks" this year if wage increases are not linked to productivity increases.

He also considers it of prime importance for government to devise new methods of stimulating exports in order to maintain a surplus in the balance of payments and earn foreign exchange.

At the end of 1988 the tax allowances on exports will be abolished and the AHI will be taking an in-depth look into alternative stimulatory measures which government can adopt

Masson believes government should subsidise exports to a greater extent because foreign investment has all but dried up. He suggests a direct payment to exporters, rather than tax concessions, as this has the advantage of being both measurable and identifiable

Furthermore, Masson says government must cut its coat to suit its cloth, must make provisions for the political aspirations of the black community; and must provide businessmen with a politically secure environment

But if 1988 seems fraught with problems, Masson is optimistic that major initiatives on the privatisation/deregulation front will occur

"From discussions I have had with government officials, I think things are starting to gain momentum and I can see such a lot happening in the next six months that vested interests may even start getting worried I am quite excited by what I know is being done"

Masson suspects the crash on the stock market somewhat delayed the flotation of major public enterprises.

His private crusade in the next few months will be to urge local authorities to do more to privatise and deregulate.

"The time has come to slaughter some holy cows, if only so that we can see that something is being done," he said

Inflation ensures market investment

HELENA PATTEN

THE cumulative effect of high inflation over many years on the rand's buying power means the stock market will remain a viable channel for investors' funds in 1988, says the Unit Trust Monitor (UTM) in its latest issue.

UTM says it expects to see stock market investment continue to flourish until the inflation rate has been around 10% for at least two years — a "pipe dream at the moment"

It says "Our buying power will continue, for the foreseeable future, to be halved every five years and the JSE will move up accordingly"

UTM devotes considerable space to a demonstration that short periods of sharply rising inflation do not coincide with stock market booms In fact, the biggest rises in inflation occurred in 1963-1965 and 1969-1975, when the JSE experienced sluggish, if not negative growth, and even bear markets

"The large growth spurts on the JSE have occurred when the rate of inflation has either fallen substantially or moved into a sideways trend Thus we have the halving of the inflation rate in 1968 leading to the JSE boom of that year and the first half of 1969 Since 1975, the inflation rate has moved into a well-defined sideways pattern and the JSE has boomed

"It is not the sudden three or eight-fold jumps in inflation which are the ultimate dangers but the frighteningly dramatic effects on the loss of buying power during the last 17 years due to the cumulative and compounding actions of high inflation"

Despite a positive outlook for the JSE, UTM warns of likely wide divergences in the performance figures of different unit trusts this year "The investor will be forced to be clinically selective"

UTM foresees a commodity boom for 1988, including gold, and thus advises investors to remain heavily in the metals & resources funds. On the industrial front, "UTM believes a complete change in market leadership will take place, with the go-go motor, transport, electronic and tobacco sectors being replaced as the front runners by the more staid financial sectors such as banks, insurance and property"

B/Day 20/1/88

CAPE TIMES 26/1/88 (153)

Southern warns on inflation

By AUDREY D'ANGELO
Financial Editor

FORECASTING better growth figures and an upward trend in fixed investment this year, Southern Life chief economist Mike Daly warns, however, that the inflation rate is likely to average "close to 16%".

And he expects short-term interest rates to rise "to 2% or 3% above current levels by the end of this year".

Day starts his quarterly economic forecast on an optimistic note. "Nearly every important indicator of economic conditions has moved up a gear as we enter 1988."

And although export volumes are likely to fall by 3% following a 2% fall in 1987, he expects this to be partially offset by a rise in dollar prices of commodities.

"The falling trend in the dollar will be a major reason to expect some continued firming in international commodity prices on average, at least until the trend in the dollar, in which most commodities are denominated, reverses.

"In addition, supplies have been adjusting to the long downswing of the commodity price cycle which bottomed out some 12 to 15 months ago and inventories of many key commodities are significantly lower than a year ago.

Exports

"This fairly encouraging side of the outlook for international commodity prices is of vital importance for SA's export performance and balance of payments in the year ahead."

Daly says that apart from commodities, the growth performance of developed economies will not suffice to help SA's exports.

"Regarding export volumes, sanctions will be another inhibiting factor against moving sufficient quantities at satisfactory prices and we expect export volumes to be between 2% and 3% down in 1988."

This, he says, will inhibit SA's growth rate and place more stress on domestic demand as the factor sustaining a recovery.

"For the next two quarters at least, official policy will aim at getting the economy closer to a 3% growth rate.

"Thereafter the shrinking balance of payments surplus on current account will be felt via a weakening of the exchange rate of the rand against major currencies, falling net reserves and rising interest rates.

"The need to maintain a surplus on the current account to meet foreign debt commitments will become dominant and the peak growth of the economy will have been passed."

13 SOWETAN 26/1/88

Inflation drops to lowest in 3 years

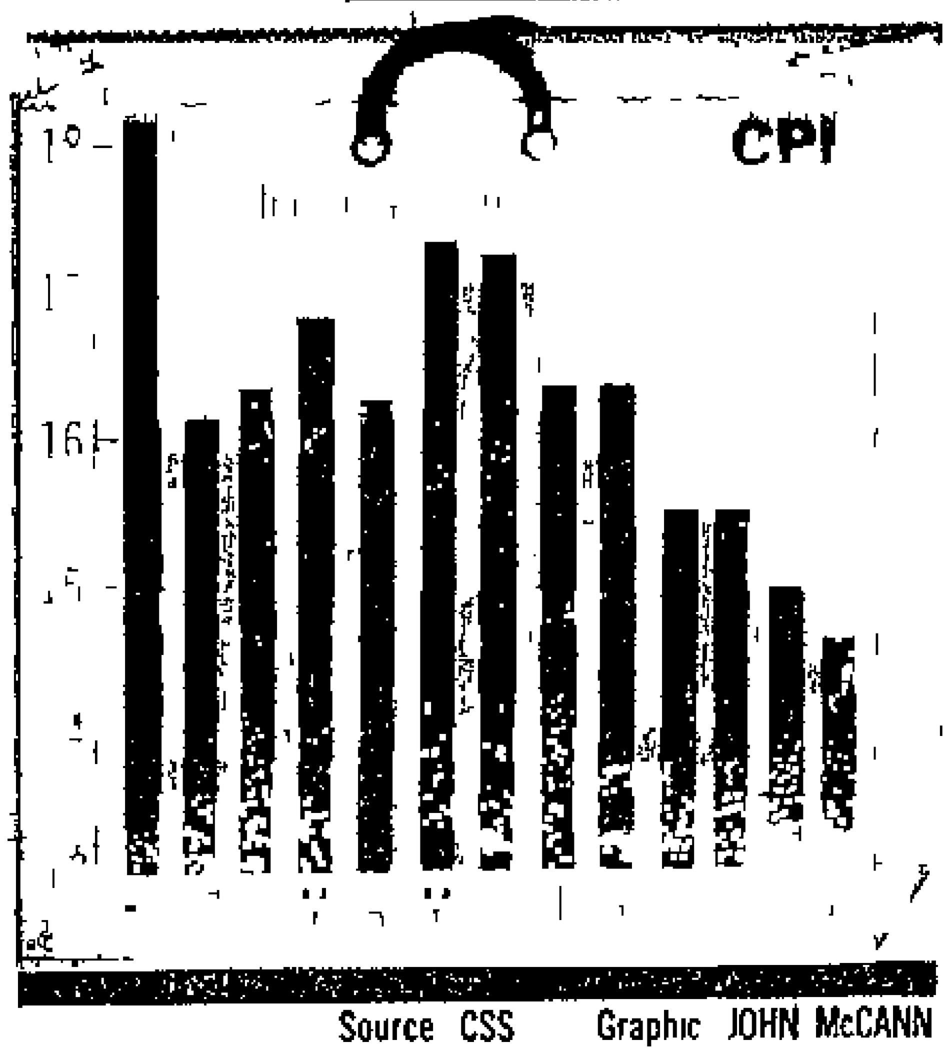
By Magnus Heystek, Finance Editor

The rate of inflation dropped below 15 percent last month for the first time in nearly three years, and economists are hopeful that the average rate could be as low as 14 percent this year.

According to the latest figures from Central Statistical Services, the annualised rate of increase in the consumer price index was 14,7 percent last month, bringing the average for 1987 to 16,2 percent. This compares with an average inflation rate of 18,6 percent in 1986.

Reasons for the gradual decline are to be found in the relative strength of the rand against the dollar and other major currencies, which has had the effect of reducing imported inflation.

In addition, the heightened economic activity in the third quarter of last year had the effect of reducing unit labour costs, thereby reducing upward pressure on locally manufactured goods.



Source CSS Graphic JOHN McCANN

Inflation slows to 14,7%

HELOISE HENNING

CONSUMER inflation for December slowed to 14,7% as measured by the Consumer Price Index (CPI), compared with December the previous year, according to Central Statistical Service's figures

The CPI has dropped by 6% in two years from its high of 20,7% in January 1986 In November it was 15% and has trickled down another 0,3%

It reflects the trend in other indicators, like the dropping Production Price Index which presages the CPI by two months, a stronger rand, stable fuel price and low home bond rates. But food prices still put an upward pressure on the rate

The monthly rate of increase, after eliminating seasonal variations, is about 0,8% — slightly lower than the 0,9% in November

Annualised, this monthly rate brings to 10,4% the rate of inflation — substantially lower than the 14,7% reflected, the CSS says in its summary

This backs Reserve Bank Governor Gerhard de Kock's veiw that inflation in 1988 could be lower on average, compared with 1987, and growth higher.

Among the industrial

Consumer inflation slows down to 14,7 per cent

26/1/88

(15)

Daily Dispatch Correspondent

JOHANNESBURG — Consumer inflation for December slowed down to 14,7 per cent as measured by the Consumer Price Index (CPI) compared with December the previous year, according to figures released by the Central Statistical Service.

The CPI has dropped by 6 per cent in two years from its high of 20,7 per cent in January 1986.

In November it was 15 per cent and has trickled down another 0,3 per cent.

It reflects the trend in other indicators like the dropping Production Price Index, which presages the CPI by two months, and other indicators such as the stronger rand, stable fuel price and the low home bond rates.

But food prices continue to put upward pressure on the rate.

The monthly rate of increase, after eliminating seasonal variations, is about 0,8 per cent —slightly lower than the 0,9 per cent in November.

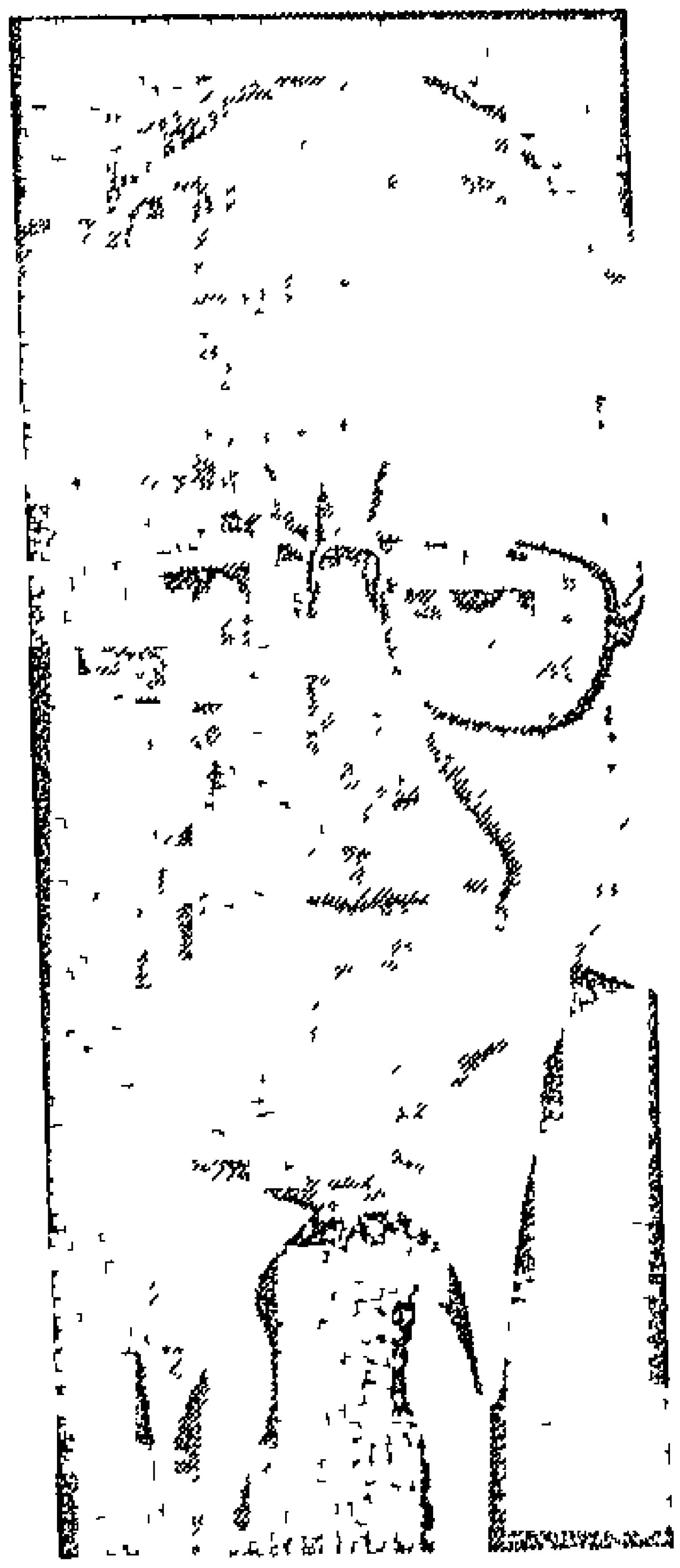
Annualised, this monthly rate brings to 10,4 per cent the rate of inflation — substantially lower than the 14,7 per cent reflected, the CSS says in its summary

This strengthens the view of the Reserve Bank Governor, Dr Gerhard de Kock that inflation in 1988 could be lower on average compared with 1987 and growth higher.

Economists believe inflation at around 15 per cent is still too high compared with South Africa's major trade partners.

A Rand Merchant Bank economist, Mr Rudolf Gouws, says the downward curve will bottom later this year.

He expects inflation to be back on the incline by the end of the year.



DR DE KOCK

Major movements

DAILY TOP 10 UP			
FISHER	200	40+	25,0
AF CABLE	320	45+	16 4
AIDA	45	5+	12 5
OZZ	100	11+	12 4
SKIRTS	55	5+	10,0

DAILY TOP 10 DOWN			
JABULA	300	245-	45 0
AGSERV	30	5	14 3
RALE	70	10-	12 5
BARPLAT	800	100-	11 1
AOS	40	5-	11,1

FINANCIAL MINING HOUSES

Wage freeze 'unlikely'

Cape Times 28/1/88

280 153 380

Financial Editor

PUBLIC service salary increases will be low this year, in an effort to fight inflation, some leading economists believe.

It is widely thought that inflation will be one of the major problems discussed at the meeting between the State President, P W Botha, and leading businessmen in Cape Town on Thursday next week.

But economists do not believe that a wage freeze will be suggested. Instead, they think an effort will be made to stop spiralling inflation and limit imports by keeping salary increases at a low level.

Volkskas chief economist At Engelbrecht said:"I think there will be a heavy constraint on salary increases. The government will probably take the lead by giving low increases to public servants.

"But a lot depends on how strong the economic recovery is. With the world economy weakening we cannot hope for an export-led recovery. We must have a consumer-led recovery with increased spending."

However, Englebrecht pointed out, SA cannot afford to ignore the balance of payments situation. "The authorities may want to keep wages down to keep imports down."

UCT economics lecturer John Whittaker said suggestions that inflation was the major problem to be fought usually meant that the Reserve Bank intended to push up interest rates.

He thought it would be difficult to convince everybody that the government was serious about tackling inflation because of its previous record, "although if it comes from the State President I suppose it is a good start.

"But the people to convince are the price setters — the people in SA Transport Services (SATS), Escom and the control boards."

Plan to cut inflation to 9% by 1990

ARGUS 28/1/88

153

Political Correspondent

INFLATION will be the main topic of discussion at the economic conference President Botha has called in Cape Town on February 4.

A statement from his office says 165 people have accepted invitations to continue the discussion on reports submitted to the President last year by the Economic Advisory Council

The council has prepared a plan of action to slash inflation to nine percent by 1990

It envisages cutting the inflation rate by 2,1 percent to 14 percent this year and by 2,5 percent in the next two years

Wage restraint, but not a total wage freeze, is proposed

The council, whose report was issued in November last year, had two provisos for the success of the plan of action

These were that factors beyond the country's control did not again cause the price of imported goods to rise sharply and that it was ensured that prices, wages and salaries determined by the public sector increased at a lower rate

It rejected wage and price control, saying experience had shown that such measures were hardly able to be applied successfully

INFLATION INDEX (153)

Weighing the odds

Each month, the cost of a basket of goods and services is calculated and released in the form of the consumer price index (CPI) In the year to December — the most recent figure — the index rose 14,7%, according to Central Statistical Service (CSS)

But what exactly does this mean?

It doesn't mean that everybody's cost of living went up 14,7% in the year People can counteract price increases by substituting cheaper goods The CPI cannot take such habit changes into account each month Also, we don't all buy goods in the same ratios, the cost of living of people who buy a lot of items whose prices don't go up fast will go up more slowly than the CPI suggests

Basically the index tries to give a reasonable estimate of how much prices rise on average for all consumers CSS collects by post the prices of 600 items at 2 000 outlets across SA and from municipalities, government departments and bodies such as the Post Office

FM 29/1/88

Some prices are more important than others, thus getting a bigger "weighting" when the index is calculated

Until November, CSS based the index on how consumers spent their money in 1975 Food accounted for 24,98%, followed by housing (17,6%), transport (14,94%), clothing and footwear (8,77%), furniture and equipment (5,98%) and many smaller categories Obviously, a large increase in food prices would increase the index more than, say, an increase in the price of shoes

But spending habits don't stay the same To make the CPI a more accurate reflection of what people spend their money on these days, CSS took another survey in 1985 (and plans to do new surveys every five years) It determined that food would now account for just 22,72% of the index, followed by housing (up to 21,21%), transport (up to 17,23%), clothing and footwear (down to 5,98%) and furniture and equipment (down to 4,72%).

Now the trouble begins

New weights change the inflation rate CSS demonstrated this by calculating the October year-on-year increase using both the 1975 and 1985 weightings It found the increase was 15,5% using the old weightings and 13,8% using the new

Why the big difference?

Much of it was accounted for by the sharp decline in home mortgage rates in the 12 months to October In the 1975 weighting, mortgage rates accounted for just 3,4% of the overall index, so the drop in rates had only a mild effect Under the new weighting, however, mortgage rates account for 9,47% of the index, so changes will have a big effect.

CSS will stick with the 15,5% figure for October and will not revise its previous figures "If we were to revise the figures back to 1985, there would be chaos because of all the contracts and financial agreements linked to CPI," a spokesman explains

November is the first month in which the year-on-year increase reflects the 1985 weightings The reported 15% is a blend of the old and new weightings It is derived by totalling 11 months of increases based on the old weighting and one month of the new The year-on-year figure for December was derived from 10 months of increases on the old weightings and two of the new

After November 1988, the year-on-year increases in CPI will be derived strictly from the new weightings

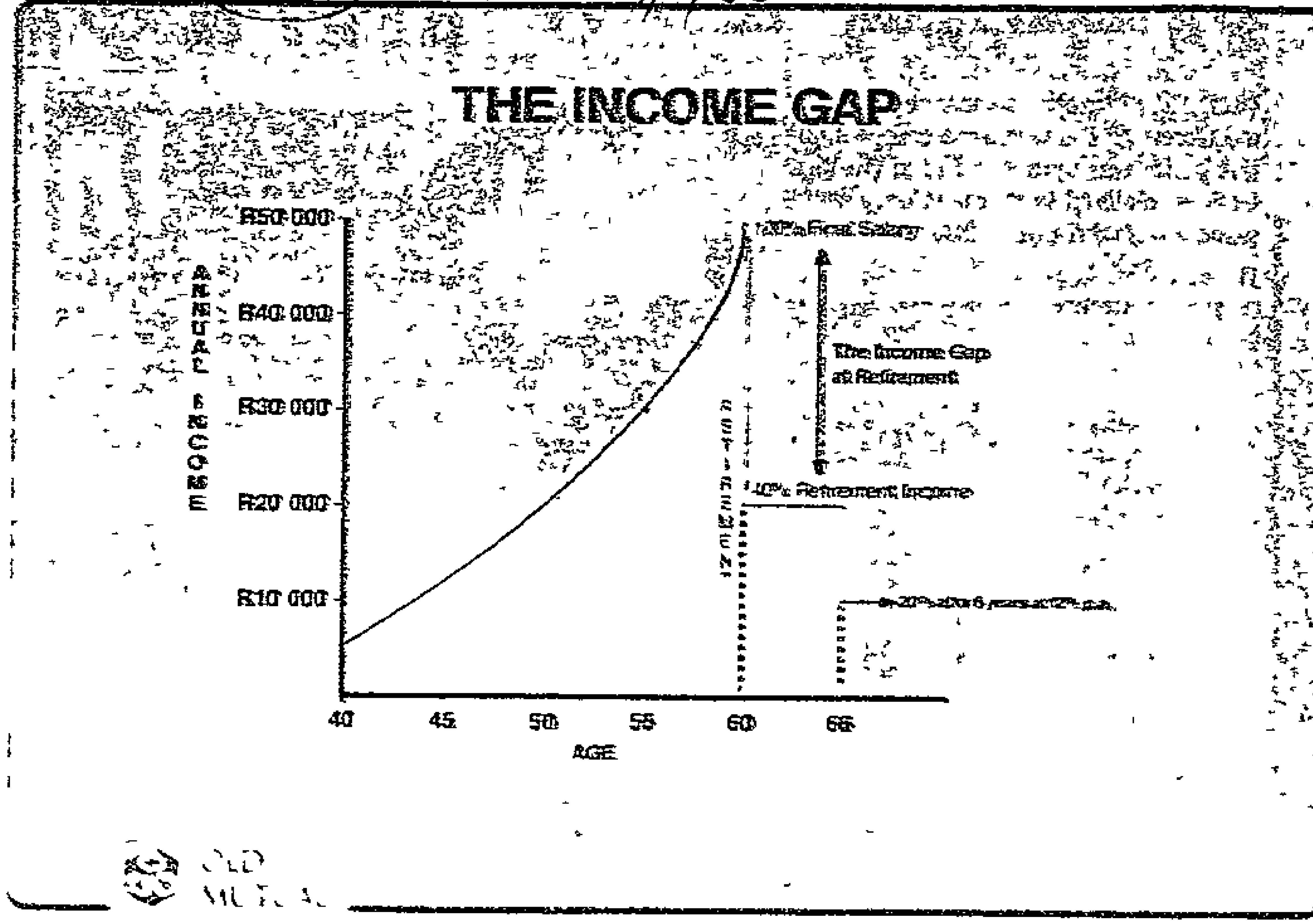
Though the CPI is released monthly, CSS cautions about over-reacting to any one report "You shouldn't put too much emphasis on a given month's change," the spokesman says A large increase in one month could be the result of several major sectors coincidentally raising prices. One has to look at figures over several months to see the real picture

"In statistics, we distinguish between signal and noise There is a lot of noise in monthly inflation-rate figures To eliminate noise, look at the smooth curve, the underlying trend Then you see the real signal" ■

153 C.T. 29/1/88

Planning for your 'golden' years was never more urgent

[illegible] ren Old Mutual [illegible] rmes all croo [illegible]



This illustrates a typical situation where a man retires at the age of 60 after 20 years with his company. As most pension funds provide 2% of final average salary for each year of service, he will immediately suffer a 60% drop in income and an annual salary of R50 000 becomes R20 000 overnight. Six years later his income is down to 20% (using a conservative 12% inflation rate)

RETIREMENT planning has never been more important than it is today and regardless of age or occupation the financial provisions one makes today can make or break a lifestyle after retirement.

Mike van Greunen, general manager (Individual Life) of Old Mutual, believes two factors have significantly changed the need for active retirement planning.

First, employee attitudes have changed over the past two decades and it is no longer common to find employees staying with one employer for an entire working life. Job hopping is also more common and statistics reveal that people going on pension have an average 15 years service with their final employer, he said.

As benefits derived from a company pension fund are determined by the number of years service, it is financially unwise to regard a company pension as adequate when one has limited periods of service.

Secondly, the high levels of inflation which have been experienced over the past few years have eroded personal savings. Pensions have suffered in the same way and a pension which is not inflation proof soon decreases in real terms, Mr Van Greunen said.

Fixed income

Most pension funds provide 2% of final average salary for each year of service. Where a man retires at the age of 60 after 20 years service he will suffer a 60% decrease in income and overnight an annual salary of R50 000 becomes a mere R20 000 of pension.

Where this is a fixed income and not inflation proof, his income will be down to 20% in real value after a further six years (using a conservative [illegible] inflation rate).

Mr Van Greunen [illegible] that a proven [illegible] standards after retirement [illegible] that people make [illegible] to accumulate capital for retirement — capital that can be used to generate additional income.

A retirement annuity (RA) is therefore a very [illegible] efficient way of doing this. An RA [illegible] private pension plan where the individual [illegible] his own retirement programme.

Although basically a savings plan for retirement, one can also build in protection against early death and disability to assist family members when they need it most.

Various intervals

An income can be drawn from an annuity fund at any time between the ages of 55 and 69, while it is possible to draw the benefits at various intervals to provide post-retirement increases and thereby hedges against inflation.

[illegible] in a pension fund, RA [illegible] may withdraw one third of the retirement benefits in cash and the balance must be used to purchase an annuity. Most retirement funds [illegible] the member to buy his annuity from that particular fund and he is at liberty to shop around for the best deal.

RAs have wide ranging income tax implications for both contributions and maturity benefits. Contributions to the fund may be deducted from gross income up to the greatest of:

- 15% of non pensionable income (including investment income and both the husband's and wife's income)
- R3 500 minus your pension fund contribution
- R1 750 a year where one is a member of a pension fund

Of the cash amount withdrawn on maturity, the greater of R120 000 or R4 500 x the number of years continuous membership of a pension fund is tax free. The monthly annuity is taxable as income.

Maximum build-up

[illegible] the retirement annuity [illegible] Old Mutual's universal life [illegible] was the first fully flexible RA and pioneered the concept in [illegible]. A member can [illegible] contributions and adjust the mix of capital accumulation and life cover to suit changing needs.

As one gets closer to retirement one may, for example, reduce the level of cover to ensure maximum build up of retirement capital over the last few years. Automatic contribution increases can also be added to Flexipension at any time to maintain the real value of contributions. The member can also top up the Flexipension policy with lump sum injections as required.

A further feature of Flexipension is that the member can elect to retire gradually by drawing only part of his pension and allowing the balance to grow. By retiring in stages he can boost his total income every few years up to the age of 70, Mr Van Greunen said.

Case studies

Besides meeting a host of financial and retirement needs, RAs offer excellent returns to investors and are providing after tax returns well ahead of inflation.

Mr Van Greunen drew attention to case studies being broadcast on Old Mutual's radio commercials and quoted an actual case where a policy holder started investing R500 a year in a retirement annuity [illegible] years ago.

On January 1 the accumulated retirement capital was R28 745,94 — a yield of 17,5% during a period when inflation averaged 13,7%.

MR SCHWARZ

D/Dispatch 1/02/88

Inflation plans to dominate talks?

153

Daily Dispatch Correspondent

PRETORIA — Strategies to counter the threat of runaway inflation will dominate Thursday's talks between the State President, Mr P W Botha, and 100 private sector leaders

Mr Botha is expected to outline a new and more drastic anti-inflationary plan in his opening address to parliament on Friday

But public sector staff associations and trade unions warned at the weekend that he can expect angry opposition if the strategy is based on limiting pay hikes in the public sector

The private sector representatives will include trade union leaders and any talk of an earnings freeze will be fiercely opposed unless it is accompanied by a watertight freeze on prices, one of the representatives said

The PFP's spokesman on finance, Mr Harry Schwarz, said if the talks were about inflation the last item on the agenda should be a salary and wage freeze

What was needed was a policy of voluntary restraints on salaries and prices, he said

Mr Schwarz said a "complete overhaul of the country's massive, and in many cases overlapping, public service" was also needed

He said there was plenty of scope for streamlining the continually expanding bureaucracy, and cutting tens of millions of rands off the costs of government

Deregulation was another significant weapon that could be used against inflation but there had been too much talk of it and too little action, he said

Mr Schwarz added that the extent to which consumers were being manipulated and exploited by large business organisations was another basic inflation accelerator which had to be urgently addressed

SA analysts say inflation rate set to rise

153

1/02/88 D/Dispatch

JOHANNESBURG — Despite all the government's predictions of a decreasing inflation rate, economists point to a price spiral on essential commodities which could push inflation up over the 16 per cent mark towards mid-year

The government's proposed plan of action for combating inflation indicates that, by 1990, South Africa's inflation rate should be running at 9 per cent

However, price hikes on essentials like sugar, tyres, meat and bricks could have a ripple effect across the economy

Steel is set for a 12 per cent jump later this year

Paint prices have already been pitched up by 8,5 per cent in January while timber has shot up by 16 per cent

Industry spokesmen say most of the timber sizes used in housing have risen by 30 per cent and more

There is also the possibility of a rise in rail rates to compensate for the South African Transport Services' (Sats) budget deficit

Although an increase in petrol prices has been discounted in some quarters, analysts still point to the precarious "slate" balancing act brought about by under-recovery in fuel prices

The government defends its position by citing low world prices on crude oil and a stronger rand which could offset any deficit

"South Africans have become complacent about the inflation rate," says one Diagonal Street analyst

"Government appears delighted with December's 14,7 per cent level, but when compared with the rates of our leading trading partners, it is pitiful"

The US annual rate of consumer price inflation fell to 4,4 per cent in December, while that of the UK eased to 3,7 per cent, Canada recorded a rate of 4,2 pr cent and West Germany 1 per cent

Japan has just announced an inflation rate of 0,1 per cent This, says one export house, could upset South Africa's exports

"Local manufacturers will become uncompetitive. They will be out of the running when fresh business is struck," said a Johannesburg merchant banker

Added to this, he said, is the rand's two-month drop against major currencies, except the dollar, which will put pressure on import prices

A tougher line by unions could also see wages and salaries rocket, which in turn would add to South Africa's inflationary trends

Professor Attie de Vries of the University of Stellenbosch's Graduate School of Business said further increases in interests rates are in store in the second half of the year

"The Reserve Bank is walking a tightrope On the one hand, the bank must not keep rates of interest down too long, leading to false expectations and hence sharp increases in inflation This would lead to eventual tightening of monetary policy

"On the other hand despite the improvement in psychology the Reserve Bank must be careful to avoid people thinking of the 25 per cent interest rate levels of two years ago"

He said in the year ahead there would be pressure on the rand particularly concerning currencies other than the dollar, which would move sideways with the rand

This will lead to an increase in the cost of imports.

"Although inflation has dropped it will start to go up again as a result of the increasing demand for wages and salaries"

The advice given by the Economic Advisory Council of the State President is to release information of impending wage and price hikes ahead of time, said one analyst

"While this is admirable, it will only become possible with the absolute co-operation of public and private sectors

"Taking into account 1987, South Africa has had double digit inflation since 1974 — 14 years Until such time as government spending is brought within reasonable bounds we have no chance of getting below the 10 per cent level," he said

● See page 6

Cape Times 1/2/88 153

Predicted inflation drop unlikely

Own Correspondent

JOHANNESBURG — Despite government predictions of a decreasing inflation rate, economists are pointing to a price spiral on essential commodities which could cause an escalation to over the 16% mark about mid-year

Government's proposed plan of action for combating inflation indicates that by 1990, SA's inflation rate should be running at 9%

But in the latest round of price rises, essentials such as sugar, tyres, meat and bricks have increased by more than 10% which will have a ripple effect

Steel, which rose by between 15,2% and 19,5% last year, is set for a 12% jump this year, say industry sources

Paint prices have already been pitched up by 8,5% in January while timber, which accounts for about 6% of the cost of a new home, has shot up by 16% Industry spokesmen say most of the timber sizes used in housing have in fact risen by 30% and more.

Also hanging over the economy is the possibility of a rise in rail rates to compensate for the SATS budget deficit This in turn could spur heavier costs to be passed on to consumers

Although an increase in petrol prices has been discounted in some quarters, analysts still point to the precarious "slate" balancing act brought about by under-recovery in fuel prices

Government defends its position by citing low world prices on crude oil and a stronger rand which could offset any deficit

"South Africans have become complacent about the inflation rate," says one Diagonal Street analyst

"Government appears delighted with December's 14,7% level But when this is compared with rates of our leading trading partners, it is pitiful"

The US annual rate of consumer price inflation fell to 4,4% in December, while that of the UK eased to 3,7%, Canada recorded a rate of 4,2% and West Germany 1%

The star performer with whom SA has increased its trade dramatically was Japan, which has just announced an inflation rate of 0,1% This, says one export house, could be the turning point in the year ahead and could upset SA's exports

"Local manufacturers will become uncompetitive They will be out of the running when fresh business is struck," says a merchant banker

Added to this, he says, is the rand's two-month drop against major currencies, except the dollar, which will put pressure on import prices

A tougher line by unions could also see wages and salaries rocket, which in turn would add to SA's inflationary trends when manufacturers and producers are forced to raise prices

Professor of managerial economics at the University of Stellenbosch's Graduate School of Business Attie de Vries says further increases in interest rates are in store in the second half of the year.

'Price spiral to boost inflation'

B/day 1/2/88

MICK COLLINS

DESPITE government's predictions of a decreasing inflation rate, economists are now pointing to a price spiral on essential commodities that could cause a sharp escalation to over the 16% mark towards mid-year.

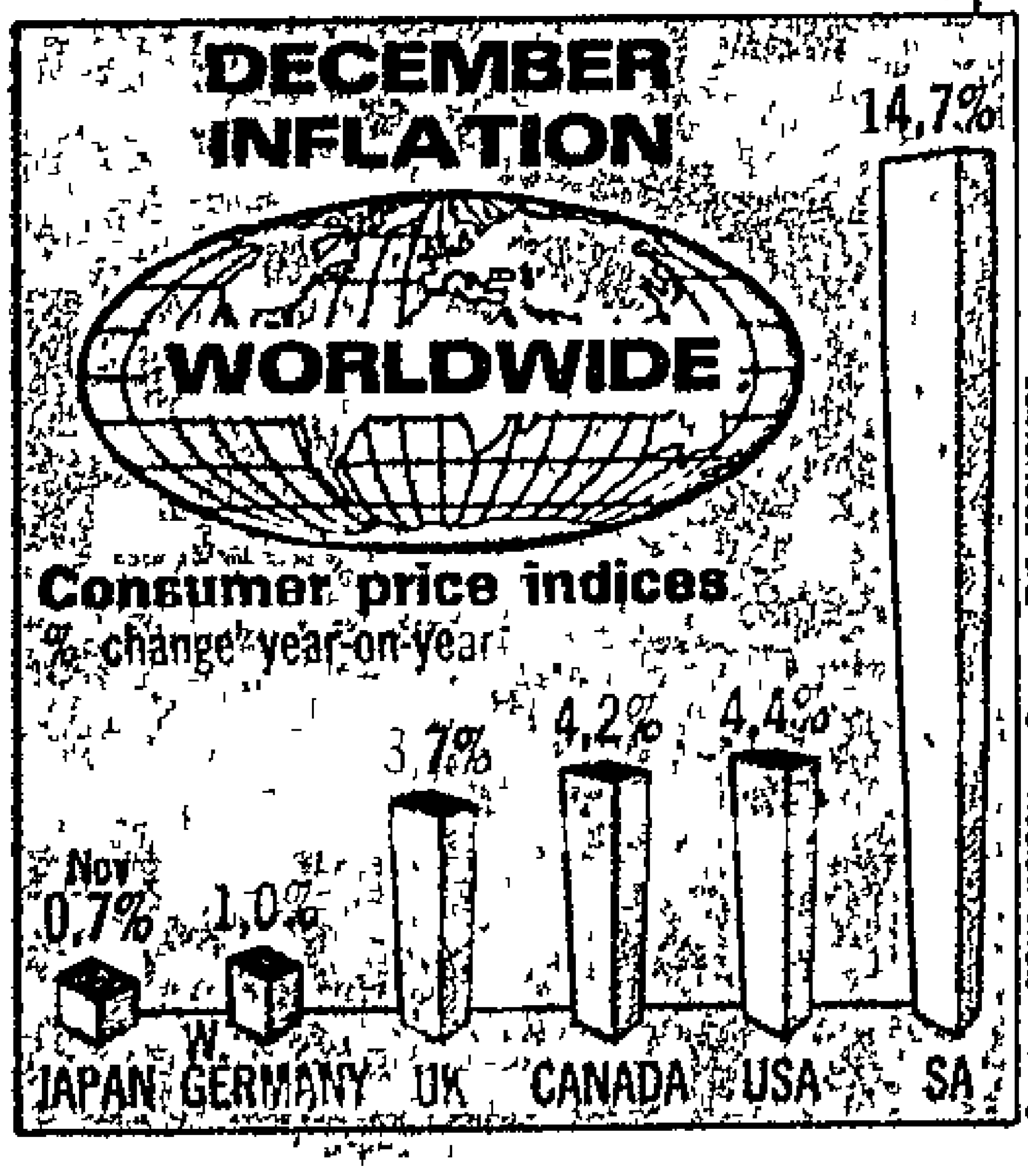
Government's proposed plan of action for combating inflation indicates that by 1990, SA's inflation rate should be running at 9%.

But the latest round of price hikes has seen essentials such as sugar, tyres, meat and bricks all rise over the 10% level, which in turn will have a ripple effect across the economy.

Steel, which rose by between 15,2% and 19,5% last year, is set for another 12% jump later this year, say industry sources.

Paint prices have already been pitched up by 8,5% in January, while timber, which accounts for about 6% of the cost of a new home, has shot up by a massive 16%. Industry spokesmen say most of the timber sizes used in housing have in fact risen by 30% and more.

Also hanging over the economy is the possibility of a rise in rail rates to compensate for the Sats' budget deficit. This in turn could spur heavier costs to be passed on to consumers.



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● To Page 2

'Price spiral to up inflation'

● From Page 1

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"Local manufacturers will become uncompetitive They will be out of the running when fresh business is struck," says a Johannesburg merchant banker.

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A tougher line by unions could also see wages and salaries rocket, which in turn would add to SA's inflationary trends when manufacturers and producers are forced to up prices.

University of Stellenbosch's Graduate School of Business professor of managerial economics Attie de Vries says further increases in interest rates are in store for the second half of the year.

"The Reserve Bank is walking a tightrope. On the one hand, the bank must not keep rates of interest down too long, leading to false expectations and hence sharp increases in inflation. This would lead to eventual tightening of policy

"On the other hand, despite the improvement in psychology the Reserve Bank must be careful to avoid people thinking of the 25% interest rate levels of two years ago"

B/day 1/2/88

Wage and price controls don't cut inflation

153 B/Day 1/12/88

Business leaders expect to hear proposals on some form of incomes policy when they meet President Botha on Thursday to discuss his Economic Advisory Council's plan to cut inflation. This is an edited extract of the EAC's proposal for pay and price guidelines

tend to follow, and vice versa.

If one group of employees receives a wage increase, other groups submit similar demands, while a similar ripple effect is also discernible in the case of prices. When the price of an important input in the production process — eg, electricity — rises, it has wide-ranging repercussions throughout the economy

Inflation is a complex and deep-seated problem for which there are no instant solutions

The rate of inflation cannot be forced down to acceptable levels in the short-term through direct control measures or a comprehensive suppression of the demand for goods and services, at any rate not without major sacrifices in terms of economic growth and job-creation

Experience has shown that direct control measures, such as wage and price control, are hardly able to be applied successfully in order to force down the rate of inflation

Unavoidable cost increases must necessarily be allowed, and it is virtually impossible in practice to distinguish between avoidable and unavoidable cost increases, because it would involve an investigation of each and every case. Therefore, a tendency exists in countries which rely on such measures to accept all cost increases in the course of time.

Such rigid regulations would also give rise to the building up of inflationary pressure as a result of the limitations imposed on the supply of goods and services

If rigid regulations which are aimed at forcing down the rate of inflation at all costs are nevertheless adhered to, this will of necessity lead to a misallocation of production factors, which will not only be to the disadvantage of economic growth and employment, but will also give rise to the building up of inflationary pressure as a result of the limitations imposed upon the supply of goods and services.

Unless strict monetary and fiscal discipline is maintained, the abolition of control — which must occur at some stage — will probably be accompanied by sharp increases in the general price level.

It is therefore an illusion to think that wage and price control can serve as a substitute for monetary and fiscal discipline.

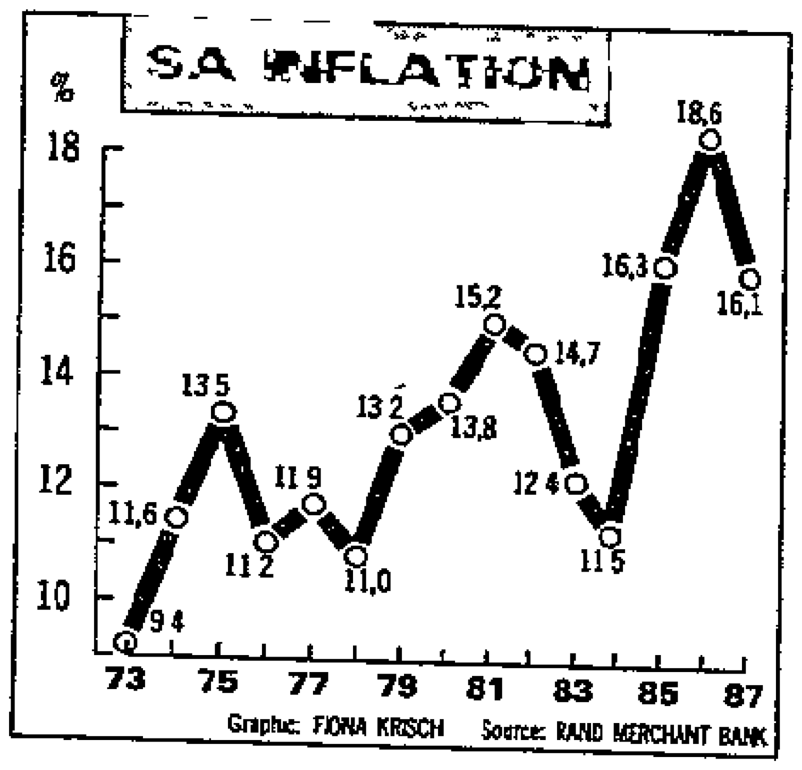
On the contrary, in order to have any chance of success at all, wage and price control must necessarily also be accompanied by the maintenance of strict monetary and fiscal discipline.

Even under such circumstances, the abolition of control will probably still be accompanied by excessive rises in the prices of specific products where necessary structural changes were suppressed, which in turn will lead to further price rises.

In addition to the limitations they place on economic growth and employment, measures that are aimed at the symptoms instead of the causes of inflation — such as direct wage and price controls — therefore are not likely to relieve the problem of inflation over the longer-term, but will more likely aggravate it. This point of view enjoys reasonably broad support amongst economists world-wide.

It may be argued, of course, that if inflation is inclined to feed upon itself — in the sense that current price increases are determined to a large extent by previous price increases, as is apparently the case in SA — a temporary wage and price freeze may indeed relieve the problem of inflation.

In order to be able to change perceptions, a wage and price freeze will, however, have to be adhered to for a considerable period of time, with all the disadvantages referred to earlier. Even then it is still not certain in which direction expectations will be influenced.



Experience has also shown that temporary wage and price freezes, more often than not, create more problems than they solve.

Maintenance of monetary and fiscal discipline, with a view to keeping a balance between the demand and supply of goods and services and to avoiding conditions of surplus demand, should form the cornerstone of any anti-inflation strategy.

A major part of SA's inflation problems could probably be attributed to wage and price determination practices and various other factors that put limitations on the effective operation of the market and price mechanism.

These factors tend to maintain or increase inflation and/or unemployment and at the same time to channel the effect of restrictive monetary and fiscal measures to production and employment rather than to prices.

Consequently, there is also a need for measures to promote the more efficient operation of the market and price mechanism, in addition to and in support of monetary and fiscal discipline.

Indexation apparently plays a major role in the wage and price determination processes in SA. It not only inhibits the effective operation of the market and price systems but, as such practices increase, may also increase the upward pressure on prices and eventually lead to hyper-inflation, as has been the case in Israel and in some South American countries.

The ordered collection of information on wage and price movements, and matters relating to them which are not generated naturally by the market system, is likely to have a favourable effect on both the operation of the market economy in general and the effectiveness of monetary and fiscal policy in particular

However, the point at issue here is only the collection, preparation exchange and utilisation of information to make the final decision-makers aware of the macro-economic context within which their decisions are taken, as well as the possible implications of their decisions

Therefore it should not be the intention to try to reach consensus on the rate at which wages or prices should be increased nor to act in such a manner that the allocation function of the market and price mechanism is undermined.

Calculations indicate that the rate of inflation could be reduced, provided that factors beyond the control of the country do not once again cause the prices of imported goods to rise sharply and provided that it is ensured that prices, wages and salaries determined by the public sector increase at lower rates

The success of such a policy approach will depend on the extent to which it is able to keep all of the participants in the economic process aware of the role they play in the inflation process, and able to create confidence that it is indeed possible for inflation to be brought and kept under control

Consideration should be given to periodically setting clear, qualified and quantified — but at the same time also very realistic — objectives in respect of combating inflation.

Such objectives ought to be set in advance by government for the current and ensuing year, and can, if made public, also serve as general information to the private sector in respect of the maximum average rate at which prices and wages and salaries should rise if the objectives are to be attained

In order to ensure that all the participants in the economic process remain constantly aware of the role played by them in the inflation process, it may also be necessary for government from time to time to draw attention to general price, wage and salary trends which, bearing in mind the allocation function of the market and price mechanisms, could endanger the attainment of the objectives laid down

To the extent that this succeeds and confidence is restored in the ability of the country to combat inflation, the setting of objectives could become self-fulfilling, particularly if groups and organisations in both the public and private sectors associate themselves with such objectives in advance

Concept suppresses, not cures inflation

Bday (153) 4/2/88

'No' to incomes and price policy

JENNY BOBERG

ORGANISED commerce and most economists have rejected the idea of an incomes and price policy saying it holds little potential to combat inflation.

On the topic, expected to be high on the agenda at today's business meeting called by President P W Botha, Assocom says: "Wage and price restraints address the symptoms rather than the underlying causes of inflation."

Not only did such restraints require mechanisms to ensure co-operation, but their inevitable withdrawal resulted in the emergence of suppressed inflation

Economist at Old Mutual Dave Mohr said one of the reasons for high wage increases was the shortage of skilled labour "And a wage and price policy is not going to change this"

He said the skills shortage, together with the fact that the economy is beginning to show some sign of life, would make it difficult for the private sector to abandon freedom to determine competitive wages and prices.

Southern Life's Mike Daly said even if the private sector agreed to co-operate, unless the consensus of unions was sought, an incomes policy would spell disaster for industrial relations

He said the attack on inflation had to be multi-faceted, launched via a monetary and fiscal policy

Economist at Sanlam Johan Louw, however, did not share the prevailing scepticism

He said that while a monetary and fiscal policy had to be the cornerstone of any attack on inflation, a price and incomes policy certainly had a role to play in the SA economy

"In SA there are certain markets in which there is not enough competition to keep prices at realistic levels As a result, certain firms have the freedom to set wage and price levels without regard to market forces"

4/2/88 DD (153)

Motsuenyane: inflation threatens peace

JOHANNESBURG — Unemployment and inflation remain disturbingly high and constitute a significant threat to stability in South Africa, says Dr Sam Motsuenyane, chairman of the African Bank

In his review in the annual report, he said excessive inflation killed incentive and stunted capital formation

"In South Africa the major casualties are invariably the disadvantaged black community, who are often not in a position to take adequate adjustment measures," he said

The food component of the Consumer Price Index had in recent years outstripped that of other items Food inflation was currently running at about 24 per cent

Of unemployment, he said estimates differed widely, with Central Statistical Services putting the figure at 1,2 million, while University of the Witwatersrand researchers estimated it at around six million people nationwide

"The growing hardships experienced as a result of rising unemployment contribute to the tensions now prevailing in black areas The authorities must give top priority to the promotion of economic recovery, the development of job-creating programmes and the stimulation of black business ventures "

The role of black businesses could not be over-emphasised as they provided a sure way of both accelerating the process of job creation and "fulfilling the need to bring more and more black people into the realm of ownership"

"The role the government and the larger corporations have played in expanding the scope for black participation in private enterprise deserves every praise and encouragement, but much more needs to be done," Dr Motsuenyane said.

One of the more pleasing aspects of the African Bank's operating results during the year to September 1987 was the growth of more than 16 per cent in the issued ordinary share capital, he said

Dr Motsuenyane was cautiously optimistic about the current year, saying "We have budgeted for improved results " — Sapa

Hardliners call for action

153

Is money supply growing too fast? Many free-market economists think so — and hope the Reserve Bank will announce strong steps this month to control it

"It should be obvious that the money supply is growing too rapidly because it's generating such a high rate of inflation and distorting the economy," says Wits business economist Dan Leach "It's time to do something dramatic "

The broad aggregate M3 — which the Bank targets — grew by a preliminary 18,3% in the year to December, following year-on-year rises of 16,9% in November and 13,1% in October The narrow M0 increased by 17,5% in the year to November

This month, Governor Gerhard de Kock plans to announce new growth targets for M3 He told the *FM* last month that he hopes to set a lower range than last year's 14%-18% He also said he remains committed to a long-term reduction in money supply growth to control inflation and promote sound economic growth

"Ideally, you want money supply to grow in line with real GDP," De Kock says

Some economists want De Kock to take a firmer stance Rather than announcing a target only for 1988, they suggest he set progressively lower targets for several years until money supply growth is checked

Leach wants the Bank to focus on the narrow, controllable M0 — banknotes, coins and deposits at the Bank, also called the monetary base — and set the target at 12% this year, 8% in 1989, 4% in 1990 and zero thereafter

He says rates may initially rise as the Bank becomes less accommodating in the money market But, as the market becomes convinced of the Bank's resolve, inflationary expectations — and inflation itself — would be reduced and nominal rates would fall

"Such a policy would be gradual, yet changes would be large enough to be credible," says Leach "The only way inflationary expectations will fall is if the public is convinced the Bank means business "

When money supply growth charges ahead far faster than an economy is growing — as is happening in SA — price inflation is guaranteed. But higher consumer prices are only one of the more visible problems of runaway money supply growth

Economists say injections of new money into the banking system also distort interest rates, savings and investment — and eventually cause cycles of booms and busts

To see the problem, consider how some of the Bank's newly printed money enters the banking system at the discount window A financial institution presents a Treasury bill in exchange for new money In effect, the institution gets money at an artificially low rate and government monetises its debt

In the past 15 years, the Bank's rediscount rate was only positive, in real terms, in 1983 and from mid-1984 to mid-1986 United Building Society economist Hans Falkena, writing in *The Securities Markets*, slams this policy of negative real interest rates

He complains that arguments in favour of negative rates always ignore the position of the creditor Special interests — farmers, capital-intensive businesses — can be bailed out by artificially low rates But what of small savers, such as pensioners?

Falkena is not just theorising Imagine you won R10 000 today Where would you invest it to guarantee a return above the inflation rate a year from now? There is no safe place — so South Africans consume rather than invest in the future

A tighter monetary policy could boost savings If the Bank did not pump money into the money market to subsidise lenders' interest rates, banks that want to lend more would have to offer savers more attractive rates

Now consider investment Supporters of artificially low rates say the authorities must promote capital spending because it is essential to economic growth But Falkena argues that positive real interest rates — such as in the US, Germany and Japan — stimulate new investment far more effectively than negative rates, particularly if they restore confidence

"SA is not really creating new employment opportunities by following its current negative real rate policy," he says "Instead, it is creating a climate of economic uncertainty and sheltering inefficient industries and, possibly, poor management "

Wits business economist Richard Grant says some confusion stems from the fallacy that all investment is necessarily good, so must be encouraged by government at all costs "There is a proper level of investment, but only the market can determine it "

Expecting government to set interest rates — the price of credit — without there being adverse effects is as futile as expecting it to set the prices of wheat, trousers or housing — and we know what's happened with price-fixing in such areas No government can know the "correct" level of rates

What typically happens worldwide is that a central bank, as part of its monetary policy, tries to promote growth with artificially low interest rates by pumping money into the system That lures businessmen into making unsound investments

Then the central bank halts growth by jacking rates up, because it fears inflation will soar if it continues to print money to keep rates low This leads to cycles of booms and busts

"Wild swings in interest rates are a function of government policy, not of the market," says Leach

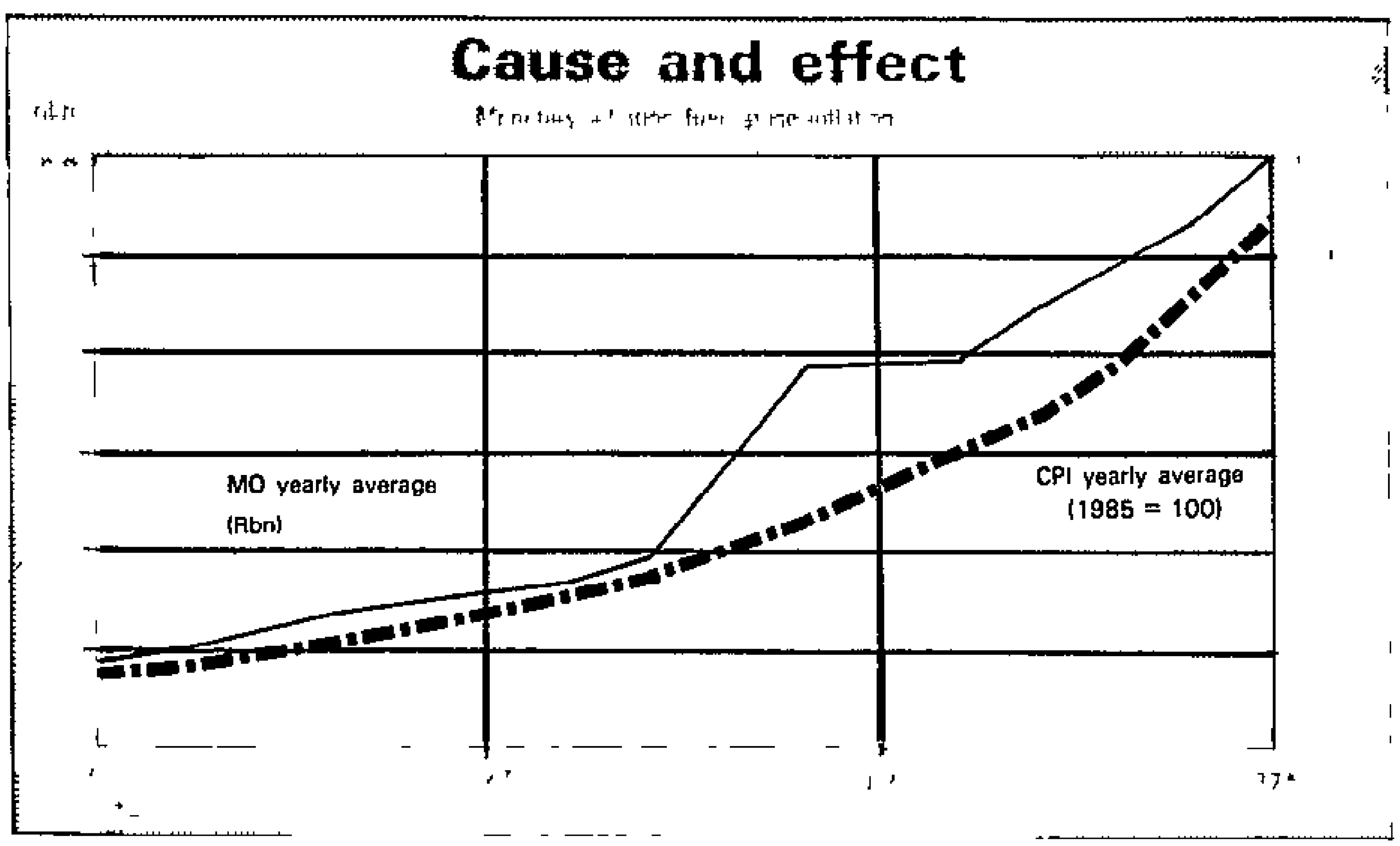
The main argument in defence of injections of new money into the economy is that they fuel economic growth

Grant disagrees "The Bank's injections of money into the economy encourages real growth no better than injections of counterfeit money would "

Increased real incomes make people wealthier — not simply holding more rands "Too many people make the mistake of thinking the numbers on money are what count, when actually it's what the money can buy "

SA's experience shows that monetary inflation does not ensure growth The monetary base was R1,9bn in 1979 In the next seven years, government printed enough money to nearly triple the monetary base to about R5,4bn — but the economy grew by only 10%

So why does money supply increase? Economists say it is government, not the economy, which benefits Pretoria continues to spend more than it is willing to pay for with visible taxes So it depends on the Bank to finance the deficit by creating rands to buy government stock and Treasury bills — which we all pay for through inflation



Cause and effect

PW's attack on inflation

Cape Times 5/2/88

PRESIDENT'S MEETING . President Botha arrives at the meeting with businessmen accompanied by General Magnus Malan (left) and Mr Adriaan Vlok

Political Staff

A MAJOR onslaught on inflation, including a package of far-reaching restraints to undercut the cost-increases spiral, is expected to be announced by President P W Botha when he opens Parliament today.

But he is expected to exclude the possibility of introducing the prices-and-incomes freeze some businessmen have recently been speculating on

Instead, the emphasis will lie on Mr Botha appealing for moderation from all sectors of the community on the setting of prices and on making wage claims — possibly accompanied by a promise that similar restraints will be imposed in the public sector as a means of setting an example

Lending weight to the likelihood that Mr Botha's opening address is to focus on these issues, and the economic problems facing the country in general, was his top-secret but much publicized briefing to a select group of business leaders in Cape Town yesterday afternoon

As if to emphasize the importance government attaches to the measures Mr Botha is expected to announce today, it was notable that the entire cabinet also attended the briefing

It is to be followed by a similar briefing to financial journalists and foreign diplomats early this morning, before the address

Delegates who attended yesterday's briefing, including newspaper editors, have been requested to keep silent on what transpired till after Mr Botha has addressed the nation They yesterday declined to be drawn on the specifics of the meeting

Restraint

However, it emerges that one of the major elements in government's new battle plan against inflation could be the more effective implementation of those policy measures announced some time ago but which have not seen the light of day

Therefore, the anti-inflation package may reflect promises of greater fiscal restraint — such as contained public-sector spending and less government borrowing.

The Minister of Finance, Mr Barend du Plessis — thought to have had a substantial hand in deciding on the emphasis expected to be given in the State President's address, has already announced that government has made substantial progress in developing plans to cut back on spending

It is generally expected that more details of these plans, including the possible setting of expenditure priorities, may be revealed today

Plans to give effect to government's declared policies on deregulation and the privatization of key state enterprises may also form part of the package

● Meanwhile, National Council of Trade Unions general secretary Mr Phiroshaw Camay said workers' wage proposals were realistic and they would continue pursuing them

He said any call for wage restraint would be hypocritical, given excessive salary increases for MPs and cabinet ministers

PW may reveal inflation battle plan

D|D 5/2/88

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Daily Dispatch Correspondent

CAPE TOWN — A major onslaught on inflation, including a package of far-reaching restraints aimed at undercutting the spiral of cost increases, is expected to be announced by President P. W. Botha when he opens parliament today.

However, he is expected to exclude the possibility of introducing the prices and incomes freeze about which some businessmen have recently been speculating

Instead, it is expected that the emphasis will lie on Mr Botha's appeal for moderation from all sectors of the community in setting prices and making wage claims —possibly accompanied by a promise that similar restraints will be imposed in the public sector as a means of setting an example

Mr Botha's secret but much publicised briefing to a select group of business leaders in Cape Town yesterday afternoon lent weight to the likelihood that his opening address is to focus on these issues and the economic problems facing the country in general

The fact that the entire cabinet attended the briefing seemed to emphasise the importance which the government attaches to the measures Mr Botha is expected to announce today

The briefing is to be followed by a similar meeting with financial journalists and foreign diplomats early this morning, prior to the delivery of the address

Delegates who attended yesterday's briefing, including newspaper editors, have been requested to keep silent on what was said until after Mr Botha has addressed the nation They refused to be drawn on the specifics of the meeting

However, it emerged from what could be gleaned that one of the major elements in the government's new battle plan against inflation could be the more effective implementation of policy measures announced some time ago but never implemented

The anti-inflation package may, therefore, reflect promises of greater fiscal restraint — such as contained public sector spending and less government borrowing

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African Bank chief deplores inflation and joblessness

Star 6/2/88

FINANCE STAFF

Unemployment and inflation constitute a significant threat to stability in South Arica today, says Dr Sam Motsuenyane, chairman of The African Bank Limited (African Bank)

In the bank's annual report, he says inflation and unemployment in South Africa remained disturbingly high against a background of continued socio-political unrest.

He calls on the Goverment to give priority to promoting economic recovery, developing job-creating programmes and stimulating black business ventures.

The role of small, black-owned businesses in improving the economic situation cannot be over-emphasised as they provide a sure way of job creation. They also bring more black people into the realm of ownership.

"Although the Government and private corporations have done much to expand black participation in business, much remains to be done

"The growing hardships experienced as a result of rising unemployment, contribute to the tensions now prevaling in black areas," Dr Motsuenyane says.

A significent proportion of South Africa's population exists in a Third World context and spends an inordinate portion of its income on food

Food inflation is currently running at 24%, compared with the overall inflation rate of 17% in South Africa and single-digit inflation among its major trading partners.

"The major victim of inflation in South Africa is invariably the black community, which is often not in a position to take adequate steps to adjust to circumstances," he says.

"Unless significant strides are made in the political area, the prevailing unrest is likely to continue and, in these circumstances, South Africa has little hope of ever attaining the vast economic potential for which there is ample scope," Dr Motsuenyane says

"The reforms implemented by the Govenrment thus far have not brought about significant attitudinal changes among blacks, largely because these reforms all too often come too late or are not far-reaching enough to resolve the present impasse"

Dr Motsuenyane says one of the more pleasing aspects of the bank's operating results is the growth of more than 16% in the issued ordinary share capital Total growth over the past two years was just over 26%

"This is a clear indication that the black community has begun to appreciate the value of share ownership and supports the African Bank on an increasing scale," he says.

Dr Sam Motsuenyane

Income after tax and transfer to internal reserves for the year ended September 30 1987 was R639 000, compared with R83 000 the previous year After preference dividends, reserves available for distribution to ordinary shareholders are R276 000

An ordinary dividend of 4c per share, absorbing R133 000, has been declared, leaving a retained income of R143 000.

"We have budgeted for improved results in the current year," Dr Motsuenyane says.

Cape Times 6/2/88

(p53)

Boom or bust

Political Staff

PRESIDENT P W BOTHA yesterday announced a bold inflation-busting plan for South Africa which could mean a new era for the country — or end in disaster.

His sweeping economic package, with its built-in pay freeze, has already sparked an outcry among the huge and politically sensitive public service

But it has been greeted with qualified optimism by economists and the business community

A number of unions yesterday declared war on the government's austerity drive The far-right political groupings also made it clear that what they saw as a government-sponsored erosion of white earning power would mean trouble for the Nationalists in coming elections

Mr Botha's moves on the wage issue caused Nationalists to rule out the possibility of a snap general election this year

While critical of President Botha's failure to address political reform in his Opening of Parliament speech, opposition spokesman Mr Harry Schwarz and Mr Wynand Malan reacted to the far-reaching economic initiative with guarded praise

Calling for discipline and restraint from the public and private sectors, Mr Botha said the new policies demanded "a willingness to make sacrifies"

But nurses, teachers and public servants expressed shock that they would be denied across-

To Page 5

PW Botha's plan

AMONG the key measures unveiled by Mr Botha yesterday were

- The replacement of GST by an invoice-based valued added tax (VAT)
- A huge privatization plan affecting, among others, government giants like Eskom, SATS, the Post Office, with an estimated R80-billion in spoils being funnelled off into servicing public debt as well as aiding infrastructure and small enterprise development.
- A far-reaching new deregulation drive
- A thorough review of state finances and a reduction of the State's functions and services "where at all possible".

More reports, pictures — Pages 4, 5 & 17

PRESIDENT ARRIVES . . The State President, Mr P W Botha, and Mrs Elize Botha, arrive for the opening of Parliament yesterday. Picture GLENN SHERRATT

Cape Times 6/2/88 p53

From page 1

the-board salary increases this year

- The president of the 200 000-member Federation of SATS Trade Unions said railway workers were considering legal and strike action as a result of Mr Botha's "illegal and dictatorial" wage freeze SATS workers were "sick and tired of sucking the hind tit" He warned that illegal industrial action could not be ruled out
- SA Nursing Association (Sana) president Miss O H Muller said the "devastating news" would have drastic implications for manpower in hospitals and could affect the quality of patient care or cause hospital wards to be closed
- The president of the Teachers' Federal Council, Mr Dudley Schroeder, said they could not support the anti-inflation drive unconditionally, and doubted if it would succeed
- The (white) Public Servants' Association said it supported Mr Botha's anti-inflation fight but retained the right to fight for salaries to match the private sector The secretary of the 40 000-strong (non-racial) Public Servants' League, Mr Bernard Wentzel, said he was "shocked and dismayed" at the move

Mr Botha's plan for self-discipline in both the public and private sectors was welcomed by the business community and employer organizations, and seen as a sign that the government might finally be getting serious about tackling inflation

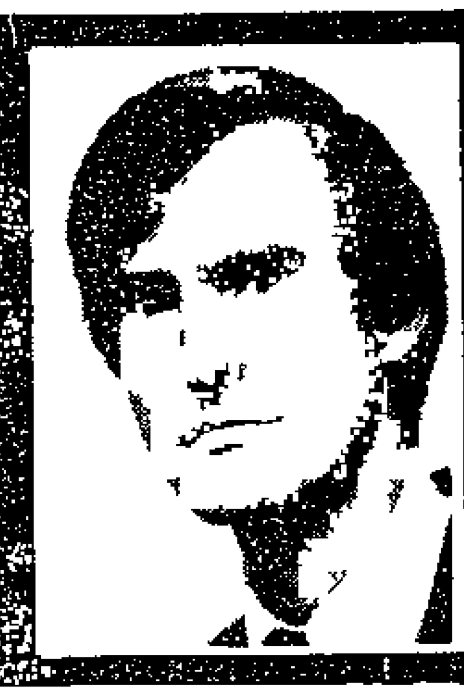
But they also warned that curbs in wage rises could frustrate union expectations and dampen the modest economic upturn by reducing consumer spending

(153) STT 7/2/88

INFLATION as measured by the consumer price index fell to 14,7% last December But most housewives continue to experience great difficulty in exploiting this joyous news at the supermarkets.

THE REX COLUMN

CEES BRUGGEMANS reviews the world and South African scene ...



Inflation a little tamer — but not for long

There are good reasons for this, in addition to which the official number can be expected to fall a little more, only to rise Phoenix-like later this year and in 1989-1990

The CPI's downward tendency is being helped by marginal slippage in still-high food prices (index weighting 22,7%), further falls in already-low housing costs (weighting: 21,2%), declining import-sensitive inflation (weighting 10% to 15%) caused by a stable weighted rand, and low increases in transport running costs and public transport (weighting 11,8%), aided by a high dollar-rand and declining dollar oil price

However, the change in weighting from a 1980 to a 1985 base has been the single most important factor behind CPI inflation of 14,7% in December The weighting changes for 70% of the CPI basket of goods (covering food, clothing, housing, furniture and transport) caused the December CPI number to fall by a one-off 0,7% on the 1985 weightings compared with what it would have been on the 1980 arrangement. On the old basis, the December CPI inflation rate would have been about 15,4%.

It is interesting to note that all the "low" inflation items gained in weightinbg, and all the "high" inflation items lost Although the weightings are traditionally changed at the beginning of every decade and at mid-decade, it would appear that 1985 was a bad year for new weightings as the exceptional recessionary conditions of that year caused major distortions which, one hopes, will turn out to have been temporary.

Food actually lost importance in household spending relative to 1980 as personal incomes fell drastically, leading to an unprecedented trading down in day-to-day expenditure, especially as the interest burden on household debt and the tax take reached record proportions.

Furniture, domestic appliances and motor vehicles experienced an unprecedented collapse in sales volumes in 1985 Their loss of CPI index weighting was partly neutralised by the steep cost increases caused by imported price inflation after the rand's collapse, which ensured that nominal sales values of these products were actually kept up.

TAX BURDEN

On the other hand, total services increased their CPI index weighting from 33% to 39,5% (and total commodities fell accordingly from 67% to 60,5%) because of record high interest rates and a rising tax burden in 1985. The former is a financial "service", the latter translating itself into a rising level of government "services".

Housing, being counted as part of services, in particular increased its weighting from 17,6% to 21,2%, mostly because of record high mortgage rates, the still-high white residential rents and the increase in black housing rents (relative to the composition of housing expenditure in the previous base year 1980).

Running cost of vehicles (weighting 7%) experienced "negative" inflation early last year, and a low figure of only 4% at the end of 1987 Even though the dollar price of oil increased substantially from 1986 to 1987, the rand recovered even faster against the dollar in that time

WORRYING

The exceptionally large decline in the weighting for clothing (from 7,3% in 1980 to 4,8% in 1985) defies an easy explanation, except to suggest that clothing and textiles did not experience the same boom as durables and suffered in a bad 1982 recession, pulling the sector down in the weighting stakes on sales volumes alone

In addition, this sector experienced lower inflation than the overall CPI for most of 1980-1985, and this is probably the main explanation for the fall in relative sales "values" and therefore CPI weighting.

All these special factors are worrying as they have given the CPI inflation rate a downward bias for 1985-1990 merely because 1985 was an exceptional year in the sense of monumental structural dislocation in incomes, spending patterns and product costs.

One early observation is that 1990 may turn out to have a similar distorting effect when the CPI weightings are changed If 1990 is as bad a recession year as 1985 was, the impact of a weighting change may at most be neutral for the CPI inflation rate

DROUGHT

If, on the other hand, recession has either ended or not yet started, or has seen at least a partial correction of the exceptional dislocations of 1985, the 1990 weighting change could give a one-off *upward* bias to the CPI inflation rate for 1990-1995 of between 0,5% and 1,0%

The outlook for the CPI inflation rate for 1988 appears to have the potential for further decline However, the outlook is clouded by major uncertainties

High food inflation is caused mostly by meat and vegetable prices, both still suffering from supply imbalances because of the long drought The good rains of late may have encouraged meat producers to keep some of their cattle off the market, expecting both higher prices now and next year from better-quality animals

It would appear that the consumer may have to wait a long time before receiving real relief.

The decline of imported inflation — for example, motor vehicles, domestic appliances, transport running costs — reflects a stable weighted rand in the past year. Although a slight decline in the dollar price of oil this year may keep running cost inflation down for a little longer, the rand's weighted stability may not outlast the year, given the falling balance of payments surplus

A new cycle of rand depreciation to protect the balance of payments would in time initiate a cycle of import-based inflation (directly) and import-parity pricing inflation (indirectly)

Housing inflation is only 7,7%, probably reflecting low interest rates (compared to their 1985 record highs) and small rent increases for whites and black public sector housing

NEW CYCLE

Although black housing is proportionately represented in the index and its slowly increasing rents would place downward pressure on CPI, the relatively higher "value" of white housing is giving it a larger weighting With open market property values recovering, and a new interest rate cycle for home mortgages likely to begin later in the year, there is bound to be an acceleration in home ownership costs and rents as the economy continues to grow. A major reversal in the inflationary momentum of this CPI component is therefore to be expected next year

Bearing in mind all these uncertainties in nearly 60% of the CPI (housing, food and imported), there appears to be high potential for a new inflation cycle to get under way later this year and continuing until 1990

To this must be added improving domestic sales and capacity use, increasing shortages and profit margin improvement in industrial sectors such as clothing, textiles, furniture, food processing, packaging, beverages, tobacco and others that directly and indirectly make up another 30% of the CPI in terms of being "commodities" which are prone to remain heavily inflation-biased

Furthermore, it should be borne in mind that, like shock absorbers, the major CPI components experiencing "low" inflation at present (housing and imports) are probably already reflecting their maximum contribution to bringing the overall inflation rate down. Because these components are not expected to experience much slower inflation, and could indeed undergo a trend reversal within six to 12 months, the downward potential for the overall CPI inflation rate appears to be limited

WAGES

A major uncertainty remains in nominal wage increases throughout the economy, the role of public and private employers in this process, and particularly the role of the many trade unions

Wage restraint is likely to be an interesting exercise in the current political environment, both on the Right and on the Left, and assisting — one hopes — in slowing our progress towards a Brazilian situation

For the next six to 12 months, there is hope of somewhat lower official inflation numbers The position is likely to reverse itself, possibly badly, in 1989-1990

Let us concentrate on today while we can

Deflation fears remain strong

Base metals boom 'likely to falter'

(153) Star 8/2/88

By Teigue Payne

Old Mutual's Economic Research Unit does not believe that the recent boom in base metal prices will be sustained, and takes a bearish view long term view of them

The unit says in its quarterly report that whether the recent rise in base metal prices is sustained will depend on future world economic growth, supply factors and inflation prospects

On world economic growth, the unit says the deterioration in pros pects following the collapse of financial markets is likely to impact negatively on the already paltry growth in base metal commodity demand of one percent since 1980 Although base metal prices are still very low in real terms, growth in demand is likely to remain very sluggish

On the supply side, utilisation among base metal producers remains low Producers, says the unit, are generally keen to raise output levels and have in some cases already reacted to the tightening supply/demand conditions

Overall, it says, prospects for weak demand growth and substantial excess production capacity militate against any major long term bull market based on supply/demand fundamentals

Lower world growth

On inflation as a possible source for higher base metal prices, the unit says expectations have been dampened in line with the prospects for lower world growth. Deflation, rather than inflation, now appears to be the main concern — and could act negatively on commodity prices

To understand the dynamics of base metal prices, the unit traces the modern history of base metal prices

Following the price collapse during the Great Depression, base metal prices recovered strongly during the lead-up to the Second World War, and in its early years They were later controlled, but in the two decades following the war, reconstruction and booming trade, and the Korean War, resulted in rising demand

Prices rose sharply in the second half of the 1940s, but in the Fifties and early Sixties, production was expanded and prices tended to move in a sideways band

Between 1963 and 1980, metal prices rose rapidly

Initially, robust world economic growth and trade, and the Vietnam War, were the reasons, and between 1964 and 1973, prices almost trebled

Trend reinforced

Thereafter, the end of fixed exchange rates in the Seventies, and the consequent decline in the dollar, sent prices upward The Club of Rome's predictions that reserves of technologically important metals would be exhausted before the end of the century, and rising oil prices and inflation, reinforced the trend

After a brief easing in prices in the mid-1970s, the upward trend was resumed, spurred by the second oil crisis In the second half for the 1970s, dollar commodity prices rose 450 percent — almost trebling in real terms

These rapid increases in price resulted in big expansion of production, which shifted from high-cost first world to low-cost Third World producers.

During the Seventies the rise in prices was not accompanied by a growth in physical demand The reasons were a slowdown in international economic growth and trade, increased conservation and substitution, and structural changes in maturing economies

These factors extended the slowdown in demand into the Eighties, when many commodity markets were also faced with rapidly rising output from projects started in the previous decade The Third World debt crisis encouraged some countries to produce no matter what prices prevailed

A major reconstruction and rationalisation among producers ensued However, prices did not revive because production capacity and inventories were in excess

Prices fell 50 percent in dollar terms between 1980 and mid-1986, when a gradual uptrend developed This uptrend gained momentum in 1987

Reasons for last year's uptrend were that, demand for most metals held up well during the year — contrary to the expectations of most producers, who had lowered output

Also, expectations that inflation would rise because of sharply rising money supply and better energy prices rekindled investor interest in commodities The decline of the dollar and the bull market in precious metals magnified the trend.

The unit concludes that because of the large potential production capacity, development of a longer term bull trend in base metals appears remote

Inflation's 25 years of havoc outlined

CAPE TIMES 11/2/90 153

Own Correspondent

PRETORIA. — The spiralling living costs of the past quarter-century and the havoc caused by inflation have been dramatically outlined in a Unisa survey.

A food basket, it was found, that cost R35 in 1960 cost R400 last year. A single salaried person who earned R200 a month in 1960 would have needed about R1 964 after tax last year to maintain the same living standards.

The prices of all expenditure items rose 30% from 1960 to 1970, but from 1970 to 1980 jumped 177%, and from 1970 to 1987 an incredible 648%

The price of reading matter was 18 times higher last year than in 1960. Education costs rose 16 times more and household operations 14 times more Food was 12 times more expensive.

A consumer whose meat bill was R157 in 1987 could have bought the same quantity and quality of meat for R10 in 1960 Fish which cost R10 would have cost R135 last year. A basket of vegetables rose from R10 to R127

The average price rise in all items was 882%

\# 9 STAR 11/4/88 (88) 152

Inflation pushes up funeral costs

Generations ago, one could buy a funeral policy for 25 cents a month premium and be guaranteed a burial in true stagecoach and six white horses-style. But times — and inflation rates — have changed.

Today, funeral policies do not provide the funeral service but choose to make policy returns in the form of lump sum payouts, and, in some cases, the chance of a discount on such services.

But for an individual who is not aware of the change in policy benefits or the effect of inflation, a funeral policy does not always secure peace of mind

"The need to educate policyholders has never been greater," said Mr Marius Smith, general manager, marketing of an assurance company

Investigations showed funeral costs had increased by 8,8 percent since 1978 and an adult burial could cost as much as R3 200, which many funeral policies, even with accumulated bonuses, could not cover, he said.

The situation was caused mainly by the Insurance Act, which restricted maximum benefits of funeral policies, for example, to R200 in 1961, R500 in 1976 and R1 000 in 1980, without anticipating inflation levels.

. Cape Times 12/2/88

Sanctions have failed — De Kock

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THE West's economic sanctions against South Africa have failed, the governor of the Reserve Bank, Dr Gerhard de Kock, said yesterday.

The South African economy, far from collapsing under the strain of sanctions and withdrawals by foreign companies, was buoyant, he said

A cheerful Dr De Kock, who said his golf handicap had gone down as the economy had picked up, gave a bullish assessment of the South African economy in a briefing to foreign reporters

He said sanctions had not brought the country to its knees or forced the government to end apartheid.

"Sanctions have not turned out to be the quick fix that people thought they would be," he said

Dr De Kock said he respected the sincerity of people who wanted to end apartheid, but their methods had been counter-productive.

If anything, sanctions had helped slow down the cautious apartheid reforms implemented by the government of President P W Botha in the early 1980s, he said.

The South African economy had been seriously buffeted by a combination of factors this decade, including a wave of black rebellion in the townships, but prosperity was returning after a deep recession, he added

Growth rate

"We are not going to shatter any growth records We are not going to do a Taiwan or a South Korea

"But we have done much better than I thought we would"

He said South Africa's real economic growth in 1988 was likely to be around 3% and this could be sustained in coming years The economy recorded inflation-adjusted growth of 2,6% last year, up from 0,5% in 1986

Although his overall tone was optimistic, he conceded that a three per cent growth rate was not enough to keep pace with rising unemployment, which is far higher — at least 30% — among the country's black majority than among whites

He said inflation would decline to about 14% this year from its current level of 14,7% In a speech to Parliament last Friday, President Botha pinpointed inflation and government overspending as key problems

Foreign perceptions of South Africa had improved, Dr De Kock said. Fewer people were convinced that this country was about to be engulfed in revolution

"Confidence is improving every single day," he told reporters. — Sapa-Reuter

Good weather may slow rate of food price hikes

(153) 22/2/88

Inflation curbs could cut price pressures

CAPE TOWN — Government's intensified action against inflation, which might also include a less accommodating monetary policy, could temper the current upward pressure on prices being experienced because of increased demand for goods and services, says Sanlam in its latest economic survey.

"A further positive factor is the indication that food prices may rise at a slower rate owing to more favourable climatic conditions," said Johan Louw, chief economist. He expected the inflation rate to fall below 15% in 1988, compared to the 16,1% of 1987 and the 18,6% of 1986.

Louw said that the additional steps against inflation instituted by the State President could possibly result in the expected growth rate of 3% not being reached this year.

As regards government finances, Louw anticipated a total revenue of R38,6bn in the current financial year (13% up on 1986/87) State expenditure should total some R48bn, (about 19% more than in 1986/87, compared with 16,2% projected in the main budget). That would leave a shortage before loans of some R9,4bn.

It was no easy task to curb current expenditure of the government substantially in the short term, because of the large amounts required for votes such as education and training, defence and interest on government debt, he said.

Consequently, the emphasis of stricter financial discipline fell in large measure on controlled increases in labour costs. Louw anticipated that the Minister would budget for an increase in total expenditure of no more than 12% in the new financial year.

A deficit before borrowing of some R10,5bn was foreseen That would allow the Minister only limited elbow-room for tax reductions, and he would no doubt consider it inadvisable to stimulate spending at this stage Yet some tax reduction for individuals in the form of lower personal income tax should not be discounted, said Louw

"In our view, it would have several advantages if the minister spelt out more clearly his assumptions in respect of certain important economic variables on which his budget is based This would place the business sector in a better position not only to determine the possible implications of his budget proposals, but also to put later deviations from, and adjustments to, the budget into perspective," he said.

Owing to a fairly good export performance and continued low imports, the foreign trade account was showing sustained surpluses This year's surplus should yield between R3bn and R4bn in comparison with about R6bn for 1987

"Thanks to the reasonable terms of the second standstill agreement with overseas bankers, the balance of payments as a whole is not yet a serious problem The difficulties which might arise bacause of a too rapid growth rate in domestic demand for goods and services must nonetheless be guarded against," Louw said

However, the ultimate success of these reforms in the economic sphere would depend largely on the co-operation between the public and private sectors — Sapa

D/D 22/2/88 153

Lower personal taxes this year?

CAPE TOWN — The inflation rate this year will probably be kept down to around 15 per cent, but it is unlikely that the economy will achieve the official growth target of 3 per cent, says Sanlam's chief economist, Mr Johan Louw, in his economy survey for February

He also predicts that the main burden of containing government expenditure will depend on holding down labour costs

The government's intensified action against inflation — which would possibly also include a less accommodating monetary policy — could help to temper the upward pressure on prices, resulting in inflation being brought down to under 15 per cent this year, he says

"A further positive factor is the indication that food prices may rise at a slower rate owing to more favourable climatic conditions "

The additional steps against inflation instituted by the State President, Mr P W Botha, could result in the expected growth rate of 3 per cent not being reached this year

As regards government finances, Mr Louw anticipates a total revenue of R38,6-billion in the current financial year — 13 per cent up on 1986/87

State expenditure should total some R48 billion, representing about 19 per cent more than in 1986/87, compared with 16,2 per cent projected in the main budget That would leave a shortage before loans of some R9,4 billion

"However, to cut back on current government expenditure is not an easy task, in view of the large sums needed for education and training, defence and interest on government debt "

Mr Louw anticipates that the Minister of Finance, Mr Barend du Plessis, will budget for an increase in total expenditure of no more than 12 per cent in the new financial year

He foresees a deficit before borrowing of about R10,5 billion This would allow the Minister only limited elbow-room for tax reductions

"Yet we believe that a slight tax reduction for individuals in the form of lower personal income tax should not be discounted," he says

"In our view, it would have several advantages if the Minister spelt out more clearly his assumptions in respect of certain important economic variables on which his budget is based

"This would place the business sector in a better position not only to determine the possible implications of his budget proposals, but also to put later deviations from and adjustments to the budget into perspective "

Owing to a fairly good export performance and continued low imports, the foreign trade account was showing sustained surpluses

This year's surplus should yield between R3 and R4 billion in comparison with about R6 billion for 1987

"Thanks to the reasonable terms of the second standstill agreement with overseas bankers, the balance of payments as a whole is not yet a serious problem "

The difficulties which might arise because of a too rapid growth rate in domestic demand for goods and services must be guarded against

The steps announced — aimed at reducing the role of the government in the economy, bringing about a fairer tax burden and curbing inflation — could be a great help in increasing the growth potential of the economy

— Sapa

D/D 23/2/88 (153)

Inflation rate falls

PRETORIA — South Africa's inflation rate, as measured by the consumer price index for January, is 14,2 per cent, the lowest rate since January 1985, the Central Statistical Service said here

The monthly rate of increase was 0,6 per cent, down from December's 0,8 per cent

The annual rate of increase in food prices slowed to 18 per cent — the lowest since June 1986

Meat and vegetable prices showed a monthly increase of 2,4 per cent and 1,2 per cent

Large monthly increases were recorded for footwear (2,7 per cent), medical care (3,8 per cent), and vehicles (4,3 per cent) — Sapa

(153) SIT 28/2/88

Inflation plea by accountants

A PLEA for inflation accounting to be more widely adopted by South African companies was made by Institute of Chartered Accountants president Rick Cottrell this week.

Presenting certificates to successful companies in the annual Institute of Chartered Accountants-Business Times Reporting Awards competition, Mr Cottrell said SA had lived through double-digit inflation for more than a decade.

"The more we learn about the qualitative characteristics of financial statements, and in particular about relevance and reliability and the trade-off between the two, I question whether SA's reporting entities can continue to justify the absence of information."

He said only about 15 companies judged this year carried sufficient information on the effects of inflation.

The winner's certificate for Anglo-Alpha was presented by Mr Cottrell to Trevor Wagner, the company's director of finance and administration

Other successful companies were Adcock Ingram, Associated Furniture Companies, Barlow Rand, Malbak, Power Technologies, Premier Group Holdings, Pretoria Portland Cement and SA Breweries.

The award for the best report from a non-listed organisation went to Eskom.

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BUSINESS

Consumers still sceptical

JAN CRONJE/director, SA Consumer Council

DESPITE relatively lower inflation rate figures in the past few months, SA's double figure inflation is unacceptably high, and the impoverishment of the consumer continues

Salaries are not keeping pace with the rapidly-rising cost of living, and unemployment statistics are reaching disconcerting proportions

Food inflation is still one of the biggest culprits and needs to be addressed urgently in view of its major contribution to the erosion of living standards

The recent (slight) drop in the inflation rate to 14,2%, as measured by the Consumer Price Index, is heartening to a degree, but consumers are understandably sceptical and do not see any improvements in their budget balance sheet at the end of the month

The moderate improvement in the economy and the recommendations of the Margo Commission have, however, stimulated consumer confidence. People are aware that methods of tax avoidance can be employed in the business sector which are not available to the average salary earner. Margo's recommendations have created the hope that a broader tax base will be established.

Many consumers have already accepted that a wider business tax, separate taxation for married couples and a lower sales tax rate will be instituted. They believe the business sector now has "no way out" but to contribute its rightful share to the tax kitty.

The recently-announced Value Added Tax (VAT) will have to be promoted extremely well to win the confidence of consumers. Unlike GST, where the consumer could clearly see how much tax he was paying, VAT lurks somewhere behind the scenes — ever present and ever potent.

The praiseworthy attempt by the State President to combat inflation and oil the gears of free enterprise can succeed only if all parties — consumers, business sector and government — join in a co-ordinated effort.

Consumers are sceptical because of repeated reports in the media of intended price hikes A monitoring action of some sort, whereby price and salary increases are kept in check, might be necessary

If consumer confidence is lost, the whole exercise could add up to nil — to the detriment of the entire economy.

A heartening development recently is that the importance of the consumer's voice is being more widely accepted

In discussions with representatives of government, private sector, organised agriculture and the media, it is becoming clear that the consumer's role is at last being recognised for what it is — absolutely vital. He is, after all, the most important link in the economic chain of a free market system.

Consumer representatives are increasingly being consulted and invited to contribute where decisions affecting the consumer are made. At long last it is dawning on decision-makers and businessmen that the consumer's consent is a most valuable commodity.

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2/3/88

Retailers agree to help govt cut the inflation rate

CHRIS CAIRNCROSS

CAPE TOWN — Big business, particularly the retailing sector, is cautiously prepared to take government's promises at face value and do all it can to assist in reducing the inflation rate

Spokesmen for several large corporations canvassed for reaction to government's calls for both the public and private sectors to fight inflation, said they were encouraged by the example displayed by the pegging of wages and general tariffs in the Sats budget

"Government, for once, seems prepared to back up its rhetoric with action," commented OK Bazaars director Allan Fabig

But he warned that government still has a long way to go in narrowing the credibility gap it has with taxpayers over its expenditure promises

Similar observations came from Premier deputy chairman Peter Wrighton

He said Premier would do all in its power to assist in reducing the rate of inflation At the same he warned that it was necessary to be realistic and acknowledge that there was no quick fix

Wrighton noted that a salary freeze was necessarily only part of a short-term solution and other concerted steps would be necessary

Executives remained vague on whether any similar form of price and wage pegging was also likely within the private sector

Fabig, for example, noted that the retail sector was extremely competitive, and both prices and wages were determinants of market forces

Salary and wage scale changes were also not uniformly determined in the private sector, but were timed to the financial year ends of the various corporations.

Pick 'n Pay's Hugh Herman confirmed that price margins were already so tight that retailers had little room to manoeuvre.

No thought has yet been given to salaries, as these were only reviewed in June, prior to the year-end, he said

Wages levels were also linked to industrial agreements and negotiations between unions and employers

Disunity

Business is therefore unable to make any unilateral decision on pegging wages as government has done with the public service

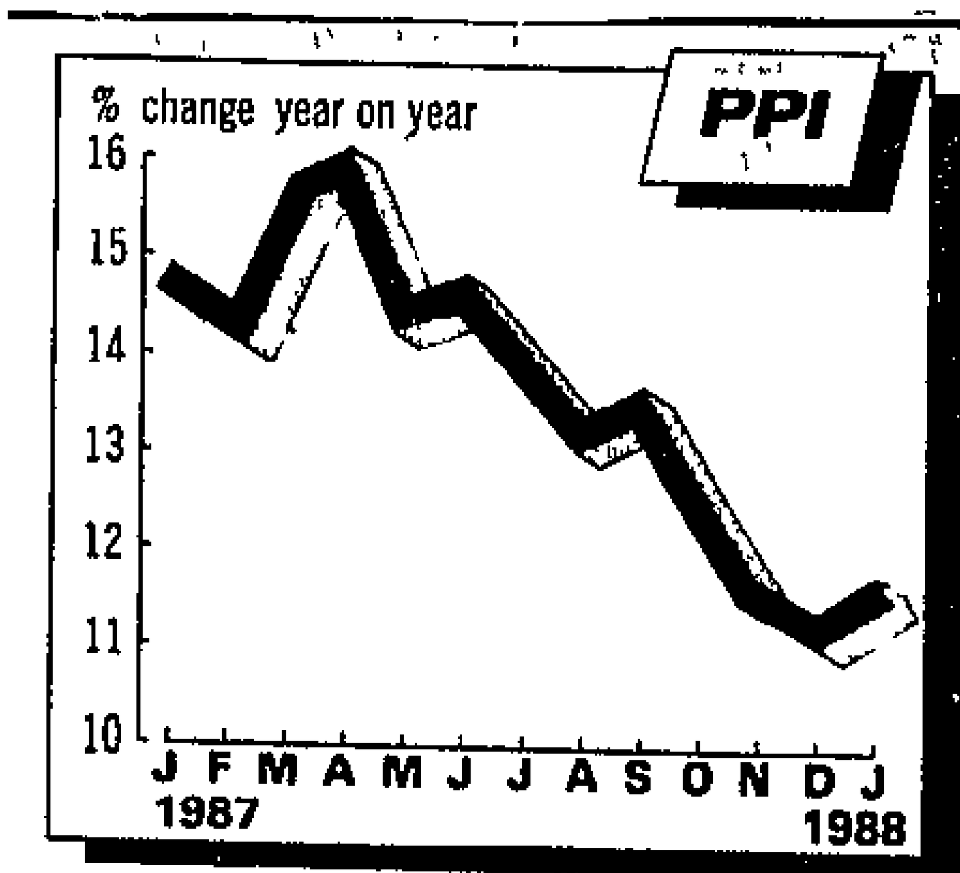
Organised commerce and industry failed last week to agree to a common strategy or response on wages and prices, and this "disunity" is also certain to be reflected in the manner in which different corporations respond to government's anti-inflation appeals.

Public servants and other parastatal employees, who are now threatening to renew their wage demands in July if the private sector does not make similar sacrifices, are unlikely to to be in a position to clearly decide by then whether they are alone or not

Producer inflation rises

(153) B/day 11/3/88

HELOISE HENNING



Graphic FIONA KRISCH Source CSS

PRODUCER inflation rose by 0,4% in January to 11,8% from 11,4% in December According to figures supplied by the Central Statistical Service the inflation was due to a 1,8% increase on imported goods rising from 6,7% in December to 8,5%. The index for locally produced goods remained unchanged at 12,7%.

Indications in the Production Price Index (PPI) usually precede the Consumer Price Index (CPI) by two months The rise in the PPI could mean that consumer inflation measured in March could rise to correspond with the current increase The increase takes the PPI 0,1% above the figure for November last year. It was lower than January last year when it reached 14,9%, however.

Materials which showed large annual price increases were wool (69,3%), plastic bulk forms (29,5%), stock and face bricks (about 30%)

DIP. 11/3/88 (153)

Production inflation

PRETORIA — The production price index inflation-rate for January increased to 11,8 per cent from December's 11,3 per cent, the Central Statistical Service revealed here yesterday

It was, however, lower than January 1987's 14,9 per cent

The inflation rate for locally produced commodities was 12,7 per cent — unchanged from November and December

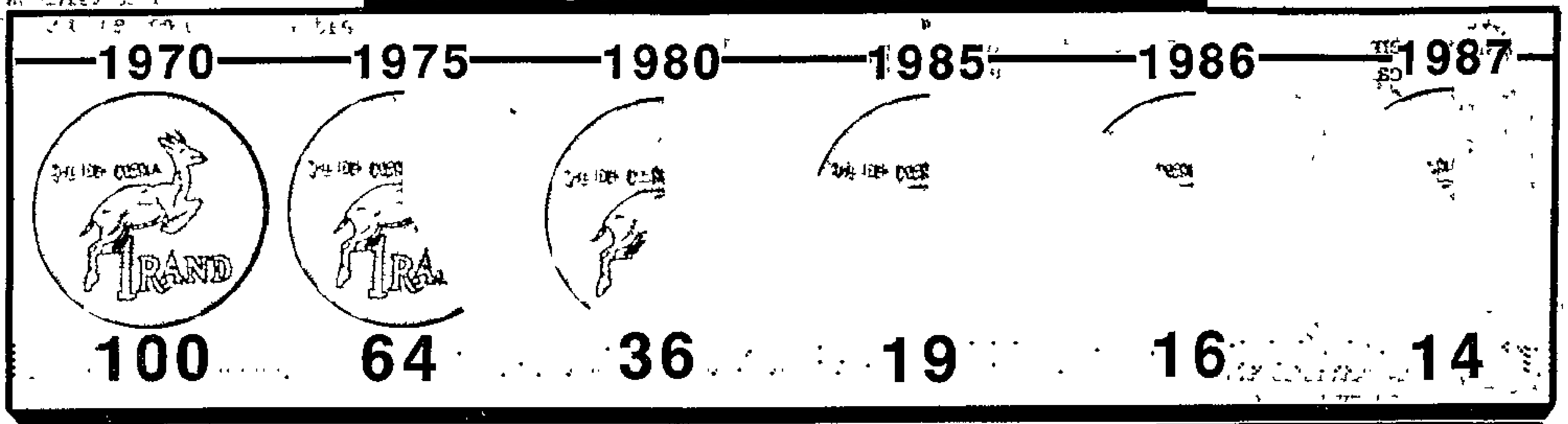
The index for imported commodities showed an 8,5 per cent increase, compared to December last year's 6,7 per cent.

Materials which showed large annual price increases were wool (69,3 per cent), plastic bulk forms (29,5 per cent), and stock and face bricks (about 30 per cent) — Sapa

16/3/88

(53)

THE SHRINKING RAND



GRAPHIC BY JAMES DE VILLIERS

Study traces rapid decline of the rand

By Michael Chester

There are wags in economic circles who make the waspish remark that if the Government fails to break the inflation spiral fairly soon, a solution will have become of no more than mere historical interest

This is because the rand is shrinking so fast it may have disappeared as a problem anyway

Smiles freeze when one sees the bitter realities behind the quips in a closer study of a new batch of tables prepared by the Central Statistical Service

Mr A P T du Toit, head of the CSS, follows the drop in the purchasing value of the rand and shows how the buying power of R1 at the start of 1988 was 14c compared with 100c in 1970

An even sharper perspective is given to the dilemma when the statisticians work out the fall of the rand over a couple of generations

They work out the equivalent of the rand in great-grandpa's days — when its predecessor was in the form of a 10-bob note — and track its demise in purchasing power from 100 c back in 1910 to a miniscule 3c today

The table also follows the acceleration of inflation It took 20 years — from 1910 to 1930 — for the 100c to erode to 72c And it was another 20 years before its 1910 value was down to 47c

By 1970, when the inflation storm clouds started to gather on a global scale, the 100c of 1910 had wilted to 25c

As an academic exercise, the CSS mandarins restructure the 1970 R1 to restore its purchasing power to a theoretical full 100 c again

Inflation hits a three-year low

22/3/88 Star

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By Sven Lunsche

The year-on-year inflation rate for February 1988 dropped to 13,7 percent, its lowest level in over three years, but economists are sceptical about whether it will fall further over the rest of the year

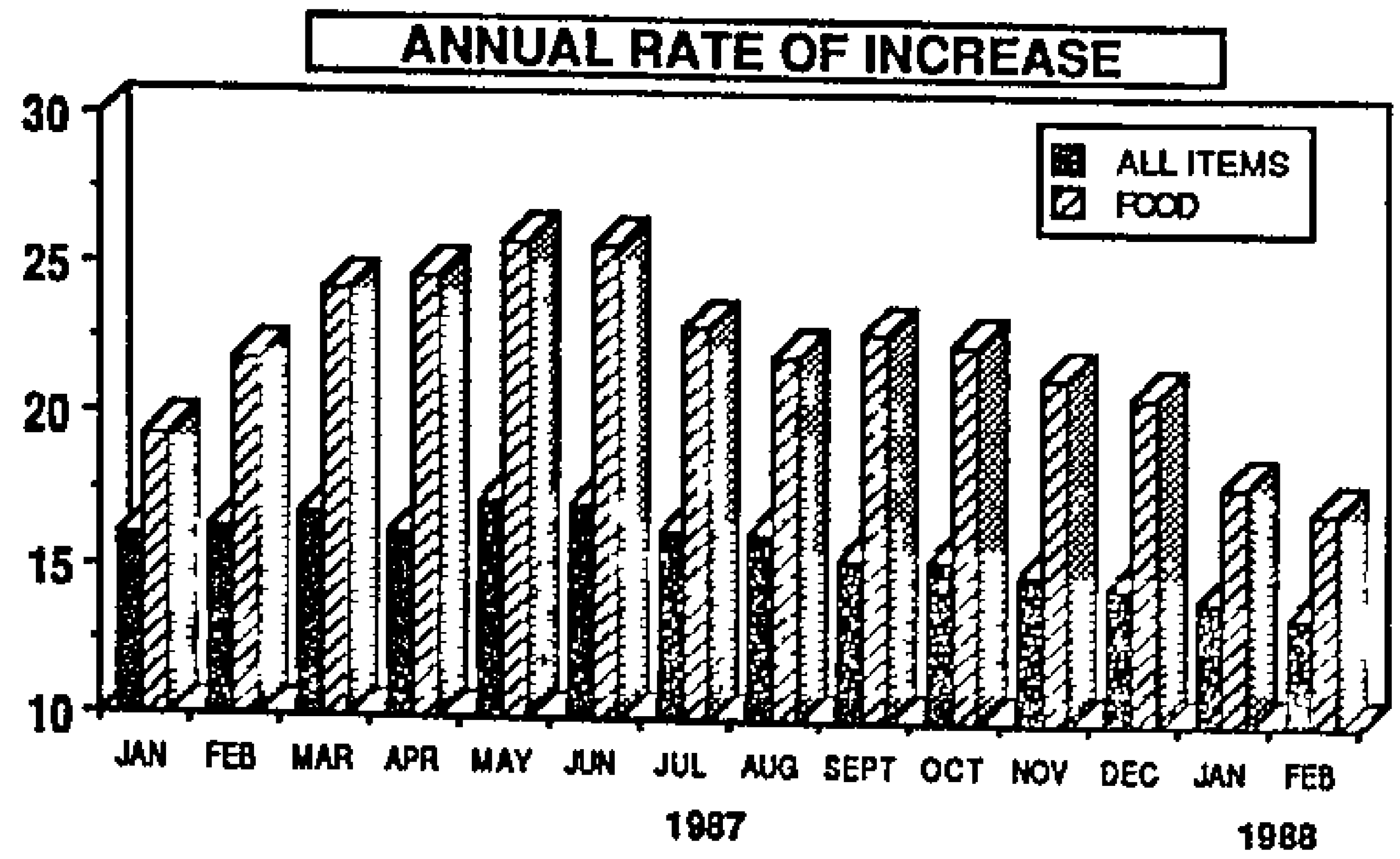
February's inflation rate, as measured by the consumer price index (CPI), compares with a rate of 14,2 percent in January this year The monthly rate of increase from January to February was 0,6 percent, which is the same as that from December 1987 to January 1988, figures released by the Central Statistical Services show.

Food prices showed a significantly lower rate of increase In February, the annual rate of increase for food products was 17,1 percent (18 percent in January).

Food, which was the main impetus for high inflation rate in 1986/7, has since the middle of 1987 been directly responsible for the corresponding declining tendency of the inflation rate

Analysts expect food prices to continue decelerating over the next few months and to reach below inflation levels next year. But this trend is not expected to bring down the overall rate of inflation

"It is unlikely that the average for the year will be below 14 percent. The inflation rate could bottom out in March or April and I expect it to rise from then on," says Southern Life economist Mike Daley.



"This is in line with the economic upswing we are experiencing and would also reflect higher producer costs evident in January," he says

Producer-price inflation rose from 11,3 percent in December 1987 to 11,8 percent in January, thereby halting the slide of declining producer-price increases, leading economists to feel consumer-price inflation will follow this trend.

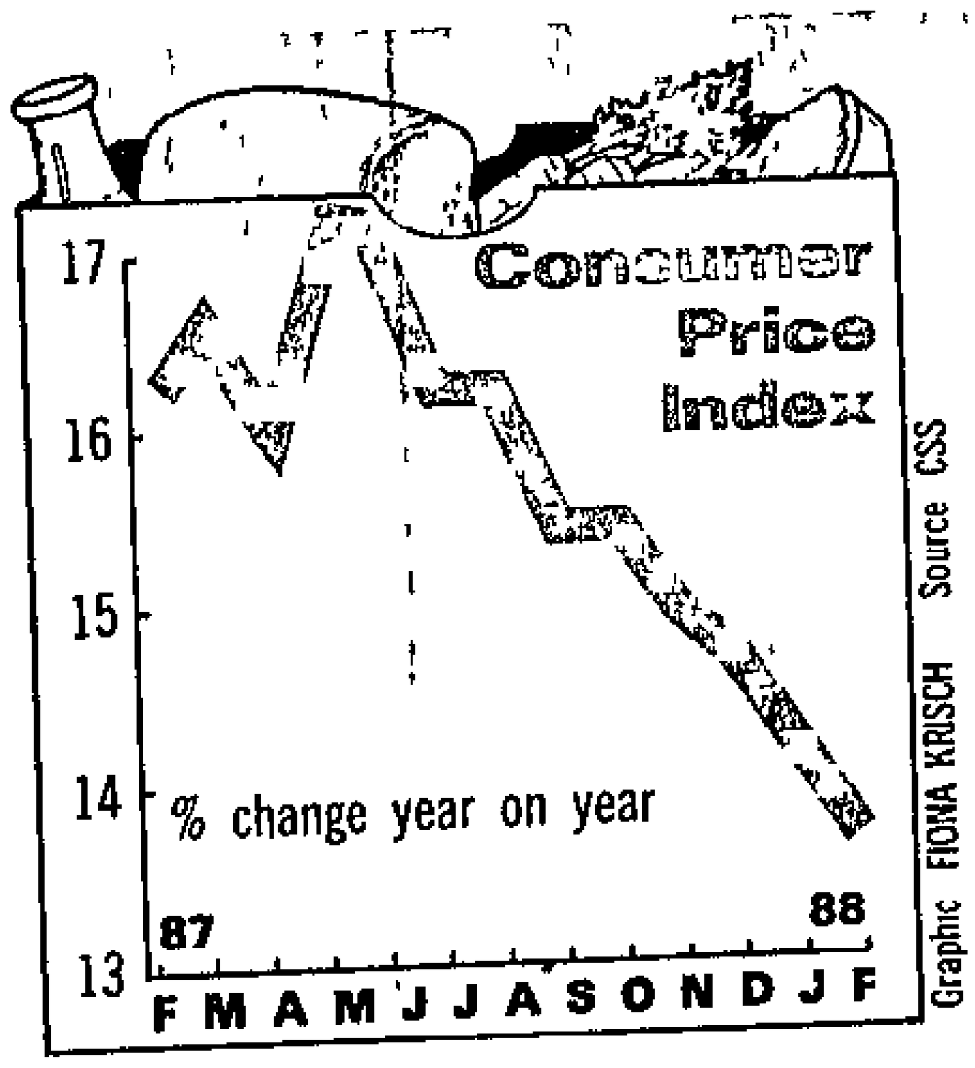
On the increase in consumer demand over the last year, Old Mutual's Dave Mohr suggests this rise acts with a lag on prices and will eventually push up prices

He adds "After the re-weighting of the CPI, bond rates make up about 9,5 percent of the index While higher interest rates are deflationary in the long run, in the short term the recent rise in the bond rate is expected to exert upward pressure on inflation"

But the major source of inflation is likely to be the weakening rand, which could fall further as the monetary authorities allow it to drop in order to boost the balance of payments

Mr Daley says the cost of the representative currency basket over the last year has risen by about eight percent and is likely to rise further

"The depreciation of the rand against all currencies will inevitably lead to higher inflation from this source," says Mr Mohr



Further drop in inflation (153)

22/3/88 HELOISE HENNING B/Day

CONSUMER inflation in February continued its declining trend with a year-on-year rate of 13,7% compared with 14,2% for January.

But the seasonally adjusted figure shows the year-on-year rate obstinately sticking to a rate of 14% — the average rate of consumer inflation forecast by several economists for 1988.

Annualised, the rate of the past quarter (December to February) arrives at an inflation rate of 8,8%, substantially lower than the year-on-year rate with changes in the month-to-month annualised rate going to 9,8% from 11,2% in January.

February summer sales should have been the reason for the dip in the February consumer price index (CPI). But clothing and footwear increased on a month-on-month rate from 19,5% in January to 19,6% in February — showing a resistance to move from the 20% level it has averaged in the eight months to February.

The same is true for meat prices, which showed an upward tendency from 24,5% in January to 24,6% in February.

Food, which showed a decline in the year-on-year rate to 17,1% compared to 17,9% in January, increased according to the year-on-year rate and from 1% to 2,4% in the short and 30,7% to 32,3% in

● To Page 2

Inflation still on a gradual downward path (153)

● From Page 1

the medium term indicator The main culprits in keeping the rate high is attributed to condiments — pepper rose by 15,1% and jam by 8,4% while fruit and vegetables decreased by 4,4% and 2% respectively

Housing was stable with no change in the month-on-month average of 0,3% in January and February But when the bond-rate increases that came into effect in March are calculated in the CPI this factor will no doubt contribute to a higher monthly rate of inflation

The Reserve Bank's targeted growth in money supply should keep the variance in consumer inflation within the 14% range — at least within the first half of the financial year

B/Day 22/3/88

153

Inflation rate down but high food prices cause for concern

Political Staff

GOVERNMENT and Opposition spokesmen expressed their pleasure at the latest fall in the inflation rate today, but said they were concerned about the high rate of increase in food prices

They were reacting to official statistics which showed the annual inflation rate drifted down to 13,7 percent last month

The food price index was 17,1 percent higher than a year ago — down slightly from the 18 percent rise in January and the 21,8 percent rise in February 1987

Finance Minister Mr Barend du Plessis said today he was obviously pleased that the downward tendency of inflation was continuing

He said· "But I am disturbed by the fact that the rate of increase in food prices remains stubbornly high, even though that has to be understood in the present agricultural circumstances"

Mr du Plessis said the Government hoped that through the necessary fiscal and monetary discipline it would be able to continue its contribution towards bringing the inflation rate down further

ANTI-INFLATION

Although it was too early to say, the Government's recent new anti-inflation policy had contributed to the fall in inflation, Mr du Plessis said The latest figures underscored that it had acted at the most opportune time to bring inflation down

CP spokesman on economic affairs Mr Clive Derby-Lewis said "While it is encouraging to see the general rate of inflation moving down slowly, the inflation of food prices, which particularly hits under-privileged people, is coming down too slowly

"We want the Government to launch an inquiry into the reasons for the unreasonable increases in food prices and any possible price collusion in the food industry"

PFP spokesman on consumer affairs Mr Harry Schwarz said "Unless the Government's anti-inflation initiative continues I do not think inflation will continue to come down

"There is a real risk that things can go wrong, especially if the rand weakens and the prices of imported goods go up

"I do not think the man in the street has yet felt the effect of inflation coming down because food prices are still rising substantially The price of accommodation is also going up at a high rate.'

Mr Schwarz urged consumers to be especially careful of the greatest trap in the market place — loss leaders in supermarkets

He said supermarkets enticed consumers into their shops with the lure of cheap prices on a few loss leaders, then shoppers wound up spending somewhat more on a range of other products which they bought on the premises for the sake of convenience

Cape Times 22/3/88

153

Inflation down

By LAWRENCE TOTHILL
Investment Editor

LAST MONTH saw a further slowing down in the rising cost of living as measured by the Consumer Price Index (CPI).

The index rose 13,7% in February after easing back to a 14,2% rise in January this year This is the lowest rise in many months as the accompanying graph shows, and the lowest rate of increase since December 1984

In February 1987 the year-on-year inflation rate was much higher at 16,3% The all-item index (base 1985) stood at 148,2 in February which was 0,7% up on the January figure of 147,2

The monthly gain for both the lower- and middle-income groups stands at 0,7%, while higher income earners experienced a 0,8% rise from January to February

The lower-income group is still the hardest hit, with a year-on-year gain of 14,4% in the cost of living They are followed by the higher group showing a 14% rise while the middle-income group shows a 13,7% rise in living costs

Food prices continue to rise faster than the average The food index for February stood at 161,7 — a rise of 0,9% on the January level of 160,3 The food index is also 17,1% higher than it was in February last year It is, however, better than the 18% rise of January and the 21,8% rise in February 1987

The cost of pepper jumped by 15% in February over January

Fuel amd power, mainly because of electricity hikes, rose 5,5% from January to February.

Consumer inflation in February continued to decline with a year-on-year rate of 13,7% compared with 14,2% for January

But the seasonally adjusted figure shows the year-on-year rate sticking to a rate of 14% — the average rate of consumer inflation forecast by several economists for 1988

The inflation rate for the past quarter (December to February) stands at 8,8%, substantially lower than the year-on-year rate with changes in the month-to-month annualized rate going to 9,8% from 11,2% in January

February summer sales should have been the reason for the dip in the February CPI But clothing and footwear rose from 19,5% in January to 19,6% in February — keeping at the 20% level it has averaged in the eight months to February

The same is true for meat prices which rose from 24,5% in January to 24,6% in February

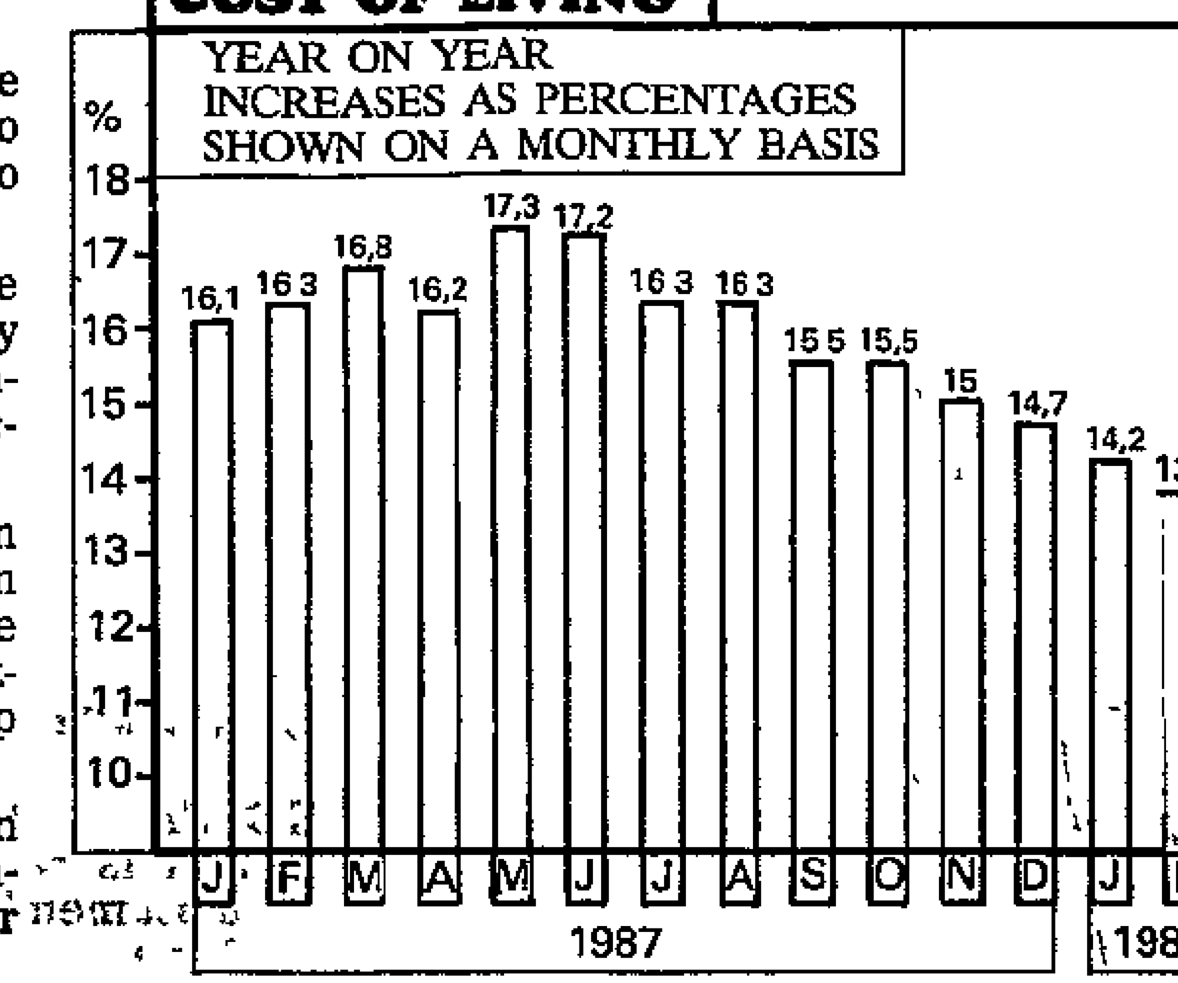
Food, which showed a decline in the year-on-year rate to 17,1% compared to 17,9% in January, increased according to the year-on-year rate

The main culprits in keeping the rate high are condiments — pepper rose by 15,1% and jam by 8,4% Fruit and vegetables decreased by 4,4% and 2% respectively

Housing was stable with no change in the month-on-month average of 0,3% in January and February. But when the March bond-rate increases are calculated in the CPI, this will no doubt push up the monthly inflation rate.

The Reserve Bank's targeted growth in money supply should keep consumer inflation within the 14% range — at least for the first half of the financial year

COST OF LIVING



BUSINESS

153

SA inflation rate down

JOHANNESBURG — Consumer inflation in February continued its declining trend with a year-on year rate of 13,7 per cent compared with 14,2 per cent for January

But the seasonally adjusted figure shows the year-on-year rate obstinately sticking to a rate of 14 per cent — the average rate of consumer inflation forecast by several economists for 1988

Annualised the rate of the past quarter (December to February) arrives at an inflation rate of 8,8 per cent, substantially lower than the year-on-year rate with changes in the month-to-month annualised rate going to 9,8 per cent from 11,2 per cent in January

February summer sales should have been the reason for the dip in the February Consumer Price Index (CPI)

Clothing and footwear, however, increased on a month-on-month rate from 19,5 per cent in January to 19,6 per cent in February — showing a resistance to move from the 20 per cent level it has averaged in the eight months to February.

The same is true for meat prices which showed an upward tendency from 24,5 per cent in January to 24,6 per cent in February

The Reserve Bank's targeted growth in money supply should keep the variance in consumer inflation within the 14 per cent range — at least within the first half of the financial year — DDC

PID 31/3/88

CPI: EL inflation rate one of lowest in SA

153

PORT ELIZABETH — The inflation rate of the Port Elizabeth-Uitenhage area, as measured by the consumer price index (CPI), last month moved above the weighted average of the 12 major urban areas monitored by Central Statistical Service

The CPI annual increase for the Port Elizabeth-Uitenhage area last month was 14,7 per cent after a monthly increase of 0,9 per cent from January to February The weighted average increase was 13,7 per cent after a monthly rise of 0,7 per cent.

While the weighted average annual increase was down on the previous month's 14,2 per cent, the annual increase of the Port Elizabeth-Uitenhage area was up on January's 14,4 per cent

The area's inflation rate would have been higher had it not been for the inhibiting effect of slower rising housing costs The index for all items except housing, rose at an annual 16 5 per cent, boosted by a 20,3 per cent increase in food prices, the second highest after the 26,3 per cent of the Klerksdorp goldfields

Bloemfontein recorded the lowest inflation rate — 10,9 per cent, followed by the Cape Peninsula and Pietermaritzburg each with 13,1 per cent after a monthly rise of 0,6pc

The third lowest increase was the 13,2 per cent in the Vaal Triangle, followed by **13,6 per cent in East London**, and 13,8 per cent on the Witwatersrand

The highest inflation rate of 15,3 per cent was on the Free State Goldfields, followed by 14,8 per cent in the greater Pretoria area, 14,7 per cent each in Port Elizabeth and Kimberley and 14,1 per cent on the Klerksdorp goldfields

The CPI cannot be used to compare living costs between various areas — it only shows price increases in each area which operate independently of other areas — DDC

THE ECONOMY

153

Whoopee! Inflation should be no worse than we're used to

Everyone is delighted at the fall in inflation but anywhere else in the world the figures would be greeted with alarm. HILARY JOFFE reports.

SO accustomed have South Africans become to double digit inflation that when the inflation rate falls below 14 percent it's greeted with some joy

Some of South Africa's major trading partners would regard a figure of five percent with consternation

But in this part of the world an inflation rate of 13,7 percent — the February figure released last week by the Central Statistical Services — compares favourably with the average 18,6 percent increase in the consumer price index recorded for 1986 and the 16,2 percent last year

Chances are though that inflation won't keep dropping for the rest of 1988, although it may continue to decline over the next couple of months Economists are predicting an average inflation rate of between 14 and 15 percent for this year — and that assumes no major shocks to the economy

Increased domestic demand as the economy grows, and a fall in the rand's value, are likely to push up prices later this year

Soaring inflation two years ago was caused in large part by the sharp fall in the value of the rand against foreign currencies As the rand has stabilised over the past year, so price rises of imported goods have slowed.

Wholesale price inflation on imported goods was 9,7 percent last year compared with 22,6 percent in 1986, while the wholesale prices of locally produced goods went up by 13,9 percent last year compared with 19,6 percent in 1986 Wholesale price inflation, reflected in the producer price index, stood in January at 11,8 percent — a slight increase on the December figure

But the rand's value has been falling and downward pressure is likely to continue this year.

The rand has fallen against the dollar from 52c to 46c (using the old way of quoting it) in the last three months — a decline of 10 percent.

Cont.

percent last year and one bank economist predicts motorcar prices could go up 17 to 18 percent this year, as manufacturers struggle to cope with demand

Rising interest rates will also influence inflation, particularly through their effects on homeowners with mortgages

Another question mark in the inflation equation for 1988 is whether companies will take the opportunity of economic recovery to increase profit margins further, which would fuel inflation

On the positive side for inflation is that food price increases, which were the major contributer to last year's inflation rate, have slowed down

Food inflation is still at 17 percent (it peaked at 26 percent last year), so the cost of living for poor people is going up faster than for others Inflation for the "lower income group" was 14,4 percent in February.

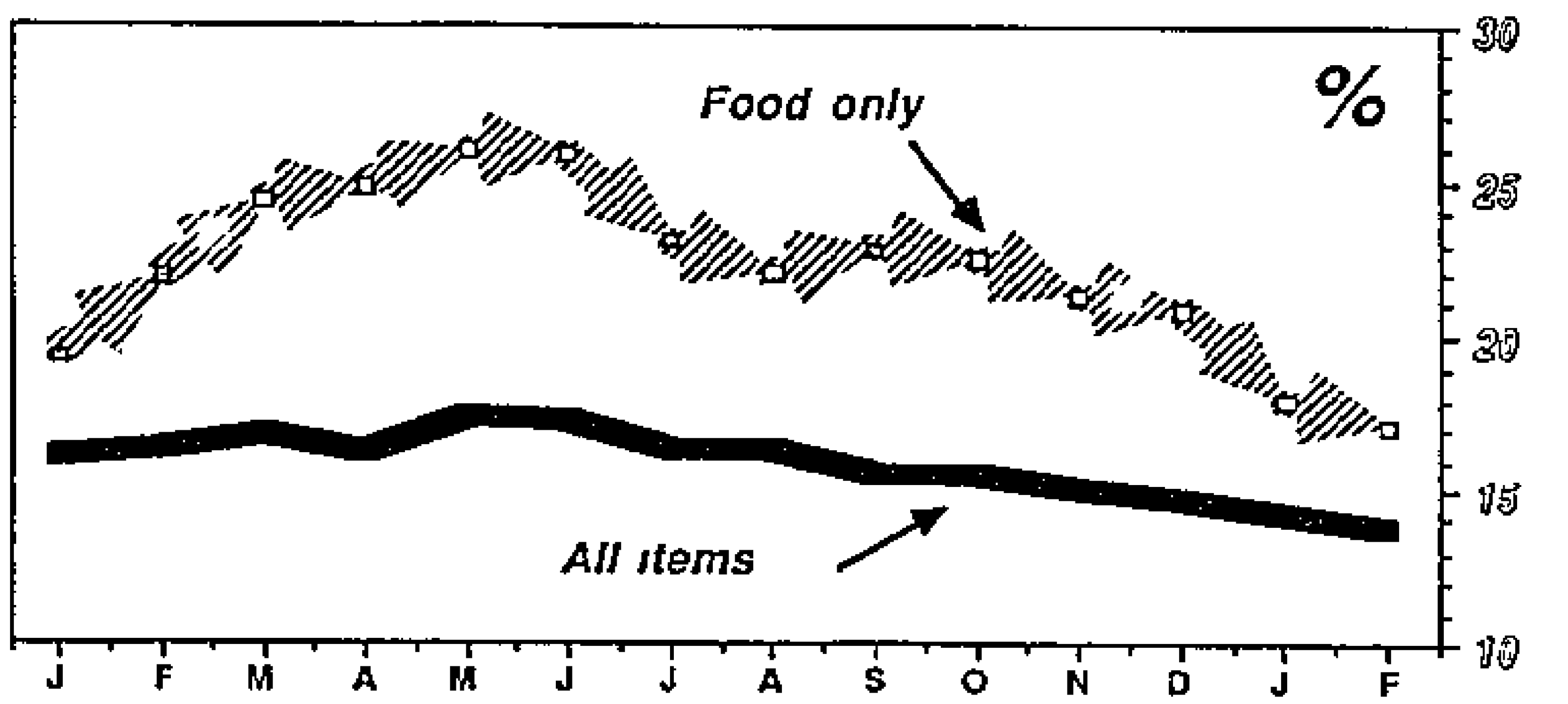
Food prices rose by only 0,9 percent a month on average between November and February, compared with a 1,7 percent average from January to October last year

Meat and fish prices are still major contributors to food price inflation meat prices rose by 24 percent in the 12 months to February and fish prices by 22 percent. Even though the drought has ended, farmers are still rebuilding their herds And the Meat Board is reluctant to import meat to cover the shortfall.

With the end of the drought, however, price increases in fresh foods have slowed down Vegetable prices actually dropped by an average 2,7 percent a month between November and February, after increasing by 4,2 percent a month for the first 10 months of last year. Fresh food prices are hard to predict because they depend on the weather

The prices of packaged foods rose by much less than those of fresh foods last year, by 12 to 13 percent on average, according to Checkers MD Clive Weil This should not get any worse in 1988, but neither will it get any better, he predicts

The floods which have marked the end of the drought should not cause food shortages, says SA Agricultural Union economist Gerhard Grove. Only a minority of farmers' lands are situated next to rivers, such that their crops have been affected According to Grove, most food prices administered by control boards have not gone up recently, slowing down food price inflation.



Inflation comes down... but will the trend continue?

Increases in other administered prices have also been held back· railway tariffs and petrol, for example

February was the fourth month in which the CPI rose by less than one percent over the month, the fall in inflation neatly coinciding with the government's intensified anti-inflation drive

It also coincides with the change in the way the CSS has calculated the CPI since November, making it difficult to assess how much inflation really has slowed down Food's weighting is down in the new index.

The government is presumably trying to curb the vicious cycle of inflationary expectations which breed more inflation, so it's sure to be pleased with the latest inflation figures, indeed, given the role of administered prices, it's played some part in shaping the figures

Holding down administered price rises and freezing public sector pay is the government's short-term attack on the inflation problem. With its emphasis on "fiscal discipline" in the budget tabled in parliament by the minister of finance two weeks ago, it also hopes to prove it can halt the rapid rise in the share government appropriates of economic resources and reduce inflationary pressures.

But the anti-inflationary measures the government is adopting now will unfortunately not solve the problem in the longer term

Inflation is really a problem of distribution, and in South Africa increasingly heavy and conflicting demands for resources are being exerted on an economy increasingly unable to provide them

Its fall has been more marked against the currencies of other major trading partners. In the six months to the end of February the rand had fallen by 11 percent against the Japanese yen, nine percent against the British pound, 8,5 percent against the Deutschemark and 2,2 percent against the dollar.

It could fall further as South Africa's balance of payments position worsens, which it definitely will. Exports are falling because of a decline in world demand. Imports are rising as a result of increased domestic demand. The trade surplus which was R6-billion last year will be closer to half of that this year.

The government's concern to pay off its foreign debts in terms of the deal done after the 1985 debt crisis requires an estimated surplus of at least R2,5-billion (even if this means sacrificing economic growth).

Another key factor will be the course of the gold price, always an risky thing to predict. But world gold production has been rising and manufacturers' demand for the metal decreasing. Gold is not greatly in demand as an investment at present. And it probably won't be in great demand as a hedge against inflation either, since inflation prospects for the big industrial countries do not look too bad.

All of this is not good for the gold price and therefore doesn't make the rand a very desirable currency.

The question is how far down the rand will go. Predictions range from 46c down to as low as 40c.

It is likely though that the price of imported goods will be going up and so will inflation. More expensive imports push prices up for all consumers, not just those who buy imported luxuries, because so much of South Africa's plant and machinery are imported, as are some of its raw materials.

Domestic demand for goods and services, expected to continue growing this year, will also put upward pressure on prices as shortages develop. One example is motorcar prices: vehicle prices rose by 23,8

There IS a chance to control inflation

153

Star 24/4/87

MONEY MATTERS

by Magnus Heystek

So accustomed have South Africans become to a high and rising inflation rate, that dramatic drops in that rate are discarded by economists as "untrue and unbelievable", as reported by a major financial magazine this week.

Further distrust is found in the country's capital market, where rates refuse to come down despite the drop in the Consumer Price Index to 13,7 percent in January

At present, most major capital market rates are around 16,5 percent, with analysts predicting further rises

Some cynicism over South Africa's inflation rate is understandable, but this time around I give a little credence to Government's determination to bring it down

I think the State President has finally been convinced that we cannot afford a higher inflation rate than that of our major trading partners

For nearly nine years South Africa's inflation rate has tended to be higher than that in Britain, West Germany and Japan

The only way to protect our exports to these countries was to reduce our exchange rate But this was only a short-term measure Ultimately, the root cause had to be addressed.

Inflation can be reduced in various ways, but socio-political costs would have been inordinately high in our context

To tackle the high inflation rate during the turbulent years of 1985 and 1986 would have been tantamount to feeding the flames of unrest

To cut Government expenditure while the private sector was cutting back would have steepened the downturn and boosted unemployment and bankruptcies

However, the improvement in the economy now presents Government with the opportunity to reduce the State's share in the economy

As a contribution to reducing inflation, the Government has decided against a general increase in wages and salaries. Private sector leaders have also been asked to temper salary and wage increases.

The cumulative effect of the general tariffs standstill by the Department of Post and Telecommunication, Eskom and the Department of Transport must not be underestimated

Furthermore, the slowdown in food price increases in recent months will add to the disinflationary climate, making an inflation rate of below 12 percent a strong possibility.

A year ago many economists predicted higher inflation

A top economist Mr Louis Geldenhuys this week said an average inflation rate of below 14 percent for the next two years was likely

Not so long ago he was warning against "hyper-inflation".

South Africans should all welcome this slowing down in the inflation rate, but is it possible to get the rate below 10 percent?

This depends on a myriad factors, some not entirely under control of Government or the Reserve Bank.

A strong and rising exchange rate would help shield the South African economy against "imported-inflation". This would help make imports cheaper but would threaten exports.

We could improve national productivity, but that is a long-term route

The answer is for Government to maintain discipline when spending taxpayers' money But since 1980 Government expenditure has looked uncontrollable

Now, however, there seems to be a fresh breeze in the corridors of power State President Botha has committed himself to reducing the inflation rate.

Finance Minister Barend du Plessis seems to have gained much political clout in recent months, which previous Finance Ministers seemed to lack. He too can now crack the whip

Events in this fiscal year will be vital to our inflation future. Not for a long time have so many favourable circumstances existed The ball is in your court, Barend

CITIZEN 9/4/88

Govt wants inflation 'brought below 10%'

Own Correspondent

DURBAN — The government appears determined to reduce inflation to below 10% within the next three years, Alec Rogoff, president of Assocom, told a Chamber of Commerce meeting here last night.

The national organization had talks with the State President, cabinet members and MPs and told their audience that the economy required stable growth and not a "stop and go" situation.

"The sucess of the budget will depend on government's ability to contain expenditure."

Rogoff said that if government spending was not contained and the budget deficit rose above R10bn, there would be increased pressure on interest rates and inflation.

He hoped that the government's efforts were successful, as "this will be vital for stable economic growth".

Assocom had forwarded its views on deregulation and privatization and noted the phenomenal growth and impact on the economy of the black taxi industry.

Kombi-taxis were the forerunners of a veritable avalanche of small business enterprises that "are going to get it moving beyond the wildest dreams of our economic planners".

Rogoff said the KwaZulu Indaba and the JEA had to be seen together and "how logical it is that the two should join hands for a future".

4/4/88 **PERSONAL FINANCE** (153) SMK

Consumers have more to spend

SVEN LUNSCHE

Consumers are back on their feet again, after their financial position took a serious knock during the recession, and their spending spree is helping to support the current economic recovery.

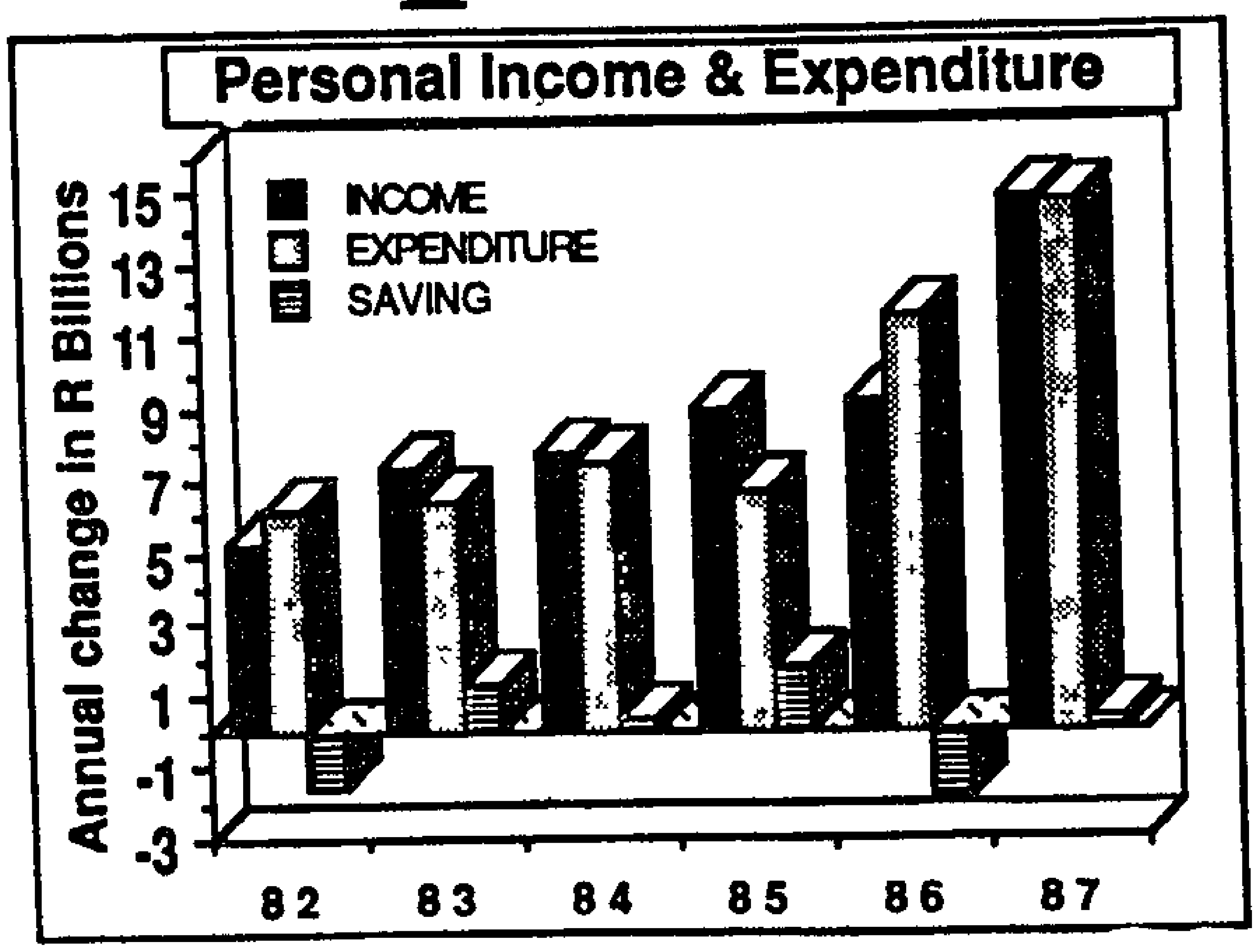
This is confirmed by statistics which show that the pay-pockets of the consumer improved considerably. Personal disposable income improved by 19,3 percent, or three percent in real terms last year, which is the biggest increase since 1980.

Renumeration of employees was up 17,4 percent; income from properties of households surged by 27,6 percent and the increase in direct taxes was lower than the increase in current income.

According to Volkskas economist Adam Jacobs the average propensity to consume remained constant at 96,7 percent in 1987, "which indicates that from a macro perspective individuals did not use additional credit to finance their expenditures on a net basis for the year."

"We suspect that credit could in fact have contributed to the large acceleration in expenditure by individuals in the last quarter of 1987," Mr Jacobs adds.

His proposition is confirmed by retail sales figures released recently. Much of the recent growth in sales came from a pick-up in spending on durables, with spending on furniture and household appliances rising by 10,5 percent and car sales soaring by 30 percent in February this year over February 1987.



Total bank credit extended in the 12 months to end-January was almost 18,3 percent up, with much of the growth coming from hire purchase credit — up 17 percent.

Says Adam Jacobs "Salaries of employees are unlikely to increase again by 17,4 percent. An increase of 15 percent, given a one percent increase in employment, would probably be closer to the truth bearing in mind the restrictions requested in respect of salaries and wages.

"Income from property, which benefited last year from the good performance of insurance company assets on the JSE and is regarded as income from property for individuals, is not likely to show such a large increase again," Mr Jacobs says.

Official inflation rate

799 Mr C J DERBY-LEWIS asked the Minister of Finance

What was the official inflation rate for each year from 1977 up to and including 1987?

The MINISTER OF FINANCE

		%
1977	—	11,0
1978	—	11,0
1979	—	13,2
1980	—	13,8
1981	—	15,2
1982	—	14,7
1983	—	12,4
1984	—	11,5
1985	—	16,3
1986	—	18,6
1987	—	16,2

Salaries no longer market-related

801 Mr C J DERBY-LEWIS asked the Minister of Communications

Whether the research which showed that the salaries of certain employees of his Department were no longer market-related, as referred to in his reply to Question No 540 on 7 October 1987, was carried out prior to the granting of salary increases to employees who had participated in illegal strikes shortly before, if so, (a) on what date (i) did the results of this research become available to his Department and (ii) were the salary increases in question granted and (b) why had these increases not been granted earlier?

The MINISTER OF COMMUNICATIONS

Yes,

(a) (i) at the beginning of August 1987, and

(ii) 1 October 1987, and

(b) because it is not always possible in the system of job differentiation where evaluations are made periodically, to ensure that salaries continually remain market-related

Printing contracts awarded to two companies

841 Mr D J DALLING asked the Minister of Justice

(1) Whether the Prisons Service awarded any printing contracts in 1987 to two companies, the names of which have been furnished to the Commission for Administration for the purpose of the Minister's reply, or to their associated companies and printing operations, if so, (a) in respect of what publications or printed matter, (b) how many copies of each publication or item were ordered from each company and (c) what are the names of the companies concerned,

(2) whether these contracts were put out to tender, if not, (a) why not and (b) what was the total amount paid by this Service in respect of each of these contracts, if so, what was the (i) tender price originally accepted, and (ii) total amount paid out in respect of each contract,

(3) whether this Service subsidizes any publications published by the above companies, if so, (a) which publications and (b) (i) why, and (ii) what is the amount of the subsidy, in each case,

(4) what total amount was spent by this Service in 1987 on printing and publishing involving (a) the above companies and (b) any other specified companies?

The MINISTER OF JUSTICE.

(1) No The South African Prisons Service has all official printing done through the Government Printer and therefore no contracts for printing have been awarded by the Prisons Service (a), (b) and (c) and (2) fall away

(3) No (a) and (b) fall away

(4) (a) None

(b) None, except for printed matter undertaken by the Government Printer

Jewellery: *ad valorem* duties

896 Mr C J DERBY-LEWIS asked the Minister of Finance

What were the amounts collected in respect of *ad valorem* duties on (a) locally manufactured and (b) imported jewellery in the 1980/81, 1983/84 and 1986/87 financial years, respectively?

The MINISTER OF FINANCE

(a)	1980/81	—	R17 214 812
	1983/84	—	R23 448 165
	1986/87	—	R27 070 088
(b)	1980/81	—	R 3 030 063
	1983/84	—	R 5 527 259
	1986/87	—	R 6 844 243

Own Affairs

Printing contracts awarded to two companies

90 Mr D J DALLING asked the Minister of Local Government, Housing and Works:

(1) Whether his Department awarded any printing contracts in 1987 to two companies, the names of which have been furnished to the Commission for Administration for the purpose of the Minister's reply, or their associated companies and printing operations, if so, (a) in respect of what publications or printed matter, (b) how many copies of each publication or item were ordered from each company and (c) what are the names of the companies concerned,

(2) whether these contracts were put out to tender, if not, (a) why not and (b) what was the total amount paid by his Department in respect of each of these contracts, if so, what was the (i) tender price originally accepted, and (ii) total amount paid out, in respect of each contract,

(3) whether his Department subsidizes any publications published by the above companies, if so, (a) which publications and (b) (i) why, and (ii) what is the amount of the subsidy, in each case,

(4) what total amount was spent by his Department in 1987 on printing and publishing involving (a) the above companies and (b) any other specified companies?

The MINISTER OF LOCAL GOVERNMENT AND HOUSING

(1) No
(a), (b) and (c) Fall away

(2) Falls away

(3) No
(a), (b) (i) and (ii) Fall away

(4) Falls away

Extension officers

114 Mr R W HARDINGHAM asked the Minister of Agriculture and Water Supply

(1) How many posts for extension officers are there in his Department,

(2) whether all of these posts have been filled, if not, (a) why not and (b) how many such posts were vacant as at the latest specified date for which information is available?

The MINISTER OF AGRICULTURE AND WATER SUPPLY

(1) 177

(2) No

(a) Training requirements and associated high demands put to the departmental extension service

(b) 52 on 1987-12-31

PPI shows a 12,2% increase (153)

B/day 12/4/88.

Prices on the move up again

HELOISE HENNING

RISES in producer prices are accelerating according to the latest producer price index (PPI) and will eventually filter through to consumer prices.

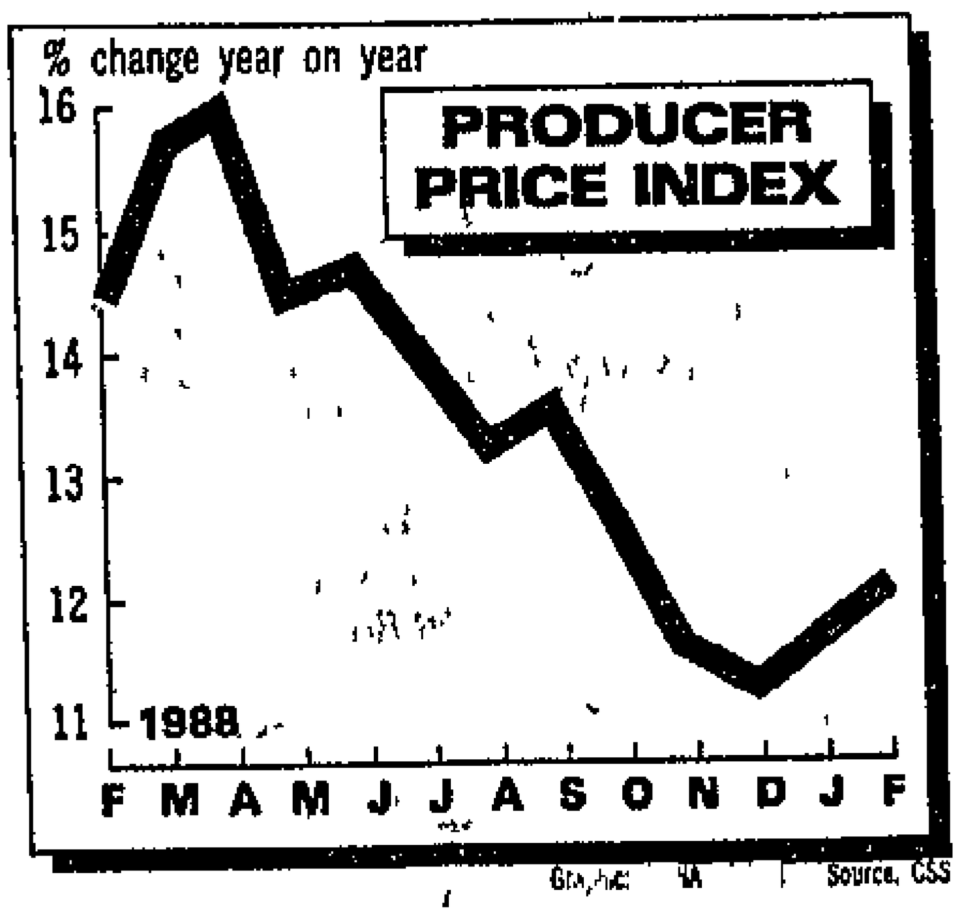
The PPI increased by 12,2% in the year to February according to figures released yesterday compared with 11,8% in January

And monthly increases point towards an upward trend, with an increase of 1,6% in February from January coming after a rise of 1,2% in January from December's 0,5%, when a bottom was reached.

The high monthly increase for February stems from a 1,8% rise in SA-produced goods (1,3% in January) and a 1% upward movement in prices of imported goods (1% in January).

Economists say the rise in producer prices is causing concern, especially given that the rand-exchange rate has weakened in March which points to even sharper future increases.

It was in March that the rand-exchange rate depreciated sharply against third currencies, especially the British pound.



Graphic: SA Source: CSS

Imported goods do not include only products which go straight on to the market but also raw materials and intermediate products used by SA manufacturers.

Although a large volume of SA's trade is dollar priced, other imported goods are priced in currencies such as the German mark, the Japanese yen, British sterling and the Italian lire, all of which have appreciated sharply against the rand

● To Page 2

Prices are set to move up once again

B/day ● From Page 1 (153) 12/4/88.

The changes in producers prices usually lead consumer prices by two months. This could result in higher costs to consumers in the first half of the year whereas economists believed consumer prices would only increase nearer the end of the year.

The increases in the prices of locally produced goods are heavily influenced by the imported content in local manufactures

These do not include only the motor industry and electronic components but also raw materials such as rubber, chemicals and textiles

(BD) B/day 12/4/88

Money-supply growth 'causes inflation'

GROWTH in money supply is the root of inflation, says Wits University economist Richard Grant He believes inflation can be stopped only by the Reserve Bank holding back money-supply growth

Grant says a growing money supply weakens the rand and distorts the economy with low interest rates.

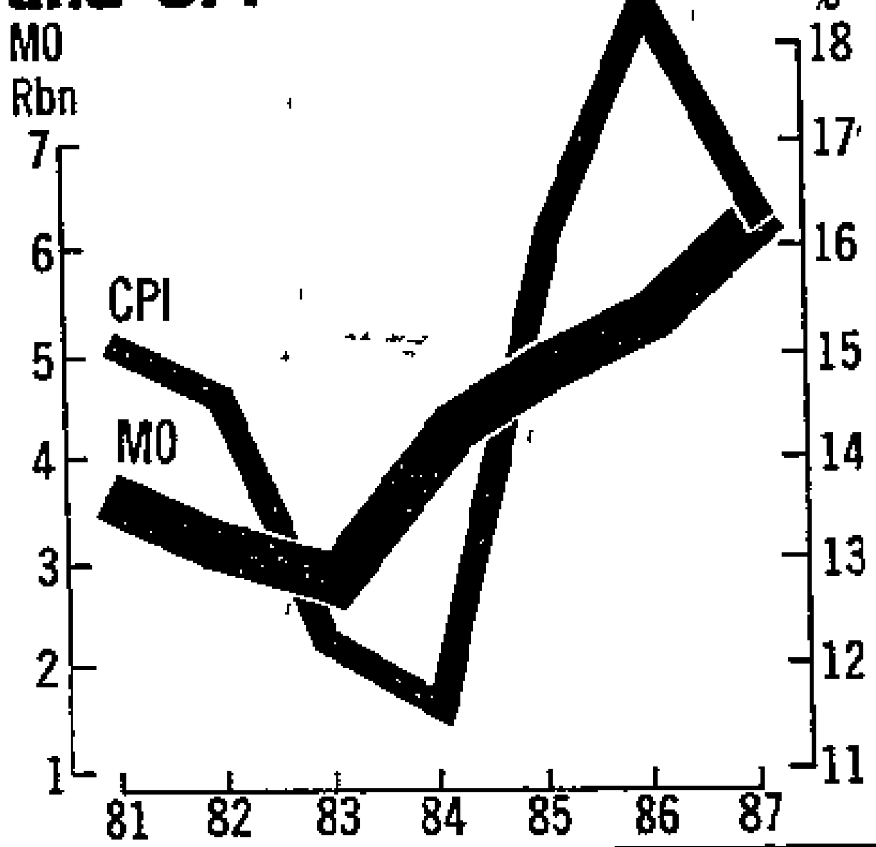
The Reserve Bank's monetary policy is aimed at prolonging the economic upturn, but a burgeoning economy will drive up interest rates beyond the current rate of inflation and lead to an inevitable recession

Grant, a disciple of the Austrian school of economists, says an early recession would be a necessary correction for the future good of the economy, as it would help it rid itself of "a misallocation of resources"

"The sooner recession comes the better," says Grant By trying to hold it back, the authorities only make matters worse in the end

"Continuing to print money to boost the economy is like someone with a hangover who continues to drink to delay its effects

MONEY SUPPLY MO* and CPI



*MO = Notes in circulation plus banks' cash reserves with Reserve Bank

Source SA RESERVE BANK Graphic. JOHN McCANN

HELOISE HENNING

"The Reserve Bank's monetary policy can show superficial GDP growth while the inner structure of the economy is being distorted.

"Low interest rates plus high inflation have induced malinvestment and have reduced savings Consumers overspend, inducing suppliers to overstock or overproduce.

"When the economy reasserts itself, interest rates are pushed beyond the expected inflation rate

"High interest rates make it unprofitable for investors to complete expansion projects They lay off workers and scrap machinery, often imported at great capital expense This eventually leads to recession "

He suggests the way out of high inflation and rising interest rates is to curb money supply more stringently and to deregulate the economy Regulations distort the economy, preventing it from adjusting quickly to shocks, says Grant

Grant says the growth in money supply automatically affects the exchange rate, the rand falling against major currencies. This depreciation is in effect caused by printing too many rands, and not by the strength of other currencies

When the rand lost ground earlier this year, the Reserve Bank was protecting the current account surplus from being whittled away A lower rand would also curb import demand and make exports more competitive But, says Grant, it is detrimental to the economy and is tantamount to paying exporters a subsidy

Blaming inflation on imported costs or on the exchange rate comes from a misconception, says Grant Price inflation follows and does not precede growth in money supply.

This year the Reserve Bank has targeted money supply — as measured by the broad measure M3 — to be between 12% and 16% above the previous year. Reserve Bank economists believe inflation should not rise above 14% Grant agrees

Consumers are more confident

MICK COLLINS

THE consumer confidence index among whites jumped 10 points during the first quarter of 1988 to reach 120 — one of the highest levels since 1980.

However, Stellenbosch-based Bureau for Economic Research (BER) director Ockie Stuart said government's wage freeze on civil-service salaries was likely to impact on spending trends

Commenting on the BER's latest analysis of consumer attitudes, Stuart said: "It is unlikely the powerful confidence being experienced will fade away, but the unavailability of additional disposable income must be taken into account.

"As a result, we can expect that more consumers are going to be willing to incur debt in the months ahead."

Stuart noted that in 1987 nominal disposable income increased by 19,3%, the

(153) 13/4/88

● To Page 2

B/day

Consumer confidence index takes a jump

B/day 13/4/88 (153)

● From Page 1

biggest annual increase since 1980. After-tax income for many consumers would probably decline in real terms in 1988.

He said: "However, there is a general expectation of a compensatory rise in public salaries to come next year, and this, with the fact that credit is still freely available, supports a swing to credit as a mode of consumer payment."

On a more sombre note, Stuart warned that prices were set to rise over a wide spectrum of goods in the next three months.

He was referring to another BER survey which polled wholesalers and retailers in industries ranging from textiles and food to electrical appliances and raw materials for agriculture.

Retail areas expected to experience the fastest price increases included furniture, household appliances, machinery and equipment.

Stuart said: "Respondents were almost unanimous in their expectation that prices would rise between April and June. The prices of building materials and hardware, in particular, are expected to rise fairly sharply."

There were also signs that non-consumer goods would show faster price increases than other sectors.

Sales had been lively across a wide spectrum of sectors in the first three months of the year.

COMMENT

Go for growth

THE most worrisome feature of the South African political scene is that politics, after a decade of economic stagnation, is becoming increasingly a competition for resources.

This is not the place to cite all the evidence of emerging class conflict — to compound race conflict — but it is plain for all to see that tensions are rising between workers and capital, between trade unions and the unemployed, between public sector and private sector, between manufacturers and traders, between various classes of taxpayers, and so forth.

The reason is that they are all fighting for a bigger share of a shrinking pie Politics has become to a large measure a debate about the redistribution of wealth, while the need to create that wealth is either taken for granted or dismissed as being impossible to achieve in the face of sanctions.

The case for seeking answers to social problems through rapid economic growth can be reduced to very simple terms: a growth rate of 7% a year sustained for 10 years would double the available wealth in the country. Without any redistribution at all, even the poorest classes might be twice as well off in 1998 as they are today. In theory, it is quite feasible for this country to grow at a rate of 7% a year. Other countries have easily achieved such rates, and Japan has managed 10% or more. So has Brazil. No analogy is perfect, but at least South African debate should begin with the assumption that this country can double its wealth by the end of the century.

The alternative argument — the argument which has prevailed in government circles for the past decade — is that social tensions must be defused by spreading the existing wealth as widely as possible. Government's attempts to do so through the tax mechanism, though partial and inept, have nevertheless — as Saambou MD Christie Kuun remarked earlier this week — had a debilitating effect on the economy. The very poor have become poorer, the very rich have emigrated, and those in the middle have become angry. Except for odd individuals, hardly anybody has doubled his wealth in 10 years. We are not redistributing wealth, but poverty.

If the past decade has shown anything at all, it is that government cannot with the best will in the world reduce poverty, nor create jobs, nor build houses for the homeless, nor allocate resources effectively, nor create wealth. Government, by its nature, is a net consumer of wealth.

The time has surely come for a national symposium — a continuing symposium of quarterly meetings, perhaps, with a small secretariat to keep the debate moving — to identify the actions required to achieve a 7% annual rate of growth. If it does no more than educate South Africans to the political possibilities that would be unlocked by such growth, it would already offer an alternative to the bleak prospect of ever-intensifying squabbles for a bigger share of a diminishing pie.

Killing competition

EVERYBODY knows that apart-

regulation of black-owned taxis, so

RD 19/4/88

Lower rand fuels inflation fears

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JOHANNESBURG — The position of the rand this year was far more tentative than during 1987 due to the worsening of the current account position, states First National Bank in its latest foreign exchange reviewer

It says the policy favoured a lower rand to discourage imports and encourage exports The more constrained Reserve Bank intervention was evidenced by the lower rand/dollar exchange rate which could break through its major support at R2,1600 soon

Since the changeover in the quotation system, the rand had seen a steady decline against the dollar as well as other major currencies

The bank pointed out that the decline of the rand on the trade weighted basis was begining to ring warning bells of rising inflation as the cost of foreign imports rose

The trade weighted rand which averaged around R2,00 (50 U S cents) during December 1987, was currently closer to the R2,800 (35 U S cents) level This represented a 30 per cent decline which must at some time impact on the inflation rate through the import component of the producer price index

Medium term sentiment towards the rand was bearish with most traders expecting the unit to lose more ground over the period from April to December 1 1988 — Sapa

PW threatens tough new action

Business fears confrontation with Government

Star 22/4/88

153

By Michael Chester

Business leaders expressed fears last night that President Botha had set the Government on a new collision course with the private sector by accusing industry and commerce of ignoring his appeals for co-operation in the battle against inflation

Mr Botha has threatened to retaliate with new legislation.

Businessmen were especially concerned about the methods planned in the implementation of the Control of Harmful Business Practices Bill that the Government has drafted with assurances it will increase competition between business rivals and, in turn, provide more protection to the consumer.

But a spokesman for the Consumer Council, Mr Paul Roos, welcomed the move and said the council had been looking for similar legislation for many years as consumers needed protection.

It is understood that the Government plans to impose fines as high as R200 000 and/or jail sentences of up to five years on businessmen found guilty of infringements

The Association of Chambers of Commerce and Industry said business had been aware that the Government intended to push ahead with the new legislation, but was still in the dark about the final details.

Its preliminary reaction, said a spokesman, was to stress that while Assocom believed in the protection of the consumer, legislation should take care not to damage the high levels of business confidence that had emerged in recent months

"We regard the proposed power to summarily restrict or even close down a business as drastic," he said

Mr Hennie Viljoen, the new president of the Witwatersrand Chamber, said adequate consumer protection was already guaranteed under the existing Trade Practices Act, the Competition Board and other mechanisms

The Chamber, he said, contended that the long-term interests of the consumer were best guarded by the free market system — not, as now planned, to empower the Government to fix and control prices.

The Congress of SA Trade Unions (Cosatu) said Mr Botha's suggestion was an attempt to "make the working class pay for the failures of the political and economic system".

Cosatu spokesman Mr Frank Meintjies said enforcing a wage freeze would be "disastrous"

"This has already led to widespread opposition in the public sector Workers in the private sector will never accept a wage freeze"

Director of the Consumer Council Mr Jan Cronje said the council had long been pushing for similar legislation and was overjoyed that it had had positive results

The council regarded the announcement as a positive move towards economic reform

Mr Botha told Parliament yesterday that the business sector had ignored his appeals to co-operate in the fight against inflation

As a result of the lack of co-operation, "other means will have to be considered to assist in combating inflation"

DAILY

Business community accused of failing to fight inflation

D10 24/4/88 (153)

Political Correspondent

CAPE TOWN — The State President, Mr P W Botha, has expressed his displeasure with the business community for failing to respond to his appeals for wage, salary and price restraint in an effort to combat inflation

Mr Botha stressed that the government had no alternative but to consider imposing other mechanisms via legislation to compel the business community to tow the line

He indicated that one such legislative instrument was the draft Control of Harmful Business Practices Bill, now being circulated for comment

Mr Botha said during his budget vote in the House of Assembly that this legislation would make it possible to take fast and effective action against persons who make themselves guilty of harmful business practices, thus protecting the consumer against exploitation

Mr Botha said the reaction from the private sector, since he made his appeal in February, was disappointing

Although he had received a few letters of support for his economic initiative, it seemed from media reports that the private sector would be granting general increases of 15 to 16 per cent

In what was seen as a clear reference to Pick 'n Pay's chairman, Mr Raymond Ackerman, Mr Botha added, "I also find it strange to receive a letter from a leading businessman in which he declares his wholehearted support for combating inflation and (then) to read in the financial press afterwards that he granted salary increases of up to 28 per cent "

Mr Botha said that in letters he received from the general public, serious doubt was expressed about the willingness of the private sector to co-operate

"An evident and concrete quid pro quo is demanded from the private sector in exchange for the sacrifice by, among others, public servants," the State President said

He concluded that it had become evident that this would not come about by means of persuasion or voluntary teamwork

PW hits out at business community

CAPE TIMES 22/4/88 (153)

Staff Reporter

PRESIDENT P W Botha yesterday expressed strong displeasure with the business community for failing to respond to his appeals for wage, salary and price restraint in an effort to combat inflation.

In view of the apparent absence of voluntary co-operation from the private sector on this score, Botha stressed government had no alternative but to consider imposing "other mechanisms" via legislation to compel the business community to toe the line if it would not do so through persuasion.

He indicated that one of these legislative instruments was the draft Control of Harmful Business Practices (HBP) Bill now being circulated for comment.

Speaking during his Budget vote in the House of Assembly, Botha said this legislation would make it possible to take fast and effective action against persons guilty of harmful business practices, thus protecting the consumer against exploitation.

Botha said that the reaction from the private sector since he made his appeal in February had been disappointing. Although he had received a few letters of support for his economic initiative, it seemed from media reports that the private sector would be granting general pay increases of 15% to 16%.

Botha added: "I also find it strange to receive a letter from a leading businessman in which he declares his whole-hearted support for combating inflation and (then) to read in the financial press afterwards that he granted salary increases of up to 28%."

"In spite of the positive letters received from businessmen, the question arises unvoluntarily whether this is all just lip-service?"

Botha said that in letters he had also received from the general public serious doubt was expressed about the willingness of the private sector to truly co-operate.

"An evident and concrete quid pro quo is demanded from the private sector in exchange for the sacrifice by, among others, public servants," Botha said.

"To my disappointment it is becoming increasingly evident that this quid pro quo will not come about by means of persuasion or voluntary teamwork," he concluded.

hare — they closed

NEWS

Price-control Bill worries big business

W/E ARGUS 23/4/88 (153)

by DICK USHER
Weekend Argus Reporter

BIG business is deeply concerned about the possible introduction of price-control measures in proposed legislation.

Both the Federated Chamber of Industries (FCI) and the Association of Chambers of Commerce (Assocom) have reacted strongly to the proposed Control of Harmful Business Practices Bill and to remarks made by President Botha this week that the business sector had failed to co-operate in the fight against inflation.

Assocom said it had been "supportive of both the principle of consumer protection and the Economic Advisory council's anti-inflation plan

"There also appears to be uncertainty in the business community as to the precise purpose of the proposed Bill," said the association in a statement.

The president of FCI, Dr Hugo Snyckers, said the chamber had read Mr Botha's parliamentary statement with concern

"The chamber has already expressed support for the initiatives taken to combat inflation and it agrees with the role that competition plays in this

"We have deep concern, however, over the extremely wide-ranging and arbitrary powers conferred on the Minister of Economic Affairs in the first draft of the Bill, on the vagueness of many definitions and certain other aspects," said Dr Snyckers

Beyond these official statements, it is understood that the proposed Bill is viewed with alarm in business circles as it could be an instrument for price control.

According to Mr Michael Boyes, president of the Cape Town Chamber of Commerce, it gives the Minister the power to fix prices, dissolve businesses and declare certain business practices unlawful

"In his recent Budget speech, the Minister of Finance again reiterated that price control was not an acceptable option

"We cannot understand how the Government can propose a new instrument for price control," he said

Assocom and the FCI have been consulted on the Bill

In an earlier statement, Assocom said although it believed in the protection of the consumer, legislative steps to achieve this should not damage business confidence

The proposed use of price control ran counter to the philosophy of deregulation, it said

Assocom, FCI voice concern at PW's private sector attack

DD 23/4/88 (153)

JOHANNESBURG — Both the Association of Chambers of Commerce and Industries (Assocom), and the Federated Chamber of Industries (FCI), have expressed concern at remarks made by the State President in parliament

They were referring to Mr Botha's statement that the private sector had failed to respond to his call for price and wage restraint in order to combat inflation

The FCI said it had already expressed support for the initiatives taken to combat inflation and agreed with the role that competition plays in this.

"We do, however, have deep concern over the extremely wide-ranging and arbitrary powers conferred on the Minister of Economic Affairs in the first draft of the new Prohibition or Control of Harmful Business Practices' Bill, on the vagueness of many definitions and of certain other aspects of the proposed legislation

" Business confidence is not enhanced by uncertainty "

Assocom said it had been supportive of both the principle of consumer protection as well as the Economic Advisory Council's proposed anti-inflation plan

"There appears to be misunderstanding as to both the implementation of the anti-inflation plan, as well as about the nature of the commitment from the private sector on prices and wages.

"There also appears to be uncertainty now in the business community as to the precise purpose of the proposed control of harmful business practices bill, which is still under discussion with organised business"

It said it was seeking urgent interviews with the Minister of Finance and the Minister of Economic Affairs and Technology to clarify the situation as soon as possible

"The association hopes that such discussions will promote a useful exchange of views on these important subjects "

● The chairman of Pick 'n Pay, Mr Raymond Ackerman, has reacted to speculation that he was the businessman that Mr Botha was referring to as having written expressing support for anti-inflation measures and had then granted excessive wage increases to workers

Mr Ackerman said that, if he was the person referred to through innuendo, he would like to meet Mr Botha face to face and discuss the matter

He believed he had acted absolutely correctly

Pick 'n Pay's recent wage settlement was responsible and reasonable

He said Mr Botha should realise companies dealt with unions and, in any event, he was not prepared to have employees earning wages which did not allow them to live comfortably

On Mr Botha's stated intention to increase competition, Mr Ackerman said the best place to start would be to deregulate the sale of petrol and wine, the importation of TV sets, and the baking of bread

This would benefit the consumer immediately He added he had spent his life fighting inflation, through fighting cartels and monopolies

It was a great pity Mr Botha was putting up barriers between business and government in economic matters

Economic growth was a key factor in resolving South Africa's social problems and a united approach was necessary. — DDC-Sapa

Inflation coasts downhill, but a sharp rise looms ahead

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By KATE LAST

THE inflation rate has dropped, but if trends in the money supply are an indication, we should expect it to rise again later this year.

Year-on-year consumer price inflation eased to 13,4 percent in March after falling from 14,2 percent in January to 13,7 percent in February. This looks good compared with March last year, when the year-on-year inflation figure stood at 16,8 percent.

A major reason the inflation rate has slowed is a slow-down in the rate food prices have been rising. Food prices make up about 23 percent of the "basket" of goods comprising the consumer price index, if food is excluded, the cpi increased by only 12,1 percent in the year to March.

But these figures should not lull consumers into believing concerns over inflation are a thing of the past.

This week also saw the release of the money supply figure M3: all deposits with banks and building societies as well as cash in circulation. The growth figure was way above the Reserve Bank's target range of 12 to 16 percent. M3 surged by 22,6 percent to R99,69-billion in March. February's increase was 19,55 percent.

In the words of the Reserve Bank (in its March 1986 Quarterly Bulletin): "An increase in the monetary base was followed, with a lag, by an increase in consumer prices, whereas a decline in the growth rate of the monetary base preceded a deceleration in the rate of increase of consumer prices."

The historical evidence implies in a few months' time we will begin to see this large growth in M3 beginning to pull the inflation rate upwards.

This suggests a counter-argument to the idea that M3 should be controlled in an attempt to curb inflation.

Because of the very nature of M3 the Reserve Bank can never exercise total control over it. M3 is really a reflection of choices in the financial market place, it reflects what people choose to do with their money (or their access to credit).

On the other hand, M0, which includes notes, coins and deposits at the bank, is directly controllable. If the Reserve Bank so wished, it could reduce the growth of M0 to zero.

But it is naive to say by no longer printing money one can reduce inflation. There are many factors in the structure of the economy which contribute to an inflationary climate.

Reserve Bank Governor Gerhard de Kock favours a policy of regulating money supply, controlling government spending and, if necessary, raising interest rates in order to cut the demand for credit. This policy is very much in evidence right now.

W/Mail 25/4-1/5/86

Wage freeze 'unlikely to help' keep inflation down

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25/4/88

DURBAN — The authorities have been urged to show caution before implementing any form of private sector wage or salary freeze.

This follows last week's attack by President PW Botha on business leaders for failing to curb wage and price increases. Mr Botha said the Government now would consider other ways to combat the high inflation rate

He announced a public sector wage freeze in February as part of a plan to bring down inflation, currently running at 13,7 percent. He told Parliament the private sector's response had been disappointing. It appeared most businesses would grant general wage increases of 15 to 16 percent this year.

He said the Government had already decided to introduce legislation this year to strengthen consumer protection. "The proposed legislation would make fast and effective action possible against persons who make themselves guilty of harmful business practices,"

Miss Naomi Brehm, manager of the PE remuneration division, commented that the February call had come too late for the 1988 salary year. Most increases had been granted in January and the tone set for the year.

She said the companies which did not give decent increases this year would find themselves in a difficult position to keep staff

Many employees had fallen 30-40 percent behind the rate of inflation over the past few years and would be attracted away by competing firms which offered more

She was not convinced any freeze would contribute significantly to keeping inflation down

The group's Zimbabwe survey, where top level salaries had been pegged for several years, showed indirect remeration like "performance bonuses" in may cases now exceeded salaries.

Mr David Mohr, chief economist with the Old Mutual, said a number of factors militated against the ability of the private sector to meet the State President's request, which certainly was not the first of its kind.

Back in 1976, for example, business had been urged to show price and wage restraint as part of the anti-inflation manifesto.

Skill shortage

Mr Mohr said appeals of this kind were far easier to meet in times of recession than during economic upswings when the private sector was subject to shortages of skilled labour and competitive pressures.

Certain sectors — such as construction — had experienced a very long depressed period since around 1981. Employees had not enjoyed anything like the kind of salary increases seen in the public sector over this period.

Mr Mohr said there were a number of options open to the authorities — but a simple pay freeze would not work because there were many ways around it — to increase remuneration in kind, for example.

As the State President's comments were made in conjuction with the new consumer legislation, he thought the authorities would begin by placing limitations on the price side because this was easier to implement.

Inflation rate keeps decreasing steadily

CAPE TIMES. 26/4/88 (153)

By AUDREY D'ANGELO
Financial Editor

THE steady decrease in the inflation rate is continuing, according to figures released yesterday by the Central Statistical Organization

These show that the rate at which the cost of living is rising fell to 13,4% in the 12 months to March compared with 13,7% for the 12 months to February.

March's figure is a far cry from January 1986, when the Consumer Price Index advanced by 22,2% from the previous year The rate of increase in consumer prices began to drift downwards from June last year, with interruptions in August and October, when the rates remained unchanged

Food price increases, a major cause of inflation, have slowed in recent months — from 22,8% for the year to September 1987 to 17,1% in March If food prices, which make up about 23% of the CPI basket, are excluded, the inflation rate for March is 12,1%.

But economists say that although the rate could fall further in the next few months, it will rise again in the second half of the year

The two main reasons for this are the weaker exchange rate for the rand, which is pushing up the cost of imports, and increasing interest rates, which will affect both the consumer and the producer.

Economists do not believe

To page 3

● Export prospects brighter — Page 9

Cheaper prescriptions

HOUSE OF REPRESENTATIVES. — The statutory bodies controlling pharmacists and doctors had agreed that no profits should be made on prescription medicines, the Minister of National Health and Population Development, Dr Willie van Niekerk, said. Regulations to this effect were likely to be implemented this year, he said. — Sapa

Sufrets (

From page 1

Inflation

CAPE TIMES 26/4/88 (153)

the government will impose a wage and price freeze but will reduce demand through higher interest rates

Reserve Bank Governor Dr Gerhard de Kock made it clear in a speech on Friday that this would be the policy

But economists Mr Nico Czypionka of the Standard Bank and Mr Mike Daly of Southern Life both said yesterday that they did not think it would be necessary for interest rates to reach the highs of 1985, when the prime lending rate that banks charged to favoured customers rose to 25%

They believed that this time the authorities would control the economy in time to avoid this, through a fiscal and monetary policy including gradual rises in interest rates to avoid any sudden large rise

Mr Daly said he did not expect inflation to fall to single figures But it might come down to 10% before resuming its upward trend later this year

"I think inflation will bottom out in the first half of this year, and move up in the second half and in 1989," he told a media briefing

Housing backlog is still rising alarmingly

Star 26/4/88

By David Braun, Political Correspondent

The national housing backlog continues to escalate alarmingly in spite of a huge effort by the private and public sectors to build homes involving billions of rands.

Statistics from various sources in Parliament this week revealed that the total housing backlog for blacks countrywide at the end of December 1987 was 702 750.

The shortfall for coloureds and Indians is believed to be at least 100 000 units.

Constitutional Development Minister Mr Chris Heunis told Mr Peter Soal (PFP, Johannesburg North) in the House of Assembly yesterday that the backlog in development region H, that is the PWV area, was 354 792 or more than half of the national total.

A few weeks ago Mr Heunis revealed that the official tally of squatters countrywide was near the one million mark, with 900 000 of these in the PWV.

Against a problem of such magnitude, the following housing projects are underway:

- The South African Housing Trust Ltd, with R400 million from the Government and R800 million in loan bonds raised from the private sector, has already approved 36 757 new stands (worth R63 million), and erected 21 532 housing units (worth R304 million).
- The Urban Foundation announced yesterday it would make available about 13 000 developed sites and 8 800 houses to mainly lower-income communities this year.
- Government institutions, as employers, are making a considerable contribution in promoting home ownership among all population groups, according to the latest annual report of the Department of Public Works.

In the last six months of 1987, 15 506 loans were granted to public servants. Of these 7 818 were for new houses.

Inflation rate falls but food prices soar

Star

(153)

By Sven Lünsche 26/4/88

The year-on-year inflation rate fell to a three-year low of 13,4 percent in March, compared with 13,7 percent in February, but food prices again showed comparatively high increases, rising by 17,1 percent over the year.

Economists say the decline in the inflation rate, which has been evident since June 1987, could be interrupted in the second half of the year as the lower rand exchange rate increases the cost of imported goods.

But there are many factors which could counteract upward pressures on inflation, not least of them the Government's declared wage and salary freeze and its attempts to make the private sector follow suit.

(153) D/P 26/4/88

Inflation down

JOHANNESBURG — South Africa's inflation rate fell from 13,7 per cent to 13,4 per cent in March this year

The latest figures, released by the Central Staistical Organisation, show that the decline in the rate of increase in the Consumer Price Index started at the end of 1986 is still continuing.

Economists state, however, that while the rate could fall further in the next few months, upward pressures will make themseleves felt in the second half of the year

The two main factors are the falling value of the rand which will push up the costs of imports and the increase in interest rates which will affect both the consumer and the producer

However, Standard Bank's Nico Czypionka says that given a non-expansionary fiscal and monetary policy, any increase will be contained and the rate seen in the last cycle will not be reached

Rand Merchant Bank's economist Rudolf Gouws feels a decline will be seen in inflation again during the course of 1989

According to the CSO, the seasonally adjusted rate of increase for the lower income groups was 13,8 and 13,4 per cent for the middle and upper income groups

The decrease in the year on year figure in in spite of the fact that the annual food index increase remained constant at the February level of 17,1 per cent However, the monthly figure moved from 1,2 per cent in February to 2,6 per cent in March

Other large increases were registered by alchohol (6,8%) clothing (1,8%) education (15,9%) and perosnal care (3%)

Of the urban areas, the largest increase was registered in the Klerksdorp area at 14,2%. — Sapa

'GOVT AGAINST' PAY FREEZE

Sowetan 27/4/88

153

SOWETAN Correspondent

THE Government is still opposed to wage and price freezes, in spite of President Botha's hints to the contrary in Parliament last week.

Department of Finance sources said yesterday that they believed such freezes could only be justified if inflation got completely out of control and then only for a very short while to break the "psychology of inflation."

They said this was unnecessary at the moment as inflation was already coming down as a result of the Government's tight monetary and fiscal policies.

The Central Statistical Organisation announced that the cost of living index fell to 13,4 percent in the 12 months to March compared to 13,7 percent for the 12 months to February.

The sources said that the Government's anti-inflation policy was still that spelt out in Minister of Finance, Mr Barend du Plessis Budget speech.

The gist of these measures was that the Reserve Bank would contain the overall money supply through increased interest rates and the Government would limit public spending

Last week in Parliament, President Botha severely chastised the private sector for not co-operating with the Government's campaign to curb inflation

He said that in spite of his earlier appeal to the private sector to show wage and price restraint to match his own denial of a price increase to civil servants, some companies were intending to grant average wage increases of 15 to 16 percent.

"An evident and concrete quid pro quo is demanded from the private sector in exchange for the sacrifice by, among others, public servants not to receive general salary increases this year," President Botha said

"To my disappointment it is becoming increasingly evident that this quid pro quo will not come about by means of persuation of voluntary teamwork

"Other mechanisms will have to be considered to assist in combating inflation."

Govt is 'still against' wage, price freezes

153

Star 27/4/88

Political Correspondent

The Government is still opposed to wage and price freezes in spite of hints to the contrary in Parliament by the State Pesident, Mr P W Botha.

Department of Finance sources said yesterday that they believed such freezes could be justified only if inflation became completely out of control, and even then only for a short while to break the "psychology of inflation".

They said this was unnecessary at the moment because inflation was already coming down as a result of Government monetary policies.

In Parliament last week, Mr Botha chastised the private sector for not co-operating with the Government's campaign to curb inflation.

He said that in spite of his earlier appeal to the private sector to show wage and price restraint to match his own denial of a price increase to public servants, some companies were intending to grant average wage increases of 15 to 16 percent.

These remarks have been interpreted by some as a threat to introduce compulsory wage control.

Attempts to control wages through price controls as envisaged by the State President would be rejected in every way possible by the National Congress of Trade Unions, a statement from Nactu said today.

"These attempts are a negation of the principle of voluntarism accepted by the Wiehahn Commission," Nactu said.

"We reject any attempt to control wages directly or indirectly. We will fight this attempt at every factory in every industry."

D10 2/5/88

Wage hikes likely in spite of PW's plea — consultants

(153)

DURBAN — Senior management was likely to receive salary increases of between 12 and 13 per cent this year in spite of the call by the State President, Mr P. W. Botha, for wage and salary restraints.

This is according to a South African managment consulting group.

The managing director of PE Corporate Services, Mr Martin Westcott, said yesterday that, as South Africa remained short of management skills and companies continue paying a premium to attract talent, the call for restraints had to be seen in this perspective.

"Companies that have not reviewed salaries will find it difficult to compete in the labour market," Mr Westcott said, adding that legislation, such as that applied through the force of the Control of Harmful Practices Bill, was difficult to enforce.

He said the most effective means of controlling salary and wage inflation was to continue bringing down the inflation rate because as salary and wage increases were raised in order to follow the Consumer Price Index.

"Keeping wages static has to be balanced against need to stimulate growth and job creation as our economic recovery is far from fully-fledged." — DDC

BOND RATE ANNUAL INTEREST PAYMENTS

(COMPOUNDED MONTHLY)

Value of Bond	Annual Interest Payable 12,5%	13,5%	14%	14,5%	15%
20 000	2 500	2 700	2 800	2 900	3 000
50 000	6 250	6 750	7 000	7 250	7 500
75 000	9 375	10 125	10 500	10 875	11 250
100 000	12 500	13 500	14 000	14 500	15 000
150 000	18 750	20 250	21 000	21 750	22 500
200 000	25 000	27 000	28 000	29 000	30 000

HIRE-PURCHASE REQUIREMENTS

PRICE OF GOODS Amount R	INITIAL DEPOSIT Previously 10% R	Now 12% R	INTEREST PAYMENTS Before April 1 R	Now R
1 000	100	110	260	320
2 000	200	240	460	520
5 000	500	600	1 000	1 300
10 000	1 000	1 200	2 000	2 400
20 000	2 000	2 400	4 000	4 400

Brakes applied to trim growth

153

Star 6/5/88

Political Correspondent

CAPE TOWN — The economy has been severely hobbled by the international financial isolation of South Africa, the Government's latest monetary and fiscal measures have indicated.

Instead of being able to finance what could have been a growth of 5 or 6 percent this year, desperately needed to put millions of unemployed blacks in work, the financial authorities have had to apply the brakes "slightly" in order to trim growth to about 3 percent

IMPORTS

If the economy grew at a greater rate, imports would outstrip exports and South Africa would have no foreign currency at all

This is how politicians see the position of the South African economy today

They are generally in favour of the Government's latest credit curbs, although some warn that careful monitoring will be necessary to ensure maximum growth within the constraints of the economy

PACKAGE

Mr J H Heyns, National Party MP for Vasco and chairman of the Parliamentary Joint Standing Committee on Finance, says he is in favour of the measures

"I am pleased the Government has introduced a package of measures and not just resorted to increasing interest rates, which it did a few years ago and which nearly bankrupted the population"

Progressive Federal Party spokesman on finance Mr Harry Schwarz says "The curbs were inevitable because of the way the economy is being allowed to run and also because of the balance of payments position"

Weaker rand adding to inflation worries

Star 9/5/88

153

By SvenLünsche

One of the major aims of last week's economic stabilisation package by the fiscal and monetary authorities was to prevent excessive consumer spending from stimulating demand inflation.

Inflation has been on the downturn continuously since June last year and in March 1988 hit a three-year low of 13,4 percent

But despite this trend and major efforts by the government to curb wage and price increases, economists generally forecast that inflation will rise again in the second half of this year

An average rate of 13 percent is forecast for 1988 by the Bureau for Economic Research at the University of Stellenbosch (BER) in its latest issue of *Economic Prospects*, but the academics expect the downward trend to bottom out in the third quarter and increase again thereafter

And once again the feeling is that the expansion of domestic economic activity, which BER says will continue well into the first half of 1989, will be largely responsible for this rise

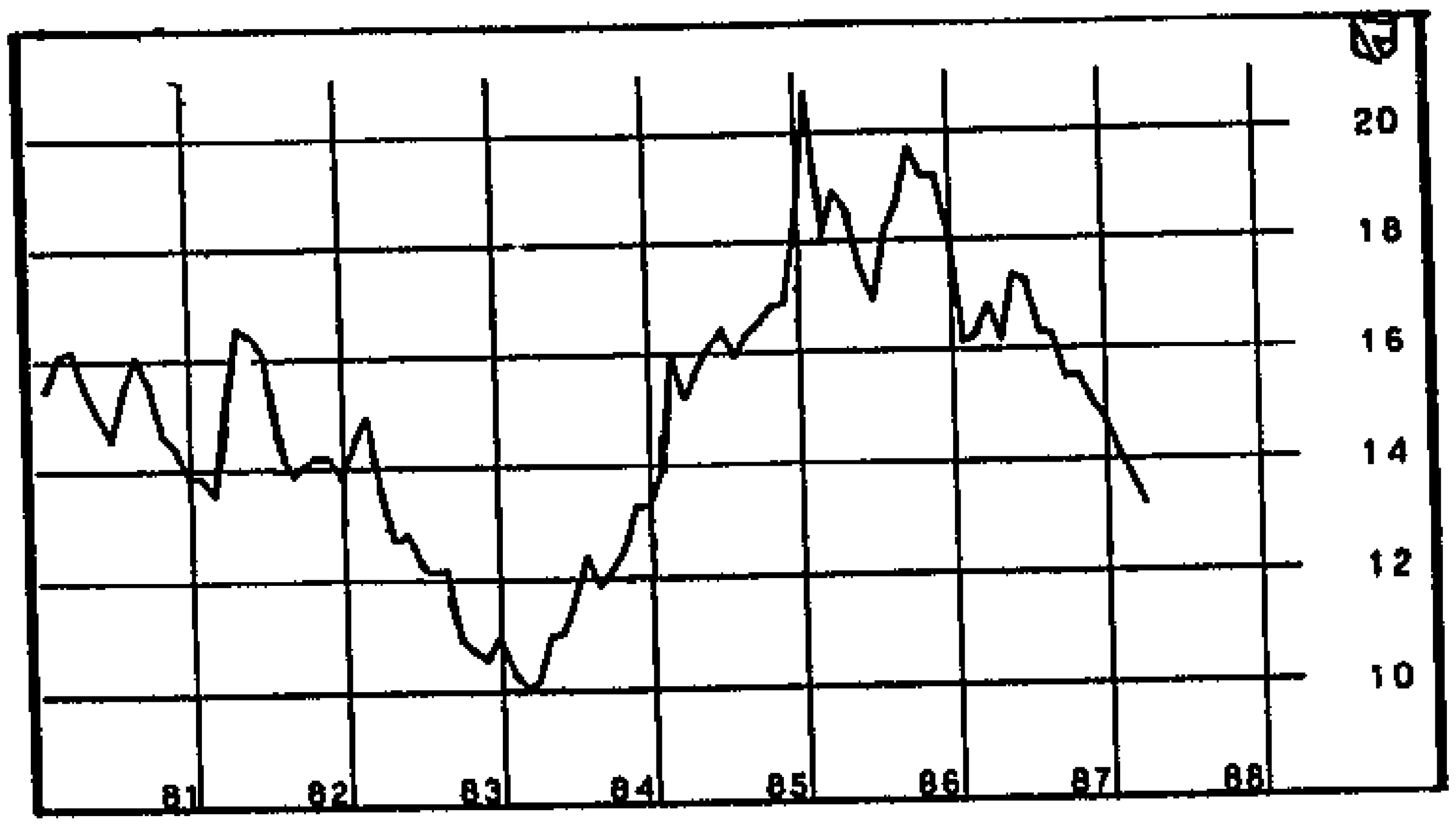
"In 1987 consumers received on average 3,2 percent more income in real terms and disposable income will again rise above the inflation rate in both 1988 and the first half of 1989," BER writes

The implication was that their current income is of a nature allowing for significant increases in counsumer spending and the Bureau predicts that private consumption expenditure could average out at 4,1 for the year as a whole, taking into account a slight slowdown in the fourth quarter this year.

The spending spree will largely benefit the services sector and durable goods, despite the government's attempts to curb credit spending on these items.

The rapid growth in domestic demand, in conjunction with an expected 4,8 percent rise in gross domistic fixed investment this year, will inevitably cause a sharp increase in imports — estimated by BER to grow by 22,6 percent in 1988 — while export growth will be restrained

The net effect will be a narrowing in the current account surplus, but the consequent decline in the exchange rate of the rand against all major currencies was likely to fuel imported inflation dramatically later this year.



The inflation rate has been declining almost continuously since June last year and hit a three-year low of 13,4 percent in March 1988. But economists generally forecast a higher rate towards the second half of the year.

The depreciation of the rand against the US dollar has already been in evidence over the last few weeks and by year-end the Stellenbosch economists fear the rand will have dropped by 6,3 percent to about R2,25 A sharper 13,8 percent fall against the Deutschemark is also anticipated.

"The depreciation forecast in the rand will result in import prices rising by 12 percent on average in 1988, while higher interest rates will increase the cost of debt servicing and thus influence corporte profits

"Bond rates too are projected to rise, which together with rising building costs will put upward pressure on rentals," BER writes.

Summarising, the Bureau says that the rise in economic demand, was likely to bring the balance of payments constraints to the fore.

Thus a lower exchange rate and higher interest rates will ensue and the resulting upward trend in inflation will eventually put a damper on economic growth towards the second half of 1988

Star 11/5/88

Inflation now main worry for bankers

153

BASLE — The world's top bankers are showing signs of unease about a possible spurt to inflation after months of worrying about a stock crash-induced recession, monetary sources said yesterday.

"They seem to be worried about inflation and that is new because in previous months the talk was about recession," said one official who emerged from the monthly meeting of central bankers of leading industrial countries at the Bank for International Settlements

"I would not say we are talking about the immediate danger of inflation," another official said, "but we have a high level of liquidity growth which can motivate inflation"

Many central banks opened the money sluices after last October's stock market crash, priming their economies with extra injections of cash Now they are increasingly concerned the excess liquidity could stoke inflationary pressure

INTEREST RATES

"People now see inflation as a possible feature on the scene in contrast to the possibility of recession, which was the danger six months ago," one central banker said

But the officials said there was little talk of adjusting interest rates or concern about the recent rise in long-term US rates

"We are in an intermediate situation," one central banker said "The feeling is that interest rates are stable We do not know if that is temporary or whether there will be a turnaround"

"We feel there was already a market tendency for long-term interest rates to go up, in the US in particular," another added. "This is not a new development."

The monetary sources said retail price inflation in most major industrialised countries remains low.

But a strong rise in prices of commodities and industrial raw materials over the past year has been flashing warning signals about the economic outlook.— Sapa-Reuter

Pressure on BoP unlikely to let up

(153) Star 16/5/88

By Teigue Payne

Of paramount concern for the economy at present is its serious balance of payments constraint, which has emerged much earlier and more swiftly than had been anticipated, according to the May edition of the Standard Bank Review

It says the seriousness of the economy's current position is clearly reflected by out-of-kilter foreign trade, credit growth and money supply

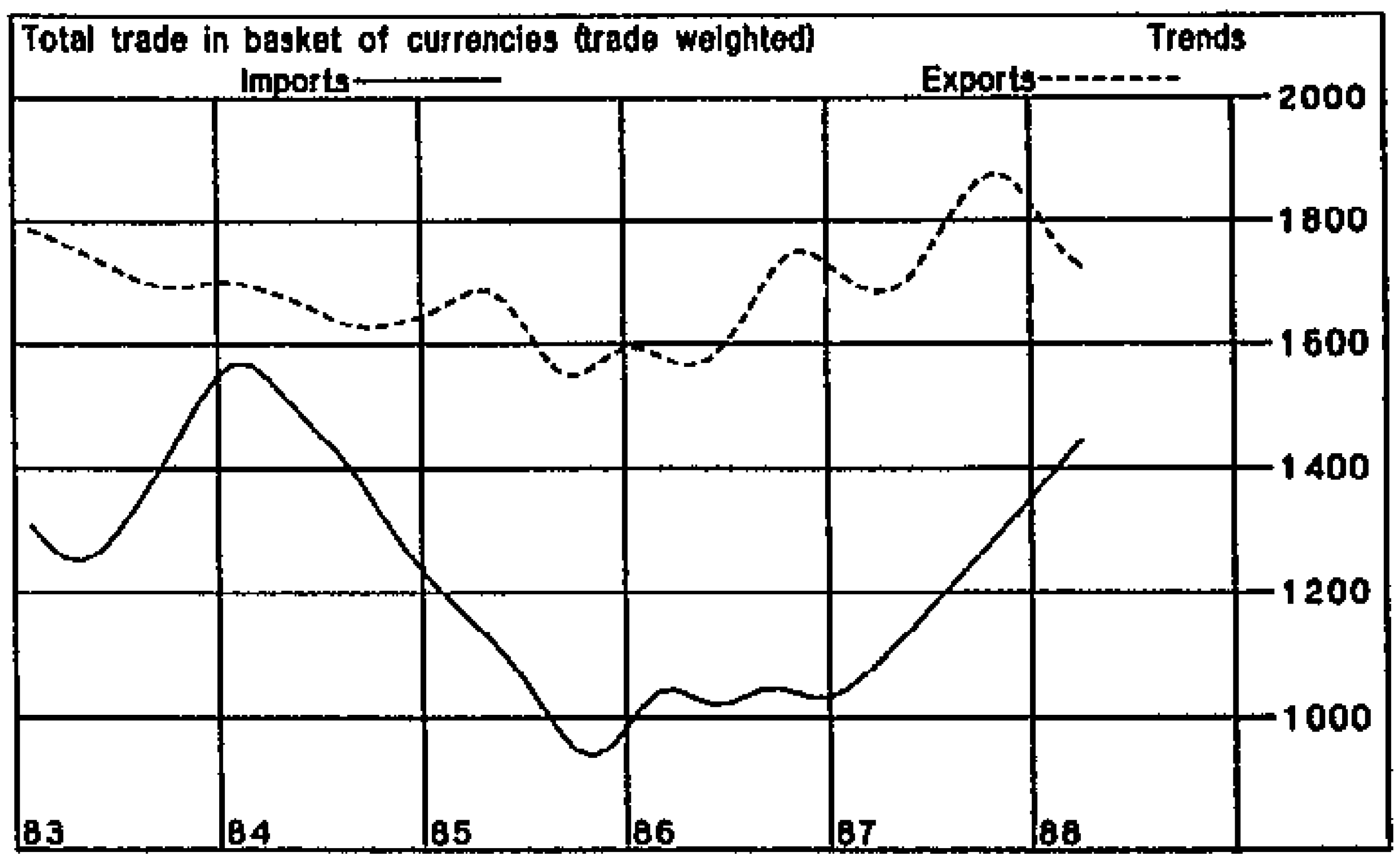
The net balance of the current account of the BoP in the first quarter is likely to have been small compared with the large surplus achieved in the last quarter of 1987, and was certainly inadequate to cover foreign loan repayment obligations These must amount to well over R2 billion this year.

The result of booming imports and sluggish exports was that the merchandise trade surplus of only R1,89 billion in the first quarter of 1988 was 47 percent lower than the R3,6 billion in the same period last year

The poor foreign trade trend means that in the absence of capital inflows, the authorities must tighten up on fiscal and monetary policy, impacting on liquidity and interest rates

Reduction in the growth of credit despite strong demand for it will put further upward pressure on interest rates, the review says

It says the money market's view is that the Reserve Bank's recent one percent increase in the bank rate was not an adequate response to the problems facing the economy, and that interest rates must rise further



This Standard Bank chart shows the narrowing gap between the value of imports and exports.

Thus financial insitutions are now trying to borrow longer term, which will itself exert upward pressure on interest rates

It says a large increase in the bank rate — by two or three percent, for instance — could have prevented a continuous upward creep of interest rates this year But it would have been politically less acceptable because it would have resulted in much more rapid slowdown in credit growth and economic activity

The economy may have to pay for this later

The review says the trade surplus is unlikely to become a deficit this year given the recovery trends in certain export categories and the probability of an economic slowdown

However, the situation will become very uncomfortable if South Africa's imports continue to rise faster than its exports

Gold and forex reserves have already been declining slowly because capital outflows have exceeded the current account surplus The Reserve Bank's gold and forex holdings now cover less than two months' imports

To prevent serious pressure on foreign reserves the trade surplus must be increased through reduced imports and higher exports

A clampdown on imports is difficult because about 80 percent are of capital or intermediate goods And in the absence of higher prices for minerals, which comprise 80 percent of exports, it is also difficult to raise them

The authorities thus have little alternative but to let the rand slide Although this will push up inflation, there is no sense in wasting valuable forex propping up the currency.

A further softening of the rand would increase competitiveness of key non-gold exports, particularly coal, and help dampen imports by making them far too costly

Inflation dipped last year largely because the appreciation of the rand reduced the cost of imports. But this pattern is now beginning to reverse

Higher local wage settlements add to the inflation pressure. The authorities' postponement of administered price increases will not be ultimately effective and could cause major problems in the future

The review concludes that while inflation may decline a little further in the short term, it is likely to increase gradually in the second half of this year

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(153)

Importers warned about rand slide

DID 13/5/88

by Matthew Moonieya business editor

EAST LONDON — The rand was under severe pressure and importers should budget for a further slide, the chief economist of Standard Bank, Mr Nico Cypionka, said here last night.

He told a closed meeting of businessmen that there were poistive and negative aspects of the economy which was basically being tackled wrongly by the authorities in their quest to curb inflation.

"The capital outflow because of sanctions has put the rand under pressure and the country is locked into the problem of foreign debt repayments.

"If we default now we will not have a second chance. We will be written off," he said.

Mr Czypionka said the authorities were dipping into the reserves which were down to R1 000 million and that the Reserve Bank was either selling off, or pawning, gold holdings to support the rand.

"This way of underpinning the rand is not actually successful and cannot hold," he said.

The slide of the rand would cause a ripple effect throughout the economy and the country would be saddled with greater import inflation.

Referring to the monetary policies adopted to curb inflation, Mr Czypionka said it would not work because the country had not adopted a consistent enough policy to contain inflation.

"Attacking credit availability is dangerous. The authorities was to slow down the economy but they don't want to deflate it. This is a very dangerous act."

Mr Czypionka said the signals were for a similar trend for 1983-84 where the strong improvement in all the sectors was followed by a drastic recession.

"The parallel is close," he said.

He said the domestic segments of the economy were performing well and employment opportunities had been increased.

"This makes things difficult for the State President's call for wage restrictions. You just have to pay if you want the skills."

Other solutions had to be found because the country was unsuccessful in creating jobs

There was a major problem with the balance of payments as imports were rising. Consumer goods only accounted for 20 per cent of the rise. It was capital goods which was ripping a hole into the balance of payments and this could not be subjected to import control.

Cup for R10m loans

(105)

DID 13/5/88

MDANTSANE — The Ciskei Building Society's sub-branch here has been awarded the chairman's floating trophy for the second time running for outstanding achievement in the last year.

The senior personnel manager, Mr S. Hask- [...] people could be brought in.

He said the major objective of the society was "to give housing to the people in the form of housing loans for all people in Ciskei". Mdantsane was getting the "lion's share" of [...] four years of its existence, and we intend moving into other areas like Keiskammahoek and Peddie soon," he said.

Mr Jennings said the Mdantsane sub-branch had reached a total balance in excess of R96 [...]

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Inflation fears fuelled by soaring commodity prices

(153)

Star 20/5/88

A surprise surge in prices for many key commodities has revived money market fears of the spectre of worldwide inflation.

Firmer prices for some commodities are good news for debt-laden Third World producers But economists worry about the dangers of recession if governments in industrial nations are forced to raise interest rates to dampen inflationary pressures

Rubber prices hit eight-year highs in the past week on booming tyre demand and higher condom sales because people are worried about AIDS. Soybean, corn and wheat are up after dry weather across the US plains.

Many base and precious metals have risen, not only because the dollar is weak, but as a result of industrial economies picking up and stocks dwindling. And oil prices have held up, on prospects of stronger demand, despite failure in April by Opec to agree on new output curbs.

But some economists already forecast higher food and construction costs and a widely-watched US commodity price gauge rang inflation alarm bells in bond markets this week.

The independent Commodity Research Bureau's (CRB) index of 21 commodity prices rose more than four points on May 16, as soybean and other grains rallied, hitting a three-year high at 243,27 points

Special factors in different commodity markets caused the gain, but some economists saw it as an inflation signal

"Regardless of any special conditions, with inflation psychology picking up anyway, it gets reinforced by this huge jump in agricultural futures prices," said David Jones of Aubrey G Lanston in New York.

Among metals, London prices of aluminium, the most widely-used metal after iron, hit a record in April.

Copper is also grabbing attention and there is a continuing shortage of nickel as stainless steel demand burgeons and stocks are reduced.

The Economist Intelligence Unit, a London-based research group, recently published a report considered "bullish" for strategic metals platinum, chromium, manganese and cobalt

It said these metals, referred to as the hostages of fortune, were indispensable but supply was at risk.

The Soviet Union and South Africa are the main suppliers of the first three and central Africa produces cobalt.

World markets sluggish as inflation fears mount

Star 20/5/88

153

By Finance Staff

After rising almost constantly for two months stock markets worldwide have been on the slide over the last week in the wake of renewed fears of higher inflation rates

Both Wall Street and the Tokyo stock market recovered some of their recent losses but the spectre of higher inflation and interest rates continue to dominate the markets

The currency markets have also caught the inflation anxiety gripping the stock and bond markets, and the dollar was slightly weaker in early trading in Tokyo

It was unchanged at 124,88 Japanese yen in morning trading Friday in Tokyo, slightly down on the New York closing level.

But gold, which is a favourite investor refuge when inflation seems to threaten the value of other assets, advanced to its best levels in a month in early New York trading, which is expected to give the JSE a much-needed injection of confidence

In Tokyo, the Nikkei Stock Average gained 29,57 points to finish the morning session at 27 402,81. Yesterday it fell 394,34 points in its largest single-day fall this year

The Dow Jones average of 30 industrials, which fell a total of 56,54 points on Tuesday and Wednesday, rose 7,63 points to close at 1 958,72 yesterday, but only after it had dropped by another 25 points at noon

Brokers attributed the rebound to slightly lower yields in the bond market, which made bonds less alluring to investors.

London share prices also fell on Thursday for the second day running, with the FTSE 100 index closing 17 points lower at 1 760,6

The sluggish mood on Wall Street was highlighted when Tuesday's release of the US trade deficit in March, at $9,75 billion, was far smaller than expected, suggesting an overheating economy

Many dealers expected the US Federal Reserve to drive interest rates higher in an effort to rein in inflation A move by the central bank toward higher interest rates would, however, tend to bolster the dollar.

The negative reaction in US financial markets to Tuesday's news of a substantial improvement in the US trade deficit in March has sent a worrying message to markets overseas

This apparently contradictory behaviour highlights the extreme vulnerability of the mood in the US and provides evidence of a negative psychology which could prove destabilising and start to make policy decisions more difficult.

There is a propensity in financial markets to read higher inflation into every economic statistic and to paint only extreme pictures of prospects for the US economy.

In the wake of the uneasy financial markets James Baker, the US Treasury Secretary, will today seek to give added impetus to efforts by leading industrial nations to strengthen the international monetary system with proposals for tighter co-ordination of their economic policies

In a speech in Paris to the Council on Foreign Relations of the OECD, Mr Baker is expected to call for closer cooperation in economic and exchange rate management in the Plaza and Louvre accords and at the Tokyo and Venice world economic summits

Economy seen in sombre light

Sowetan 20/5/88 153

BY AN ECONOMIST

ON May 5, soon after the release of the March money supply growth figures and the announcement of an unsatisfactorily small surplus on the trade account, the Government announced a package of fiscal and monetary measures

The explanation for the layman was simple the measures are necessary in order to sustain the economic upswing within affordable limits for a longer time.

In other words, the package was delivered as a precaution in order to sustain growth and ward off demand pull and import push inflation

Many economists however, are seeing the state of the economy in a far more sombre light and do not see the recent steps announced as sufficient to ward off credit demand before the pressures on inflation and on the trade account (exports minus imports) mount up

Car

An indication of the rate of growth of consumer spending in the South African economy can best be understood by comparing some first quarter 1988 figures with the same data in the first quarter of 1987

- Gross domestic expenditure was up by approximately 10 percent,
- New car sales rose by 35 percent,
- Broad money supply rose by 24 percent,
- Total credit to the private sector rose by an annual rate of 26 percent,
- Wholesale sales in constant prices rose by 14 percent,
- Retail sales in constant prices rose by 15 percent,
- Manufacturing production was up a seasonally adjusted 18 percent from the first quarter to the fourth quarter in 1987, and
- Building plans in constant prices also rose sharply in the same time period

Huge

The R1894 billion surplus on the trade account during the first quarter of 1988 was almost 50 percent lower than the R3600 billion of the first quarter in 1987

Trade exports from January to March totalled to R10573 billion and imports totalled R8680 billion

The huge rise in imports comes as a result of buoyant consumer spending

This, combined with the weaker rand has caused the value of imports to rise at an alarming pace putting the current account of the balance of payments under pressure

A surplus is needed on the current account so that South Africa can repay its foreign debt commitment as well as finance local infrastructure developments in the absence of foreign developments

With a deteriorating export performance and the need to repay our foreign debt, the simple reality is that we do not have the means to maintain our external balance while growing at the same time

The ultimate result is that the South African economy will have to temper its growth rate to around 2 percent from the ±4 percent — 25 percent level

This will obviously have a detrimental effect on the economy domestically as population growth alone increases at a rate of more than 3 5 percent a year

It is obvious that the authorities are taking the politically expedient route They are certainly not prepared to let the economy stagnate or go into recession with municipal elections just round the corner in October and general election next year

Reluctant

The measures they have introduced in the latest package will do little to both import and credit demand in the near term

The will and capacity to increase consumer spending is far from exhausted Yet, the authorities are reluctant to use visible and politically unviable

The recent one percent rise in the bank rate and the consequential one percent increase in the prime lending rate is unlikely to cool the general overdraft demand

The home loan 1 5 percent rise to 15 percent will probably have a greater impact as prospective home-owners will find it more difficult to secure bonds than in the past

People paying off their home loans are likely to face substantial increases in bond repayments following the announcement of the interest rate hike

IN order to try and temper credit demand the authorities have decided to cut down on the easy availability of credit that they supplied to commercial banks who required the credit to meet the private domestic demand requirements

The Reserve Bank has thus threatened to follow a less accommodative monetary stance than last year

Other measures introduced by the Treasury to temper credit demand are

- A tightening of instalment credit,
- Making leasing transaction subject to legislation governing credit extention,
- Phasing out the debtors allowance for general sales tax purposes and,
- Raising motor vehicle valuations for fringe benefit and tax purposes

The choice taken by the authorities is clearly one in favour of constrained growth This, in the absence of punitive interest rates, pressurises the balance of payments and eventually relies on the rand to carry most of the adjustment burden

Thus instead of placing physical controls on imports, one can let the rand fall to such low levels that it becomes extremely expensive to import

Unfortunately, most of our imports today are intermediate goods used in loal production In addition, South Africans have shown an incredible insensitivity to price increases earlier on in consumer booms

Recovery

All this suggests continued import growth in the face of a falling rand and worsening current account pressures

The rise in imports has implications for inflation as the higher price of the imported component of producer prices caused by the weaker rand, will tend to place upward pressure on consumer prices

This, together with tighter labour markets and union demands for wage increases as well as the continued recovery in domestic demand paints the scenario of inflation approaching a bottoming out area soon

As always, its a matter of time until we see the true manifestations of policy measures today The warning signals are all in place but the general public together with the government still appear to be in the denial phase

Thus for the time being expect things to continue to ride as they did in the last quarter with interest rates a bit higher, the rand a lot lower, the balance of payments under more pressure and inflation beginning to bottom out

Food prices soar but the CPI shows inflation lower

Star 24/7/88 (153)

By Sven Lunsche

The average housewife may well be shaking her head in disbelief at the news that the 13,3 percent inflation rate for April was actually 0,1 percent lower than in March

And rightly so. Food price increases once again outstripped other commodity price rises, confirming economists fears that year-on-year increases in the consumer price index (CPI) could well touch 15 percent again by the end of 1988

On an annual basis food prices have been rising by 17,1 percent over the last three months, but it is the monthly rates of increases that are giving cause for concern.

From December food prices increased by a mere 0,2 percent by January but since then seasonally adjusted rises of 1,2 percent, 2,6 percent and 2,9 percent have been recorded in February, March and April respectively

If prices continue to rise at this rate for the rest of the year, food prices will stand 20,7 percent higher than a year ago

The Central Statistical Service, which released the CPI figures in Pretoria yesterday, put it differently

"If the rate of increase in April was looked at for all items excluding food, the figure would be 12 percent on an annualised basis and the monthly rate of increase would be only 0,6 percent, instead of its actual 1,1 percent"

This says quite a bit for a sector whose weighting comprises only about 21 percent of the overall CPI

The main culprits were meat with a monthly increase of 3,2 percent, fish and seafood with 2,5 percent, vegetables and sugar with 10,2 percent each.

Economists now fear that last year's pattern will repeat itself, when average food price rises were six percentage points higher than overall price increases

All the evidence seem to support this assessment. Apart from soaring food prices, the declining rand exchange rate will boost the costs of imported goods

A strong upturn in price inflation is also expected, just from the surge in money supply, which shows no sign of abating, while the recent increases in bond rates will also boost inflation.

Although the inflation rate has been declining, economists have said that the the figure is close to its bottom, and hopes of an average inflation rate for the year of around 13 percent now seem premature

DID 24/5/88

Inflation eases slightly

(280) (153)

JOHANNESBURG — The rate of inflation fell marginally in April with the consumer price index (CPI) showing an increase for the year of 13,3 per cent.

Rises in consumer prices have slowed from 16,2 per cent for the year to the end of April 1987, and 18,6 per cent to the year ending April 1986.

But, say economists, we could be seeing the end of the recent downward trend in price rises. The rate of increase in April of 1,1 per cent was the same as March.

Nedbank's chief economist, Mr Edward Osborn said: "We were perturbed by the monthly increase in March. I do not think we are out of the wood yet".

The official figures released by the Central Statistical Services show that the largest price increases were from food, with the food index rising 17,1 per cent for the year to the end of April and 2,9 per cent in April alone.

Meat showed a monthly increase of 3,2 per cent, fish and sea products 2,5 per cent, vegetables 10,2 per cent and sugar 10,2 per cent.

There were also large monthly increases in alchoholic beverages (4,7 per cent) and cigarettes and tobacco (2,3 per cent).

Consumer prices, excluding food, rose 12 per cent for the year, and 0,6 per cent for the month of April

"It was a decline in rises in food prices which brought the index down I am surprised the increase in non-food products is as low as 12 per cent," Mr Osborne added.

But the producer price index has for some time been signalling a rise in non food items, and a trend of rising manufacturing costs is emerging — DDC

Wage negotiations in progress

Star 1/6/88

151

Checkers will not retrench 1 600 staff

By Mike Siluma, Labour Reporter

Checkers has decided not to retrench 1 600 workers after protracted negotiations with the Commercial, Catering and Allied Workers' Union (Ccawusa), says the union.

The retrenchments, announced in April, were said by management to have been necessitated by unsatisfactory profit margins.

A Ccawusa spokesman said that in dropping plans to retrench the company had stated that it reserved the right to re-consider laying off workers in the future, subject to "progress being made to resolve problems with low profit margins.

"A number of problem areas were looked at during the course of negotiations A major problem raised by the union was poor management attitude and the detrimental results to the company coming out of this.

"In the view of the union, the notice of retrenchment by Checkers was poor industrial relations practice and no solution to the problem," said the spokesman.

Checkers MD Mr Clive Weil, when asked to comment on the Ccawusa statement, confirmed that notices of retrenchment had been withdrawn and that negotia tions were in progress with the union on wages

● Annual wage talks between the Chamber of Mines and the National Union of Mineworkers (NUM) resume in Johannesburg today NUM demands include a 40 percent, across-the-board increase and a R350 a month minimum rate, as well as various improvements to working conditions.

Mineowners have offered an across-the-board 10,5 percent increase on the minimum rates.

NUM declares dispute

Sowetan 2/6/88

THE National Union of Mineworkers has declared a dispute with the East Rand Gold and Uranium Company over wage increases and conditions of employment.

The NUM demands a 27 percent wage increase, transport for all workers and improvements to the company's housing scheme and shift allowance

NUM's assistant general secretary, Mr Marcel Golding, said "The company is offering between 11,5 and 13 percent for categories A1 to B4. No other improvements to the conditions of employment were made."

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An Ergo spokesman, said NUM's figures were "inaccurate", adding that the company's offer — in addition to service increase — ranged between 14,5 and 15 percent

The NUM has applied to the Minister of Manpower to appoint a conciliation board to mediate in the wage dispute

3/6/86 Sowetan

Back at work

THE 365 General Workers Union of South Africa members who were dismissed from Silverton Tanneries in Pretoria were this week reinstated by way of arbitration.

According to a GWUSA spokesman, all the workers resumed their duties on Wednesday. The arbitrator ruled in their favour following a three weeks dispute which resulted in them being dismissed.

They had gone on strike in protest against the suspension of some of their colleagues. This ended in a deadlock as management refused to talk to trade union officials

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4/1/88

132

A more difficult year ahead for organised labour

Alan Fine: Johannesburg

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Nevertheless, the signs were that employers had, in any event, resolved on an uncompromising approach

A related development was the greater preparedness of employers to lock out (as, for example, at Highveld Steel, Dunlop and Matthey Rustenburg) and dismiss, or threaten to dismiss, striking workers

In 1986 — as a consequence of the November 1985 Marievale judgment, in which it was ruled for the first time that the dismissal of strikers could constitute an unfair labour practice) it appeared that the dismissal weapon was falling into disuse

Last year, though, as employers and their advisers further analysed the Marievale and subsequent industrial court rulings on the subject, it became apparent there was still much room for manoeuvre

The mass dismissal of nearly 40 000 striking miners by Anglo American bears testimony to this — although that case is by no means over

Many strikes were accompanied by widespread allegations of employee violence and employer collaboration with the State

These two trends — higher wage settlements *and* higher levels of confrontation — may superficially appear contradictory

But from another point of view, to the extent one can generalise, it is quite logical,

In their responses to union wage pressures, managements have acknowledged the strength of organised black labour and are prepared to pay a premium on wages as a cost of labour though, employers are implicitly or explicitly saying that there is a limit to the amount they are prepared to pay

This manifested itself in the several major tests of strength In general — although there were some exceptions — employers showed they had the resources to win these contests of power

This, of course, gives the lie to the official explanation for government's main contribution to labour relations in 1987 — the Labour Relations Amendment Bill

It has been contended that the Bill — which among other things, cuts back on the freedom to strike, facilitates legal action by employers for damages in unlawful strikes and more narrowly defines unfair dismissals — is necessary to even out the balance of power which has swung too heavily in the unions' favour

A more logical explanation is that the Bill will be the most subtle feature of a government campaign against militant and political unionism in 1988

Ironically, pronounced government antipathy towards Cosatu really began during the Sats strike — which many, including Manpower Director General Piet van der Merwe, believe could have been avoided had Sats been covered by existing labour legislation

Even more worrying for Cosatu than the Bill are two recent police statements

In one the Commissioner linked Cosatu, and its living wage campaign, to the SA Communist Party

In another, Security Police chief Johann van der Merwe warned that Cosatu and other lawful extra-parliamentary organisations were promoting a revolutionary climate, and were of more concern to the SAP than was the ANC

Another hint at what 1988 may bring is the trial of Numsa leader Moses Mayekiso He faces charges of treason in connection with his alleged links with township organisations in Alexandra

There is a belief in union circles that the Mayekiso trial is seen by the State as a test case which could presage a crackdown on other unionists linked to youth and community organisations

Where does all this leave the three main actors on the labour relations scene?

As Cosatu has accurately pointed out, if 1987 was a difficult year for organised labour, 1988 will be even worse

The challenge for unions will be to develop strategies to deal with these difficulties Is attack the best form of defence, or should the emphasis be on retreat and consolidation?

Are high-profile political campaigns — like the moderately successful two-day stayaway around the white general election last May — feasible in 1988 without evoking an even more powerful State response? Or are more limited methods and less ambitious targets necessary for now?

The authorities, for their part, must surely devote some thought to the advisability of tightening their grip on labour relations

One reason the system has worked over the last eight years is because the rules of the game were perceived by labour as tolerable, if not altogether satisfactory

The planned changes could have precisely the opposite effect than intended — abandonment by unions of official channels — if the costs of conformity are perceived as outweighing non-adherence

For the unions, there made with regard to relationships with employers

But those choices are more complex, because many employers tend to be more responsive to different [illegible] union strategies than does government

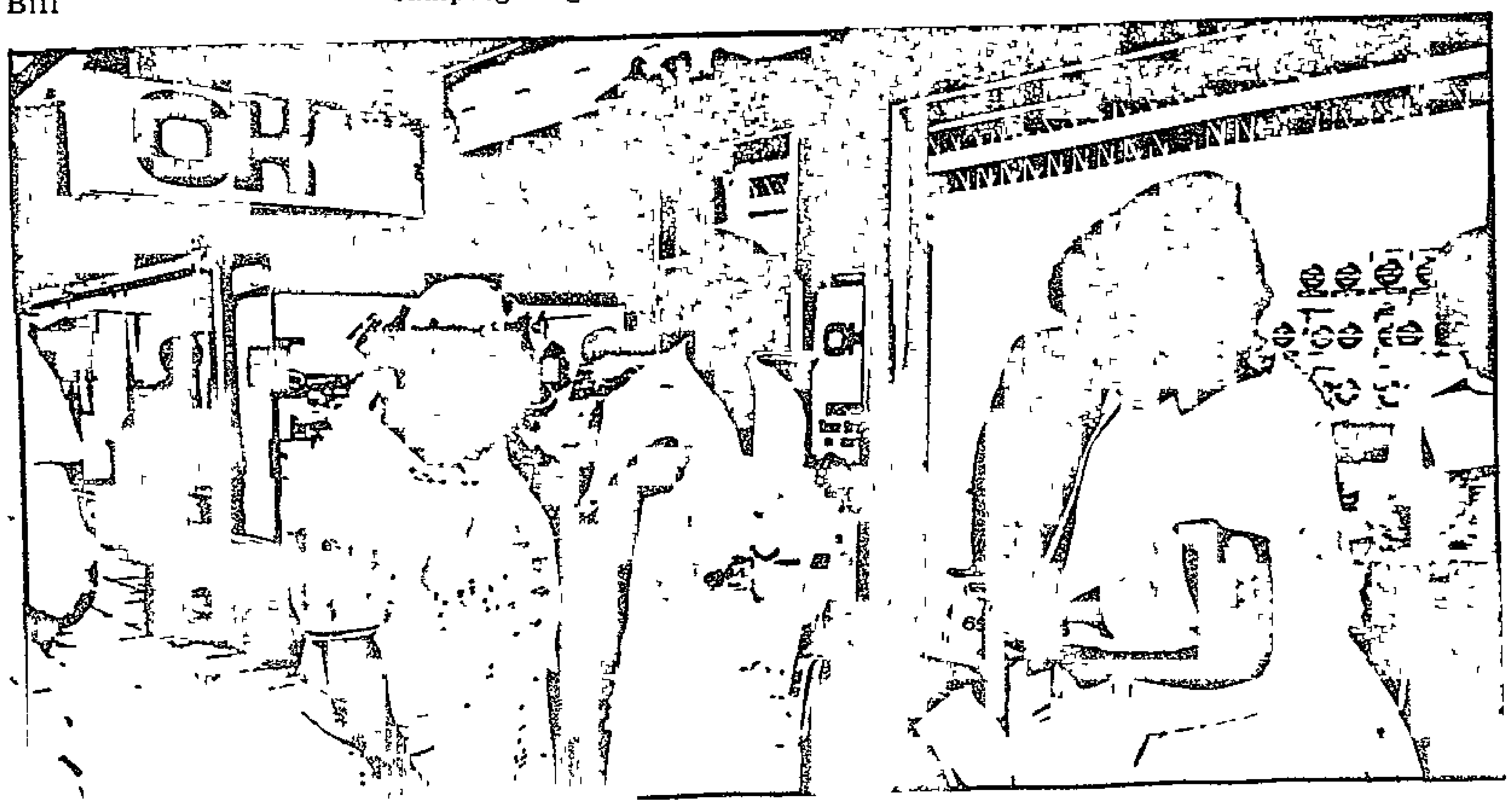
The gut reaction is naturally to use the 1987 tactics more effectively Yet it is apparent that the Bill, even if it is modified before its final passage through Parliament, will make it even more difficult for unions to reverse the string of strike defeats

This suggests that unions will have to be more discriminating in selecting employer targets for industrial action, based on considered assessments of their respective strengths

And as labour lawyer Clive Thompson suggested at a conference last month, particularly given the tightening of State controls on industrial relations, there are advantages for both labour and management in the development of a new set of rules of conduct of relationships

Despite the setbacks unions have already suffered, and the crises still to come, employers would be unwise to expect them to become pushovers in 1988 One should not expect any significant fall in wage settlement levels

And if the government clampdown materialises employers can expect to come under substantial pressure from unions to become involved — both through non-use of the more objectionable aspects of new labour legislation and intervention to protect the civil liberties of those individuals and organisations that become targets of government



Employers threaten action against workers

Star 3/6/88 (151)

Industry, union clash looms

By Mike Siluma, Labour Reporter

South African industry and the black trade unions are set to clash head-on next week, following the failure last night of urgent talks on a three-day protest action starting on Monday.

Employers have warned they will take disciplinary action against workers failing to report for work during the protest

At yesterday's talks the Congress of SA Trade Unions (Cosatu) and the SA Consultative Committee on Labour Affairs (Saccola) failed to agree that the "peaceful protest action" called for by Cosatu — and endorsed by other anti-apartheid bodies — should exclude a rumoured work stayaway

Employers rejected Cosatu's position that the Labour Relations Amendment Bill, which sparked the protest, was aimed at "bashing" unions and destroying rights won by labour during the past decade

Individual action

Cosatu said employers had declined to say if they were planning to sue unions

Saccola chairman Mr Bobby Godsell, when asked what action employers would take during the protest, said it was up to individual employers to act as they saw fit

A number of employers have already threatened to dock workers' pay, institute disciplinary action in terms of the present labour legislation and withdraw from wage negotiations with unions

After the meeting, Cosatu general-secretary Mr Jay Naidoo said the protest would continue because the views of workers and "the democratic movement" had not been taken into account in the formulation of the Bill

Workers deprived of political power had no alternative but to stage the protest, he said

Major employer associations such as the Steel and Engineering Industries Federation (Seifsa) and the Association of Chambers of Commerce (Assocom), while not giving directives to members, have warned that employers would take disciplinary action against workers who stayed away

In a press statement, Seifsa appealed to workers not to stay away

Cosatu has warned that such action would only heighten conflict.

Mr Naidoo said Cosatu had maintained its position "that there has been no meaningful consultation with the labour movement on the amendments (to the Bill) passed".

'Attack'

"We believe that the legislation very severely curtails unions' rights and entitles employers to sue and bankrupt unions"

The call for protest, he said, had followed "a major attack, not only on the unions, but on the whole progressive democratic movement in South Africa" Employers had been asked "to commit themselves to ensuring that the protest is peaceful"

Mr Godsell said Cosatu had failed to show employers how the Bill would undermine worker rights

● Saccola is today to meet the second biggest labour federation, the National Council of Trade Unions, which has also called for protests next week

Cosatu president Mr Elijah Barayi (left), NUM general secretary Mr Cyril Ramaphosa and Saccola chairman Mr Bobby Godsell before yesterday's meeting ● Picture by Alf Kumalo

Economist: inflation must be wiped out

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8 Day 6/6/88

GERALD REILLY

PRETORIA — Ever increasing government spending and continuous spurts of excessive money supply growth would have to stop if progress against inflation was to be made, Pretoria University economic professor Gert de Wet said

He told Unisa's Business Leadership School conference on housing at the CSIR on Friday that "We also have to return to a situation where any increase in salary and wages is based strictly on production increases and not on increases in the cost of living

"If we don't succeed in this, costs-push pressures will remain and we will be unable to curtail either government spending or excessive expansion of the money supply"

If a permanent inflation rate above 3% was accepted "we will have to devise rectifying measures on a continuous basis In the end we may run out of steam

"There is but one solution — inflation must be wiped out"

153 B/day 8/6/88

FINANCE

Accounts must provide for inflation — Norton

KAY TURVEY

THE accounting profession in SA was not meaningfully addressing inflation and it was, therefore, not really concentrating on what was relevant to our society, in which double digit inflation appeared endemic

JSE executive president Tony Norton told the National Congress of Chartered Accountants in Durban yesterday there was a need for accountants to recognise that, unlike developed countries which normally led the way, SA continued to experience a high level of inflation

"As inflation is a compounding phenomenon, the higher the average rate the more vicious its effects," he said, and it could not be pretended that things remained static in historical value terms

In this context, the full and instructive cash flow statement proposed by the profession was urgently needed as the present source and application of funds statement was "relatively useless", he said

Norton said he was aware the profession was looking to stating current values for major assets in the notes, and to other attempts to deal with the ravages of inflation, but this was happening far too slowly

"Every effort should be made to do whatever can be done to give the user of accounts a true picture of what is going on and not a comfortable professional exposition of vastly irrelevant figures"

Norton said one could stay with historic cost accounting — providing a full cash flow statement incorporated assessments in the notes of the current real value of the assets and a current cost accounting income statement was set out on a memorandum basis

This statement need not be audited, but would be a useful and invaluable tool to management and investors In present times, it would also be a valuable document in pointing out to workers and their trade unions that the reality of the profits of the company were often not what they seemed to be

"It is a sad commentary that at a time when inflation has been running at over 15% per annum for some time, less than 20 of the 700 or so non-mining companies listed include a CCA (Current Cost Accounting) statement in their annual audited accounts"

Norton said inflation gave rise to the question of accounting for deferred tax Although the profession was giving continuing attention to this, the feeling on the outside was of "paralysis by analysis" with no clear direction forthcoming

Even the latest attempts to live with partial deferred tax on an elective basis were confusing to the outsider This was because they were elective and because the profession seemed trapped into classifying deferred tax either as a liability or as a reserve, when to the outsider it was neither, he said

"Accounting is a gateway to good corporate knowledge and health and is the lifeblood of investment and savings in many regards," Norton said

However, the profession's commitment to society appeared to be out of keeping with its enormous responsibility

He said the profession tolerated a range of differential standards of ethics and did not seem to have the same number of public disciplinary actions as evident in the related professions of medicine and law

Reinforcing the feeling that discipline within the profession was accomodating were incidents where reporting accountants in new issues on the JSE had taken blocks of shares in placings

"Regrettably" it was largely in these cases where profit histories were presented in the most favourable manner as a result of selective adjustments, he said

10/6/88 FM (153)

INFLATION

Japanese option

Unless SA solves the inflation problem, the rand's exchange value is fated to a steady decline to US33c within the next four years This sombre prediction comes from Brian McCarthy, chairman of Durban-based motor retailer McCarthy Group

Addressing the University of Durban Westville Economic Forum in Durban last week, McCarthy urged the private sector to look to Japan for inspiration in assembling an anti-inflation campaign

The Japanese record outlined by McCarthy is impressive.

Before 1973 it imported 99,8% of its energy A fourfold rise in the oil price and soaring commodity prices put the economy into reverse the first negative growth (0,2%) was recorded since World War 2 and inflation soared from 4% to 25% in 18 months

Business demanded tighter monetary policies from government, slashed oil bills (the steel industry cut consumption from 78,5m barrels in 1973 to 16,9m 10 years later) and payrolls, and raised productivity By 1978 inflation was down to 4% and over the past three years has averaged 1%

Other key ingredients in the drive against inflation included a government intent on creating conditions for commercial growth "and not interfering by introducing unnecessary regulations and legislation," a low tax rate (average 16%); high rates of personal savings (16% for householders compared with 5% in the US and 2% in SA), and maximum privatisation

In such an environment capitalism could flourish The resulting prosperity and reduced inflation rate, says McCarthy, were due also to masterful manufacturing methods and an ability to raise productivity considerably faster than wages.

Putting a similar programme to work in SA might prove difficult, concedes McCarthy, but this does not relieve the private sector of an obligation to try.

First on businessmen's anti-inflation list, he suggests, should be a commitment to support the policy guidelines outlined by President Botha on February 8 Until inflation is reduced to single digits, salary and wage increases should remain below the CPI rate Such voluntary restraint in the private sector, he adds, should be paralleled by disciplined monetary policies from government.

Productivity also needs attention Government could help by restoring the generous training allowances of the past. Finally, the private sector needs to encourage an acceleration of privatisation and deregulation. ■

Growth, inflation problems bite deep

14/6/88 Bday

BASEL — The less-developed Third World countries faced a tough financial year in 1987, leading to slow output growth of only 3%, the Bank for International Settlements (BIS) said.

Particularly low growth rates were recorded in Africa, the Middle East and the oil-producing countries, the BIS said in its annual report released yesterday

"To some extent, the slowdown in output growth compared with earlier periods can be related to external debt problems, since heavily indebted countries were forced to adopt restrictive policies to reduce large external deficits," the BIS said

These countries also suffered from low commodity prices in real terms, a slowdown in average growth in export volumes to 7% last year from 11% in 1986, sluggish capital formation, inefficient allocation of scarce resources and the burden of external adjustment

Inflation

Improvement in Third World current-account deficits and terms of trade had come at a high price in reduced domestic investment and lowered potential future growth in output

Inflation plagued developing countries more last year than in 1986, with the average rate rising to 45,8% from 32,1%

The BIS surmised much of the increase may have stemmed from the initial inflationary pressures from tough fiscal adjustments by some governments

At the same time, the failure of the heavily indebted countries to boost their export earnings reflected "serious shortcomings in the heavily indebted countries' adjustment strategy", the BIS said. — AP-DJ

(153) B/day 14/6/88

FINANCE

House prices up an average 13% in first quarter of 1988

GRETA STEYN

HOUSE prices rose strongly in the first quarter of 1988 to record an average increase of 13% from last year, the United Building Society (UBS) says in its latest quarterly Housing Review.

The UBS expects the upward movement to continue for the rest of the year On average, house prices should rise by about 17% in 1988.

At the same time, the society foresees the possibility of rises in mortgage rates

It expects a further one or two percentage point increase in banks' prime overdraft rates and says mortgage rates "could be expected to move in sympathy with the general pattern of interest rates"

Not only did house prices advance significantly in the first quarter, but volumes also increased considerably This led the UBS to observe the danger of the economy overheating and thus jeopardising the country's balance of payments position seemed very real.

Against that background, house prices should continue to rise but at a slower rate towards the end of the year

The only region which experienced a decline in house prices compared with the previous quarter was Natal Johannesburg and the East Rand recorded strong increases, rising by 10% and 7% respectively in three months

The price of a medium-sized house currently stands at about R84 500, while larger houses can be bought at about R118 000 and smaller houses at R67 000

The price differential between new and existing houses had increased further and the comparative cost of building a new house of more than 140m² would be more than 20% higher than buying an existing dwelling of comparable size

The effect of lower interest rates, which prevailed for the whole of last year, is clear from the UBS's analysis of monthly bond repayments The monthly repayment on a R50 000 bond, repayable over a 20-year period, declined from a high of about R970 in the fourth quarter of 1984 to R600 in the first quarter of last year The average repayment on new loans showed very little movement since then, but could be expected to increase to about R630 during the current quarter

SA has third worst inflation

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Star 15/6/88

By Neil Behrmann

LONDON — The latest annual report of the Bank For International Settlements says that South Africa has the third highest inflation rate amongst industrialised nations

In the 12 months to March, Turkey experienced the most rampant inflation of 69,8 percent followed by Israel 15,6 percent, South Africa 13,4 percent and Greece 13,2 percent

These were the only countries out of 24 that experienced double digit inflation The average for the 24 nations which include the leading seven countries, United States, Japan, West Germany, France, UK, Italy, Canada, Australia, New Zealand and Portugal was 3,6 percent.

South Africa has been amongst the top inflation prone industrialised countries since 1985, even though its rate has fallen sharply from the 1986 peak of 18,6 percent

The deceleration of Israel's inflation from 305 percent in 1985 has been remarkable, particularly since the country has not experienced a widely expected slump

On the contrary, Israel's real gross domestic product rose to 4,6 percent in 1987 from 2,4 percent in 1986, says the BIS

The report shows that Japan's inflation rate at 0,7 percent is the lowest in the world while its growth rate at 5,3 percent last year was the highest.

Consumer price inflation in industrial countries reached a low point of slightly less than 2,5 percent at the end of 1986 before rising by more than 1 percent this year

"Even so, with domestic cost inflation remaining well under control, there was little suggestion last year of any general risk of an early revival of inflation in the industrial world," says the BIS

WAGE GROWTH

A surge in commodity prices helped boost inflation in the past few months, but it is certainly not about to take off

But the major factor keeping inflation low is "the steadily declining path of wage growth that has been noticeable for several years.

Nominal wage growth of all the major countries is well below four percent, even a nation such as Australia, which has had consistent union problems over the year, experienced nominal wage growth of around five to six percent in the past year This compares with wage increases of over 10 percent in the years 1979 to 1984

South Africa's wage growth rose to 15,2 percent in the third quarter of last year.

153 B/day 15/6/88

Higher interest rates don't cause inflation

GRETA STEYN

FOR THE first time in two years, SA's economic policy-makers are worried about the inflationary effects of excessive demand With monetary policy aimed at curbing demand-pull inflation, interest rates are rising

But at the same time, economists are predicting that the inflation rate will bottom by mid-year at about 13% and start a gradual climb upwards — despite higher interest rates

It is this phenomenon of rising inflation accompanied by rising interest rates which led Reserve Bank Governor Gerhard de Kock to remark that "one of the oldest fallacies" of economics was the belief that higher rates caused inflation

Quite the opposite is true, but it is not always apparent when one looks at the inflation rate as measured by changes in the Consumer Price Index (CPI) This is largely because inflation is caused by an interaction between demand-pull and cost-push factors Action to dampen demand inflation is an attack on one front only

Demand inflation became a worry as the economic upswing gained momentum this year and spending took off

As De Kock said in a recent speech "Full account must now be taken of the danger of excessive money creation and new demand inflation"

When strong domestic demand is accompanied by strong growth in the money supply, prices rise more easily Simplified, the Bank believes that "too much money chasing too few goods" will make it easier for firms to raise prices The Bank has made it clear that it will do its utmost to avoid SA having "too much money"

It was with the price level in mind that the Reserve Bank lowered its money supply growth targets to between 12% and 16% earlier this year But growth in the money supply has been overshooting the target range

The Bank's determination to slow the rapid expansion in the money supply means it will not recklessly pump credit into the banking system, helping to finance the spending splurge while interest rates remain artificially low This less accommodative monetary stance has contributed to the upward movement in interest rates in recent months.

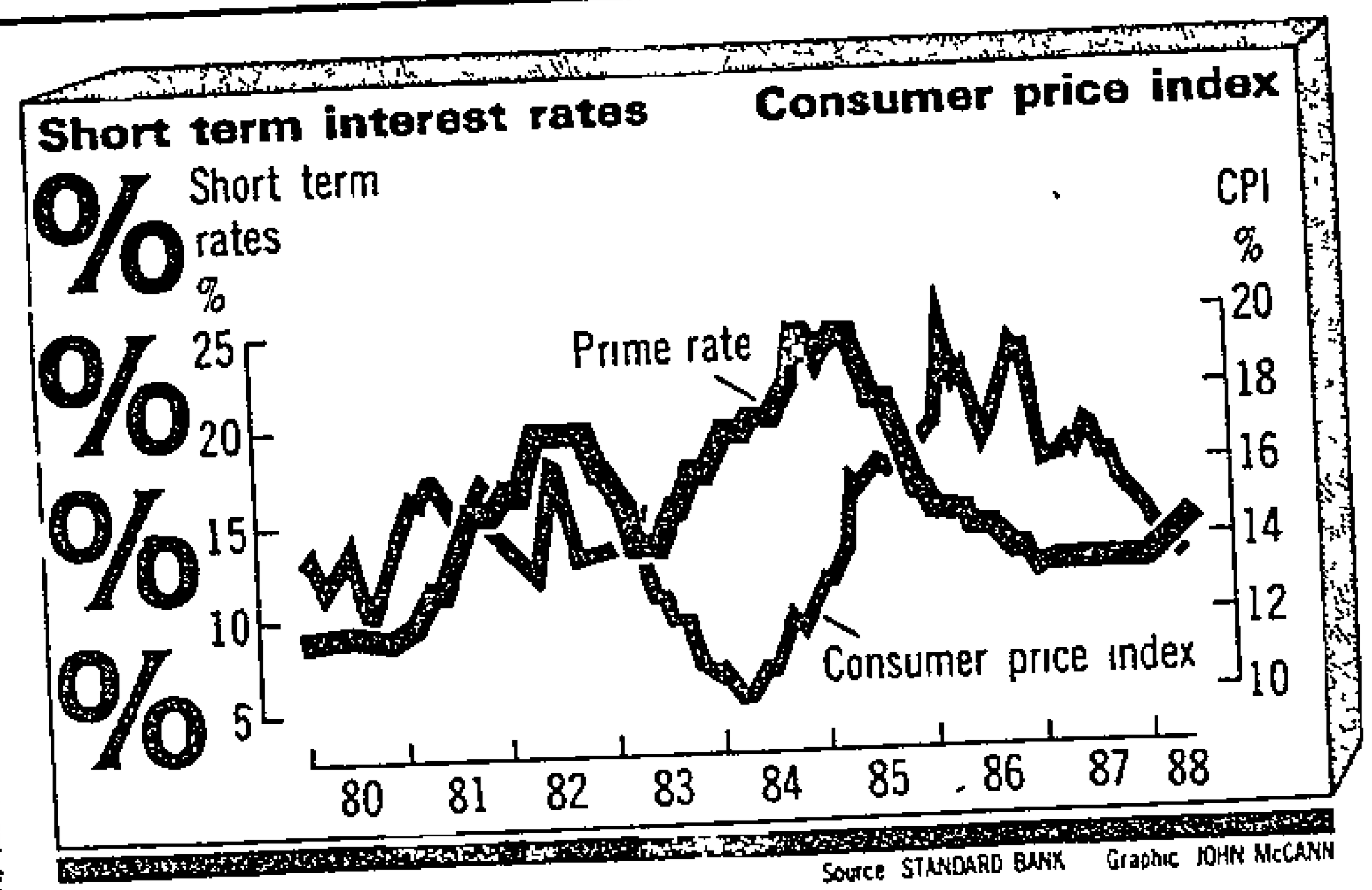
A credit squeeze package was announced in May to curb domestic demand, which was immediately followed by banks raising their prime overdraft rates to 15%

Six months ago, the prime rate was still 12,5%

What effect will the rise in interest rates have on the inflation rate?

De Kock says a rise in interest rates is part and parcel of any policy to curb demand inflation Higher interest rates are deflationary — excessive demand which is accommodated by "too much money" cannot be curbed without higher rates

But will the rise in interest rates cause the inflation rate to remain stable — or even decline?



Paradoxically, its immediate effect will be to increase the CPI Interest rates are included as an item in the CPI, so that a rise in interest rates will automatically lead to an increase in the CPI

The Standard Bank said in a recent review that the mortgage component of the CPI alone carried a weight of 9,47% — thus an increase in mortgage rates from 12,5% to, say, 15,5% (representing a 24% rise), would raise the CPI by more than 2%

But one cannot argue that interest rates raise the inflation rate De Kock believes the fallacy that higher interest rates are inflationary stems from the inclusion of interest rates in the CPI basket

The question can be asked whether it is correct to include interest rates when calculating consumer price inflation?

Old Mutual economist David Mohr says "In the sense that interest is also a cost in the economy, it is correct to include it in the CPI basket. But there may be a problem with including mortgage rates in the housing category of the CPI, since housing can be seen as a capital item and not consumption spending"

Ideally, higher interest rates should cause domestic demand to weaken, which, in turn, should cause prices to increase less rapidly Allowing for a time lag, the effect of curbing demand inflation should be to neutralise the cost effect of higher interest rates

As Mohr explains "When interest rates are raised, credit demand is curbed, which should lead to lower levels of real spending The decline in demand should cause more discipline when it comes to price increases As the market shrinks, firms will try to maintain market share and will exercise caution in raising prices"

The effects of higher interest rates on inflation will obviously be felt only after a period in which domestic demand has diminished But while higher interest rates will certainly serve to curb demand inflation, they will not necessarily have any significant effect on the inflation rate, as measured by the changes in the CPI

Excessive demand, accommodated by rapid expansion in the money supply, is not the only cause of inflation Cost-push or "structural" factors also contribute to the vicious circle

De Kock says "The latter 'structural' and/or cost-push influences include autonomous rises in salaries and wages (that is, rises that are not caused by increases in either monetary demand or prices but by factors such as pressure by trade unions or socio-political considerations), inadequate competition, inflationary expectations and the tendency for 'indexing' of wages to the CPI"

In De Kock's view, there was no demand inflation in the period from 1985 to 1987 Rather, the soaring inflation rate was the result of exchange rate depreciation resulting from a capital outflow

While a higher level of interest rates can go a long way towards restraining inflation, it is by no means the final solution It cannot, for instance, solve the problem of informal indexing of wages and prices to the CPI or the effects on the exchange rate of a political speech

But higher interest rates can — and should — stop the demand-pull

No consensus exists as to what is the true cause of inflation

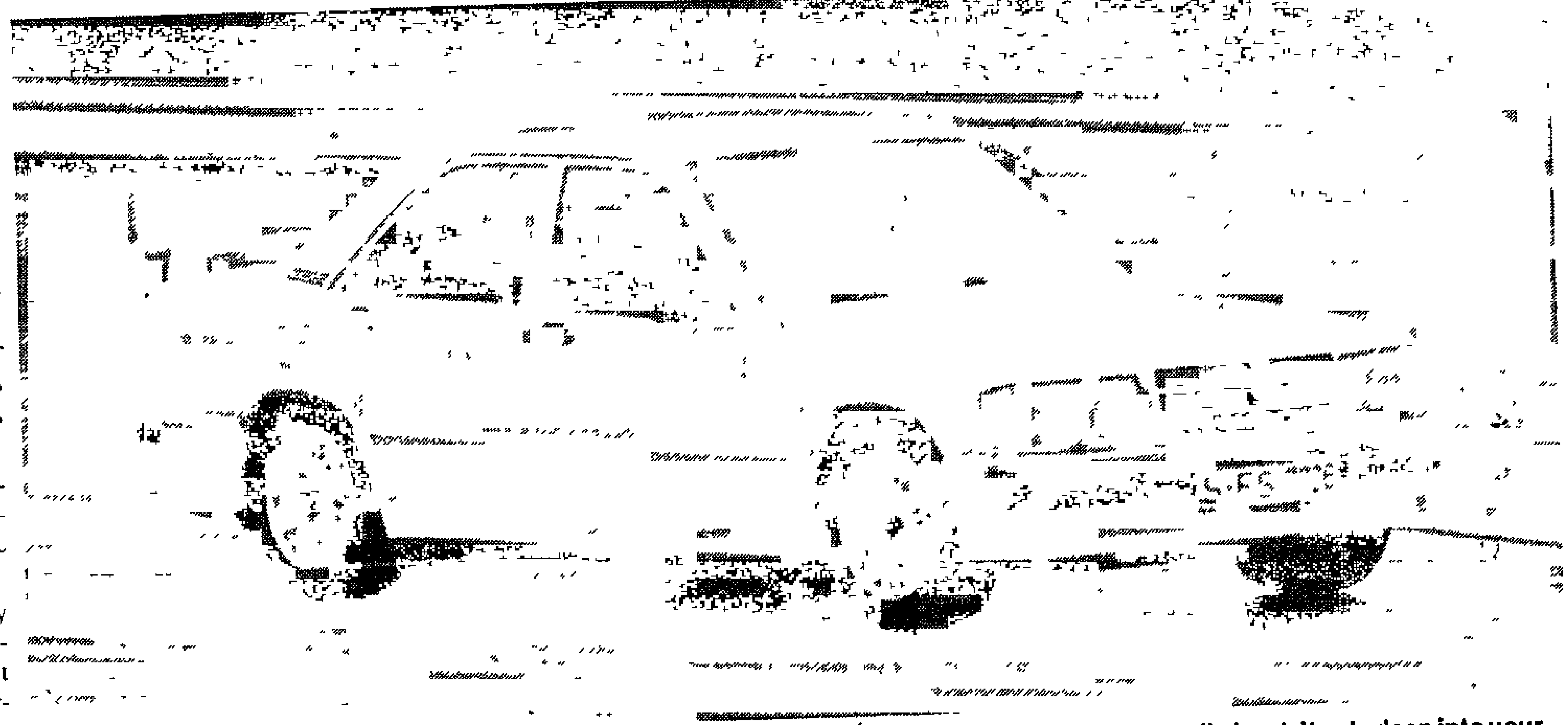
WHEN releasing the consumer price index inflation figures last week, the Central Statistical Services commented that the average South African consumer did not understand what inflation meant

It is ackowledged that inflation is indeed a complex subject Even among those well-versed on the subject, no consensus exists as to what is the true cause of inflation how to best measure it and what the best remedies for curing it are

This article is the first in a series on the topic of inflation The objective of this particular article is to provide a general overview of the traditional theories of inflation

We will also examine inflation in the South African economy In particular we will analyse the structural imbalances part and parcel of our economic system

Inflation is defined in the Economics Dictionary as a process of steadily rising prices resulting in decreasing purchasing power of a given nominal amount of money Put differently inflation shrinks the purchasing power of the rand in your pocket Textbooks differentiate between various types of inflation In the first instance there is



A PROCESS of steadily rising prices resulting in decreasing purchasing power is what inflation is all about It eats deep into your pocket and should surely make it difficult for you to own a car such as the one shown in the picture

Sowetan 15/6/88

Inflation shrinks the buying power

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By An Economist

monetary inflation This type of inflation arises out of an increase in the country's money supply It is for this reason that the monetary authorities, namely the South African Reserve Bank, have made it their policy to control the growth of money supply

In the second instance there is price inflation which results from an increase in prices Here we can distinguish two further categories of inflation Cost push inflation and demand pull inflation Cost push inflation refers to inflation which is created and sustained by increases in production costs In other words, the price of an article increases because the costs of producing it increase Cost push inflation could result from a number of things, for example, there could be wage-increases which are not accompanied by increases in productivity. Or, we could be looking at an article with a high import content, in which case a depreciating (lower) rand could make the article more expensive

Demand pull inflation results when the demand for goods exceeds the supply of goods In theory the increase in prices should stop some buyers from entering the market (as they can no longer afford the higher prices) However, this does not always happen Some theorists argue that demand pull inflation is sustained because of the composition of the market The market is made up of consumers, private corporations and the Government It is the Government that in times of increasing prices continues to spend almost indiscrimanately, therefore putting more upward pressure on prices

The Effects of Inflation

Why should the authorities and the public in general be concerned with inflation? Because inflation reduces the purchasing power of money, there are significant effects for a number of people in the economy More specifically for those on fixed incomes such as pensioners and people on welfare For these people increasing inflation means that their fixed incomes can purchase less goods and services Therefore their standards of living, which in most cases is already low, decreases even further

Inflation destroys people's confidence in money People stop thinking of money as a store of value, and begin seeing money merely as a unit of account In other words, inflation leads to money becoming simply an indication of the price to be paid and not an indication of value

Furthermore, inflation leads to serious distortions in the economic process One of these distortions is linked to the tax system prevalent in the country In South Africa we have a progressive tax on income earned This in effect means that as higher incomes are earned, the higher the taxation paid Inflation leads to demands for higher incomes. As people's wages rise, with a rise in inflation, so they are pushed into higher tax brackets

However, inflation is itself a form of tax We must bear in mind that the Government prints money which it uses to pay for its spending By printing more money the Government is aiding the inflationary process, given that output remains unchanged. In effect what this means is that the man in the street has to suffer higher prices. Therefore, the average person pays for government expenditure in two ways. Firstly by means of taxes and secondly through higher inflation/prices

Another consequence of inflation is that it benefits borrowers at the expense of lenders. This happens because as the value of money decreases or becomes debased, borrowers repaying loans do so with debased money. This means that those who are thrifty and save get punished, whereas those who borrow get an unearned discount In a country where savings should be encouraged and rewarded this makes little sense

The Structural Imbalances in the South African Economy

Why is inflation endemic in the South African economy? There are both internal and external structural factors which contribute to the presence of inflation in the South African economy On the external side there is the fact that as a developing economy South Africa is a net importer of goods and services In the current climate of a low rand the result is quite obviously higher cost of imports, which translates into higher domestic prices

On the internal side the structural imbalances in the system are many Firstly there is the political pressures which have come to bear on the closing of the wage gap between skilled and non-skilled labour. There are two dimensions to this problem In the first instance emerging black trade unions have legitimately fought for the closing of the gap in wages and for the payment of a living wage On the other hand the emigration of skilled people from South Africa has led to substantial increases in the wages of those left behind In both cases the increases in wages and salaries have not been accompanied by increases in productivity. As discussed earlier this is inflationary

Conclusion

Inflation in the South African context is a highly complex phenomenon. In any economy inflation is treated as an undesirable creature whose demise should be pursued at all costs In South Africa this is also the case. However, the demise of the creature is not so easy The reason being the structure in which the creature was spawned and continues to be nurtured

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Star 16/6/88.

Rand's decline fuels higher inflation fears

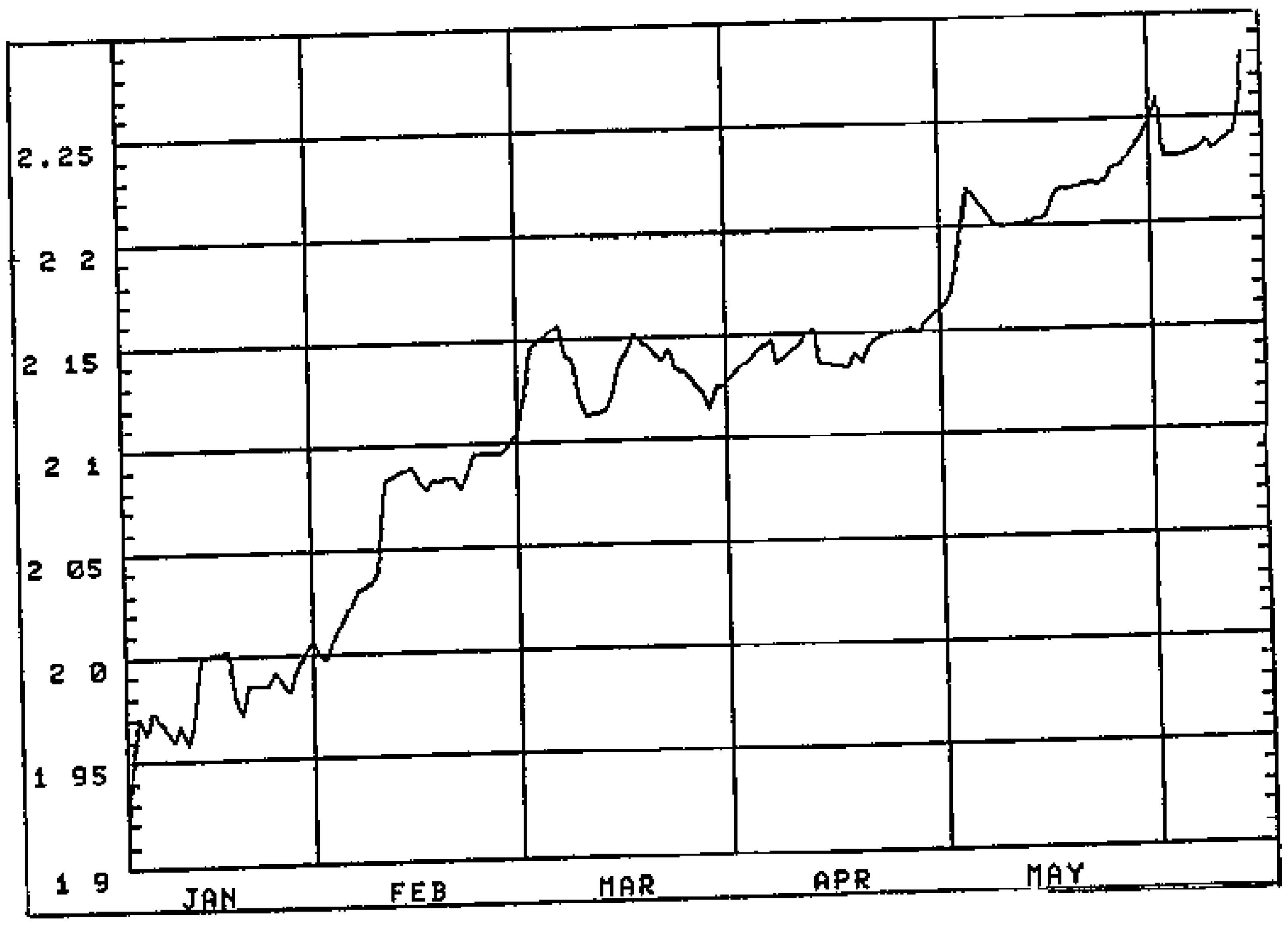
By Sven Lunsche

The rand fell to a 20-month low against the US dollar yesterday, increasing concern about imported inflation A strong surge in the US dollar wordwide saw the rand cost of dollars rising to R2,28 (43,85c in the old terms) with dealers expecting a further weakening of the local currency in the weeks to come

Economists are unanimous that the rising costs of imported goods will push up the general inflation rate in months to come.

First evidence of this was provided by the production price index (PPI) figures for April, which showed that the declining trend in price increases of imported commodities had bottomed out over the month

The PPI statistics, which were released by the Central Statistical Services yesterday, showed that the annual rate of increase in the cost of imported goods was 8,2 percent, which was the same as for March 1988, but halts the long-term decline evident over the last year



The dollar/rand exchange rate Graph by JD Anderson

Prices of locally produced goods rose by an annual 13,7 percent in April, compared with 13,2 percent in March, which pushed the overall rise in producer prices to 12,5 percent in April, 0,5 percentage points up on the previous month

On a monthly basis, the PPI rose by 1,6 percent from March to April, consisting of a 1,7 percent and 0,9 percent rise in the prices of locally produced and imported goods respectively

While the prices of imported commodities have increased at a lower rate than local goods, economists said that the dramatic decline in the rand will inevitably push up this component of the PPI during the next few months

With the exception of April, when the dollar was trading fairly steadily at around R2,15, the rand has declined steadily throughout the year

On a trade weighted basis the value of the rand has decreased by over ten percent since January, with larger declines registered against most blue-chip currencies

Yesterday alone the dollar surged by 2c to a closing rate of R2,28, the US currency's strongest close against the rand since about November 1986, following a similar rise on Tuesday. In old-style quotes the rand now stands at 43,85 US cents.

While much of this week's decline of the rand is due to the surge in the dollar following the release of a lower than expected April US trade deficit, underlying the currency's weakness is the country's deteriorating balance of payments situation and the authorities' attempt to make imports more expensive and exports cheaper through a weaker currency

Clothing industry looking buoyant

Star 17/6/88

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Finance Staff

More clothes are being sold this year than last, despite an unexpected decrease in sales in February

Hennie van Zyl of the National Clothing Federation (NCF) writes in the Clothing Industry News circular that major retail groups were selling between two and six percent more clothing in May than in the same month in 1987 and they expected to increase volumes in the following six months.

"The strongest growth segments during the next six months will be ladies' and children's wear and credit, as distinct from cash, business"

And better news for shoppers is that future price increases are likely to be less than the current 20,5 percent a year rate.

EMPLOYMENT

Mr van Zyl says the rise in employment levels throughout the clothing industry has slowed down of late after almost two years of growth.

Numbers total about 112 000 now, compared with as little as 100 000, according to Industrial Council figures, in mid-1986

The number of clothing manufacturers in Natal has stabilised since July last year at about 440 Western Cape has a similar number, while there are about 350 in the Transvaal

Mr van Zyl says that although fabric price increases slowed down to an annual figure of about 16,3 percent in March, they still threaten the well-being of the industry, being considerably above both inflation (13,3 percent) and the 13,5 percent a year rate at which garment manufacturers increase their prices to retailers

Star, 21/6/88

Recessionary conditions on the way

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Finance Staff

Recessionary conditions are expected to characterise the economy late this year to halfway through 1990, Aloma Jonker and Heidi Vollmer write in stockbroking firm Frankel, Kruger, Vinderine's latest industrial report.

In a general scenario of rising interest rates, forecast slower economic growth, inflation and a declining rand, they recommend only shares fulfilling certain criteria

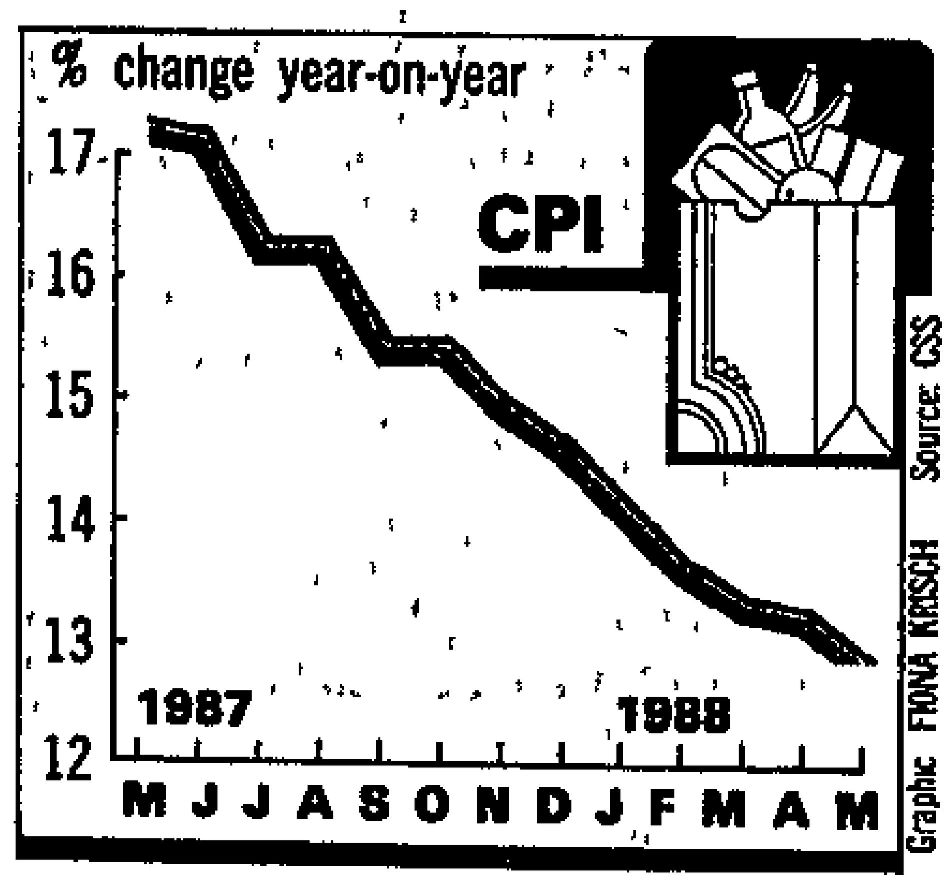
These were a proven track record, high dividend yield stocks, shares of companies not largely dependent on imports, rand hedge stocks, low debt/equity ratio, shares expected to outperform their particular sector.

Jonker and Vollmer remain bearish on the industrial index "We expect a further decline by the year-end due to declining corporate profits as the economy slows and interest rates rise The current upward movement in the Industrial index threatens to be a bull-trap and caution is advised

Long-term investors should switch into blue-chip, non-cyclical shares, and hedging of market risk should be considered by selling futures"

They add the general effect of overseas disinvestment should be to increase opportunities for cash flush South African companies

The report recommends the paper and packaging and pharmaceutical and medical sectors as worthwhile investment areas over the next three years.



Inflation slips to below 13%

23/6/88

(153)

GRETA STEYN B/day

CONSUMER price inflation eased to 12,9% in May from 13,3% in April, reaching below 13% for the first time since October 1984.

The rate was sharply down from the 17,3% of May last year.

Central Statistical Services figures released yesterday showed the Consumer Price Index (CPI) advanced by only 0,8% between April and May compared with increases of 1,1% in April and 1,3% in March.

Food price rises continued to exert upward pressure on the rate of increase.

Rand Merchant Bank economist Rudolf Gouws said the year-long downward trend could be bottoming out and should start moving upwards in the last quarter.

But the next upward movement could be only a temporary interruption before the downward trend resumed, he said.

Sowetan 23/6/88

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A look at what causes inflation

By AN ECONOMIST

IN part one of this series we broadly discussed the concept of inflation and some of the traditional theories which are used to describe it

In this article we will focus on the factors which motivate price increases and therefore the additional demand for money

Before we start our discussion it is important to remember the broad structure of the economy

The economy is made up of many players whose actions are inextricably interlinked

In other words the actions of one firm impinge and impact on the decisions and actions of other firms in the economic system

Prices

Therefore, what we are trying to understand is how these actions originate, how they spread from market to market, and most importantly, how they hold their force over time

Put differently we are trying to understand economic forces so that we may explain economic phenomena

To understand inflation we must begin by understanding the role of prices

It is generally accepted that in a competitive economic system prices perform two functions Firstly, they allocate resources, and secondly they distribute income

In other words, changes in prices due to changes in market conditions result in the re-allocation of resources from less profitable to more profitable industries

In the same way incomes are redistributed between factors

Theoretically the price mechanism leads to the most efficient method of market operation

However, reality tells us that this is not the case Often the changes in conditions which lead to price increases and should ultimately result in the reallocation of resources and redistribution of income, lead rather to widespread increases in prices throughout the economic system

Because the increases in prices are not contained within their own industry, in other words, price increases move from being specific to being general, the price system fails in its allocative and redistribution function and ultimately the result is a rather distorted economic system

That is why the inflation process once it has started is hard to stop

It is obvious that if we want to get to the root cause of the inflation process we must understand what it is that changes specific increases in prices to general increases in prices

Capital

We will now examine a scenario in which a specific increase in prices becomes a general increase in prices and therefore inflationary

To do this we begin by assuming that we are operating within a closed economy, or put differently an economy where there are no imports and exports

We will further assume that the increase in demand originates from an increase in government expenditure

Shortage

We will examine a specific problem which is characteristic of most developing economies, namely, the shortage of capital equipment

In other words the constraint which faces our economy is one of a shortage of machinery which is required for production

In this type of environment an increase in demand leads to a set of price increases which spread outside the industry in question

An increase in demand results in an increase in output, given that machinery is scarce this increase in output results in an increase in the costs of production

The producer does not, however, bear this increase in costs but rather passes it on to the consumer as an increase in price

This increase in prices means that real wages (money wages adjusted for inflation) have been lowered

Profit

The capitalist on the other hand faces a very different set of circumstances

The higher demand means that he can sell more, and because he has passed the price increases to the consumer his rate of profit has increased as a result of the higher demand

In this case inflation has had the effect of redistributing incomes in favour of capital

Furthermore, the increase in product prices relative to unchanged wages means that it is now profitable for capitalists to increase production and therefore, capital utilisation by means of overtime and a regime of shift work

Also, the higher rates of profit allows the capitalist to invest further in capital equipment and in this way the process of capital usage is enhanced

Marxian

In the case discussed above there has been a general increase in prices but no general increase in wages Indeed in this type of scenario we also find widespread unemployment in the Marxian sense

The shortage of capital equipment means that there is a shortage of tools with which to put labour to work

There is also the fact that the movement to capital usage rations some unskilled labour out of the labour market and into the pool of unskilled unemployed labour force

If we add to this the fact that the capitalist is unwilling to bear the cost of an increased labour force and opts for overtime and shift work, the magnitude of the problem becomes apparent

. Prices will continue to rise for as long as the public sector continues to spend and is unwilling to cut back in response to higher prices

The higher prices, given, the unchanged wages, mean that consumers' spending power is curtailed and ultimately their share of the economic cake is reduced

Closed

In summary we can say that in the case of a closed economy where capital equipment is a limiting factor, a rise in demand induced by non-productive activity such as an increase in government expenditure, is inflationary

Furthermore, the inflationary process leads to a redistribution of income in favour of capital

It also adds to the unemployment problem

In part three of this series we will drop some of the assumptions made in this article so that we may create an economy which is closer to the real world

Inflation dips below 13% for first time in 4 years

(153) Star 23/6/88

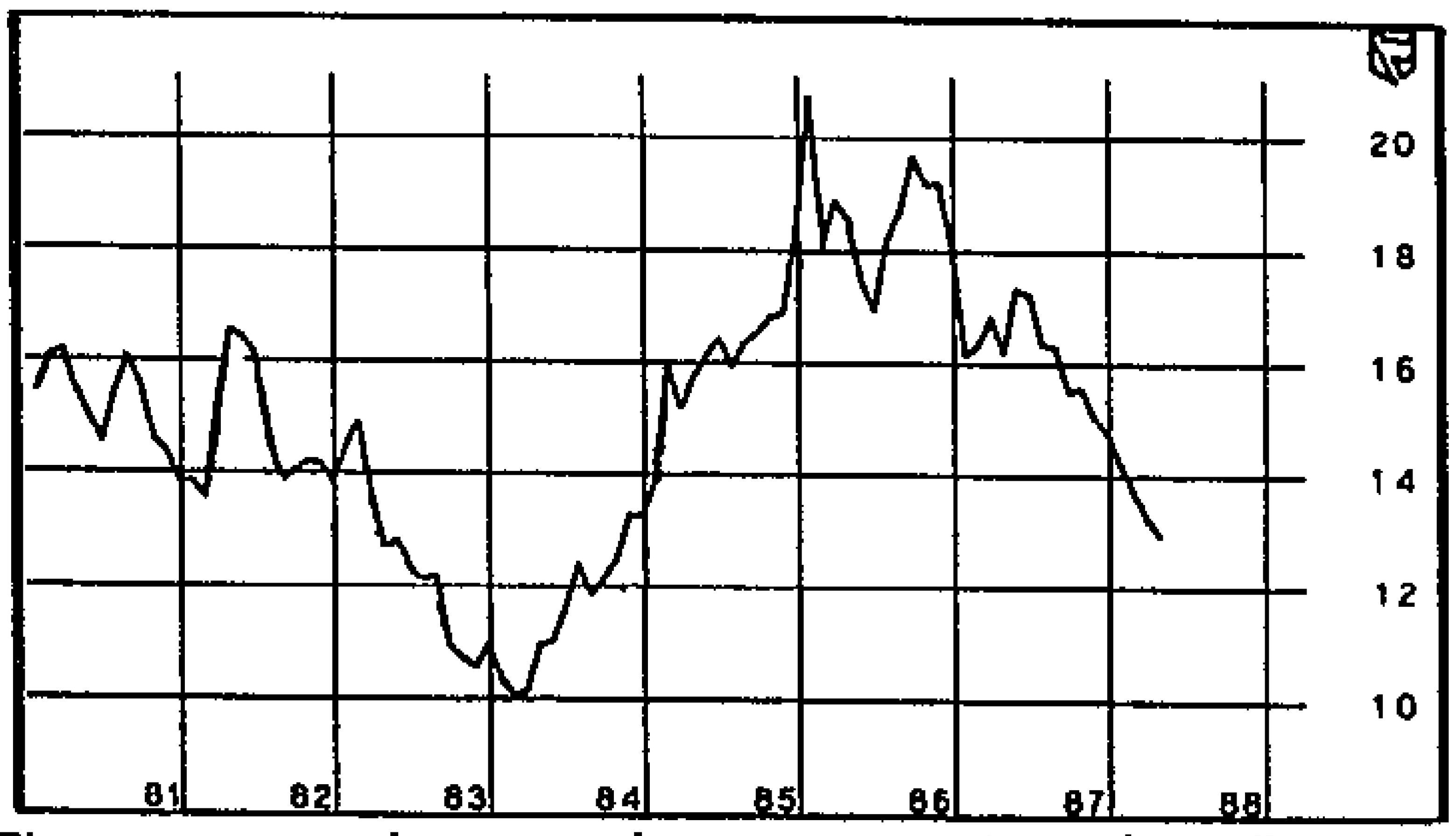
By Sven Lunsche

A surprisingly low increase in food prices helped the inflation rate to drop below the 13 percent mark for the first time since October 1984

According to figures released by the Central Statistical Service (CSS) in Pretoria yesterday the year-on-year increase in the consumer price index declined to 12,9 percent in May compared with 13,3 percent in April, while the monthly rate of increase in May was 1,2 percent

The statement from the CSS notes "It is encouraging that the annual rate of increase in the price index for food, which remained constant at 17,1 percent for the previous three months, dropped to 16,8 percent for May, the first time since December 1985 that the rate has dropped below 17 percent"

Despite the latest decline economists maintain that the inflation rate will bottom out towards June-July this year, as demand inflation and a lower rand exchange rate take their toll



The percentage change in the consumer price index (all items), same month previous year

In a recent economic survey Sanlam's chief economist Johan Louw said he expected an average rise in the consumer price index of 13,8 percent for 1988 as opposed to 16,1 percent in 1987 and 18,6 percent in 1986

He listed two major factors which have been exerting upward pressures on consumer prices

- The continued deterioration in the external value of the rand, which will be reflected especially in more expensive cars and household appliances, since January the trade weighted value of the currency has declined by over 10 percent, with higher decreases registered against most blue-chip currencies
- Higher interest rates, as, apart from the higher costs this involves for businesses, the rise in bond rates will initially have a detrimental effect on the consumer price index

Higher unit costs for producers have also been forecast and first evidence of this was provided by the seasonal adjusted increase in producer prices earlier this year

The quarter-to-quarter change in the production price index fell back from 14,8 percent in the second quarter of 1987 to only 7,9 percent in the fourthquarter, but subsequently re-accelerated to 12,5 percent in the first quarter of this year

As a result of the lower rate of increase in food prices in May, the inflation rate for lower income groups was less than that for the middle and higher income groups for the first time in months, as food has a larger weighting in the "basket" of this group

Among food items, the largest monthly increase were seen in non-alcoholic drinks (15,5 percent), recreation and entertainment (3,9 percent), cigarettes (3,5 percent), vehicles (2,7 percent) and footwear (2,1 percent), while monthly decreases were registered by fruits (2,7 percent) and sugar (1,1 percent)

BUSINESS SCENE

because of bad policies

sowetan 30/6/88 153

• From page 28

which inflation would thrive

Firstly because of the strong exchange rate the practice of importing large quantities of capital equipment was encouraged and the bias towards capital intensive industrialisation was put in place

Secondly, the existence of subsidies and the protection offered by tariffs and other import controls attracted manufacturers to the protected sectors

After all they were assured of large profits in these sectors Thirdly, government policy did not actively encourage exports, so that the net outflows of foreign exchange needed to pay for imports were not matched by net inflows from the sale of exports

Profits

Firms embarking on import substitution programmes were guaranteed profits through the mechanism of protection set in place by the State, there was no need for them to compete on an international level by exporting their goods Furthermore, the exchange rate was too strong to make exports worthwhile

To summarise, we can say that the policies of import substitution and inward industrialisation resulted in excessively capital orientated policies which have proved to be costly and have had a crippling effect on growth

Policy

It must be noted that throughout the period under discussion the policy followed was one of direct controls and intervention The rand was allowed to remain relatively strong For what turned out to be mainly political reasons devaluation policies were not followed Indeed it was only in the last six years that currency devaluation as a policy measure was introduced

In fact in the last two years we have seen the rand devalue quite substantially against other major currencies such as the British Pound, US Dollar, Japanese Yen and German Deutschemark

However, given the distortion in the economic system created by the misguided and politically motivated policies of the past this currency devaluation is in itself inflationary

South Africa remains a net importer of goods and services and is in the past booms are accompanied by rapidly growing imports The weaker currency means that these imports are expensive Given the high levels of demand during these boom periods, the higher costs of imports are quickly transmitted to higher domestic prices

Problem

On the other hand the weaker rand makes our exports more competitive The problem, however, is that past policies did little to promote exports Therefore, even with a lower rand not enough export volumes are generated so that foreign exchange inflows from exports are at best inadequate

Furthermore, South Africa has an inflation rate which is far higher than that of its trading partners. To remain competitive it therefore needs a lower rand to neutralise the higher output costs However, given the structure of the economy, a lower rand has inflationary implications as discussed above In fact the policy of currency devaluation followed in the last six years has resulted in a vicious circle where the depreciating currency has led to inflation, and inflation in turn fuels the need for an even lower currency

In conclusion we can say that inflation is a structural problem in the South African economy The policy prescriptions of the past have resulted in an economic structure which does not allow for growth without inflation Unfortunately it is not sufficient to follow policies which theoretically and indeed given a different set of economic structures would have the desired results Sound policies in a bad structure ultimately become unsound policies Given the structure of the South African economy inflation is here to stay it cannot simply be willed away

THE effect of inflation on wages plays a major part in negotiations.

Inflation is here to stay

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Sowetan 30/6/88

THIS is the last article in our series on inflation. In this article we will drop the assumption of a closed economy. Instead we allow our economy to participate in world trade. In other words we now have an economy which imports and exports goods and services.

By opening up our economy we also allow ourselves to become part of the international flow of funds Because our economy is now "open" one of the major economic variables we have to contend with and indeed understand is the balance of payments

The balance of payments is in fact the country's balance sheet Essentially there are three sections in the balance of payments The first section is called the current account and it provides a record of all trade related transactions i e imports and exports

The second section is called the capital account and it is here that all capital inflows and outflows (inflow and outflow of foreign investment and foreign borrowings)

The third section reflects the country's gold and foreign exchange reserves (this is a balancing item i e the current account minus the capital account)

As a Third World economy, South Africa is a net importer of goods and services More specifically we tend to import large quantities of capital goods (machinery and equipment), a practice which is becoming more widespread as management unwisely decide to go the capital expansion route

Importer

In fact machinery and transport equipment comprises approximately 45 percent of total imports This tendency towards capital intensive production means that in terms of economic growth the balance of payments comes under severe pressure During boom periods demand increases, to meet this increase in demand manufacturers and producers have to increase their output

For this they require additional equipment and machinery which is imported At the same time bottlenecks start emerging in the economy as demand outstrips production capacity To meet the higher demand producers start importing The outcome is that in times of economic booms the balance of payments comes under pressure as the demand for imports decreases

Movement

What we need to understand is where the movement to capital intensive production started and the industrialisation policies which encouraged it The Reynders Commission (1972), argued that inflation is a structural problem arising out of the policies of import substitution, the increasingly sophisticated process of industrialisation, and some aspects of world post war inflation

We now turn to a discussion of the historical developments which allowed inflation to become part and parcel of the economic structure

Historical Perspective

During the 1950s and 1960s South Africa followed a policy of import substitution and inward industrialisation In essence the objectives of this type of policy was to allow the local industries to develop while at the same time allow the country to become self sufficient To do this the State put in place a set of economic measures which favoured certain sectors of the economy

Among the policies introduced to promote import substitution were

- Provision of cheap foreign exchange, in other words the rand was relatively strong compared to other currencies This meant that capital equipment could be imported relatively cheaply, a practice which was encouraged
- Import controls such as tariffs and quotas These controls made it more expensive to import goods which the State deemed unnecessary and for which a local industry could be developed

Import controls were devised so as to protect local industries

- Direct State subsidies were paid to agriculture as well as to those firms which embarked on import substitution programmes
- Legislation which prevented black workers from organising themselves into unions White workers were, however, organised and politically strong This had far reaching ramifications for education and contributed much to the skills shortages, the inflationary aspects of this were discussed in part one of this series

The results of these policies were far reaching and indeed allowed for the development of an economic structure which would prove to be highly distorted and in

● To page 29

ATLANTIS ANNUAL REPORT

THE wages of workers are always the first to be affected by inflation. Hence the importance of trade unions in wage bargaining.

P.T.O.

No need to get excited about lower inflation (13%)

Economic fundamentals point to higher rate at year end

IS 3 Sowetan 30/6/88

FOCUS

By an Economist

LAST week we saw the release of sets of economic data, namely, consumer price inflation and money supply. Inflation is down to 12,9% for May from 13.3% in April. This is the first time since October 1984, that inflation fell below the 13% mark.

However, before we get too excited about such a low level of inflation a word of caution needs to be sounded Firstly there is the fact that inflation is a year-on-year figure and we are coming off a relatively high base — inflation for May 1987, was 17 3%, the highest figure for that year

We can expect this statistical distortion to impact on the inflation figure for June this year as the June 1987 inflation figure remained relatively unchanged at around 17% However, the second half of 1987, saw inflation coming down rather rapidly so that the statistical advantage of a higher base year will be absent in the second half of the year

Negative

What this in fact means is that a **higher inflation** figure can be expected in the *second half* of the year Furthermore, the way the inflation index is compiled means that there are certain items in the index, such as **housing, transport equipment** and **motor vehicles** whose prices are **not** measured on a monthly basis

This could mean that there are price changes in these components which will only be reflected in the inflation rate in the second half of the year

Another reason for not getting too excited about the lower inflation is that those things which constitute the bulk of the average person's expenditure, namely, **food, clothing** and **footwear** are still showing inflation rates of 16 8%, and 16 5% respectively

Apart from the statistical quirks inherent in the inflation rate there are other economic fundamentals which point towards an inflation rate of around 13 5% — 14 5% by year end In the first instance there is the balance of payments position which has been steadily worsening for the past six months

After seasonal adjustments the balance of payments moved from a R6 1 billion surplus at the end of the fourth quarter of 1987 to a R0 4 billion deficit in the first quarter of 1988 This movement from surplus to deficit can be largely attributed to the joint effect of a large rise in the value of imports and a decrease in exports

Housing

Export volumes declined by 7% in the first quarter of 1988

DR GERHARD de Kock . . Governor of Reserve bank.

Given the continued depreciation of the rand against all major currencies and the fact that we still have foreign prospects for a balance of payments surplus remain obscure Furthermore, economic growth does not appear to be subsiding and therefore no damper on import growth is envisaged In an economic environment characterised by a depreciating currency and untamed consumer demand, the higher level of imports translates into higher prices and therefore higher inflation

Further evidence that the economy, is not slowing down can be found in the higher money supply figures Money supply as measured by M3 (the broad definition of money) was revised upward to 20 7% for April and the preliminary figure for May is 22 7% These figures are well outside the 12% — 16% target set by the Governor of the Reserve Bank, Dr de Kock It now appears that this target will be hard to meet by year end A closer examination of the components of money supply show that there has been no real slow down in credit demand Hire-purchase **lending, leasing,** and **commercial** bank advances for April showed year-on-year increases of 22 5%, 32 8% and 29% respectively Given the Reserve Bank's unwillingness to allow the interest rates to increase the outlook for inflation remains negative After all the present economic recovery is consumers have access to relatively cheap credit the spending spree will continue

Depreciation

All in all, the outlook for inflation is negative The strong economic growth experienced in the first quarter of the year shows no sign of abating and therefore fears of demand pull inflation are not unfounded Furthermore, money supply is growing at an alarming rate and the rand continues to depreciate against other major currencies, which given the growing import levels could only add fuel to the inflation fire At the same time the position of the balance of payments gets more precarious

One thing is clear South Africa cannot afford this type of growth

INFLATION ACCOUNTING

The comforts of delusion

■ With persistent inflation, the problem of cost accounting remains pressing

The more often a company changes its accounting policies, as a general rule, the more cautious the investor should be about buying its shares But that should not preclude attempts to adopt policies which recognise that inflation exists and that it is destructive

Too few companies in this country, where inflation remains a major problem, are prepared to tackle this thorny accounting problem It is easier simply to issue disclaimers on the grounds of imperfect techniques and pretend that it doesn't exist But what is convenient to the corporate treasurer is mightily misleading to the investor

South African accounting standards are a joint product of those represented on the Accounting Practices Board — Assocom, Seifsa, the Chamber of Mines, the JSE and chartered accountants (CAs) in public practice But it is *users* of financial statements — not *preparers* — who are voicing increasing concern over standards, especially as they apply to inflation

For example, a company can in reality be financially unsound, despite its reflecting substantial profits — by showing sales at today's inflated rates over stock purchased at yesterday's prices By not adequately taking the impact of inflation on earnings into account, companies are easily tempted to pay dividends out of capital Also, as the value of the rand continues to erode, provision for replacement of imported capital goods needs to reflect harsh realities rather than static accounting concepts And so on

JSE president Tony Norton singled out the problem of inflation in accounting at the CA's recent annual congress It is generally referred to these days as current cost accounting He pointed out that we have to "recognise that, unlike the developed countries which normally lead us, we continue to experience a continuing high rate of inflation "

Less than 20 of the 700 or so non-mining companies listed on the JSE include a current cost adjusted financial statement in their annual audited accounts To an extent this is understandable, the problem is worldwide The International Accounting Standards Committee (IASC) has yet to find consensus solutions in many areas For example, the committee is tackling the question of removing free choices (options) within a particular standard There is controversy in areas such as deferred tax, consolidation (group) accounts, goodwill — and current cost accounting

There is a reason for the pressure to reach international agreement In the words of the IASC's David Cairns, financial markets have been revolutionised to international level overnight — but accounting standards have remained national One of the aims of the committee, formed over a decade ago, he says, is "to boost the formation of truly international capital markets by helping investors understand the financial statements of companies in any nation "

In SA, with endemic double-digit inflation, current cost accounting — or rather the lack of it — offers probably the most fertile field for creativity and delusion The higher the inflation rate, the more distorted financial statements can become The typical accounting period of 12 months adds yet further distortions

The favoured historic cost accounting method allows a company to overstate shareholders' profit before tax, retained income and EPS Dividend cover is increased

Pim Goldby's Wilmot . . . suspicions of subjectivity

Moreover, if companies were taxed on current cost profits, they would generally pay lower amounts of tax This is a crucial point, for, if Inland Revenue agreed to tax on current cost profits, adoption of a current cost accounting standard would be instantaneous

Revenue's attitude — unofficially — is that current cost accounts would be yet another way of reducing taxes payable But if the taxing of current cost profits was accompanied by reducing tax concessions for industry and commerce, overall tax receipts would increase Indeed, the erosion of such concessions is exactly what was recommended by the Margo Commission

Creative accounting is not limited to ignoring inflation — and manipulation of earnings and other figures is not limited to SA Far from it In the US and UK, financial statements are directed at existing and potential investors, thus tending to provide realistic estimates of earnings — as in SA.

German and Japanese accounts, on the other hand, are still drawn up with the tax authorities in mind, thus tending to underestimate earnings

Perhaps the universal problem is the general level of disclosure, which is measured — in its broadest context — in terms of public interest The IASC is seeking a solution by application of the principle of "relevance " Any change in accounting standards, the argument goes, should be made with this as the overriding consideration

That's a long way from where we are today Some companies are forthright in totally disregarding current cost accounting Says Barlows in its latest annual report. "The group recognises that financial statements prepared on an historical cost basis do not disclose true profits, as they are unable to reflect the impact of inflation

"However, conventionally prepared financial statements still form the basis on which business decisions are made and the yardstick by which companies are judged

"Until a method of accounting for the effect of changing prices is developed which is meaningful, standardised, generally accepted and of benefit to users of financial statements, the group prefers to refrain from any attempt to disclose such effect "

That would appear to summarise the attitude of the hundreds of JSE-listed companies which do not provide current cost-adjusted accounts

Does Barlows have a point? In recent years, the company's EPS has benefited from ignoring inflation, particularly in the treatment of stock More recently, it adopted the partial method for deferred tax (linked closely to inflation concepts), which, coincidentally or not, significantly improved its EPS

AC 201, issued in SA in 1978 and entitled "The Disclosure of Effects of Changing Prices on Financial Results," *is* a "meaningful" and "standardised" reference point, though only a guideline, rather than a Generally Accepted Accounting Practice (GAAP) If AC 201 is regarded as insufficient, there is IAS 15 — "Information Reflecting the Effects of Changing Prices"

SA, as a founding member of the IASC, and a board member, has agreed on a "best endeavours" basis, to implement International Accounting Standards wherever possible In other words, when SA adopts a new accounting standard, it will *at least* comply with the relevant IAS

So, whereas AC 201 is not a GAAP in SA — and, therefore, not compulsory — every company listed on the JSE *could* comply with it — or with IAS 15 On the other hand, as pointed out, IAS 15 is being reviewed because its implementation in the West has been unsuccessful It has been withdrawn in the US and UK, where low inflation rates have taken the heat out of it


JSE's Norton ... taking account of reality

Those companies which have implemented current cost accounting — SA Breweries, Premier Milling, Pretoria Portland Cement, Adcock Ingram and Afrox (among others) — have shown it to be of benefit Afrox, in particular, gives clear and unambiguous current cost accounts which show how dramatically figures change when reality is recognised In a full current cost-adjusted statement, Afrox shows that, whereas historical profits after tax were R47m, current cost profits were 29% less at R36m **(see table)**

Afrox uses four main adjustments in recognising inflation

☐ Depreciation Fixed assets are revalued The increase is reflected in a non-distributable reserve A like amount for depreciation is used to reduce trading profit (a *cash* item, which has a direct impact on EPS);

☐ Cost of Sales Adjustment This is identical to the change for fixed assets, relating to stock,

☐ Monetary Working Capital Adjustment This recognises that inflation decreases the cost of debt Paying yesterday's debt with today's inflated money gives a *credit*, and

☐ Financial Adjustment Gearing This is similar to the working capital adjustment, but relates to longer-term debt instruments

In the result, Afrox's EPS for 1987 on historical accounting were 152,84c, against 117,57c on current cost — a difference of 30% Historical dividend cover was 3,33 against 2,75 — a 21% difference Profit on capital employed was 14,34% and 7,85% — a difference of 83%

Of course, current cost accounting is more complicated than suggested here Its impact varies depending on the nature of an organisation's business, showing greater differences with capital-intensive companies (such as Afrox) than with trading companies like Pick 'n Pay And, of course, the higher the inflation rate, the greater the *benefits* of inflation accounting for companies which are highly geared

In SA, there is currently a peculiar benefit that goes with current cost accounting To quote Norton, such "figures are increasingly important in pointing out to workers and their trade unions that the reality of the profits of the company are often not what they seem to be "

What are the arguments against current cost accounting? These were summarised in a reply to Norton by Pim Goldby's Peter Wilmot, one of SA's representatives on the IASC Wilmot said CAs do not doubt that inflation is ravaging SA "But experience — here and elsewhere — shows that current cost-adjusted financial statements may not be the answer "

Analysts, said Wilmot, were suspicious of current cost accounting because,

☐ Many of the values were subjectively calculated They preferred to make their own adjustments,

☐ Companies see it as a costly exercise with limited benefits,

☐ There are competitive implications among account preparers, and

☐ There is a perception among preparers that there would be a down-rating of the market price, followed by the shares through the inevitably lower EPS

Wilmot added "The irony is that in times of high inflation, everybody acknowledges that historic cost financial statements are deficient, but *there is no concentrated call from users* for current cost accounts "

What is the answer, not only to the problem of current cost accounting, but also to making financial statements more relevant? The IASC's approach is to involve international organisations of financial analysts, stock exchanges, securities commissions, trade unions, lawyers, bankers (particularly the World Bank), financial executives and chambers of commerce — as well as intergovernmental organisations

SA's governing accounting bodies follow a similar approach They just don't seem to get enough done In the meantime, perhaps Norton's suggestion, that an unofficial current cost statement should be issued with all accounts, provides a partial answer

He believes SA can stay with historic cost accounting, providing there is also a full cash flow statement (on which GAAP will soon be issued), incorporation in the notes, assessments of the current real value of assets, and a current cost accounting income statement in a memorandum setting out the underlying assumptions

This would "give the user of the accounts a reasonable assessment of the reality of the business and its profits and assets This statement need not be audited, but it is useful and, in many cases, an invaluable tool for management and investors "

Our view is that until the tax authorities are prepared to tax current cost profits — and there is little hope of this while government is short of cash — those companies which can be persuaded to follow Norton's sound advice will soon tire of winning only Brownie points

While the Exchequer benefits from inflation and government is devoid of vision, there is unhappily going to be no change for the better

This is a pity For it goes without saying that improved accounting standards are important to the fostering of adequate economic growth in a country where there is a real danger of atrophy They are of themselves not enough to reverse that process, but they at least prevent reality from being masked

Barry Sergeant

RECOGNISING INFLATION

Afrox accounts — 1987

	Current cost R000	Published R000	Historical R000
Turnover	448 391	448 391	448 391
Trading profit	92 733	92 733	92 733
Current cost adjustment			
[illegible]	1[illegible]745		
[illegible]les adjustment	[illegible]70		
[illegible] working capital adjustment	[illegible]		
	1[illegible]		—
Entity profit	80 874	92 733	92 733
[illegible] interest pa[illegible]	1[illegible]	[illegible]	[illegible]
Profit after interest	77 550	89 109	89 109
[illegible]djustment[illegible]	[illegible]		
Shareholders profit before taxation	76 844	89 409	89 409
Taxatio[illegible]	[illegible]	[illegible]	12 498
Shareholders profit after taxation	36 316	16 911	16 911

Cold comfort on inflation

Star 12/7/88 (153

By Sven Lunsche

Hopes for lower inflation will be hit by two cold fronts in months to come — the rapidly declining rand exchange rate and cost increases for locally produced goods

This was evident yesterday when the Central Statistical Services announced that the production price index (PPI) hit its highest level since 1987 in May this year, recording an increase of 13,2 percent compared with May last year

The monthly increase for May over April this year was 1,2 percent The rate of increase for locally produced products was 14,3 percent in May, which was an increase of 0,6 percent up on the previous month

The annualised rate of increase for imported products was 10 percent up on the figure for May last year and 22 percent, on an annualised basis, on April 1988

And the cost of imported goods is likely to rise as the rand continues its rapid decline, which was evident over the last two weeks

At yesterday's closing level the rand-dollar exchange rate of R2,3665 was almost 1,5 percent down on the same level two weeks ago, while the crosses did not fare much better

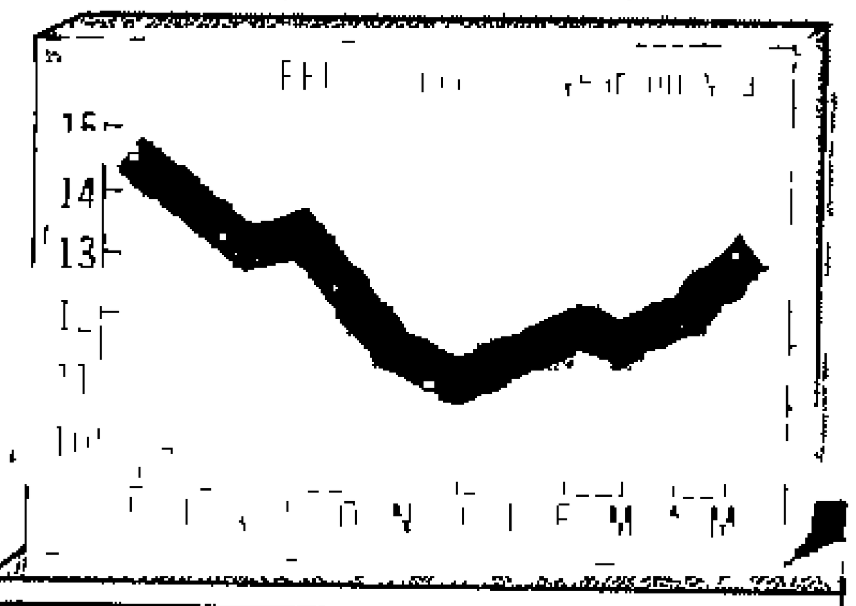
The rand registered declines of about two percent against sterling, one percent against the Deutsche mark and over three percent against the yen

The trade weighted rand lost about 1,5 percent, while the finrand, at yesterday's close of R3,56, lost over two percent

Writing in its latest currency report First National Bank says the rand was likely to continue declining "With no significant capital account compensation for our loss of forex reserves, rand exchange rate stabilisation is not sustainable when the current account is constantly overshadowed by our foreign debt repayment and servicing commitments"

With this in mind Frankel, Kruger, Vinderine's economist Gillian Raine says "It now appears that that inflation surge from 1985 to 1987, due first to the rand's decline and then food price increases, is now at a turning point and the core inflation excluding food will start rising again as the depreciation of the rand pushes up import costs"

She adds, however, that the extent of the increase was likely to be less than in 1984/85, as there had been substantial import substitution since 1984



Producer price index

Inflation hits 13,3% in May

GRETA STEYN

PRODUCER price inflation hit 13,3% for the year to May 1988 — the highest rate of increase in the Producer Price Index (PPI) since September last year, Central Statistical Services figures show.

The rate has been in an uptrend since the beginning of the year, apart from a slight downward hiccup in March.

The weak rand is starting to work its way through to the inflation rate. In May, the imported component of the PPI rose by 1,9% from April, after two small monthly increases of below 1%. Economists expect imported prices to continue fuelling inflation, reflecting the battering the rand took this year.

The rand has dropped by almost 14% against a basket of currencies of SA's main trading partners since January. Imported prices contribute almost 23% to the overall PPI.

The prices of domestic goods increased by 1,1% between April and May, rising at a slower rate than imported prices for the first time this year. Domestic price rises reflect, among others, demand pressures in the economy.

The overall PPI rose by 1,25% between April and May — higher than last year's increase of 1,1% in the corresponding period.

12/7/88

BER surveys find economy is slowing down

(153) B/day 15/7/88.

Inflation set to rise as confidence dwindles

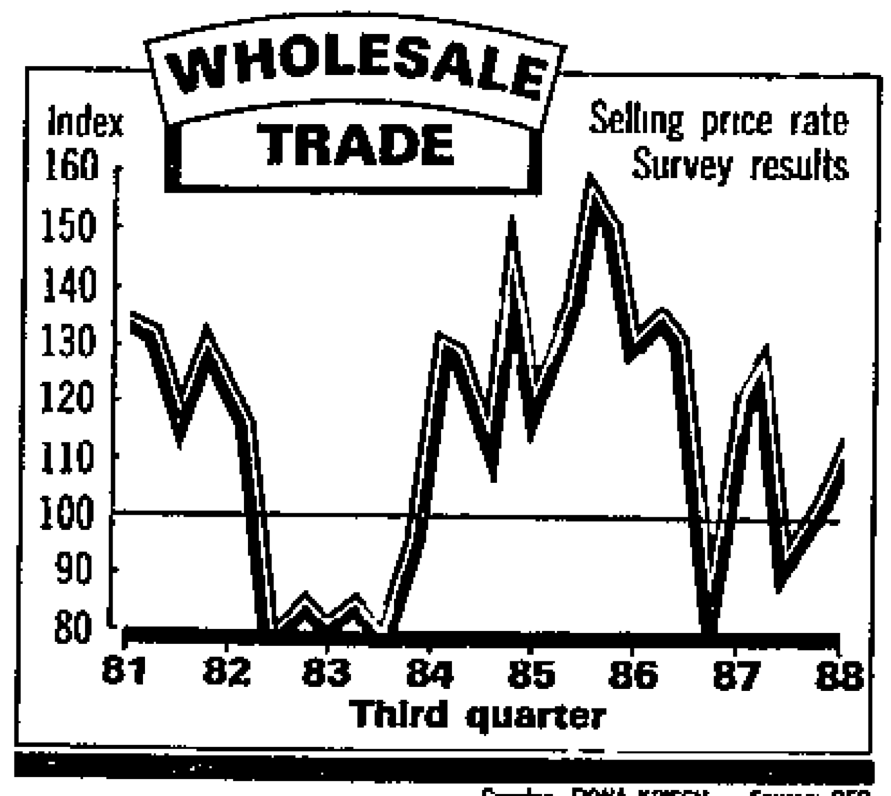
GRETA STEYN

UPWARD pressure on the inflation rate was building up with retailers and wholesalers expecting prices to rise at a faster rate this quarter, Bureau for Economic Research (BER) surveys have found.

It was also found that business confidence, though still high, had started to dwindle in some sectors. At the same time, the mood of black and white consumers had deteriorated.

The BER surveys point to a slowdown in the economy at the end of the year accompanied by a climbing inflation rate. Retail price hikes were expected to accelerate by most retailers interviewed.

The BER said: "Retailers intend passing on the higher purchase prices to the consumer with the exception of durable goods, where a smallish number of participants intend to absorb some of the higher costs."



Graphic: FIONA KIRSCH Source: BER

Among wholesale firms, 20% of respondents expected their purchase prices to increase at a higher rate during the third quarter, compared with only 5% in the previous survey.

The prices at which they sold their goods were also widely expected to increase at a higher rate than in the second quarter.

The survey on prices suggested profits could come under pressure.

On business confidence, it was found the retail sector was optimistic at the end of June but that confidence could deteriorate this quarter as a result of poorer business conditions.

Among motor-car dealers, the mood was decidedly more bearish with expectations that the rate of increase in sales from last year would slow down. The BER said although business conditions in the motor trade were still buoyant, signs of a slowdown were emerging.

However, wholesalers' level of confidence was high and was likely to remain so during the quarter.

The BER polled more than 800 traders in the surveys.

Inflation at lowest level in three years

(153) Star 22/7/88

By Sven Lunsche

Most economists had predicted that the decline in the inflation rate would bottom out in June.

But yesterday's consumer price index (CPI) figures for June show inflation fell to a year-on-year 12,4 percent from 12,9 percent in May, its lowest in over three years

More importantly, the month-on-month increase was a mere 0,4 percent, or an annualised 3,6 percent Food prices actually declined by 0,8 percent over the month

On a yearly basis, the rate of increase in food prices was 15,6 percent, the first time since November 1985 that this rate was under 16 percent

Most food articles recorded monthly decreases in June, including meat, which dropped by 0,5 percent, and which has the largest weighting in the food index Over the previous 24 months alone, meat prices had increased by 64 percent.

Simpson McKie economist John Banos said yesterday it was inevitable that food prices would fall after increasing much faster than the CPI over the last two years

Apart from lower food prices, economists had generally forecast that inflation would rise again towards mid-1988, given higher producer-price rises and the weakening rand.

Changes in the producer price index (PPI) usually preceede those in CPI by about two to three months, but the inflation rate has as yet to mirror the rising producer prices of recent months.

Central Statistical Services (CSS) said yesterday that while the PPI was running at 17,8 percent for the period December to May, the CPI had risen at an annualised 10,4 percent in the first six months of the year

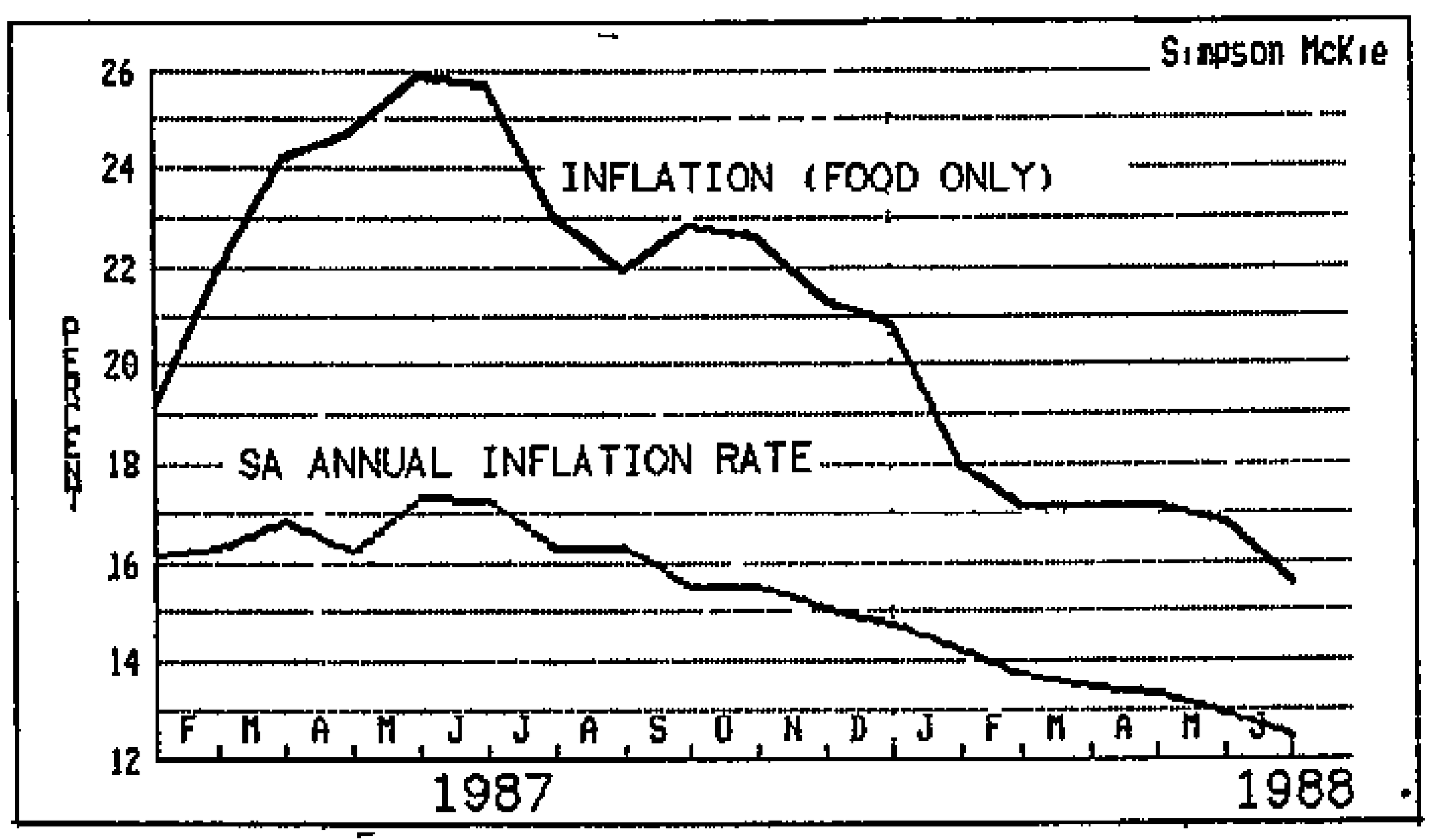
It said the rates had been diverging since the beginning of the year and that it should be borne in mind that the bases for compiling them differed vastly

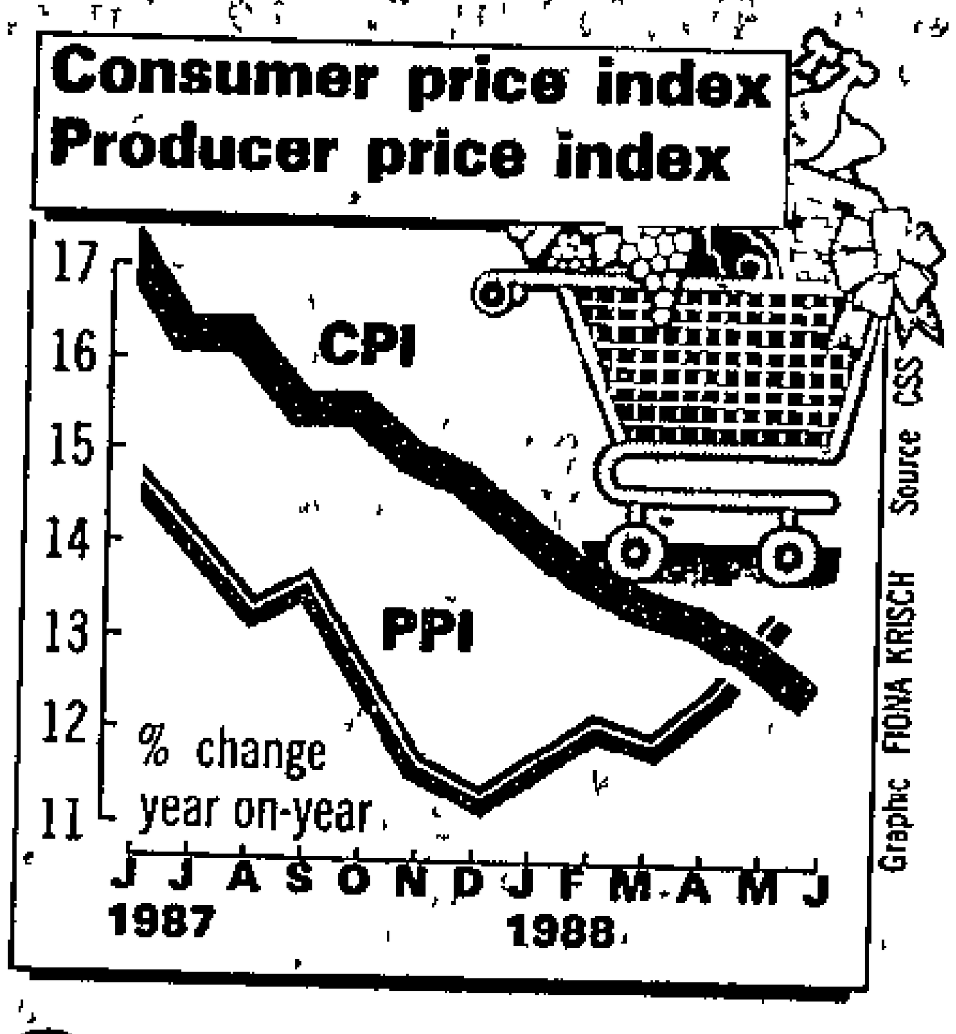
"The PPI comprises various products of which the prices are not directly reflected in the basket of consumer goods. It was specifically these products — coal, non-metallic minerals, electrical machinery and transport equipment, among others — which fired the recent annual rate of change in the PPI," CSS said

Mr Banos saw other reasons why the PPI and the CPI need not necessarily correlate "Weaker business conditions towards the end of the year could prevent companies from continuing to widen their profit margins

"Profit margins have widened since 1985 and it is not inconceivable that this process will stop once economic growth slows towards the end of 1988," he said

"Consequently, producer prices move up, but consumer prices remain largely unaffected"





Surprise greets fall in inflation

B/day 22/7/88 GRETA STEYN (153)

THE inflation rate dropped to 12,4% in the year to June from the 12,7% in the year to May — impressing the capital market and surprising economists who had predicted a rise in the rate.

Capital market rates softened on the news released by Central Statistical Services (CSS).

The interest rate on Eskom's long-dated stock dropped to 16,11% from Wednesday's 16,20% and the RSA 13% 2005 to 16,15% from 16,23%

Economists have been sounding warnings on consumer price inflation ever since the rate of increase in producer prices started its upward climb in January this year

Downward trend

Traditionally, inflation measured by the Consumer Price Index (CPI) follows producer price inflation with a lag of a few months

However, the rate of change in the CPI has stubbornly stuck to its downward trend.

It has refused to take a lead from the moves of the PPI — helped mainly by a surprising drop of 0,8% in food prices between May and June.

The decline in food prices was attributed to favourable agricultural conditions and a price war between the major supermarket chains

The Consumer Council reports OK Bazaars food prices, measured from a basket of 60 products, fell by 1% between May and June.

153 S Times 24/7/88

Inflation building up in top nations

By David Carte

BOOMING world commodity prices will not be enough to spur SA to fast economic growth — unless gold starts moving with them

This is the opinion of Southern Life's chief economist, Mike Daly, in his quarterly economic comment

In spite of the October stock market crash, the US grew at 3,6% annualised in the first half of this year and Japan at a "massive" 11,3% Higher price trends are the result of strong demand, he says

Longest boom

Apart from inflationary pressures one reason why Mr Daly foresees a slowdown is that the current expansionary phase of the US economy has lasted 70 months It has thus been one of the longest booms on record

Mr Daly says inflationary pressures are building up in industrial economies

"The recent exceptionally rapid price increases for agricultural and metal commodites are partly a reflection of these pressures and are a necessary (though not sufficient) condition for sustained price rises across goods in general"

Mr Daly says a world slowdown early in 1989 would not be conducive to growth in SA He is not happy about prospects for exports

Platinum

"The sudden and sharp fall in the surplus on the current account of the balance of payments in the first quarter to a deficit was partly due to a fall of over 6% in export volumes Sanctions which can only tighten are an added negative factor"

Mr Daly says only higher commodity prices prevented more of a slide in the balance of payments The strength of demand more than supply disruptions accounts for a "tremendous" increase in commodities prices

"In the year to the first quarter of 1988, the IMG commodity price index in dollars rose by 28%, with the metals index up 53% and the food index up 22%

"What would impact directly and dramatically on the SA balance of payments would be a similar strong rise in the prices of gold and platinum"

Mr Daly sees some hope here In the first place, he believes real rates of interest, currently near all-time highs abroad, are more likely to fall than to rise

"Another positive factor for gold is that in terms of strong currencies such as the mark and yen, gold has maintained a steady trading band over the past two years Any improvement in investment interest by the West Germans or Japanese could see the metal's price sharply up from the $437 level reached at the end of the second quarter"

Pressure

Because households are under financial pressure after the recent spending spree, Mr Daly believes demand will cool off at existing high levels

Fiscal policy has so far been surprisingly tight, the spending increase up by 10% compared with a budgeted 12,6% Revenue has risen by 19%

Mr Daly says it is too early for short-term interest rates to start falling, but it is possible that the interest-rate peak of May will not be exceeded this year

Lower Government spending and a much deteriorated net export position will tend to undermine economic growth this year Although it is not expected to rise from present frenetic levels, demand will remain strong

"Capacity utilisation in manufacturing is currently at 81% the highest since 1984, and at a level where new fixed investment in capacity can be undertaken

It is likely that manufacturing production can continue at current levels given that the high level of demand is not going to fall away this year and that the growth of fixed investment by the private sector will continue at a fairly strong pace"

Disposable

Mr Daly thinks overall investment expenditure will rise 6%

Fanned by rising personal disposable income, private consumption expenditure rose by 4% Spending on consumer durables grew by 13% in the first quarter The expectation is that personal spending will increase by 4% this year

"We have forecast a growth rate of 2,5% for GDP this year, which we still adhere to, but removing the much reduced net exports position from GDP, a high growth rate of domestic expenditure of around 7%-8% should be achieved This rate will be appreciably lower next year, however, given the need for a surplus on the balance of payments"

Mr Daly thinks inflation is at a low point The weaker rand together with strong upward momentum in the business cycle will cause inflation to rise Only strong attempts at wage moderation by the private sector can avert the process, he says

Growing inflation crippling agriculture, says Nampo

153 BDay 25/7/88

GERALD REILLY

PRETORIA — Inflation is crippling the agricultural industry, demanding a sustained counter-attack and an identification of the root causes, the National Maize Producers Organisation (Nampo) says

In its official journal, Maize-/Mealies, Nampo says experience had shown that holding down administered grain prices artificially could not halt the upward surge of inflation.

And Nampo economist Kit le Clus says attempts to manipulate prices can cause distortions on the supply side of raw products

For years, Nampo had pleaded for effective action against the continually rising costs of farming

Commissions and committees had been appointed to find answers but with little success. Nampo claims the maize farmer receives only 32c of every R1 paid for maize meal by the consumer, out of which he has to pay for his inputs

Because of this farmers would plant less maize in the coming season, emphasising the devastating effect of inflation

Nampo says a tractor of 53kW cost R5 758 in 1975 when the maize price rallied to R62 a ton. To buy the tractor, the farmer would have had to produce 92,9 tons of maize A decade later the farmer had to deliver 159,9 tons of maize to buy the same tractor.

And, in June this year, he would have had to deliver 260 tons

Le Clus said the financial plight of grain farmers continued to deteriorate

Four years of drought had left their mark on hundreds of farmers.

If government aid was summarily withdrawn at least 40% of them would be forced into liquidation nc News

for grabs".

Peace plan sabotaged, says Peres

159 28/7/88

JERUSALEM — Israeli Foreign Minister Mr Shimon Peres has accused his right-wing adversaries of prolonging the seven-month-old Palestinian uprising by sabotaging a US Middle East peace initiative.

Referring to the peace proposals of US Secretary of State Mr George Shultz, Mr Peres said: "If it weren't for the sabotage of the peace process of the Shultz initiative by half the government, then maybe we wouldn't be in the middle of the intefadeh (uprising)," Mr Peres said.

● Israeli peace activists claimed a victory yesterday when Arab supporters of the Palestine Liberation Organisation (PLO) spoke for the first time at an Israeli-organised public meeting in Jerusalem.

Palestinian nationalist Mr Faisal al-Husseini and Arab Journalists' Association head Mr Radwan Abu Ayash urged Israel to recognise that Palestinians had a right to a state of their own and to start talks with the PLO.

The event was sponsored by the non-partisan Peace Now movement and organisers said the event was a triumph for moderates on both sides. — Sapa-Reuter-AP.

Consumer bodies slate bank move

Higher interest rate 'will boost inflation'

Str 28/7/88

153

By Melanie Gosling

The SA Consumer Council has expressed its concern about a possible increase in bank lending rates and has warned the public to be very cautious when signing finance agreements.

According to reports, large amounts of money have been lent to the private sector at relatively low rates Banks are now looking to increase interest rates to enable them to show favourable profits

"The council would like to know if it is justifiable for consumers to pay when banks have not been discerning enough when lending money," Mr Paul Roos, media officer of the council, said yesterday

He said increased rates would have a negative effect on the inflation rate, consumers would have less money to spend and the economy would undoubtedly suffer

"The council is aware of talks to be held between the Reserve Bank and commercial banks tomorrow and appeals to these organisations to keep in mind the precarious state of the economy and the State President's appeal earlier this year that everyone should co-operate to combat inflation," Mr Roos said

The National President of the Housewives League, Mrs Lyn Morris, said if the banks had not been discerning in lending money, it was wrong to get back money from the small man

"Already we have an imbalance in the tax system where the small man is contributing more than the big companies," Mrs Morris said

She said the league had warned people when the interest rate dropped to around 12,5 percent last year that people buying houses should realise the rate would go up and calculate if they could afford it

Home loan rates, which dropped in the war between banks and building societies last year, have been rising ever since In May this year First National increased its bond rate by 1,5 percent to 15 percent Allied Building Society increased this year from 13 to 14,5 to 15,2 percent

Mr Kobus Jooste, president of the South African Agricultural Union, said a further increase in interest rates would seriously hamper the economic recovery of a large percentage of farmers and to a great extent "neutralise Government assistance to farmers"

In a statement issued to Sapa in Pretoria, Mr Jooste said a rise in interest rates to raise the banks' profit margins was totally unacceptable to his union

"With a debt load of approximately R14 billion, interest payments still constitute the greatest single cost item for the farming community An increase in interest rates would, therefore, seriously hamper the economic recovery process," he said.

See Page 13.

28/7/88

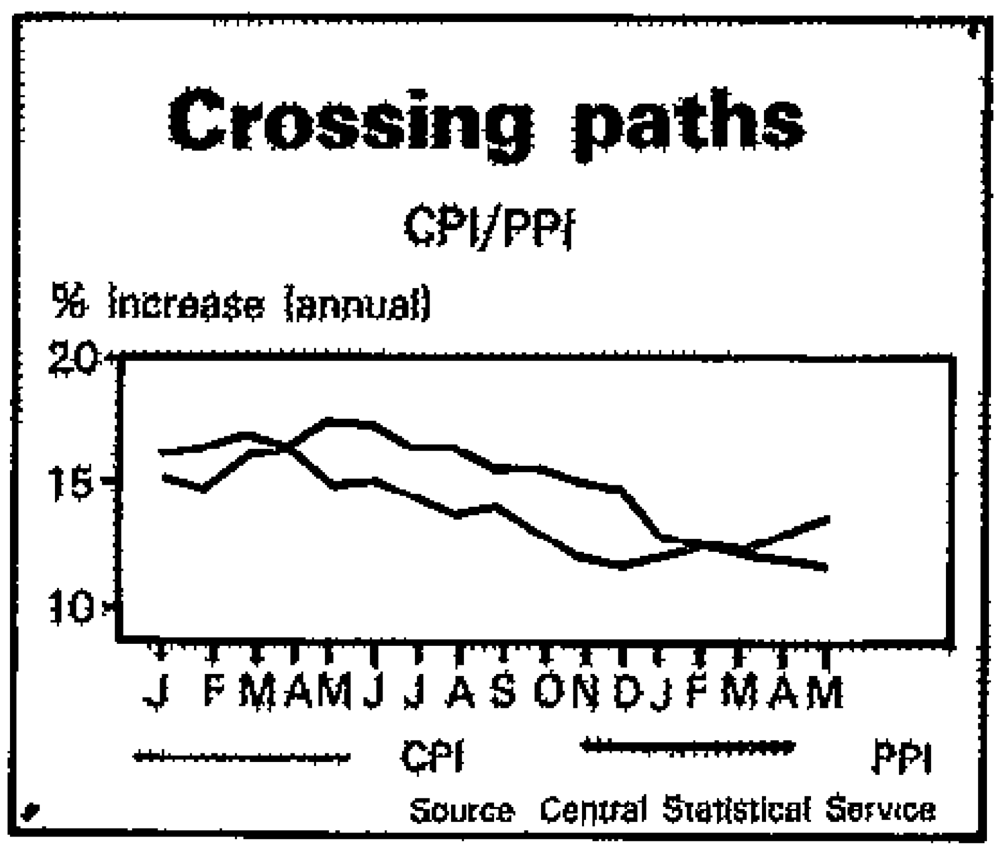
INFLATION (153) FM

Headed two ways

Are inflationary pressures building up, out of sight and unrecorded by official statistics? Or has the link between producer prices and consumer prices unexpectedly broken, cushioning the latter from the rising prices of imported goods which have been driving up the producer price index (PPI) since the rand started depreciating early this year?

These are questions economists are asking after last week's figures from Central Statistical Service (CSS) which show the official inflation rate, based on the consumer price index (CPI), and the rate of change in PPI are headed in different directions While PPI is increasing sharply, CPI continues to fall from a high of 17,3% in May last year

CPI for June shows year-on-year inflation of 12,4% (compared with 12,9% in May), and a seasonally adjusted monthly increase of only 0,4% (0,8%) This means annualised CPI growth from December to June was



10,4%, while PPI to May rose 17,8%

In a summary published with the figures, CSS head Treurnicht du Toit says this is out of line with past experience "of a relatively high correlation" between the two indices He points out, however, that the basis on which the indices are compiled is different PPI "comprises various products, prices of which are not directly or immediately reflected in the basket of consumer goods"

He cites relatively large price increases for stock bricks, face bricks, sand, glass, insulation board, coal, "other mining," non-metallic minerals, electrical machinery, transport equipment, wool, synthetic rubber and transformer oil as components which fired the rate of change in PPI without affecting CPI.

Food prices, on the other hand, which have a major impact on CPI, tended to fall, rising only 15,6% year on year — less than 16% for the first time since November 1985

Components which fell on a monthly basis were. meat by 0,5%; milk, cheese and eggs 0,8%, coffee, tea and cocoa 4,2%; grain products 2,1%, fats and oils 2,5%, and "other foods" 3,9%.

Lower prices of these were not the result of a price war in the retail industry, says Checkers group deputy MD Sergio Martinengo, but rather reflect a fall in prices asked by suppliers. "Maize, for instance, has an impact on a whole range of food products"

Some confirmation comes from the slight decline in May in the PPI component Manufacturing Food

Monthly declines in food prices more than compensated for a 2,1% increase in the price of fish and 3,4% in sugar, as well as increases in prices of non-food items like clothing and footwear (1,4%), furniture (2%), and medical (2,7%) and personal care (1,6%)

As in the two previous months, the higher-income group was hardest hit by inflation The seasonally adjusted monthly rate of increase in prices for lower-, middle- and higher-income groups was 0,3%, 0,3% and 0,8%; and the year-on-year rate was 11,9%, 12,3% and 12,7% This was due to the higher weighting of food in the basket of the lower-income group. And, on a geographical basis, lowest annual inflation rate (9,8%) was recorded in Bloemfontein and highest in the Klerksdrop, Stilfontein and Orkney area (14,5%)

A CPI for pensioners, released for the first time, shows a year-on-year rise of 12,3%

The conflicting signals provided by the two price indicators has led to questions about their validity.

However, Old Mutual economist Rian le Roux, who conducted a study on CPI in 1985, believes they are valid "We found that over a 10-year period, CPI accurately reflected actual changes in prices and no meaningful discrepancies were found"

That weightings have subsequently been altered does not modify this view as "marginally inaccurate weightings would be relatively unimportant, it is the accuracy of prices that really matters" He is convinced also that PPI figures are accurate

Rand Merchant Bank economist Rudolf Gouws predicts CPI will remain at present levels or decline slightly for about three months "We should then see a climb back towards 14%, followed by further falls as the economy slackens"

Others, however, are less optimistic Senekal Mouton & Kitshoff economist Leon Steenkamp points out that 1989 year-on-year increases will be off a low base and for technical reasons alone are likely to be high ■

S Times 14/8/88 (153)

Inflation worse than sanctions

INFLATION is a bigger threat to SA's R2,3-billion-a-year coal exports than sanctions.

That is the view of David Horsfall who has been appointed to the Shell chair of coal technology and Wits University's Department of Metallurgy

His research will be largely directed at containing the industry's costs

Professor Horsfall says "With inflation running at 15%, we could be out of our foreign markets in five years. We need solutions to the problems of cost containment."

Professor Horsfall, who came to SA from Britain in 1964, is the process engineer who was instrumental in putting SA coal exports on the world map in the 1970s

He was a technologist with Anglo American Corporation when his team of researchers started the beneficiation processes that produced low-ash coal acceptable to foreign buyers

Professor Horsfall says that although sanctions are a cause for concern, "people will buy if the coal is cheap enough and if it works in their appliances. But we must get costs under control"

Professor Horsfall has been particularly interested in projects that extract as much of coal's energy as practicable.

He devised the "coalcom" scheme as a combined power, coke and oil-from-coal cencept.

Support for inflationary accounting in SA firms

18/8/93 BDay

ARI JACOBSON

COMPANIES are overlooking the distorting effects of inflation on company results and the value of assets in the balance sheet, says SA Institute of Chartered Accountants (SAICA) technical director Graham Terry.

Terry said the SAICA welcomed the statement by JSE president Tony Norton that muscle would be used to persuade companies to indicate the effects of inflation on their results.

While the importance of inflationary accounting had diminished in the Western world as the need for inflation adjustments diminished, this was not so in SA where inflation was much higher, Terry said.

SAICA, in conjunction with the JSE, would attempt to find a reasonable method of accounting for inflation.

Cash-flow

Ten years ago SAICA published a guideline on "Disclosure of effects of changing prices on financial results". This was followed in 1986 with a draft for the disclosure of effects on the current values of assets.

Terry said the Accounting Practices Board recently issued a statement requiring companies to present cash-flow information in their financial statements. By comparing cash generated from operations with reported income, inflationary effects on businesses could be gauged.

Companies had been reluctant to divulge inflation-adjusted figures because users of financial statements showed a lack of interest. Other reasons were that the information was not required, was costly to prepare and companies did not use these figures in their management accounts.

Prices set to soar again

Business Times Reporter

SA's relief from soaring prices appears to be over

Three financial institutions warned this week that inflation was rising again

The United group and Volkskas predict an inflation rate increase of 14% by the end of the year and Sanlam's economic survey forecasts 13,5% United and Sanlam say next year's rate could be 16%

The United's Economic Monitor says the inflation rate has hit its cyclical turning point and prices are under upward pressure Volkskas Economic Spotlight says the achievement of the psychologically important single-digit rate is improbable

Reasons

The reduction in the inflation-rate increase, singled out by Volkskas as the best economic news of the year, has been marked

After hitting 17,2% in June last year and 15,5% in October, the rate slowed to 12,9% in May and 12,4% in June

The lower inflation rate was mainly due to the rand's stability last year and low increases in administered prices

But, the Monitor says, the rate of increase in the production price has accelerated to 14% after reaching its low turning point of 11% last December

The main reasons were renewed exchange-rate weakness and strong credit demand

Depreciation of the rand and new surcharges will lift import prices In addition, says the Monitor, the Government is expected to allow administered prices, including food, to reflect increases in production costs in 1989

Volkskas says the weaker rand has not had its full impact on the production price index and has had even less effect on the consumer price index

"This favourable situation no longer exists and although food prices increassed much more slowly in the past few months, the CPI increase rate is expected to be higher in the coming months"

The one bright spot is that Sanlam does not expect a large rise in short-term interest rates after the Government's new steps to stem the pace of general economic activity and improve the foreign trade account

STimes 7/8/88

Profits overstated as firms ignore inflation

153

By David Carte

TWO Stellenbosch University Business School researchers have found that by failing to provide for inflation in their accounts, listed industrial companies have exaggerated their earnings on average by 2,6 times

In other words, on average, for every R100 of taxed profit they reported, they should actually have said R39

W R Gevers and W D Hamman adjusted the results of 208 industrial companies listed on the JSE for inflation, as recommended by guideline AC 201 of the SA Institute of Chartered Accountants, for 1982 to 1986

Capital

Inflation was found to reduce historically reported income by more than 60% on average

Dividend covers based on "real" earnings were calculated

About 75% of the companies did not have a real dividend cover on an accumulated basis in the five years

The number of companies that paid dividends out of capital increased from 29% in 1982 to 60% in 1986

Mr Gevers and Professor Hamman provided additional depreciation and made a cost of sales adjustment From this they deducted the effect of diminished debt to discover the extent of exaggeration

For the sample of 208 companies, the average additional depreciation came to 43,1% and the average cost of sales adjustment was 41,2% From this a 23,2% leverage effect was deducted The upshot, they found, was that earnings had been overstated by 61,1%.

A profit of R10-million therefore should have been stated as R3,9-million

Sectors in which inflation had the most marked effect were furniture and household (122,3%), clothing 106,9%, motors (98,9%), engineering (88,7%), electronics (84,1%) and printers and publishers (81,1%)

The most inflation-proof sectors were beverages and hotels (34,1%), steel and allied (33%) and fishing (30,1%)

The number of companies that paid dividends out of capital rose from 60 in 1982 to 124 in 1986

Another finding was that many companies that paid dividends out of capital either had to reduce or cut payments in subsequent years

The study will to be updated to incorporate 1987, taking in the economic upturn The researchers will investigate whether companies that have paid dividends out of capital have had to hold more rights issues The effect of dividend policy on share prices will also be looked at

The findings will be received with considerable interest because Tony Norton, president of the JSE, and the SA Institute of Chartered Accountants are putting pressure on listed companies to conform to Guideline AC 201.

Coincidentally, in his inaugural speech at the University of Cape Town, accounting professor G K Everingham, was also critical of accounting conventions which were "escaping reality"

Professor Everingham says the Accounting Practices Board has not been forthright enough in treatment of rising prices

"The fact that less than a dozen of SA's top 100 companies provide inflation-adjusted information is appalling Furthermore, those that do provide the information do not do so in a consistent manner."

Barlows

He says Barlows statement that it will refrain from inflation accounting until a method is developed which is meaningful, standardised and generally accepted is "an extraordinary apology for inaction"

Professer Everingham applied AC 201 rules to Barlows Its after-tax income from operations amounted to R677-million in its most recent financial year

"If one adjusts its depreciation charge by 33% and its average stocks by 12%, profits would be reduced by R121-million and R272-million respectively. The gearing adjustment amounting to some R109-million in the other direction leaves a net reduction of profits of R284-million, some 42% of profits One is surely entitled to suggest this is non-trivial infomation"

Because inflation accounting reduces profits and increases equity, return on shareholders' funds falls even more

Professor Everingham doubts that companies that provide inflation-adjusted figures will be downrated on the JSE He believes the market values companies efficiently and itself adjusts for inflation and other information He appeals to Mr Norton to press companies to make inflation adjustments

Nettle

Professor Everingham criticises the Accounting Practices Committee for failing to grasp the nettle on contentious issues

"Instead of prescribing what it regards as the correct accounting treatment of a particular item, it has tended to allow alternatives"

Examples are those statements dealing with deferred tax (AC 102), finance leases (AC 105), depreciation of buildings (AC 106), definitions of associated companies (AC 110), forex losses (AC 112), capitalised interest (AC 114) and provision of segmental information (AC 115)

Scathing

Professor Everingham is particularly scathing about the practice of writing off foreign-currency losses over several years and the way companies going for a listing on the JSE are permitted to adjust their profit histories on an "as if" basis

Much blame placed on Government 'bungles'

Inflation, exchange rate blues

By Michael Chester

Warning has been sounded by the Econometrix think-tank that the inflation rate, claimed to be at its lowest level in four years at the last official count, now confronts new pressures that will force it back into orbit — pushing the rand even lower on foreign exchange markets

New studies by the research unit contend that the annual rate of increases in the consumer price index, quoted as down to 12,4 percent in June, will now swing back upwards to above 16 percent in the next few months and onwards to at least 18,5 percent inside the next three years

The boost to inflation from the shock increases in petrol prices and the cost of basic food items might prove only the forerunners of worse to come, according to the researchers

On the currency markets, it is argued in the studies, the rand is threatened with even faster erosion

The cost of buying one dollar, likely to work out at a 1988 average of about R2,30, looks set to climb to more than R3,25 by the early 1990s

Worse, it is predicted that the rand exchange rate versus the West German mark, in which a large volume of trade is conducted, will plunge from about 75c to below 45c — down by 70 percent

Dr Azar Jammine, director and chief economist at Econometrix, says all the blame cannot be placed on sanctions "though this plays a massive role in the overall economic scenario"

"Much of the dismal outlook for inflation and the rand exchange is due to repeated Government bungles with monetary and fiscal policies

"South Africans now face the inevitability of paying the penalties for mistakes that were made over the past two years when the Government resorted to the printing presses to turn out more and more rands to foot the bill of pushing out credit to finance a reckless spending spree

"The fundamental error made by the Government was in cranking up the money supply to hopelessly excessive levels rather than exercise discipline, not only on consumer spending but even more so on its own State expenditure"

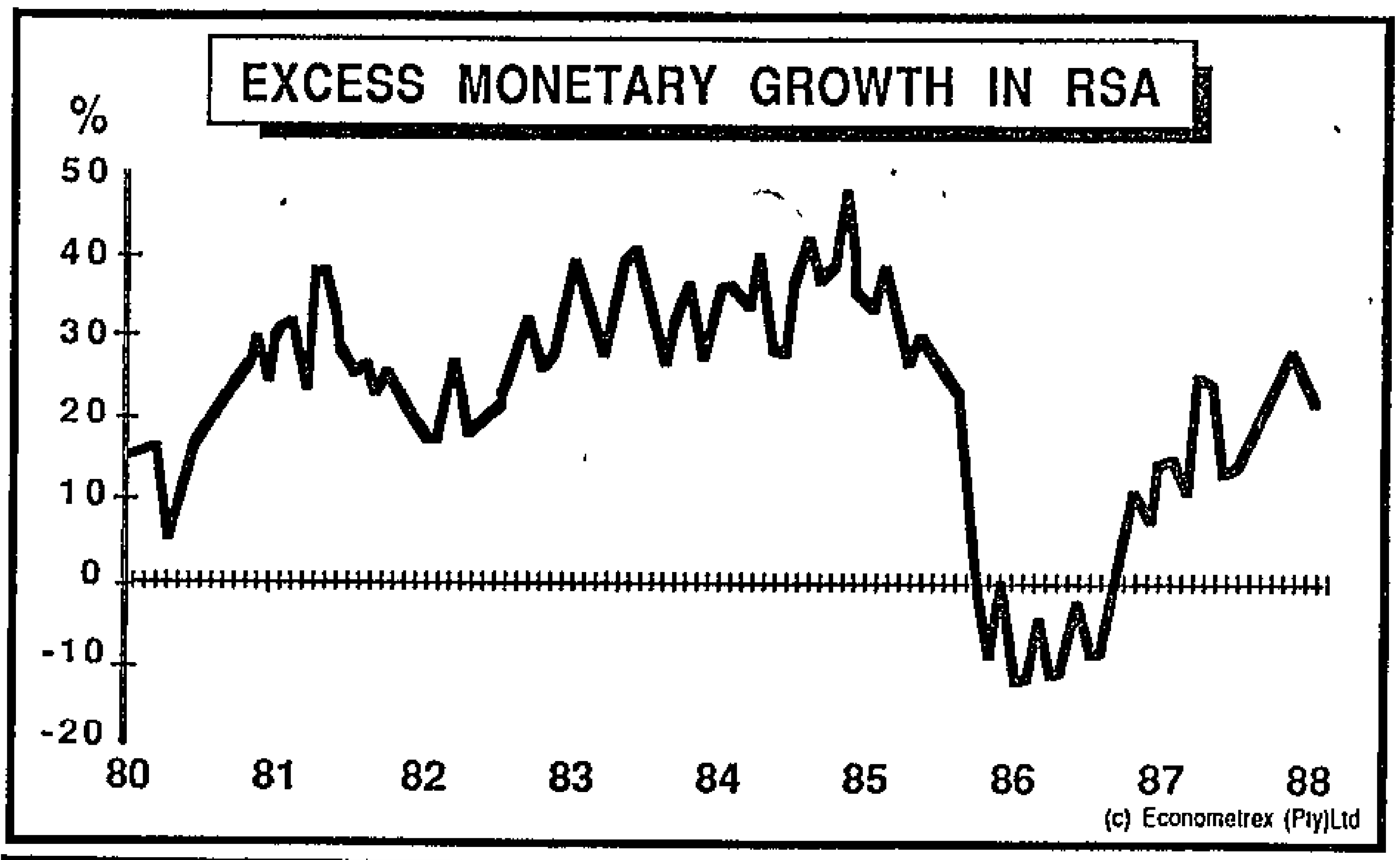
Dr Jammine believes inflation and exchange rates are influenced largely by the tempo of money supply, allowing for a time lag of about two years

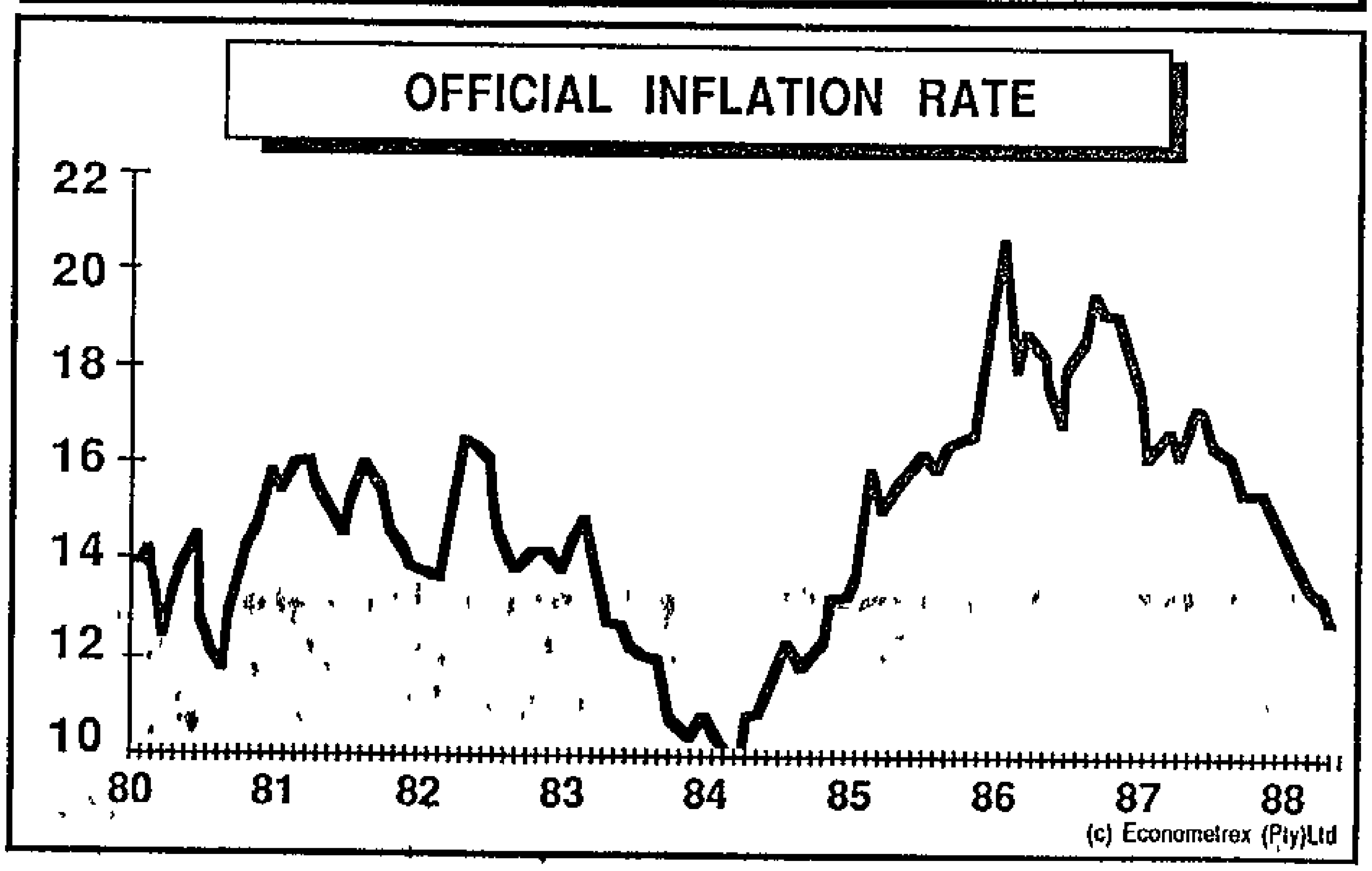
Thus, he allocates the credit for the decline of the inflation rate to only 10 percent in 1983/84, accompanied by a strengthening of the rand, to the decline in monetary growth in 1981/82

Conversely, the rise in inflation to its worst on record — 20 percent in early 1986 — is blamed on the excessive use of Government printing presses

Econometrix sees the same time-lag theory at work in the reduction of inflation to about 12 percent in recent months — in the wake of the drastic cuts in money supply to negative levels in 1986"

"Now we face the inevitable consequences of the sharp climb in monetary growth in 1987 — and the Government printing presses have still been thundering on with the production of bank notes to finance the spending boom"





The unit says economists warned the Government six months ago to use interest rate mechanisms to calm the credit binge This was ignored

"Well, the pot finally boiled over The Government is now trying to mop up the mess with belated credit restrictions plus import curbs that could have been far less severe had action been taken earlier

"Now it is business and the consumer who must suffer from the scalding

"Meantime, excessive Government expenditure carries on regardless The mind boggles as to the future course of Budget deficits when the brakes are taken off wage increases in the civil service and the whole public sector"

Two poisoned

(153)

July inflation bottoms out as higher rate is predicted

By Sven Lunsche

After falling steadily over the past eight months, the inflation rate seems to have bottomed out in July this year, when it maintained its June level of 12,4 percent

And economists are unanimous that a steeper year-on-year increase in the consumer price index (CPI) will follow in months to come

First evidence of this was provided by the large monthly increases From June to July the CPI rose by a seasonally adjusted 1,3 percent, compared with 0,4 percent from May to June

Food prices had even greater shocks in store for the consumer After falling by 0,8 percent during June they rose by a staggering 1,9 percent in July On an annualised basis food prices rose by 16,5 percent compared with 15,5 percent in June

But, according to the Central Statistical Services (CSS) which released the inflation figures yesterday, the largest contribution to the overall monthly increase was made by housing, which included increases in black house rents, rates and taxes and sanitary fees

This was confirmed by the UBS in its latest *Housing Review*, which shows that it costs 22 percent more to build a medium-size house today than to buy an existing dwelling

It stated "This substantial price differential between between new and existing housing can be attributed to the combined effect of sharply rising building costs and an oversupply of existing housing in white residential areas

"Building costs are increasing by an estimated 10 percent on a year-on-year basis in the first quarter and by 17 percent in the second quarter of this year"

The UBS went on to say "During the second quarter of the year the increase in house prices was only 11 percent on a year-on-year basis compared with a 13 percent increase in the first."

The months to come are likely to see further substantial rises in the rate of inflation, originating from a lower rand exchange rate, higher petrol prices and most importantly, the introduction of import surcharges

The surcharge is bound to make a significant impact on price levels of mostly durable goods In addition, as manufacturing output declines, so do unit costs of production increase

Against this, the expected fall in demand is likely to eliminate whatever demand-pull inflation pressures might be present in the economy

However, as one economist puts it "These pressures are minor at present and the inflationary effects of the latest measures are likely to outweigh the deflationary effects"

Trust Bank economists say that the course of inflation would largely be mapped by the balance of payments situation

If the balance of payments recovers significantly during the remainder of the year, it would facilitate a recovery in the rand exchange rate, in which case the inflation rate would resume its downward trend after a brief rise in early 1989

Vica versa, a balance of payments deficit would mean a continued decline in the rand exchange rate and subsequently a rise in inflation from end-1988 till well into 1989

Old Mutual sets income record

(153) 23/8/88 BDay

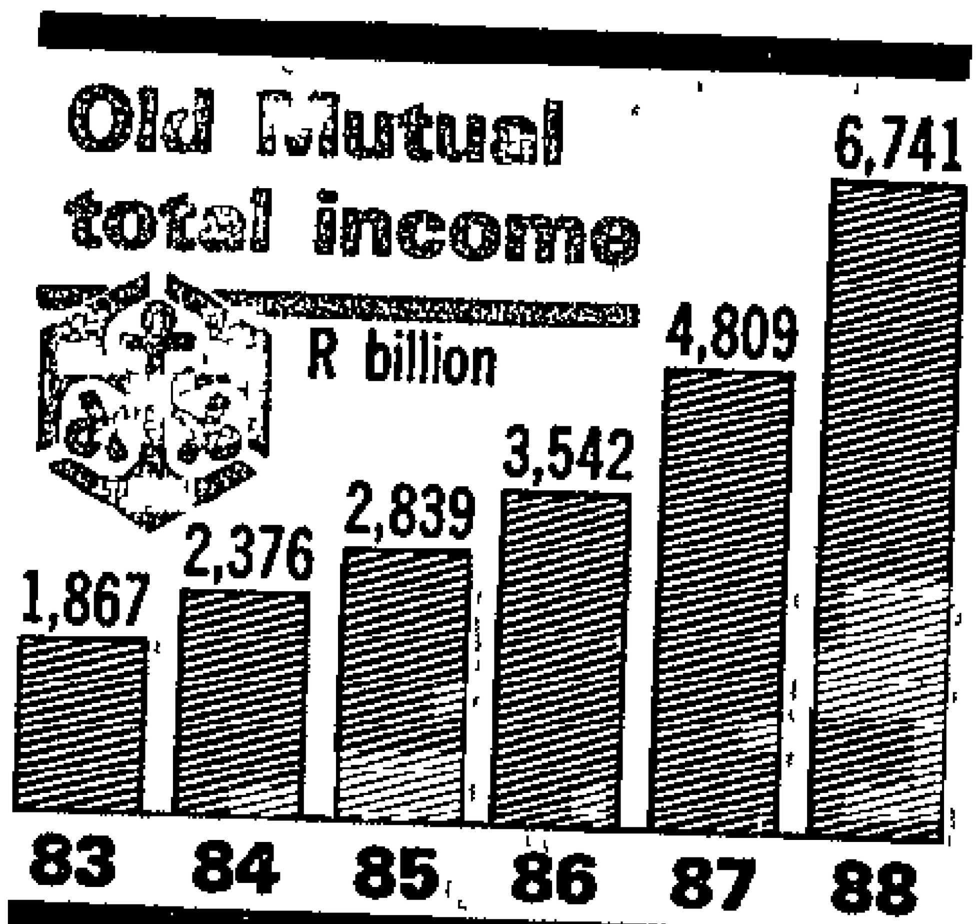
ROBERT GENTLE

OLD Mutual (OM) has produced a set of record results for the year ending June 1988 with total income from premiums and investments up 41% to R6,74bn on a total asset base which increased 12% to R31,4bn.

On the outflow side, benefits of R1,82bn (R1,37bn) were paid out — equivalent to around R1m every office hour.

Nevertheless, with total income comfortably exceeding total outflow, operating income was up 41% to R4,08bn (R2,90bn).

Describing the past financial year as one during which all cylinders were firing, a year "of the type insurers dream of", OM's GM Employee Benefits Gerhard van Niekerk said the increasing growth momentum firmly established OM as SA's leading and largest life assurer.



Graphic FIONA KRISCH Source OLD MUTUAL

OM now had well over three million policy holders and members of pension funds and group schemes, he said.

The 12% growth in this R31,4bn asset base arose in spite of a 25% drop in the value of the all share index over the same period.

Equities represented the major portion of OM's total portfolio, accounting for some 43% — or R12bn.

Of the year's total income of R6,74bn (R4,81bn), R4,94bn (R3,39bn) came from premiums and R1,80bn (R1,42bn) from investments. Van Niekerk said premiums and contributions received during the past three years exceeded the total received in all the preceding years of the company's history.

FlexiProgram, the universal life policy introduced four years ago, accounted for the largest portion of new premiums. New individual policies reached over 566 000 — an average of 10 000 a week — the highest-ever figure reported in the local life industry.

Van Niekerk said OM was constantly meeting the challenge of the future with innovative policies and products. He quoted the example of OM's recently introduced Bridgebuilder employee benefits package, which he said was a milestone for the industry.

be severe. ■

INFLATION (153)

Monthly 1,1%

PM

Food price rises, which slowed in recent months, have regained momentum. Year-on-year they increased 16,5% in July (up from 15,6% in June), according to a release from Central Statistical Service this week.

This pushed inflation relatively higher for the lower income groups, as food is a more important component of baskets of goods and services consumed, reversing the trend of the three previous months when the higher

26/8/88

(153) PM 26/8/88

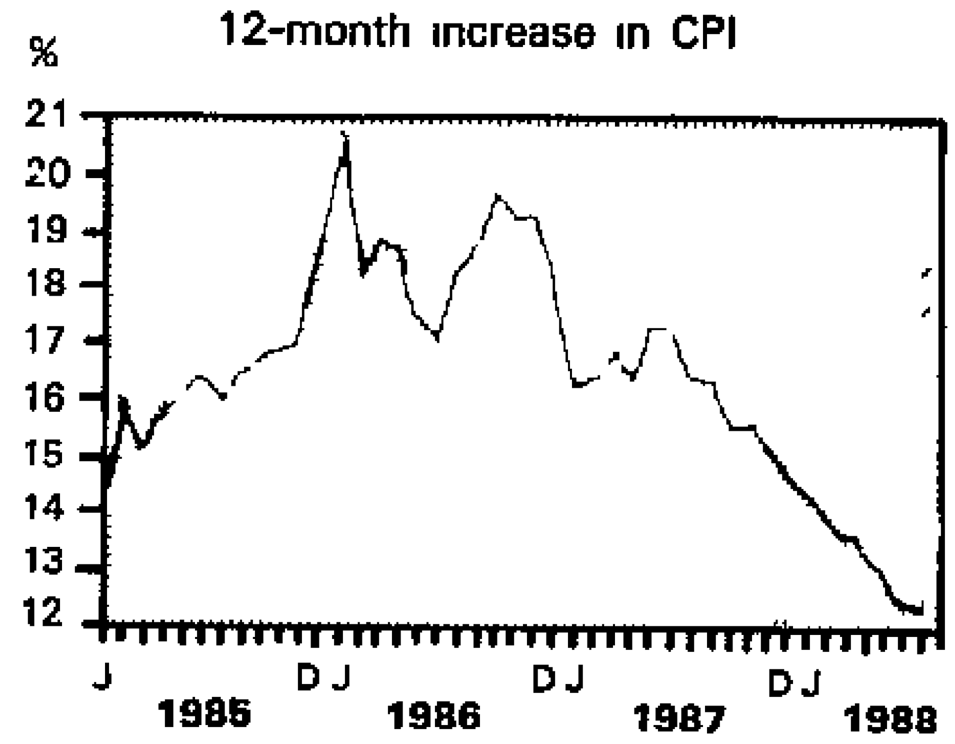
income group was hardest hit

Year-on-year, the annual rate of increase in consumer price indices (CPI) for lower, middle and higher income groups was 12,7%, 12,4% and 12,2%, and for pensioners 11,5%.

Overall, CPI was up 12,4%, the same as in the previous month The monthly increase in seasonally adjusted CPI was 1,3%, with the

Inflation pause

12-month increase in CPI



Source CSS

largest contribution to the 1,1% unadjusted monthly increase coming from housing — which includes rates and taxes, sanitary fees and refuse removal, and black house rent

Other contributions came from. fish 1,3%, milk, cheese and eggs 2%; fruit and nuts 4,6%, vegetables 3,8%, alcoholic beverages 3,8%; cigarettes 3,3%, housing 2,7%, household operation 1,6%, and reading matter 1,4% Declines came in sugar 3,1% and non-alcoholic beverages 0,3% ■

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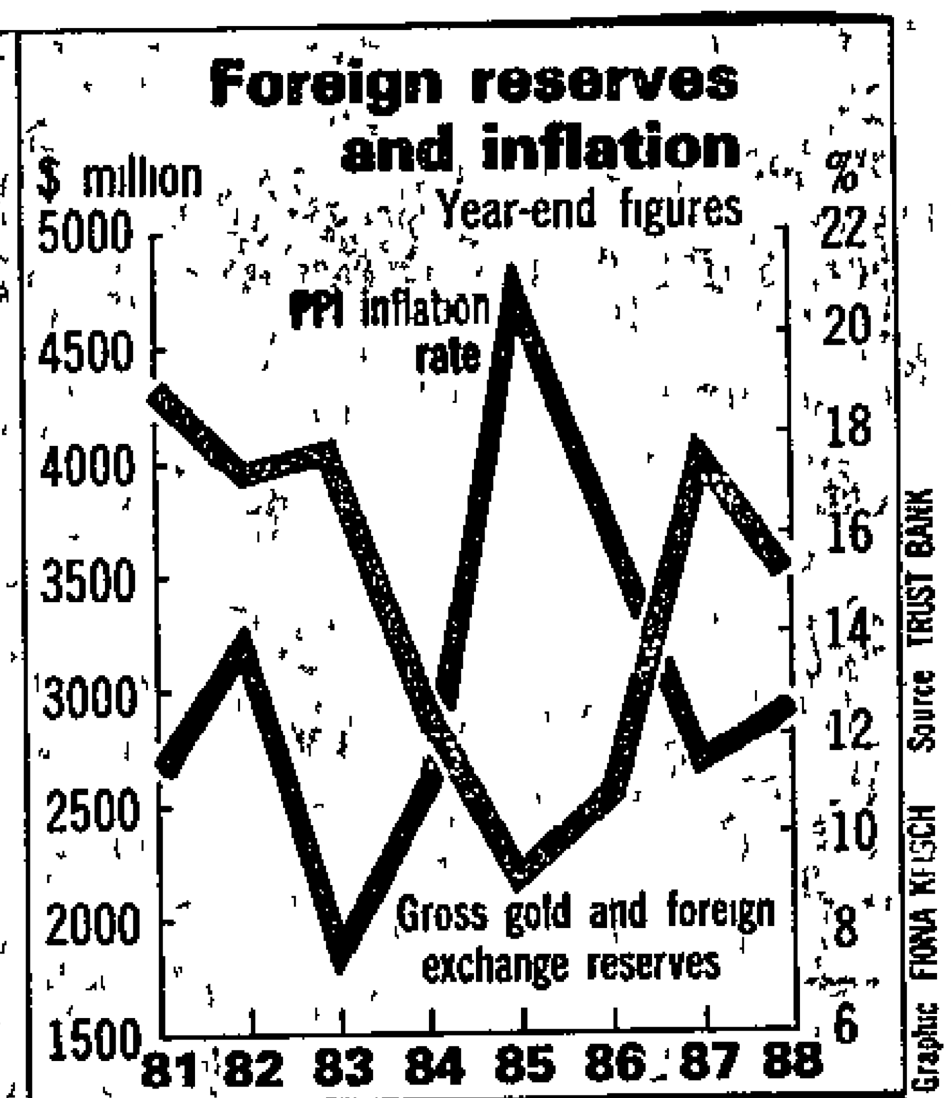
CIENCE

SR



SA living above its means — bank

GRETA STEYN

DWINDLING reserves are a precursor to a higher inflation rate, says Trust Bank in its latest economic report.

It says a drop in reserves is a symptom of a country living above its means and implies a future rise in the rate of inflation

SA gold and foreign exchange reserves have been on a downward trend because of balance of payments (BoP) difficulties. BoP has dropped by more than $1bn since September 1987. BoP deficits, exchange-rate depreciation and domestic price rises are all simultaneous symptoms of a country living above its economic means, the bank says.

"A drop in the exchange rate usually reflects a BoP deficit, which, in turn, reflects the real cause of inflation — excessive financial demands and overspending relative to available resources."

A rising inflation rate is a message that state spending, business profit margins, wage increases and credit extension have grown at a more rapid pace than the country could afford Demands on the economy often develop a momentum of their own, tending to exceed the country's financial resources

"This forms the core of the inflation

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SA living above its means says bank

153 B/day From Page 1 5/9/88

process together with the tendency of the monetary authorities to continuously accommodate these increasing financial demands via money creation."

Since consumer prices usually react with a lag to macro-economic factors, a BoP trend can be seen as a precursor of inflation-rate movements.

The BoP deficit of the past year and the declining exchange rate indicate an impending turn-about in the inflation-rate trend Before the end of the year, a renewed rise in the CPI inflation rate is on the cards

Inflation over 12 months was 12,4 percent

The South African inflation rate for the 12 months up to July was 12,4 percent

This was the same as for the year up to June, but the monthly rate of increase in the seasonally adjusted consumer price index (that is the seasonally adjusted index for July 1988 compared with June 1988) was about 1,3 percent.

The largest contribution to the actual monthly increase of 1,1 percent was made by housing, which included increases in black housing rents, rates and taxes, sanitary fees and rubbish removal

Relatively large monthly price increases were reflected for fish (1,3 percent), milk, milk products and eggs (2 percent), fruit (4,6 percent) and vegetables (3,8 percent) The price of sugar decreased by 3,1 percent and that of non-alcoholic beverages by 0,3 percent

The price of alcoholic beverages rose by 3,8 percent Cigarettes were up by 3,3 percent, housing costs by 2,7 percent, household operations by 1,6 percent and reading matter by 1,4 percent.

The consumer price index for pensioners showed an annual percentage change of 11,5 percent

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8/8/88

INFLATION

The advice P W needs

(153) FM 16/9/88

Don't count on inflation being controlled soon Government doesn't understand the problem

Last Friday, State President P W Botha added to the confusion by endorsing his Economic Advisory Council's flawed anti-inflation plan of last November, calling for 9% inflation by 1990

Botha gets off to a bad start by agreeing with his advisers that "inflation is a complex and deep-seated problem for which there are no instant solutions, particularly not in a country such as SA with its open economy, relatively small domestic market, large Third World sector, extensive socio-economic problems, substantial unrest potential linked to large-scale unemployment and inflation which is obviously already institutionalised to a great extent "

Typically, Pretoria says our problems are special and beyond the realm of orthodox economics It blames blacks (the "Third World sector", "socio-economic problems") and foreigners (the "open economy") instead of itself Yet inflation here, as elsewhere, is government's homegrown problem — and not "complex" at all SA has high *monetary* inflation — the root of the problem — because the Reserve Bank, under political pressure, prints money to manipulate interest rates and pay government bills

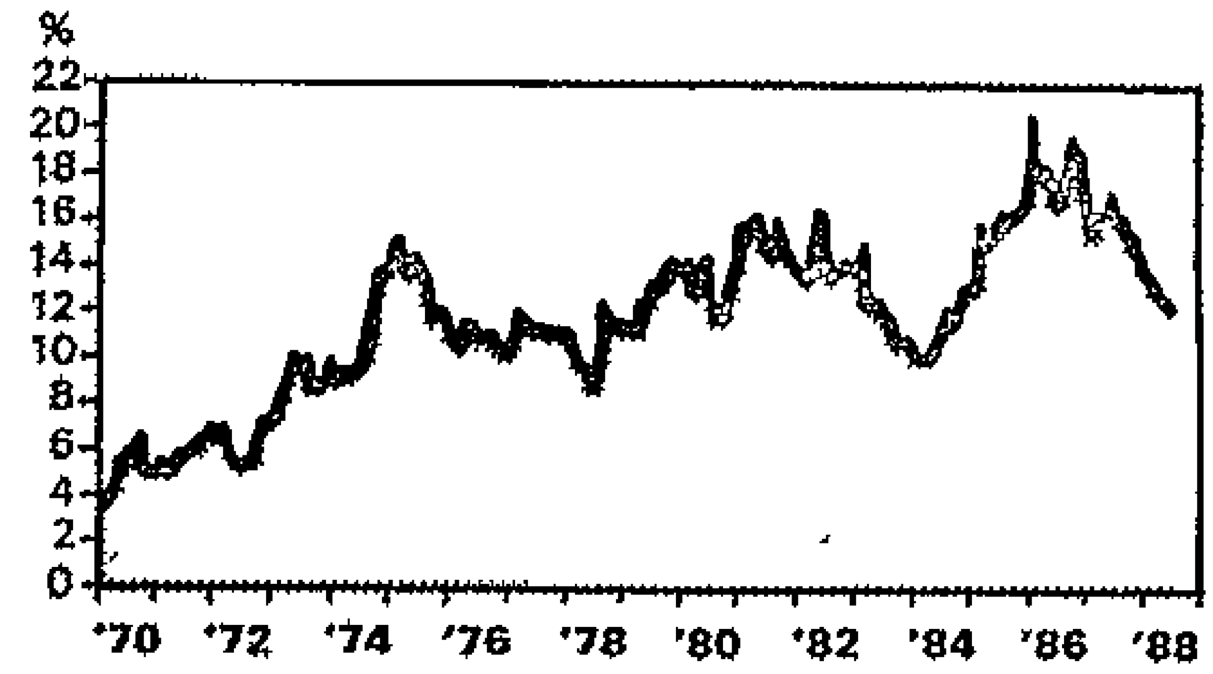
We have high *price* inflation because the overregulated economy — with high taxes, overstaffed bureaucracy, restrictions on black property ownership, licensing laws, zoning — cannot grow fast enough to absorb the double-digit increases in money supply.

Monetary inflation is the problem, price inflation simply the market's attempt to put prices back into line

Neither Botha nor his advisers make this distinction — a fatal flaw So when he says "government is strongly opposed to direct wage and price control," one remains suspicious Given his threat of controls in April, it's a welcome statement But there's no evidence that government understands *why* controls can't work: that they do nothing about the real problem, runaway money supply growth

9% by 1990?

12-month increase in CPI, reported monthly



Source Standard Bank

Suspicions are confirmed when Botha says "The private sector also has the responsibility to apply stricter wage, salary and price discipline " The private sector has no such responsibility Businessmen can't raise prices beyond what consumers will pay. If businessmen could set prices unilaterally, they'd double them tomorrow

Botha makes other troubling comments, including one on interest rate rises "Government has decided not to rely on monetary measures alone, as these would necessarily result in a high interest rate structure "

If the Bank cuts money supply growth, as it will eventually have to, rates need rise only temporarily We have the high interest rate *structure* Botha worries about because government won't take the necessary monetary steps Inflation and inflationary expectations cause high rates

If Botha would allow the Bank to take credible steps to curb money supply, inflationary expectations would fade We'd have sharply lower nominal rates, higher real rates and a balance between the supply of and demand for credit By refusing to control money supply, Pretoria guarantees we'll be stuck with high inflation, high interest rates — and continued pressure for more controls

So what's Botha's anti-inflation plan?

- ☐ Tax reform,
- ☐ Privatisation and deregulation to reduce the public sector's share of the economy,
- ☐ Slower increases in taxes, spending and the Budget deficit,
- ☐ Distribution of a "cost-benefit manual" within government, and
- ☐ Higher productivity ("it will be afforded a high priority")

Botha wants a more competitive economy — except where vested interests, including farmers, object He says "There are limits to the extent to which deregulation will serve the national interest in the case of the marketing of agricultural products, as well as the combating of inflation During this period of inflation, the prices received by farmers for their products not only lagged CPI, but also agricultural requirements It appears the farmer is making his contribution towards combating inflation "

Increased competition also doesn't include imports Last month's 60% surcharges will make the economy less efficient by restricting foreign trade and transferring spending power from the private sector to government Yet Botha mysteriously says they "could contribute towards a continuation of the downward trend of the inflation rate in the longer term "

Agriculture and imports aside, Botha's proposed steps could bring about a more competitive, faster-growing economy The trouble is that this has little to do with the issue at hand The steps should be taken whether money supply growth is 0% or 50%

And even if Botha does take them (this year, next year?), they're not sufficient It's naive to believe the Bank can fire up money supply 12%-16% a year, as targeted — let

P.T.O.

UNCERTAIN OUTLOOK FOR GOLD

With the price of gold falling to a low of $416,50 on Tuesday morning before rebounding to $420 by lunch time — the lowest since March 1987 — it would seem both short- and medium-term prospects are bearish. Most major governments have an anti-inflationary bias in their economic policies, the price of oil is in a downward trend and other commodity prices have come off their peaks. Moreover, there are an increasing number of producers coming on to the market and, though the Far East is buying more gold, it is not as much as the increased supply.

The gold price has been gradually falling this year and could test $400 by year-end

While the contribution of gold mining to GDP is less than it used to be, the gold price is still vital to economic prospects. A falling price puts upward pressure on interest rates at a time when the authorities are desperately trying to keep them down, and downward pressure on the rand at a time when it is already vulnerable

Longer term, one analyst thinks that if the world economy keeps growing at 2%-3%, gold could reach $500 within two years

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BUSINESS

Old cures won't stop inflation's spiral

South Africa's inflation rate may have been checked but it's still far too high. And it is about to start climbing again. By BRIAN GOLD

IN February, among much fanfare at the opening of parliament, the state president launched the government's attack on inflation. He can now point to some success

From around 14 percent at the beginning of the year the official inflation rate is down to 12,4 percent, lower than most economists expected and the lowest rate in four years But he should restrain his delight

Inflation, which is still some three times higher than most of South Africa's major trading partners, is about to start rising again Various factors, both short-term and long-term, will ensure this

●The higher import surcharges introduced last month might curb demand for imports but will initially be inflationary

● It is estimated that the direct effect of the petrol price rise will add 0,6 percentage points to the inflation rate The indirect additional costs will be higher.

●The rise in interest rates and in building society bond rates (which carry a weight of 9,5 percent in the index) will, paradoxically, be reflected in a higher inflation rate. A major debate in economics is this relationship Higher rates are meant to curb inflation and in the long run most often do, but in so far as interest rates are prices, when they increase it does raise the cost of living or production. The debate about whether and how to include interest rates in the consumer price index has plagued economists and planners

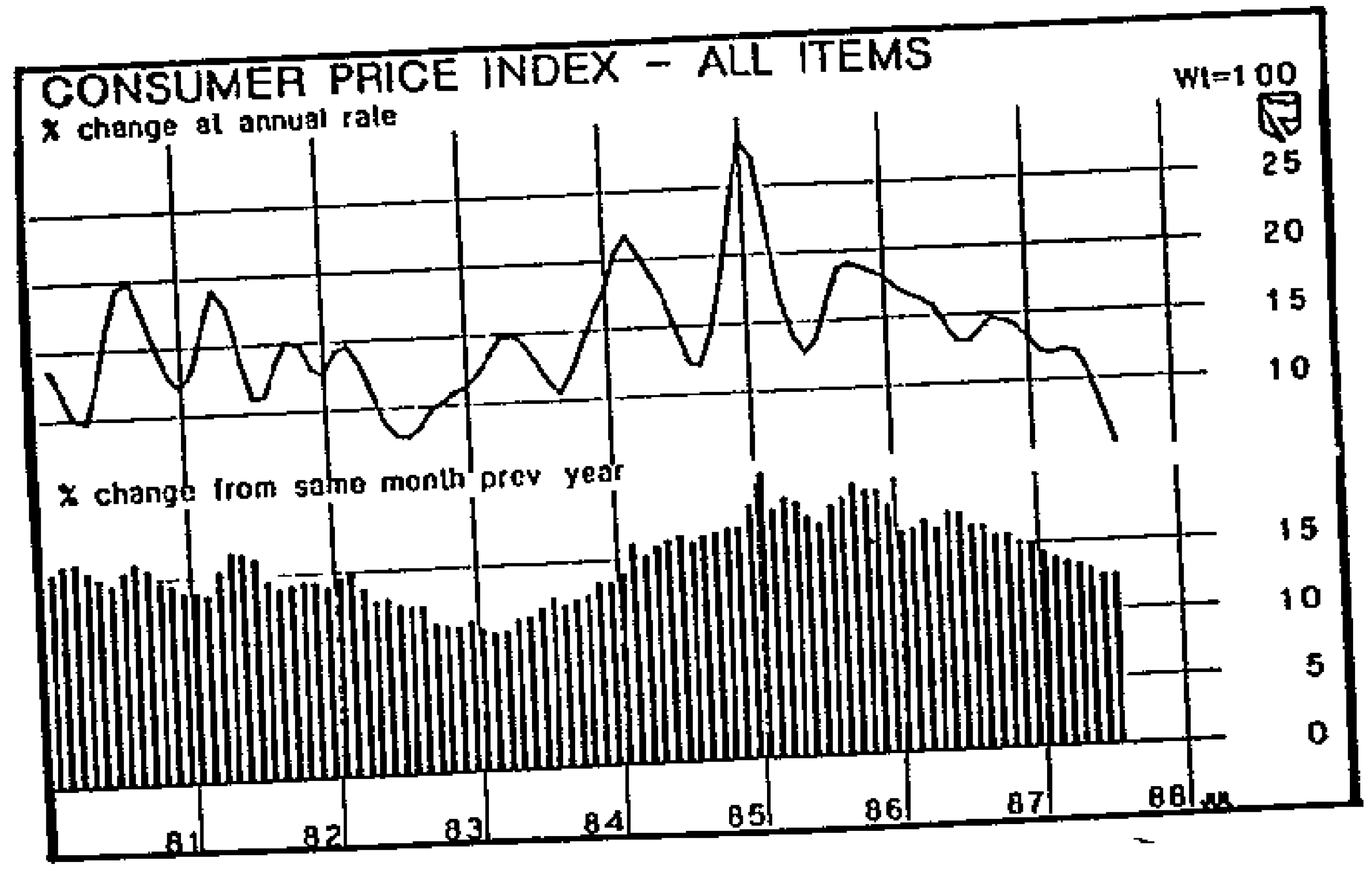
●Bottlenecks are building up for increases in administered prices such as postal and transport fares where increases have been restrained

●Most seriously for the long-term trend is the depreciating rand which makes imports more expensive

●Inflation is also an apartheid cost which is not going to go way in the short-term The crashing rand, lack of foreign credit, poor productivity and unproductive government expenditure are linked to political factors.

●More structurally the inherent conflict between labour and management is also inflationary Labour pushes for higher wages, the extent to which it wins increases depends on its relative strength These rises are passed on, eventually effecting the pockets of the same workers Again the extent to which this happens depends on the relative power of each business Monopolies supplying or manufacturing essential products, for instance, will find it easier to pass on higher costs.

For these reasons it is popularly believed that inflation will peak around 16 percent by mid-1989. This will be at a time when the economy is flat. Usually inflation accompanies bouyant economic activity.



So South Africa's cycle of high inflation has not been broken — but the nature of inflation has changed Whereas from 1985-87 inflation was largely a result of higher costs due mainly to the depreciating rand making imports more expensive, there are now demand pressures on prices

This is one reason why monetary policy has been tightened and interest rates are rising. It is hoped that higher interest rates will curb consumer demand. But in South Africa the link between high interest rates and inflation is not encouraging.

Even allowing for lags, inflation was still in double figures after interest rates soared to those crippling levels in 1984/85 when prime rate hit 25 percent. Demand-pull inflation might be curbed but cost-push inflation will not be The long-term factors explain this.

It will take much more than curbing government spending, deregulation, privatisation and all the other old favourites that business and government espouse to break South Africa's inflationary spiral.

Little comfort in a lower inflation rate

(153) STAR 27/9/88

Finance Staff

Inflation continues to confound the critics with yet another year-on-year fall — to 12,3 percent in August, its lowest level for four years

In the prior two months it was 12,4 percent and it has not shown an increase since May last year when it was 17,3 percent

The monthly increase in the price of food showed a marked decline, moving from a seasonally adjusted 1,9 percent in July to just one percent in August

The annual increase of 16,2 percent was 0,3 percentage points lower than the year-on-year rise in July.

Critics may feel a falling rate of inflation is at odds with the reality of relentless price increases and with an upward movement in the last few months in the producer price index (PPI)

However, there are statistically sound reasons for the continuing drop

The September 1 increase in the price of liquid fuels — expected to contribute about 0,6 percentage points to the cost of living — will only show up in the September figures, while the bond-rate rises of recent months will not be added in until they are measured later in the year

At the same time, the low year-on-year rise is the result of the increases occurring 12 months beforehand

Inflation in August 1987 was 16,3 percent, still fairly close to its high for the year of 17,2 percent

All the economic evidence continues to point towards a higher annual rate in months to come

According to Central Statistical Services, which released the CPI figures yesterday, the month-to-month increase this August of 1,4 percent is the highest this year (16,8 percent annualised) and suggests bigger price rises are coming through

Contributing to the 1,4 percent were rises in the cost of housing and vehicles of 0,3 percent and meat prices of 0,2 percent.

Sanlam's chief economist Johan Louw says inflation will probably average about 13,5 percent this year and could rise to an average of over 15 percent in 1989, a prediction fuelled by yesterday's announcement that civil servants would be granted a salary increase of 15 percent next year

The Bureau for Economic Research (BER) at Stellenbosch University warns the public to prepare for a period of more rapidly increasing inflation

Reviewing the results of a recent survey, BER director Dr Ockie Stuart said yesterday the Government's recent package of demand-curbing measures had been justified, but they would inevitably cause inflation to increase at a faster pace.

"We estimate that by year-end the dollar will trade for R2,50 and it is possible that the rand could depreciate even further against the dollar in 1989," Dr Stuart said.

Although the increase in the petrol price had not been part of the Government's restraint package, it would also impact fairly dramatically on the economy, he said

"A petrol price increase has an enormous psychological impact. Almost everybody associates a petrol-price increase with an overall increase in the price of goods."

Inflation — 'Too early for cheers'

SMN 27/9/88

(53)

By Paula Fray

While inflation measured by the consumer price index is at its lowest level in four years, consumer bodies are adopting a "wait-and-see" attitude before celebrating

The annual rate is 12,3 percent, the Central Statistical Services (CSS) in Pretoria said yesterday

The lowest previous level was 12,2 percent in September 1984

However the August figure also reflected the largest monthly increase since August last year — 1,4 percent

Reacting to the news, Professor Leon Weyers, chairman of the Consumer Council, said several increases, including the petrol price, the new surcharge and interest rates, would not be reflected and he could not be optimistic about the September figures

"Although the rate of inflation has decreased, it does not mean prices are going down It just means prices are increasing at a slower rate

"However, if this was a trend, it would a very promising and important statistic," he said.

Housewives' League president Mrs Lyn Morris said it was good news that the inflation rate had come down, but was not cause for celebration at this stage "We should wait for a few months and see what happens"

Mrs Morris said the increased transport costs had not filtered through.

The higher petrol price and licences would soon affect the consumer and she was also concerned with the higher food prices which hit pensioners and the needy in particular.

FIGURE TOO LOW

Mr Eldridge Mathebula, executive director of the National Black Consumers' Union, said today it regarded the 12,2 percent as incorrect, it was too low "We believe the actual rate is about 18 percent," he said

Mr Mathebula referred to the substantial increases in basic commodities — meat, bread and milk — over the last year and said inflation had put these goods out of the reach of ordinary black families

He was not optimistic about a reduction in inflation in the next few months

"At the rate the Government is spending, I don't think they will be able to reduce inflation .. there are still worse things to come"

BER issues a warning after survey

153 B/day. 27/9/88

Manufacturers face lean times, rising inflation

CAPE TOWN — Manufacturers should prepare themselves for a lean period in 1989, with inflation increasing rapidly, the Bureau for Economic Research (BER) at Stellenbosch University has warned

Reviewing the results of the bureau's latest national survey of the manufacturing industry, BER director Ockie Stuart said government's current package of demand-curbing measures had been justified, and should perhaps have been introduced a month earlier

Unfortunately, an effect of these measures, together with other factors in the economy, was that inflation would increase at a faster pace

"We estimate that by year-end the dollar will trade for R2,50 and it is possible the rand could depreciate even further against the dollar in 1989," Stuart said

Job creation in the manufacturing industry had not lived up to expectations in the third quarter of 1988

Stuart said a net 15% of the firms polled had reported an increase in the number of factory workers employed, compared to a year ago.

At the same time, 21% of manufacturers were experiencing a shortage of skilled labour as a very serious constraint, with the most vulnerable firms being in the clothing, paper and rubber sectors

The motor industry was facing a sharp drop in demand for vehicles.

Noting that new import duties came after a period in which the rand had depreciated by about 24% against the yen over 10 months, Stuart said the price of passenger vehicles had to increase substantially

"Because most motor parts are imported, it is safe to assume the price of these goods will increase by the same percentage," Stuart said.

Faced with an expected fall-off in domestic demand, manufacturers were looking overseas for new business

Stuart said South African exporters were constrained by difficulties in obtaining cheap raw materials and intermediate inputs. They also had to cope with the prospect of further sanctions.

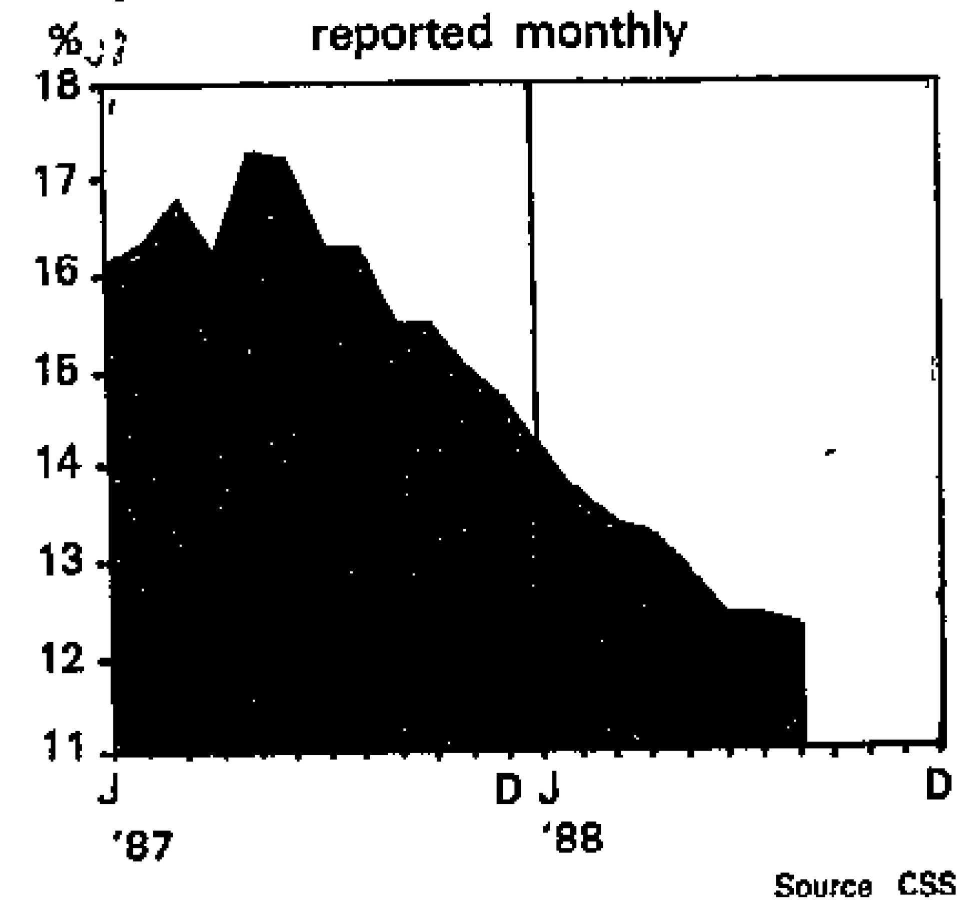
"In spite of this, an encouraging feature to emerge from our latest survey is that manufacturers intend to increase their volume of export during the next 12 months, as a result of the expected deterioration in domestic business conditions," Stuart said

The study involved 1 000 firms in 20 sectors of industry, from food and beverages to textiles, clothing, footwear, wood, machinery and plastics.— Sapa

Bottoming out

FM 30/9/88

12-month increase in CPI, reported monthly



CONSUMER PRICE INDEX 153

How much higher?

Consumer prices surged 1,4% in August and the inflation rate is set to take off after an almost three-year decline.

"The August increase is ominously high," says Senekal, Mouton & Kitshoff economist Leon Steenkamp, who had expected a big jump only when petrol and bread price hikes showed up in September He predicts the 12-month increase in CPI will rise to 15% at the end of this year and 16% in December 1989.

"The inflation rate is just going to keep rising from now on," says Econometrix economist Azar Jammine. "The reason is rapid money supply growth, which is going to filter through with a lag of 1-2 years. The inflation rate will pick up, just as it was falling over the past two years, because of low money supply growth in 1986" The narrowest measure of money supply, M0, increased a huge 36% in the year to August (see P41)

How fast will consumer prices rise?

The official inflation rate — the increase in CPI over the previous 12 months — was 12,3% in August.

Economists surveyed by the *FM* say the figure will rise to about 14,2% in December 1988 and 15,2% in December 1989 *(see table)* The December 1987 rate was 14,7%.

Sanlam economist Johan Louw, like several others, expects higher post and rail tariffs next year Steenkamp, predicting a sustained upswing in inflation, cites "higher unit costs of production as the economy slows down, further depreciation of the rand, the prospect of further increases in petrol and other administered prices, the lagged impact of recent strong money supply growth and renewed growth in government spending from increases in civil service pay."

The inflation rate — as high as 20,7% in January 1986 — was 12,4% in July and June, 12,9% in May and 13,3% in April

The August increase brings CPI to 157,40 (base 1985=100). This means a basket of goods, which cost R100 in mid-1985, cost R157,40 last month. Based on average predictions, this will rise to R167 at end-1988 and R192 at end-1989.

Central Statistical Service reports large monthly increases in August for sugar (7,6%), vehicles (6%), cigarettes and tobacco (4,9%), fuel and power (4,4%), footwear (2,9%) and meat (2,3%) Vegetables fell 3,1% and non-alcoholic beverages 0,7%. ■

INFLATION OUTLOOK

Predictions of year-to-December increase in CPI

	1988 %	1989 %
Sanlam Johan Louw	14,5	15,0
Frankel, Kruger, Vinderine Gill Raine	14,7	16,9
Senekal, Mouton and Kitshoff Leon Steenkamp	15,0	16,0
Southern Life Mike Daly	13,3	15,0
Volkskas Adam Jacobs	14,0	16,0
Nedbank Edward Osborn	14,5	16,5
UBS Hans Falkena	14,0	16,0
Stellenbosch BER Ockie Stuart	14,5	15,5
Senbank Johann du Pisanie	15,5	12,0
Mathison and Hollidge Jos Gerson	13,7	15,0
Bank of Lisbon Fred Costa e Silva	13,8	14,5
Trust Bank Ulrich Joubert	13,3	14,2
Average	**14,2**	**15,2**

SPEC RUM

COMMON CENTS

Star 1/10/88 153 1/10/88

How to avoid the snakes and climb the ladders during the economic slowdown

That next year will be less favourable economically than 1988 could turn out to be one of the understatements of the decade. With the gold price and the rand falling, interest rates headed higher, inflation about to rebound, taxes likely to rise and the economy set for a "cyclical downturn", as economists quaintly put it, the omens are bleak. But do we have to lie down and just take it? ALEC HOGG thinks not.

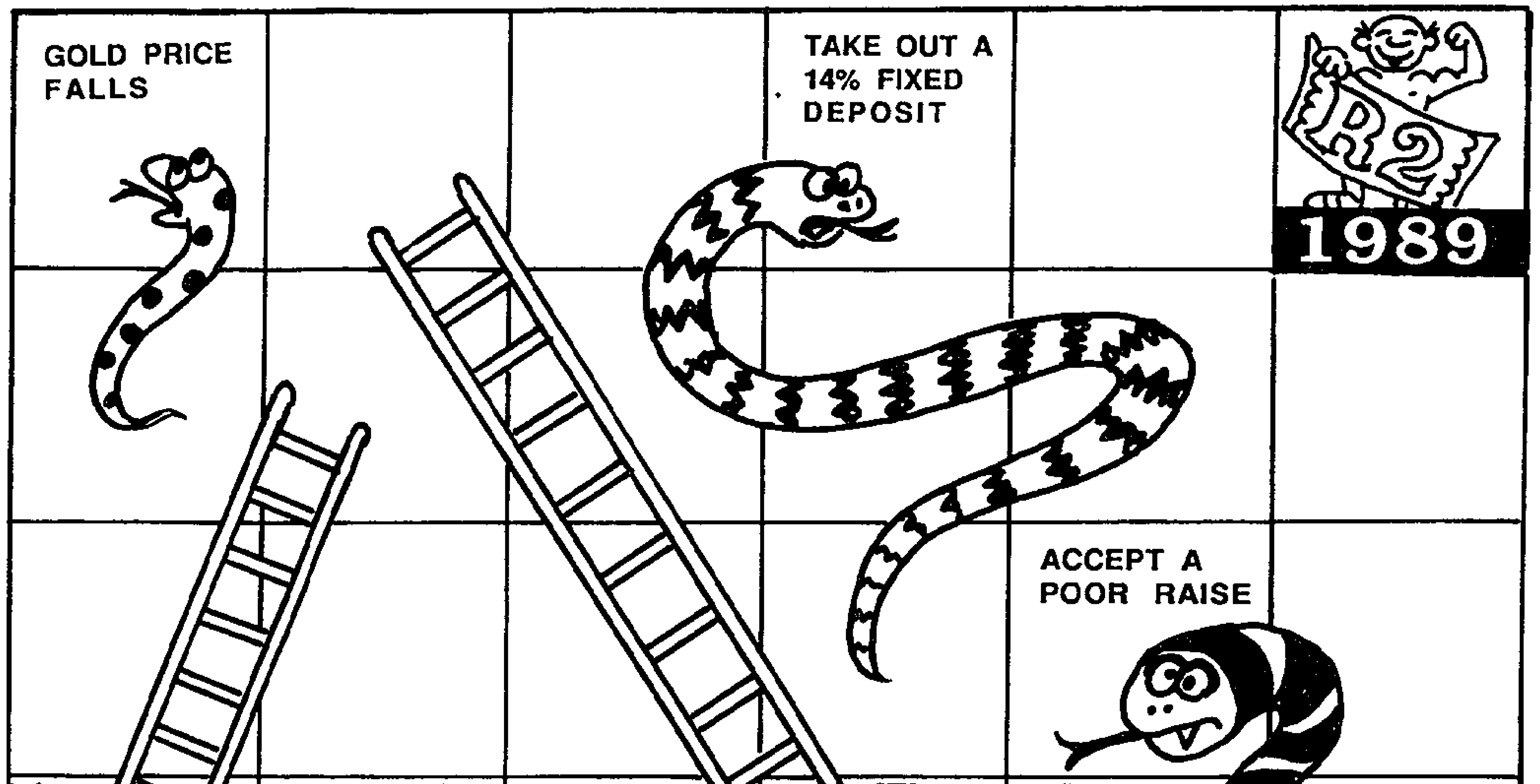
COMMON sense tells you that no one without a shelter has a chance of blowing himself warm in an icy wind

So, staying with common sense, your ability to weather worsening economic conditions depends on what type of precautions you take before the inclement weather arrives

The fact that many came through the recession of 1983/85 in a healthier position than when they entered it proves that, provided the right strategy is employed, slowdowns cannot only be survived but can even be turned to advantage

First off get the expected gloom into perspective It's difficult to avoid despair when sensational headlines of bad times keep bombarding you But it can be done

According to the country's top



to more than 16 percent, as is expected next year, helped along, of course, by such things as the falling rand (which pushes prices of imports higher) and salary increases averaging 20 percent in both the public and private sectors

A subject close to many people's hearts is the value of their homes Again, the escalation of building costs should ensure that your biggest single asset will be worth more by the end of the decade than its current value

In spite of higher mortgage bond rates, therefore, it makes sense to continue paying off your home loan, even if this might become more difficult in the months ahead

Meeting these repayments on time has another benefit too By paying off the mortgage, you will be following the investment world's golden rule of focusing your attention on the longer term

Cape National Party congress

Inflation: Selective fight urged

Cape Times 5/10/88

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By ANTHONY JOHNSON
Political Correspondent

GEORGE. — South Africa needed to take a far more selective approach in fighting the twin evils of inflation and price increases, the Minister of Economic Affairs and Technology, Mr Danie Steyn, said yesterday.

Rather than merely seeking global solutions to the problem of inflation, those sectors of the economy largely responsible for fuelling inflation should be targeted for special remedial action, he told delegates to the National Party's congress here

Outlining what he called the government's "new approach" to fighting inflation, Mr Steyn said that though the overall inflation rate had declined during the past year, certain sectors of the economy continued to play a major role in forcing levels upwards

For example, foodstuffs in general contributed almost 23% towards the Consumer Price Index (CPI), housing about 21% and transport about 17%

On the other hand, clothing contributed only 6% to the CPI and funiture about 5%, while fruit and vegetables had had a negative affect on prices of between 4% and 7%

Mr Steyn said the reason why various elements contributed differentially to inflation needed to be investigated in order for the problem to be tackled selectively and hence more effectively.

The general consumer could also contribute significantly to the fight against inflation by adopting the following guidelines

- Be discriminating when you shop
- Buy local products because this stimulates and contributes towards industry in South Africa.
- Always compare prices when shopping

● Syfrets: Inflation rising — Page 12

No strings attached to privatization

Political Staff

GEORGE. — There would be no strings attached to the government's privatization, Dr Dawie de Villiers, the minister responsible for the scheme, said yesterday

"Investors will not want shares when the government retains the majority say," he said

Privatization had to be done properly and consumers had to be protected. The best protection was good management

However, the government did not want to rush the issue and was still busy with in-depth investigations into such areas as SATS, Eskom, Iscor, Foscor and the postal services

Britain had been in the fortunate position of being able to privatize some smaller institutions but even 10 years after starting privatization there were still investigations going on

"We must go slowly because a wrong decision now could be extremely detrimental," he said

Fight inflation plea by Steyn

Political Staff

GEORGE — SA needed a far more selective approach in fighting the twin evils of inflation and price increases, Economic Affairs and Technology Minister Danie Steyn said yesterday.

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Outlining government's new approach to fighting inflation, Steyn said while overall inflation had declined during the past year, some economic sectors continued to force levels upwards.

For example, foodstuffs contributed almost 23% towards the Consumer Price Index, housing about 21% and transport about 17%, while clothing contributed only 6% and furniture about 5% Fruit and vegetables had had a negative affect on prices of 4%-7%.

Steyn said the reason why various elements contributed differentially to inflation had to be investigated so the problem could be tackled effectively

The consumer could also contribute to the fight against inflation by being discriminating while shopping, by buying local products and by comparing prices.

toms revenue increased more than 45%, to R1,21bn

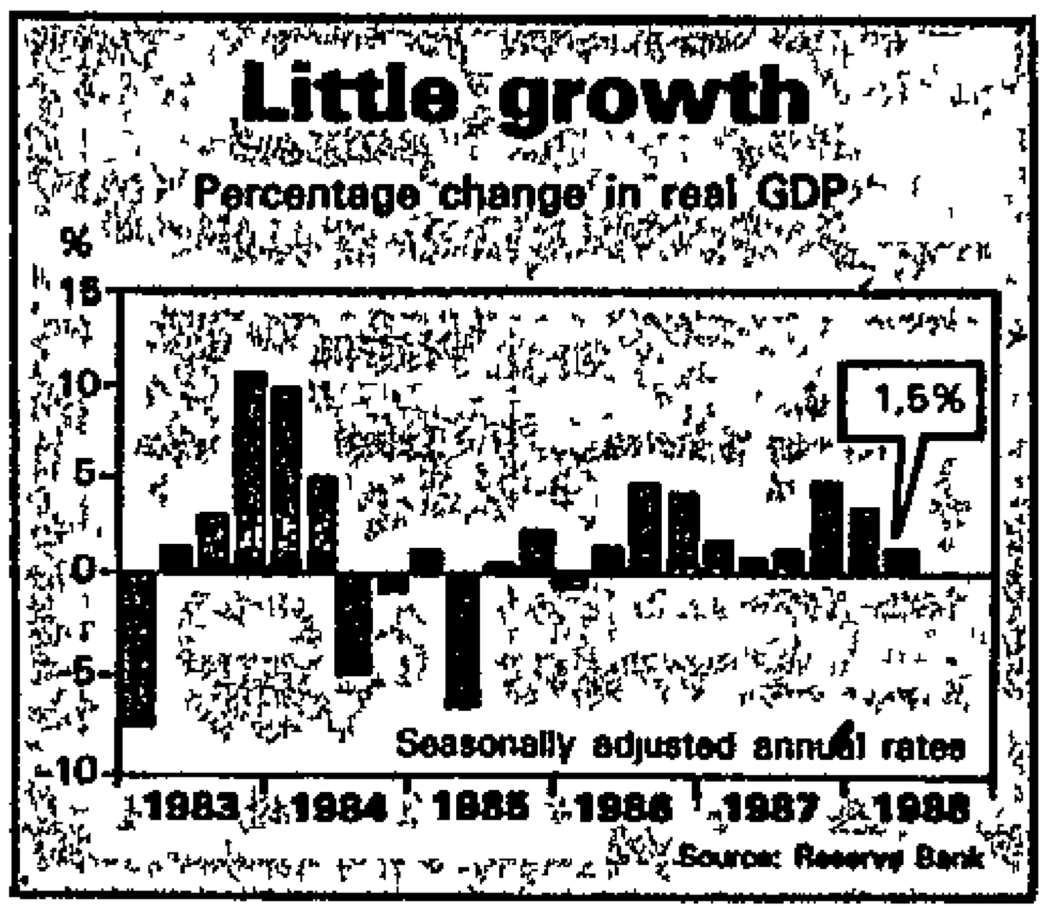
Furthermore, import surcharges as high as 60% were slapped on in August

The only major fall was miscellaneous revenue — stamp duties and fees, transfer duties, interest, dividends and other inland revenue — which was down 43%, from R2,16bn in February-June 1986 to R1,24bn this year.

Overall, more revenue was collected in March, April, May and June than in each corresponding month last year. Revenue in the four months rose from R10,97bn last year to R12,78bn this year — an increase of 16,5%.

Botha also said. "Inflation impoverishes the housewife, the worker, the salary earner, the small businessman and the pensioner. Government is concerned about this."

But not concerned enough to control the underlying problem: runaway money supply growth. In the six months after his speech, the monetary base and broad aggregate M3 increased at annualised rates of 47% and



29%, respectively.

Privatisation is not covered in the *Bulletin*, but a brochure distributed to Sats employees a few months after Botha's speech puts the topic in perspective· "Privatisation is a long-term process which can take as long as 10 years to complete It is possible that certain large units may never be privatised."

Botha got one thing half-right in February. He called for "courage and sacrifice" by all. Government has shown little courage in facing up to vested interests· farmers, civil servants and inefficient State enterprises But consumers and taxpayers will suffer plenty of sacrifice through soaring prices, an ever-higher tax burden, and rising interest payments on a burgeoning government debt.

Also reported in the *Bulletin*·

□ It wasn't much of a boom GDP grew at a seasonally adjusted annual rate of just 1,5% in the second quarter This follows rates of 5% in fourth-quarter 1987 and 3,5% in first-quarter 1988 (revised down from 4%).

□ The Bank says growth has peaked and sees "a fading away of the upward momentum of economic activity and domestic demand in the middle quarters of 1988" Second-quarter agriculture output was held back by a smaller than expected maize crop Production levels in manufacturing were hurt by stayaways, strikes and the large number of public holidays Furthermore, the 4,5% annualised growth in consumer expenditure in the quarter plus higher wholesale and retail sales in July "are likely to have contained significant pre-emptive buying in anticipation of price increases, a tightening of HP conditions, higher interest rates, or a possible increase in the (import) surcharge,"

□ The BoP current account slipped into a R407m deficit in the second quarter, following a R839m surplus in the first quarter However, seasonally adjusted and calculated at an annual rate, the current account posted a R960m surplus in the second quarter, after a R410m deficit in the first;

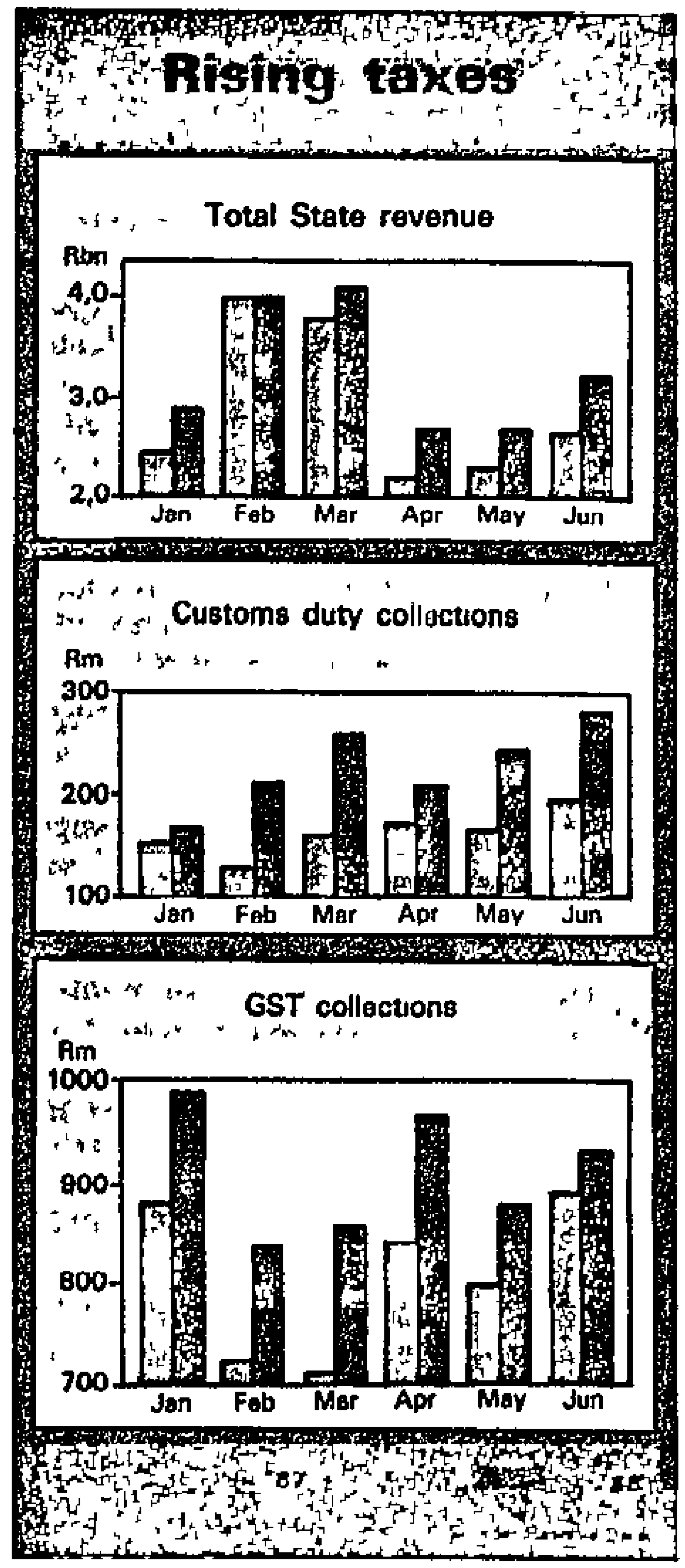
□ The total outflow of capital not related to reserves jumped to R2,1bn in second-quarter 1988, after averaging R700m in the previous five quarters The outflow of long-term capital not related to reserves rose from R300m in the first quarter to R600m, "mainly related to repayments on foreign debts on June 15 and repayments on bearer bonds and notes which do not fall under the standstill net" Foreigners, however, were net purchasers of R9m JSE securities in the second quarter, after being net sellers in 1987 (R1,2bn) and first-quarter 1988 (R35m).

The outflow of short-term capital not related to reserves (but including unrecorded transactions) rose from R400m in the first quarter to R1,5bn Heavy outflows in late June were related to "the upward trend in overseas interest rates and to leads and lags in foreign payments and receipts occasioned by fears of progressive further declines in the exchange value of the rand,"

□ The rand fell 13,3% on a weighted average in the first eight months of the year It was down against the dollar (21,1%), sterling (12,6%), D-mark (6,9%), Swiss franc (2,6%), yen (13,1%), and French franc (6,7%). The finrand fell 13,5%,

□ Gross domestic saving as a percentage of gross national disposable income edged up to 23% in second-quarter 1988 from 22,5% in the first. In 1982, the average was 24,5%. Personal saving remains low, at 2% of disposable income; and

□ The volume of net gold exports in the second quarter returned to a long-term downward trend because of a further decline in the average grade of ore mined, from 5,28 g/t in 1987 to 5,17 g/t in first-quarter 1988 and 5,12 g/t in the second quarter ■



Cont.

QUARTERLY BULLETIN

Credibility gap

Talk is cheap, but Pretoria's policies aren't

When State President P W Botha opened parliament in February, he called for bold privatisation, a leaner public service, low taxes, and the curbing of inflation The latest Reserve Bank *Quarterly Bulletin* shows how wide the gap is between words and actions.

"Discipline in government finances" apparently doesn't mean balancing the books. Central government debt, R55,85bn in February, had grown to R63,38bn by July — 17% higher than a year earlier.

Spending has stayed high after the speech and continues to outpace inflation. The *Bulletin* says total issues, excluding debt redemption, were R23,43bn in February-June, 14% more than in the same five months last year. The R4bn increase to civil servants and pensioners — of which some R1bn will be paid this fiscal year — will push spending even higher without cuts somewhere else.

Botha also called for the "smallest possible" level of taxes — which we haven't yet reached Both GST and customs collections, for example, were far higher after his speech than a year before Government took advantage of the upsurge in imports and retail sales to increase revenue rather than cut tariffs or the GST rate.

GST revenue in February-June was R4,49bn, nearly 16% above last year. Cus-

7/10/88 FM (153)

Lower cash targets could cut inflation

(153) B/day 7/10/88

KAY TURVEY

SA could boast single-digit inflation in the early '90s, if the lowering of targets for monetary growth in the next few years is systematically continued with concerted action to adhere to these lower targets.

Trust Bank, in its latest economic review, says the main goal of targeting is that of combating inflation, while it serves as an advance signal concerning the prospective direction of monetary policy and interest rates

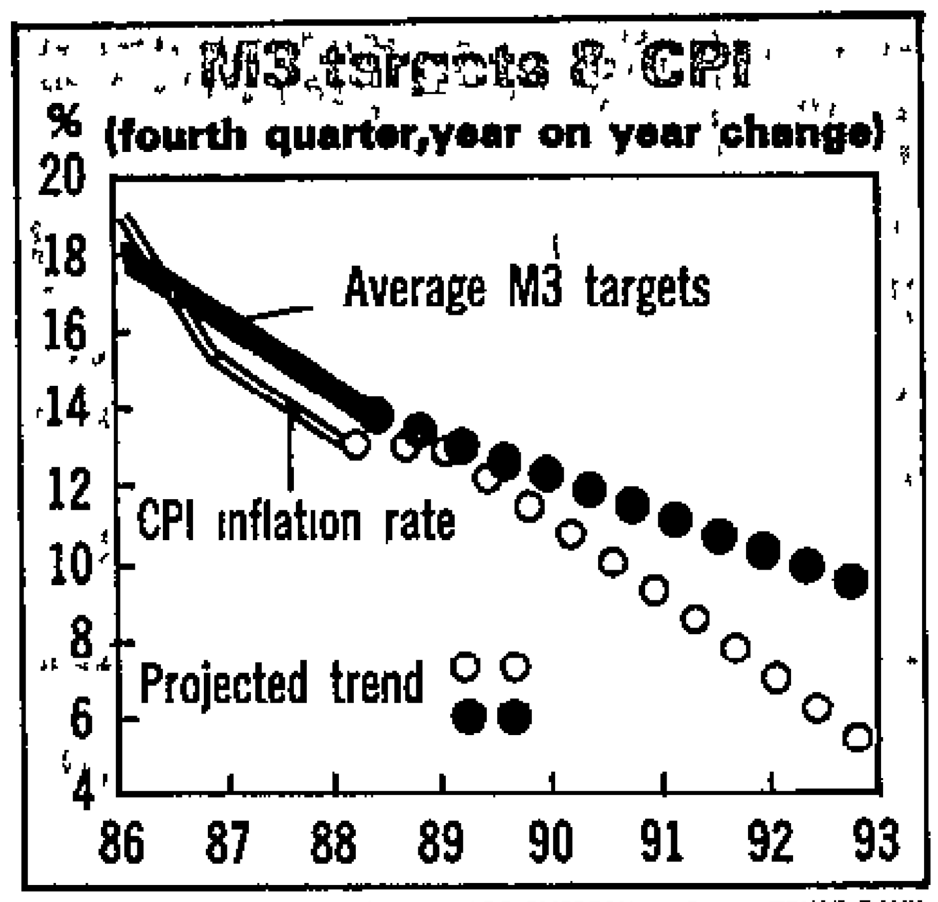
However, the review says, a consequence of the "explosive rate" at which M3 has expanded in the past 12 months has been the questioning of the credibility and usefulness of monetary targets as a policy instrument

The official target for M3 money stock is between 12% and 16%, yet in August money supply surged 27,56% over August last year, shattering the possibility of the average monetary target of 14% for the fourth quarter being achieved

Yet, targeting should not be abandoned as an exercise in futility, as it is argued the gap between the target and actual M3 provides a useful guide to the authorities for the purposes of executing monetary policy decisions.

"The credibility of the targets is determined much less by their accuracy or divergence than by the reaction of the monetary authorities."

The report says the high monetary growth of the past 12 months, with the corresponding rapid expenditure, balance of payments deficits and exchangerate de-



Graphic LEE EMERTON Source TRUST BANK

preciation, will probably be reflected in higher inflation by the end of the year

However, the recently introduced restrictive measures and higher interest rates should bring about slower growth in overall spending and in the money stock from the fourth quarter of this year. This will produce lower import levels, a balance of payments surplus and a slightly firmer rate of exchange and consequently inflation should start declining again from mid-1989.

It should then be possible to reduce the target growth rate in M3 for the fourth quarter of 1989, and it is likely both M3 growth and CPI inflation will be close to 13% by the end of 1989, the review says.

This will set the scene for a movement towards single digits in M3 and inflation in the early '90s.

Saudi Arabia causing panic in Opec

Oil price slump is good news on inflation front

Star 10/10/88

153

The slump in oil prices is keeping a lid on gold prices. Yet the good news is that the slump in oil prices will help reduce South Africa's high inflation rate and imports. NEIL BEHRMANN explains what is happening in the huge $200 billion a year oil market.

LONDON — Two years ago Saudi Arabian oil minister, Sheikh Ahmed Zaki Yamani, was sacked because he allowed a glut of oil to cause a market collapse

Now Hisham Nazer, Sheikh Yamani's successor is following the exact same policy

The result is that oil prices have tumbled by 29 percent since the end of July The market managed to rally by the end of the week But most traders expect quotes to slide further unless the thirteen-member Organisation of Petroleum Exporting Countries (Opec) stop squabbling and agree on production restraint

"The panic in the market is being orchestrated by Saudi Arabia," says an oil trader

"It is trying to get Opec members into line"

Yet it is dangerous to try the same tactics twice

Particularly since there are two basic weaknesses of Opec

First, non-members of the cartel ranging from Mexico to North Sea producers such as the UK and Norway account for nearly 60 percent of total Western supplies Fifteen years ago when an Arab-Israeli war caused the first jump in Opec prices to $3,00 a barrel, it was the cartel which controlled that share

Over and above the significant production of non-Opec Western producers, the Soviet Union can cause havoc in the market when it offloads oil

Opec's second problem is that it is disunited

For Opec to keep up the price of oil, it must act as a balancing factor It must keep production at levels where it matches the demand for oil

Yet similar to other commodity cartels and agreements, ranging from tin and sugar to cocoa and coffee, producers are unwilling to bite the bullet

The inevitable result is dismal failure, unless market forces favour the cartel's policies

For Opec, prices tell the story Using North Sea Brent oil, the most widely traded crude as a guideline, market prices are now standing at 37 percent discount to Opec's official price of $18 a barrel

Opec's present problems mainly revolve around one dissident member, Iraq The nation has refused to join a quota system to restrict output

As a result other members have increased production and have offered their oil at a discount

Over and above this cheating, political forces are in play

For about eight weeks three key Gulf producers, Saudi Arabia, Kuwait and the United Arab Emirates have steadily raised production and cut prices to show other members that they can wield power

That game is out of control

In the past fortnight, the market has been thrown into panic Saudi Arabia, the world's key oil nation, said that it would not be the "swing producer" to help balance the market Instead it raised output by 1,4 million barrels to 5,7 million barrels a day, or 11 percent of total Western supplies

A marginal increase in output in a surplus market is sufficient to make traders nervous

Particularly since it was Saudi Arabia which increased production steeply early in 1986 and drove prices down to $8 a barrel from $30 at the end of 1985

Oil optimists contend that the events of 1986 illustrate that oil prices could bounce back, provided Opec members buckle down and slash production After all lower oil prices and a buoyant world economy has spurred an increase in the demand for oil

Total demand, estimates Nick Antill of CountyNatWest Woodmac will rise to an 50,1 million barrels a day in 1989 from 48,1 million barrels a day in 1987

Indeed a decline in Opec output has worked in the past

When Saudi Arabia reduced production in 1986 soon after Sheikh Yamani was fired, prices swiftly rallied and even rose above $20 a barrel in 1987

Yet the market has become increasingly sceptical about the discipline of Opec Again history is an example

After Opec members initially follow Saudi Arabia's example of production restraint in 1986, they soon began to argue again, raise production and cut prices

From mid-1987 onwards prices began to slip After Iraq refused to join an agreement to restrict production at around 17,3 million barrels a day, actual Opec production rose two million barrels a day above this level and prices tumbled to $14 in March

Yet again there were hopes of Opec unity, that Iraq would join the quota agreement Prices rallied to $16 late July this year. But Iraq's peace with Iran made no difference Since then, Opec's production has surged to 21 million barrels a day At a time when the oil market should be strong ahead of the Northern hemisphere winter, production exceeds consumption and buyers have more than sufficient stocks

Not surprisingly, traders such Christopher Bellew of Czarnikow Energy are sceptical about Saudi Arabia's ploy

Prices will be volatile, he says There will be meetings of Gulf producers and Opec's strategic committees in the remaining weeks of October and then a major gathering towards the end of November Traders who sold oil short, on expectations of further price declines are already covering their positions and an oversold market is rallying

"But the longer term outlook is bleak," says Mr Bellew who predicts that it is possible for oil prices to fall below $10 again.

"It will be difficult to reconcile the conflicting ambitions and differing interests of individual Opec members," he says.

The lesson for participants in the oil market?

Never place bets on hopes of unity in a commodity cartel

Compiled on a ...

A novel way of licking inflation

Star 22/10/86 (153)

Inside Out

Ann Crotty

"Reg thinks there may be steps afoot to ban the CPI."

It was early Wednesday morning and Myles was on the phone, a newspaper headline had just caught my eye. "De Klerk set to roast Sarb" and I was so busy trying to figure out why the Minister of Education would be roasting the Reserve Bank that I missed the drift of Reg's latest revelation. Unfortunately, Myles was willing to repeat it.

It seems that Reg reckons that the innumerate politicians ("The ones who aren't too good at sums and who tend to comprise the majority of politicians in any country" explains Myles) have spotted that the source of SA's high inflation rate is the CPI.

So Reg feels it can only be a matter of time before they persuade the Government to add the CPI to its banned list

Myles didn't hold out too much hope for this scheme or for Reg's future with the company.

Didn't seem to be too many highlights in the market this week

Myles said that there was a lot of round-tripping in Elex shares yesterday. Apparently some investors who had picked up rights at 5c were selling shares in the market for 11c to 12c.

After this sort of trading is worked out of the system, analysts expect the share to settle at around 11c in the short term.

The improvements forecast from the new M&PD management aren't expected to flow through to earnings until next year

ANN CROTTY

The Rennies/Cargo rumour is back in circulation again and is still being denied by Cargo management.

Market talk is that a deal has been struck at 450c per Cargo share. But Myles says that the idea that negotations could be conducted, without reference to the Cargo management, is a bit difficult to swallow.

Also doing the rounds again is talk that Blue Circle's UK parent wouldn't be averse to selling its 42,2 percent stake in the SA operation.

As Myles points out, this story has been around for years and every so often gets taken out, dusted and shaken around a bit It is certainly unlikely that the UK parent is an aggressive seller

The local operation is providing a nice dividend income; the UK parent isn't subject to political pressure and anyone who has a major investment in Northern Ireland must be pretty inured to political hotspots.

But as Myles's Mum points out (she has family in that part of the world), it makes a lot of sense for a cement company to operate in an environment where buildings are getting blown down almost as fast as they're being put up.

Local management, which seems tired of so frequently having to deny this rumour, says it has no comment, but adds that if the UK guys were to sell out, then D&H, which currently also has 42,2 percent, would probably be buyers.

As Myle's sees it, pressure for any deal would probably come from the SA side.

There's talk that Clegg, which was jilted by Consol some weeks back, may be involved in another deal. Myles couldn't say whether it was Consol, back at a lower price, or another party.

Lonrho eased back before the end of the week, closing at R26,50, compared with a high of R28. Story is that Australian Alan Bond had bought up a 14 percent stake in the London market, which got investors very excited until they heard that Bond's outfit was carrying a lot of debt and might be forced to sell the Lonrho shares

Details of the Nedbank rights issue are unlikely to do the share price much good, although the group is expected to announce fairly good results next week.

Old Mutual is underwriting the offer, which could see it sitting with around 60 percent of Nedbank

Myles says it should be quite a nice investment for Old Mutual in terms of dividend yield

But he wonders why the insurance giant didn't just lend them the money, even in the form of redeemable preference shares, instead of going for this massive dilution and also leaving the market worried about Old Mutual having, at some stage, to cut back its stake to 30 percent

Myles says there was some talk of a deal at Mintek

MONEY MATTERS

by Derek Tommey

Inflation robs small savers

ST 22/10/88 (153)

SOMETHING needs to be done to help the small saver In today's conditions where we have high inflation and heavy taxation there is absolutely no incentive for anyone to save

Let us look at the plight of the average building society investor

At the moment building societies are paying 13,5 percent on 12 months' fixed deposits So at the end of the year, an investor will receive R13,50 for every R100 placed on fixed deposit

Assuming he is in the 45 percent tax bracket, his net return will be R7,42 for every R100 invested

But with inflation running at 12 percent, he now needs R112 to buy what R100 bought him a year ago

However, with his R100 in the building society and R7,42 interest he has only R107,42.

When theft is no crime

Therefore, despite investing his money for a year he actually has R4,58 or 4,1 percent less in buying power than a year ago

He has been robbed — by inflation But it is no use complaining to the police They can't do anything about it

It would have been far more sensible for him to have bought a good second-hand car or electronic appliance as these probably could have been sold at a substantial profit today

What we need is a tax system that recognises inflation, that allows inflationary losses on savings to be written off against taxable income

Admittedly, it would cost the Treasury a great deal of money, but not anywhere near so much as the inflation-linked pay rises for public servants, and surely the Government also has a moral duty to look after savers as well

Such a scheme would have another benefit in galvanising the Government to start fighting inflation

Inflation rate has reached turning point — Sanlam

STAR 21/10/88

153

Finance Staff

Although the country's inflation rate would probably accelerate markedly in the coming year, significant upward pressure on long-term interest rates was not expected, life assurer Sanlam says today in its October *Economic Survey*

Commenting on the expected course of interest rates, Sanlam says few changes were seen in long-term rates while short interest rates were expected to rise in the next few months.

Increases in overseas interest rates were unlikely to impact locally, especially in view of signs that the South African economy would enter a downturn phase earlier than leading industrial countries, it says

There was a good chance that real long-term interest rates would shrink as they frequently did during downswings in the economy

"All in all, we believe that both short-term and long-term interest rates will drop in 1989 and that this tendency will become more prominent in the second half of the year," says chief economist Johan Louw in the survey

According to Mr Louw, the year-on-year increase in the consumer price index had more or less reached its lower turning point

It predicted an average inflation rate of 13,5 percent for this year, with an acceleration to more than 15 percent in 1989 as a result of the weaker rand, increased rail tariffs and the high indirect taxes which were likely after the recently announced general salary adjustment in the public sector

Inflation rate stable despite higher petrol and bread prices

(153, SLv 27/10/88)

By Sven Lunsche

The official rate of inflation continues to confound economists September's annual increase in the Consumer Price Index was 12,4 percent, the third consecutive month the annual rate had remained virtually constant

The rate for June and July was 12,4 percent and inflation hit a three-year low of 12,3 percent in August

The sidewards trend in the annual rate has astounded economists, who had generally forecast a rise by July this year Last month in particular a sharp increase was anticipated, as the full effect of petrol price increases and import surcharges was expected to hit consumer prices

And, according to the Central Statistical Services (CSS), half of the monthly increase of 1,3 percent from August to September was attributable to the increase in the price of fuel, with a further fifth coming from the rise in the price of bread during September

But it was largely due to technical factors that the high monthly 1,3 percent increase, (annualised at 16,8 percent) did not work itself through to the year-on-year rise

The CSS explains "In the light of these increases, the question of why the annual inflation rate is not considerably higher, arises

"The answer is contained in the fact that the monthly rate of increase is of the same magnitude as that of a year ago, in other words, certain price increases occurred from August to September 1987 which were not repeated this year and were virtually replaced mainly by the higher bread and fuel prices

"More specifically, for example, the vegetable price increases were responsible for almost 40 percent of the rate of increase from August to September 1987, while a general decrease in these prices was observed for September 1988, similarly significant increases occurred in the price of furniture in September 1987 In general it is not notable that food provides a constantly decreasing driving force to the increase in the CPI," the CSS says

The large monthly increase, however, remains a worrying factor, since it follows on August's 1,4 percent rise, the highest in 18 months

Says Southern Life's economist Mike Daley "In August shorter term measures of price pressures, for example over three months, mirror the downward trend of conventionally measured inflation, but it looks as though a change in this trend is imminent"

Writing in the group's latest edition of *Economic Comment*, Mr Daley adds "The petrol price rise will be a major cost raising factor, import price and general producer price inflation are rising already, higher mortgage bond and rates and general borrowing rates will have an adverse effect on the CPI and certain administered prices, kept in tight rein in March, will be increased at the next budget reading"

He expects a year-end inflation of around 13,5 percent, but adds that inflation "will not run away in 1989, if only because of the expected slowing of the economy in that period, during which profit margins will have to be reduced"

"Food price inflation will also continue to fall from its current level of 16 percent and at this stage a tentative forecast of inflation at the end of next year is 15 to 16 percent," Mr Daley concludes

ECONOMIC POLICY

Planning for poverty

■ Rates have been artificially pegged since July — big leaps loom

Once again the National Party has reaffirmed its commitment to inaction Funding most of this year's portion of the 15% increase in civil servants' salaries will be covered by larger than expected revenue flows, says Finance Minister Barend du Plessis And with this out of the way, he apparently sees no need for further action

Existing credit demand and the potential impact the increase will have on additional spending power is apparently not a problem he is ready to address Perhaps he plans to wait until a prime rate of 25% is unavoidable.

His announcement this week came as an anti-climax. With pressures mounting in the financial markets, rumours of a new economic package have been rife They were fuelled by a series of meetings of the Reserve Bank with bankers last Tuesday on increases in key lending rates; of the Cabinet last Wednesday at which the civil servants' salary increase was doubtless discussed, of Du Plessis with representatives of Assocom on Monday to discuss economic policy

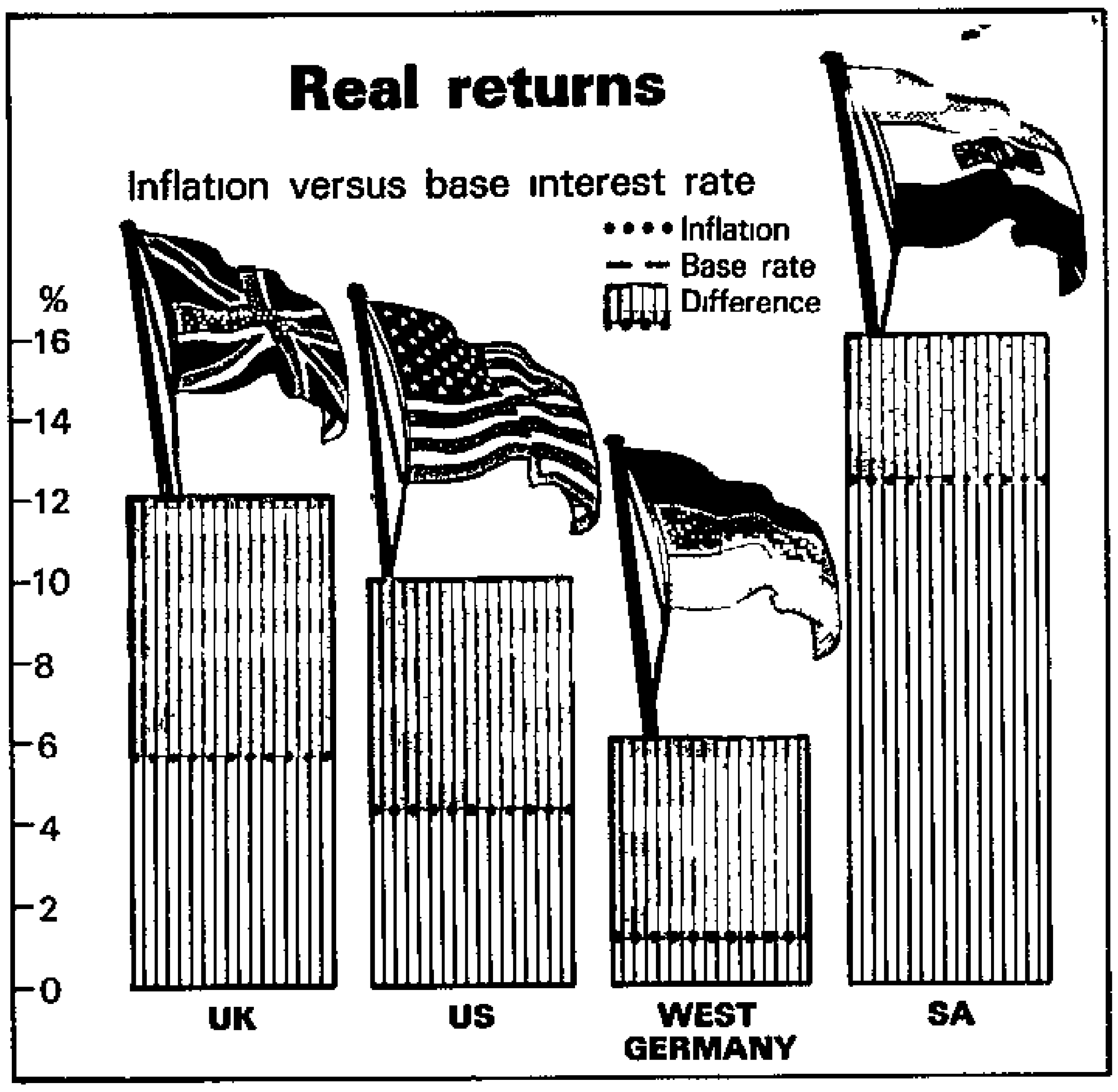
Talk was of a combination of higher key interest rates, an increase in GST — ostensibly to help control demand but actually to fund the salary increase, and an element of direct control of the markets At several points it seemed as if an announcement might be forthcoming — despite widespread predictions that bad news would be delayed until after the election

In the event, however, original predictions were fulfilled and no announcement was made. There is still, however, the question of interest rates

Bank and prime rates have been pegged since the end of July, despite a relentless rise in the cost of funds since the end of the second quarter In that period, the benchmark liquid bankers' acceptances climbed from just over 12% to 14,45% last week, while the RSA 2005 moved from 15,8% at mid-September to 16,77% this week

Pressure on short-term rates came mainly from a further deterioration in the overall balance of payments position, say Old Mutual economists, writing in the latest edition of *Economic Monitor* "After adjusting for the weakening of the rand against a basket of currencies over the same period, the Reserve Bank's holding of gold and foreign exchange reserves declined by 14% during the third quarter, after falling by some 19% during the first half of the year Measured in this way, the level of gold and foreign exchange reserves was at the end of September not only 41% below the cyclical peak reached in July last year, but equalled less than 1,5 months of imports "

Fundamentally, the situation is even more serious Says Nedbank chief economist Edward Osborn "While officially gold and foreign exchange reserves of the country have declined by R1,3bn since the start of the year, the real decline in reserves was much worse by another R1,2bn, which was the extent of Reserve Bank borrowings abroad in June to assist it in meeting the heavy June debt payments Net reserves have in fact declined by R2,5bn this year "



Yet, with our reserves imperilled, Pretoria dragged its feet

Problems of economic perceptions in SA are rooted in a fundamental misunderstanding about the role of interest rates — and whether we have any choice as to their direction and velocity An increase in interest rates is too often seen as optional — a remedy which may be applied or not — and from this premise flow arguments over whether an increase in Bank rate is desirable and/or effective

What politicians need to understand is that interest rates are indicators signalling either that demand for money is outstripping supply, or that supply is outrunning demand What they tell us, if they are allowed to respond to these forces, is what to expect from the immediate future, giving government, business and individuals some guidelines for decision-making

When they are not allowed to move with the market, the pressures flow over into inflation — because to "keep interest rates artificially low, the Bank has to meet demand for money and expand money supply — which effectively dilutes the value of existing money (see P39) Furthermore, their role of disseminating information is eliminated Decisions can then no longer be made in relation to what is really happening in the economy and can be based only on gueses and wishful thinking which, though not unpopular among politicians, is disastrous for policy-makers

So delaying Bank and prime rate increases has both fed inflation and masked it. And with appropriate increases so long delayed there is now no knowing where rates will eventually go. Certainly they are more likely to reach the much-dreaded 25% level than would have been the case if rates had risen at the appropriate time

Wishful thinking has been very much in evidence this year. This was despite the recognition by the Bank (according to Governor Gerhard de Kock in his annual August address to stockholders), as early as December, that the upswing in domestic spending, output and income accompanied by excessive increases in bank credit and money supply "clearly called for a tightening of monetary policy "

Against this background, the Bank allowed an increase in prime from 12,5% to 13% in January However it delayed increasing Bank rate from 9,5% to 10,5% until March, when prime was allowed to go to 14% Further increases, to 11,5% and 12,5%, in May and July and accompanying increases in prime to 15% and 16%, also came long after they had been discounted in the market

"In retrospect," said De Kock in his August report, "there can be little doubt that monetary policy should have been tightened earlier and that interest rates should have been allowed to rise sooner. In its attempts to moderate the rise in interest rates in order to promote economic growth and to assist farmers, small business and home-owners, the Reserve Bank initially created too much central bank credit and in this way facilitated the excessive increases in bank credit, the money supply, total spending and imports."

The result of course, is money supply

Doc Craven ... will it be thumbs-up for him?

pelled to resign and it's been speculated, wildly perhaps, that unions which do not back Craven will end up not hosting future international teams. Imagine the All Blacks touring — and not playing in, say, Bloemfontein or Pretoria The effect on sponsorships and the absence of revenue from luxury suite holders would be devastating.

Such complications put the November meeting in a different light It's been argued by those who know the old man that Craven may somehow be able to achieve a compromise, or at least buy time But such a deal would test even his remarkable capacity for wheeler-dealing and brinkmanship He would have to deliver renewed contact, in the form of lucrative tours in the near future by the All Blacks, the British Lions — a World XV at the very least At the same time, he would have to avoid giving any impression of betraying the commitment he made in Harare, because in a sense he has already burnt his bridges

Which raises another intriguing issue the role of the ANC. There is justified scepticism of its sincerity in meeting Craven Despite the Harare statement, the ANC is clearly keeping its options open It may want to polish its image among whites while simultaneously confusing and dividing them; it is no doubt delighted at the fuss the talks have caused

But, if it is indeed changing its strategy, the ANC cannot ride two horses at once If it really wants Craven to have any success at home, the bombs will have to stop (or, if they are being planted by mavericks, unequivocally condemned). As Craven was returning to SA, a massive bomb exploded in Witbank, killing two people and injuring many others Such incidents give force to arguments that Craven has been naive and is simply being used; every bomb that goes off progressively undermines his position

Even if the ANC is sincere it may find that it does not have the clout to influence the range of constituencies which oppose any links with SA The anti-apartheid cottage industry in Britain, African leaders like Robert Mugabe, the Third World bloc at the UN and in the Commonwealth, and a generation of domestic activists and churchmen suckled' for 20 years on boycott as the only option — all would have to be persuaded that it is time for a radical change in tactics

This shift is unlikely, at least in the short term We can expect the ANC to go for cover on this one, while saving face with the familiar argument that, while apartheid exists, contact is undesirable

By the beginning of this week, the silence of most local rugby people seemed to indicate that they were reserving judgment — put another way, giving Craven and Luyt the benefit of the doubt

Some important figures have publicly supported them former Bok captains Morné du Plessis, Wynand Claassen and Tommy Bedford and two provincial captains, Naas Botha and Carel du Plessis Former Northerns star Thys Lourens has condemned them How do the other players feel? They desperately want tours — but by courtesy of the ANC? How apolitical are they?

No doubt the provincial presidents are now anxiously testing the wind in their own backyards — it would be foolish for them to attend the November meeting without some kind of mandate from their own officials and players

That mandate is likely to be a conservative one — crushingly so, if more bombs go off In the end, even rugby is not that important

It may turn out that Craven has been used by the ANC, and he has risked much, he could fall far and hard But there is no doubting his sincerity In recent years he has had much contact with blacks and coloureds, sources say that he has been deeply moved by the ravages their communities have suffered under apartheid

And he is reputedly of the view that it is absurd to attack him for talking to the ANC when that organisation has so much sympathy, if not support, within SA Louis Luyt was reported as asking why rugby people should not talk to the ANC when the government is itself negotiating with another enemy, the Cubans

After all, if the ANC were non-violent and on our side in the first place, there would be no need for talks One way of stopping a war is by trying to achieve a truce

Ironically, our rugby isolation is unlikely to end as a result of the Luyt-Craven initiative There are far too many other factors to consider But two important political issues have been raised

One is that government has put Craven and Luyt in the dock, but has done nothing itself to help sports administrators Rugby apartheid still exists at school level and Group Areas laws remain firmly in place It cannot have been easy for Craven and Luyt to go to Lusaka, which shows just how desperate they (like their counterparts in business and academia) have become as a result of apartheid

The other issue is one of leadership Craven has demonstrated that nothing can be achieved without risk In this sense, rugby is an emblem of politics

There comes a time when the man in charge must move without looking over his shoulder, must take a leap into the dark and have faith in the future Can we blame a rugby administrator for taking political action, if the politicians themselves refuse to do so? ■

Errol Tobias ... first black Springbok, last official Test

SEEKING THE POLITICAL KINGDOM

This year, only two men have stood up to a government that increasingly covers its reform paralysis — if not retreat — with political bluster and personal denigration. Their offence had been that they had taken political initiatives which have proved to be an embarrassment to an inert administration

The man of the moment is Danie Craven. And it remains to be seen whether his defiance will be sustained and what the outcome will be. But Labour Party leader Allan Hendrickse, too, has had to withstand, among other things, a whithering castigation over SABC television delivered by the meddlesome State President himself And he faced it with great dignity and turned it to his advantage.

Hendrickse

Hendrickse has used the parliamentary system to great effect. At least he has achieved a standoff over the tightening of group area legislation. If he adheres to his standpoint, he probably has the potential to achieve much more

He will address this year's *FM* investment conference in Johannesburg on November 10 on the role of the Labour Party in SA politics in a session chaired by Race Relation's director John Kane-Berman.

Hendrickse will be followed by another politician who has made a quiet but telling contribution to the thinking behind political reform in this country. He is Pat Poovalingam who will talk on strategies for reform and who is no stranger to this forum

Both these speakers will follow a lunchtime address by Pick 'n Pay chairman Raymond Ackerman on what business expects of government and an assessment by the Chamber of Mines labour negotiations chief Johann Liebenberg on what the unions have achieved this year.

The development of the political economy has always been important for business as it determines the environment in which it trades How it will and how it should develop are of critical importance to those facing investment decisions.

The views of these practical men will be an interesting precursor to British historian and author Paul Johnson, who will address the conference the next day on the morality of capitalism.

growth of nearly 28% year-on-year by August, at a time when real growth in GDP is probably running at an annualised 2%-3%

Prospects for the future are not noticeably better Says Standard Bank chief economist Nico Czypionka. "We have seen no meaningful deceleration in overall credit demand. Any drop-off in consumer demand is likely to be counteracted by the civil servants' additional spending power And substantial credit demand is emerging in the commercial and corporate area to finance larger inventories and expansion that is taking place"

Disbursements from the Exchequer have been restrained so far but expectations are that the second half of the fiscal year will see far larger payouts which will stimulate the economy and increase liquidity. October is traditionally a time of fiscal stocktaking. And, as Trust Bank economist Nick Barnardt points out, "Fiscal decisions have implications not just for fiscal policy but for monetary policy too, because the extent to which fiscal expenditure can be tightened will inevitably determine the extent to which monetary action is needed"

Certainly the decision on salaries has important implications for monetary policy, having put out of synch previous efforts to co-ordinate economic policy And the ultimate outcome will be further pressure on interest rates — pressure it would be foolhardy to ignore

De Kock, of course, understands the implications of not allowing interest rates to rise when markets dictate that they should In the report of the De Kock Commission of Inquiry into Monetary Policy (1985), he concluded that SA has, over a period of years, had lax monetary and fiscal policies which have led to an unacceptable rate of inflation This in turn led to the erosion of the country's living standards and caused additonal problems to the BoP

And the major reason for monetary indiscipline, he said, has been the reluctance to let interest rates rise enough to curb credit and subsequently money creation

In a speech in April to the Kaapstadse Afrikaanse Sakekamer, De Kock pointed out that inflation is harmful for real economic growth over the longer term "because it leads to malinvestment and the inefficient allocation of scarce labour and other resources, discourages saving and promotes speculation"

SA's savings ratio has been one of the most serious casualties of rates which were negative for nearly two years and even now yield small real returns on savings Real interest rates, after being negative for a period, are still inappropriately low compared with those of major industrialised countries (**see graph**) This at a time when we desperately needed to generate our own resources to compensate for the almost complete cut-off in capital flows from the rest of the world.

Surely the authorities don't need much more in the way of bad news to press them into action? With the municipal elections safely out of the way, the Bank must be allowed to eliminate a degree of distortion in the markets

Whatever steps are taken, however, are unlikely to be adequate With SA in a state of chronic instability, no sooner has one election passed than another looms — and Cabinet ministers tend to operate with one eye constantly on the political horizon So economic policy will presumably continue on its present path — strewn with political promises and crisis packages In the end, it will founder on its own indecision and plunge us all into poverty ■

28/10/87 (153) FM

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Build-up in world inflation pressures

NEW YORK — Interest rate pressures are building up for the world's major central banks.

In spite of the perceived unchanged monetary policy stance recently in the US, Britain and West Germany, analysts see inflationary pressures brewing which could force rates higher worldwide by the end of the year.

Analysts point to a number of latent worries that underscore inflation growth worldwide.

In spite of a narrower-than-expected British trade deficit in September, that should have allayed inflationary fears, some analysts are still concerned

Drexel Burnham Lambert vice-president and senior international economist Colin Lawrence says Britain is "under severe pressure" to increase base rates, maybe to 13% by the end of the year Base rates in the UK now stand at 12% after jumping during the summer from 7,5%

Kleinwort Benson Securities economist David Owen says the "pressure for higher rates may have eased but they have not been eradicated"

On Thursday, it was reported that Britain's current account deficit for September narrowed to £560m from £1,31bn on a seasonally adjusted basis.

Smith New Court economist Paul Turnbull says "Imports are still high. There is no downturn in demand"

Lawrence says the UK is definitely in an "overheating phase and will continue its tough monetary stance".

Analysts note the spectre of inflation also haunts West Germany and Japan

While economists say the Bundesbank has not tightened monetary policy recently, a moving up of rates is possible during the last quarter of 1988 and into next year

Falling

Lawrence says "The only one playing the international game right now is Japan" He says the Bank of Japan is the only major central bank to lower rates during the past three weeks But analysts contend that a possible firming of rates may be necessary in Japan by year-end.

In Tokyo, Sanwa Bank treasury department senior manager Hiroshi Shimotakahara says this is the beginning of the end "for falling interest rates". — AP-DJ

Investors put off by 'Third World smell'

153 1/11/88 B/day

Rand closes at record low to UK pound

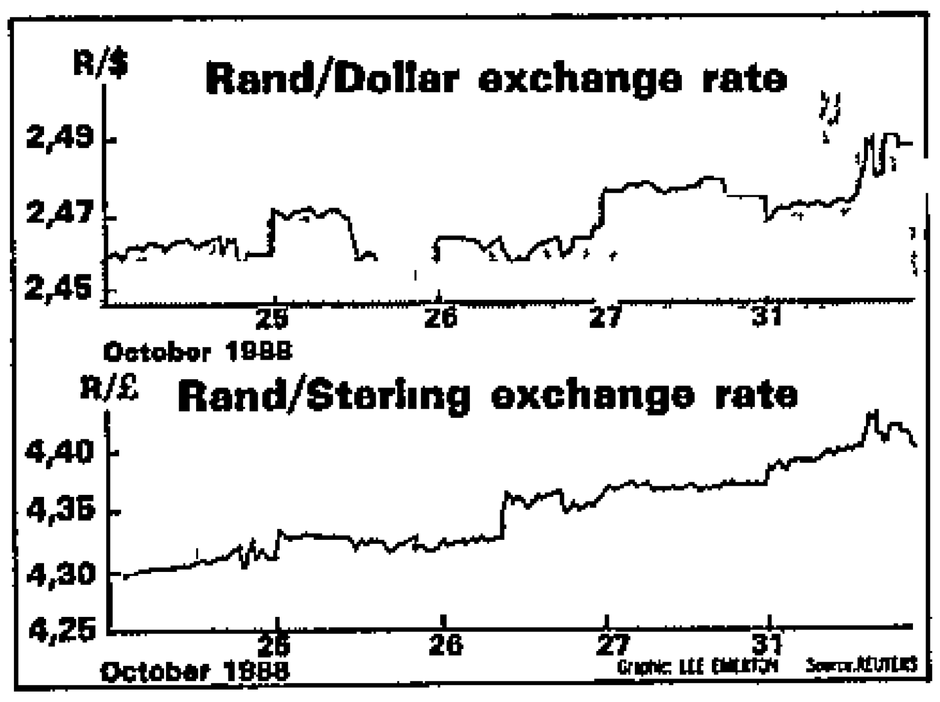
GRETA STEYN

LARGE capital outflows during the final quarter of this year are already taking their toll on the rand, fuelling bearish sentiment and driving the rand further down against major currencies.

Yesterday, the rand closed at a record low of R4,43 against the British pound, continuing Friday's dismal performance when it slid to R4,37 to the pound. Against the German mark, the rand eased to DM0,7102 at the close yesterday from Friday's close of DM0,7190. It eased slightly against the dollar as well, to close at R2,4918 against the dollar from Friday's R2,4803.

Dealers said foreign debt commitments looming in the face of scarce foreign exchange reserves had fuelled bearish sentiment towards the rand. However, economists also mentioned other capital outflows such as dividend payments to foreigners, short-term capital movements triggered by increases in overseas interest rates, as well as leads and lags as important factors.

Dealers reported a shortage of foreign exchange, which was pushing up the price of hard currencies in rand terms.



Davis Borkhum Hare economist Mike Brown said the shortage of currency could be the result of dividend payments to foreign investors in SA mining companies. He also believed there was a possibility that some foreign debt outside the standstill net was being repaid.

Brown said: "The size of SA's foreign debt commitments, given its precariously low level of reserves, will continue to affect foreign exchange markets until the reserves situation improves."

SA has to repay about $400m in foreign debt, inside and outside the standstill net, in the last quarter. The country's gold and foreign exchange reserve holdings have fallen from a peak

● To Page 2

id been export- This would include a massive manufactured goods.

Rand closes at record low to UK pound

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● From Page 1

of R8,7bn in August 1987 to R5,1bn in September this year.

Economists said the Reserve Bank did not intervene to prop up the rand, because it could not afford to waste precious foreign exchange reserves.

Sapa reports Trust Bank MD Chris van Wyk said certain short-term capital outflows could be ascribed to the low level of SA interest rates in relation to foreign rates. Artificially low interest rates coupled with high inflation had made the rand an unpopular currency.

Van Wyk said: "Overseas investors are being frightened off by the Third World smell of our currency."

Leads and lags added to foreign capital outflows, with exporters keen to collect their money quickly but importers trying to settle as slowly as possible.

On the current account, Van Wyk saw it as a bad sign that the Minister of Finance had said the inflow from the import surcharge was looking healthy. This implied the surcharge was not doing its job — imports were still too high.

The rand is now only 12% above its all-time low of R2,50 against the dollar reached in August 1985.

More emphasis on savings advocated

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By Derek Tommey

Consumers are currently facing another rise in their bond repayments. On yesterday's announcement of a two percentage point rise in the Bank rate, home owners could face substantially higher bond rates in months to come, but economists feel that they should also be offered higher interest on their savings.

Economists argue that one of the major problems, aggravated by the lack of foreign capital, is a shortage of savings, which will not even be alleviated if deposit rates rise substantially over the next few weeks, as expected.

If real rates of interest led to an increase in savings, it would help reduce interest rates on borrowings and help the economy to expand.

In line with this thinking, Allied Group MD, Mr Kevin de Villiers, has proposed a new deal for the small saver.

"I am confident that real rates are coming and that the small saver will at last get an inflation-beating return on his deposits with financial institutions."

Mr de Villiers said yesterday the Allied would shortly launch a savings scheme linked to the prime rate to give the small saver a much better deal.

Small savers would be paid a rate between prime less 2,5 percent and prime less three percent, depending on the time period of the deposit.

The prime rate is set to be raised today by the banks from 16 percent to 18 percent. Building societies are paying 13,25 to 13,5 percent on deposits of less than R100 000.

Mr de Villiers felt the authorities were becoming convinced of the need for real interest rates, both to curb inflation and to improve the balance of payments.

"Real interest would also not harm viable businesses. With inflation at 13 to 14 percent, it means they would be facing a real rate of interest of four to eight percent, which they could afford."

Building societies and banks have more than R30 billion invested in mortgages and every one percent rise in interest rates adds an extra R300 million a year to repayments.

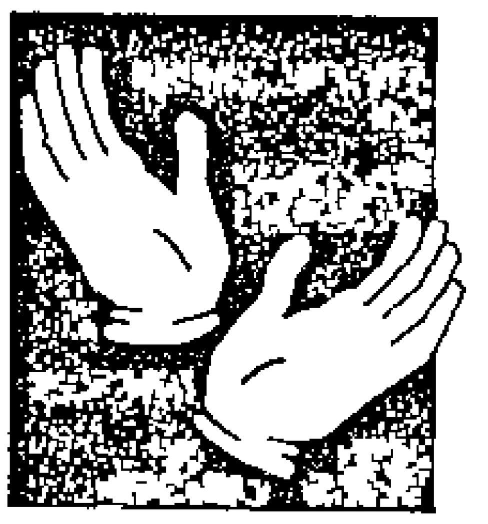
Mortgage rates will have risen from between 12,5 percent and 13,5 percent in January this year to 16,75 percent to 17 percent by December — a rise of 3,5 to four percent. This will increase mortgage repayments by R1 billion to R1,2 billion — roughly R100 million a month.

INFLATION

Money, money, money

153

Inflation suits Pretoria — but it will rip apart the socio-economic fabric



No one should be lulled by last week's two percentage point rise in Bank rate and prime. We still face the spectre of hyper-inflation and a depreciating rand that together will ensure greater poverty.

Though welcome, the tightening of monetary policy has come far too late, which means we are facing the certainty again of a prime rate of around 20% or higher Money supply growth has been over target since February and the Reserve Bank does not expect to move it into range before year-end.

However measured, money supply is out of control M0, the base on which the wider aggregates are built, was up 38% over the past year, along with M1A (up 22%), M1 (31%), M2 (38%) and M3 (28%)

And this growth isn't just a once-off blip from a low base M0 has increased 71% over the past three years rising from 6% annual growth to 17% and now to 38%.

It's only a matter of time before this hyper-monetary-inflation becomes hyper-price-inflation. Already, the Consumer Price Index has started to hot up, rising at an annualised rate of nearly 17% in the past three months

Meanwhile, the price of foreign exchange is shooting up as well, with the rand hitting record lows against the pound That, curious though it may appear, is the good news it means we haven't retreated to a controlled economy.

Price inflation is simply the market's attempt to put prices back into line with demand boosted by excessive money creation, it should be allowed to do so freely If prices don't rise now — because Pretoria slaps on wage and price controls — the economy will be crippled with distortions, shortages and attacks on black-marketeering — as has happened to our impoverished neighbours. Likewise, the falling rand is the market's attempt to put the right price on scarce forex, adjusting to a shortage So applaud if the rand is allowed to sink, because this means forex is being allocated by the price mechanism, not by government fiat.

No economy can avoid adjusting to inflation It will cope with rising prices and a falling rand only after distorted price relationships have been restored, and production, investment and spending disruptions will then reduce But the damage goes much deeper.

Those begging government for more inflation — that is, artificially low interest rates and unending Reserve Bank accommodation — ignore the incalculable harm of such a policy Among its effects

☐ Boom-bust growth New cash is pumped into the money market, pushing interest rates down and prompting businessmen to invest and consumers to spend

It brings an illusion of growth. But rates can't be kept down without continually debasing the currency So after each inflationary boom comes a recession, when rates rise and the market rejects all the bad investments made when rates were low Business failures follow Then, with rates high and confidence zapped, the Bank starts the inflationary process over again. These roller-coaster interest rate cycles erode long-run, sustainable growth,

☐ Speculation and low saving With sound money, saving would be attractive deposit your money at the bank and get paid a real rate of return. But with negative real interest rates, inflation and a depreciating rand, it doesn't pay to postpone spending. In SA, personal saving has plummeted as people look for something — anything — on which to speculate shares, stamps, property, antiques, cars, guns Instead of healthy saving, we get booms and busts,

☐ Low foreign investment There's nothing like a debased currency to scare off foreign investment — nothing except exchange controls, which keep more money out of the country than in. The combination of boom-bust growth, negative rates of return, a depreciating currency and exchange control makes sure little or no investment reaches our shores. This is like imposing sanctions on ourselves and must keep our enemies smiling,

☐ Long-term business planning becomes impossible Rather than drawing up 15-year investment plans, businessmen survive year to year, trying to guess the direction in which government will push interest rates, inflation and the rand Forget about surviving a decade or two — we're happy to survive another interest rate cycle,

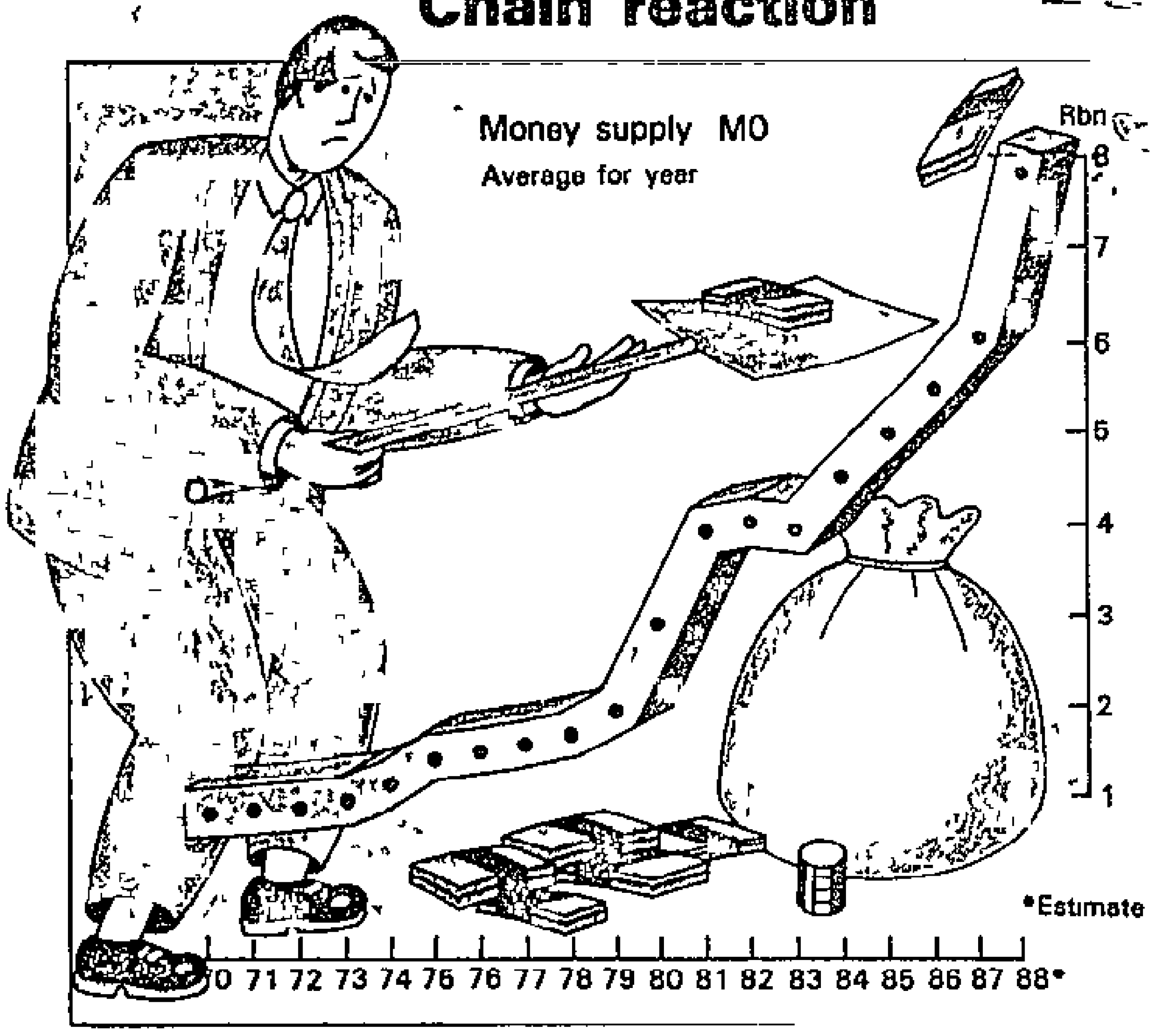
☐ Hysteria over foreign exchange As the rand is debased, its external value declines, which makes forex seem precious But there are forex and balance of payments "crises" only in countries with high inflation, because embarrassed governments won't let the exchange rate reflect their inflationary policies. To "generate" forex, we get wasteful export subsidies (industrial welfare) To "protect" forex, we get tariffs, surcharges and controls

Then there are grander plans like the harebrained "local content programme" for the auto industry, by which central planners in the Board of Trade and Industry dictate how cars should be built All of these measures punish consumers and reward sloth, inefficiency and bureaucrats,

☐ Rising taxes Government sets up steeply progressive income tax rates and then, to make sure everybody moves into higher brackets, fires up inflation As *nominal* wages soar, so do income taxes Government believes this is a painless way to raise taxes Actually it invites (a) social dissent, as more black workers are forced to pay income tax but have no say in how it's spent, and (b) rightwing backlash, as blue-collar workers are taxed into the Conservative Party,

☐ An excuse for government intervention and anti-capitalist consumer crusades Inevitably, "free market forces" are blamed for inflation and wild swings in interest rates Government uses this as an excuse to become more involved in the economy; and

Chain reaction



☐ Political extremism In the wake of continued inflation, many people, still mystified by what causes it, become targets for collectivist political movements socialism on the Left, national socialism on the Right Whites are told that inflation is caused by reform, change and spending on blacks — so stick to the AWB and your rights will be protected Blacks are told that high prices and high taxes come with capitalism — so stick to the

SHARES FOR WORKERS

Taking stock of the future

■ The process of turning socialist workers into capitalists is gaining ground

Worker shareholders — the concept is still in its infancy in SA There have been problems — primarily black union opposition — but, nonetheless, over the past two years employee share ownership plans (Esops, as they have come to be called) have surmounted their first hurdle by piercing the psychological barrier of black exclusion

Disregarding their union's rejection, many members of Cyril Ramaphosa's National Union of Mineworkers (NUM), for example, have opted to join Anglo American's Esop, the largest and most significant, launched a year ago this week

This breaking of ranks is not in itself a true yardstick by which to measure the success of the Anglo scheme At this stage it is after all simply a *gift* of shares, and by no means all the takers among Anglo's 250 000 eligible black workers are members of the NUM Anglo itself observes "The main criteria of success will be how many workers not only retain their shares (after four years in trust) but decide to invest their own money in buying more"

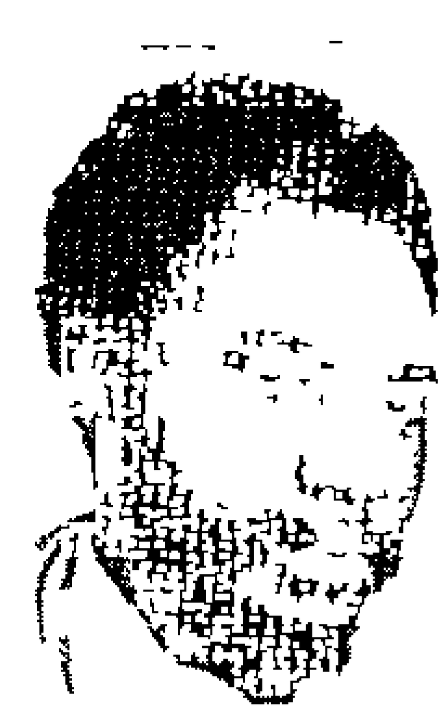
The overriding objective of the Esops is part of the longer-term goal of black inclusion in capitalist culture — to ensure their support of it as the best system of wealth creation and economic management So it is up against some heavyweight ideological preconceptions. Only last year, a survey claimed no less than 77% of urban blacks "favour a socialist vision" compared to 22% pro-capitalist — and this in the era of *perestroika* Proper assessment of Esops' teaching and ideological role in instilling the spirit of capitalism — understanding the profit motive, risk and reward alike — will therefore take a few years yet. Uphill ones at that

Significantly, however, the idea dovetails with a new recognition among a growing number of blacks of the urgent need for black empowerment and expertise in financial, economic and other spheres, in order to be strategically placed to run the country in its post-apartheid era Esops are one avenue towards this goal and even if they are presently few and far between, they've become a reality unions have been forced to come to terms with

De Beers' Julian Ogilvie Thompson, wearing his hat as chairman of the employee trust which administers Anglo's Employee Shareholder Scheme, reported in August that 114 485 eligible employees (a 64% acceptance rate) at 17 Anglo subsidiaries had joined the fledgling scheme

Collectively they owned 571 559 shares (less than 1% of the total) then worth about R33m. The final dividend at 162,5c per share netted each worker the princely sum of R8,13 — gratis, though. And this is set to increase From next year these capitalists-in-training will receive both the interim and final dividends — based, moreover, on increased share allocations planned over the next four years, during which they will remain in trust Over this period Anglo is expected to issue 1,26m shares to its employees amounting to no more than 1,65% of total issued equity

In general, though, the number of hourly paid workers with some form of financial participation — either share options or through share trusts — in SA companies employing more than 100 workers remains almost negligible, according to a survey by the Labour and Economic Research Centre (Lerc) The number of smaller companies which have introduced such schemes is not known



Ramaphosa

Among companies listed on the JSE, Lerc found that about 100 offer Esops, most introduced in the past two years and many by newly listed companies Typical of these "share incentive schemes" is their offer of two ways of acquiring shares outright purchase, or an option to buy which is usually valid for 10 years Trust funds are generally established to facilitate share purchases in the employee's name; the shares are pledged to the trust as loan security and released in batches. These schemes usually require a minimum service period before employees qualify for them, and they generally limit the share capital available to an Esop to 10% of issued equity

Opposition to Esops by Cosatu and the NUM really centres on their rejection of schemes which are offered without any form of prior consultation with the union or worker co-participation in management They are thus perceived as a strategem to co-opt workers and to blunt union militancy Ramaphosa has described them as "political and economic blackmail to try to seduce workers away from socialism," adding that "the stakeholding initiative on Anglo's part is an attempt to induce workers to greater loyalty to the company which employs them The share offer gives no meaningful participation to workers They have no say in the appointment of the trustees who are supposed to be taking decisions on their behalf"

Pick 'n Pay's scheme is similarly criticised for being tied to a management-controlled trust which bought the shares for resale to employees Critics argue that the workers who buy the shares buy only into the trust, not the company

It is in management's interests and consistent with the declared objectives of Esops to address those substantive non-rhetorical criticisms if business is to realise what Ogilvie Thompson refers to as a "new partnership" between management, employees and shareholders. The partnership, he added, "will require new practices in the area of profit-sharing and *participation* in management"

Consider the attitude of the other black union federation, Nactu According to general secretary Phiroshaw Camay, equity participation is acceptable "if accompanied by a mechanism which allows participation in decision-making, planning and policy formulation" Worker share options, he believes, must entail representation at board level, which is not a strange notion elsewhere in the West

However, the unions have yet to formulate an unambiguous position regarding worker share trusts — an Esop variant apparently more attractive to them — if the experience of the metal workers' union Numsa with the Samcor trust is anything to go by And if more companies are to disinvest in SA by setting up similar worker trusts as part of their pullout, clarity is essential

In the wake of Ford's disinvestment two years ago, the company disposed of its 42% stake by selling 18% to Anglo and placing 24% in a trust for Samcor's 4 500 employees. Against the union's wishes, many workers wanted their stake liquidated and the proceeds distributed to them, others wanted the money to go into housing or the like for the members After a great deal of wrangling, it was decided to hold the workers' 24% in trust administered by worker representatives, with any dividends channelled to community

ANC and SACP and you'll get richer Look no further than pre-Nazi Germany to see how inflation can be used to stir up hatred of capitalism and "other" people

So, given inflation's dismal track record, why does government stick with it? Apparently because it believes inflation fuels growth But growth comes from enterprise and production, not printing new money which devalues old money From 1970-1987, the monetary base (on an annual average) increased almost 700%, consumer prices just a little bit less And with money supply still soaring this year, the exchange rate continues to decline. You could buy six Swiss francs for a rand in 1970, today you can buy about 0,6 That's a 90% fall

And what have we got to show for all this? Growing poverty.

Personal disposable income — what's left after taxes and inflation — is lower today for the average South African than in 1971. And it's expected to fall to the 1970 level next year Instead of moving us forward, inflation (in an over-regulated, over-taxed economy) is propelling us backward

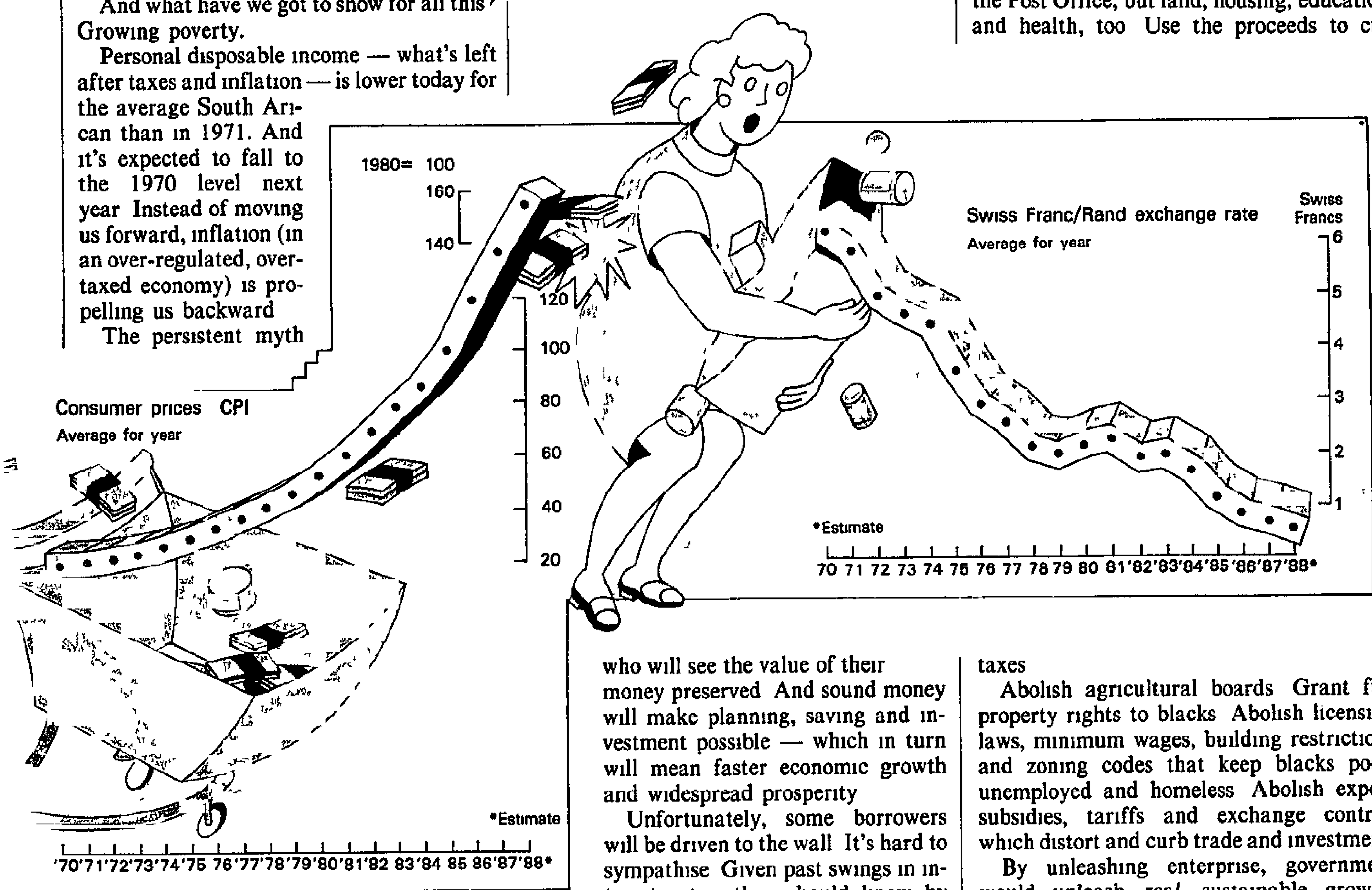
The persistent myth that inflation is good for growth stems from confusion about short-term booms and sustainable long-term growth Yes, inflation can spark a mini-boom But much of the "growth" stems from two things consumers buying sooner rather than later to avoid higher prices, and businessmen making investments that go bust when interest rates rise to reflect the real price of credit

These mini-booms squander capital and disrupt the economy

To break out of the inflationary cycle, money supply must be brought firmly under control and rates allowed to rise (until inflation and inflationary expectations are curbed and nominal rates naturally fall) This could mean prime heads back toward 25% That's not as high as it sounds

Don't look at the 12,4% official inflation rate, which tells us how much prices have risen over the past year One has to look ahead to judge whether today's rates are positive Say prices rise 17% over the next 12 months Today's 14,5% Bank rate is still negative It could be pushed up to 20% (with prime up to 23,5%) and still barely be positive High interest rates are welcome if they are part of a determined plan to curb inflation once and for all — not just another roller-coaster ride

It's not "belt-tightening" or "austerity" when interest rates rise as part of a policy to halt inflation and bring about a sound rand Positive real rates aren't austere for savers, who will see the value of their money preserved And sound money will make planning, saving and investment possible — which in turn will mean faster economic growth and widespread prosperity



Unfortunately, some borrowers will be driven to the wall It's hard to sympathise Given past swings in interest rates, they should know by now that negative real rates can't last They are dicing with ruin

People who bought expensive houses when rates were low should sell them if they can't meet today's payments and buy houses they can afford When they run to government for help, it simply means the rest of us subsidise other people's extravagance

As for farmers, we're frankly tired of having an economy held hostage to them It's as meaningless to talk about the "farmers' debt" as "engineers' debt, optometrists' debt or journalists' debt " Nobody in SA has ever been forced at gunpoint to borrow money If irresponsible farmers can't pay their bills, they should sell off assets until they can

So does this mean this year's mini-boom must also end in recession? All else being equal, yes But all else doesn't need to be equal We're calling for neither austerity nor a recession A recession is not inevitable, and higher rates don't need to mean hard times for debt-strapped farmers, homeowners and businessmen

If government takes bold steps to free the economy, ordinary folk could generate wealth to pay their bills There's no better time than the crest of a false boom to bring about radical economic reform and sustainable growth

Slash government spending and taxes to balance the Budget and leave hard-pressed businessmen and consumers with much more money to cover their debts Get on with privatisation not just Iscor, Eskom, Sats and the Post Office, but land, housing, education and health, too Use the proceeds to cut taxes

Abolish agricultural boards Grant full property rights to blacks Abolish licensing laws, minimum wages, building restrictions and zoning codes that keep blacks poor, unemployed and homeless Abolish export subsidies, tariffs and exchange control, which distort and curb trade and investment.

By unleashing enterprise, government would unleash *real*, sustainable growth, which would allow us to avoid the mini-bust we otherwise face Sound money and free enterprise growth aren't austere

Austerity is the status quo extortionary taxes, high inflation, too many regulations, too much government

The people who should be tightening their belts are the planners, regulators and spenders in Pretoria

They should join those of us in the productive sector who have suffered from years and years of belt-tightening

If an early general election is likely, Pretoria should remember voters reward a government that's clever enough to institute good economics They'll eventually throw out a government that keeps making them poorer ■

Ominously, 1988 is matching all the bad things of '84

Star 19/11/88

(153)

SVEN LUNSCHE

(153) 19/11/88

THE ECONOMIC recession of 1985/86 evokes memories of liquidations, unemployment, sky-high inflation and soaring interest rates.

It has been described as the worst economic period in South Africa's post-war history and was preceded by a spending boom, which shows an uncomfortable similarity with the country's spending patterns this year

Economists are now asking whether 1989/90 will be a replay, with all its dire consequences, given the remarkable macroeconomic similarity between the two periods.

Before attempting to answer this question it is worthwhile pointing out the remarkable resemblance between the expenditure patterns in these two periods and subsequent economic developments

In a recent economic report Trust Bank highlighted the following

- In both cases real incomes rose substantially, reflecting declining inflation combined with accelerated wage and salary increases

Consequently real gross domestic expenditure in the first half of 1988 was 9,7 percent up on the same period in the previous year — almost exactly equalling the 9,4 percent figure of the first half of 1984 Respective year-on-year rises in import volumes were 24,7 and 24,9 percent.

- Spending and imports produced a similar negative effect on the balance of payments in the first half of each year, with the current account declining by about $3 billion in both cases.

South Africa's gross foreign exchange reserve holdings declined from $4,1 billion early in January 1984 to $3,2 billion In 1988 they fell from $4,1 billion to about $3 billion over a similar period

- The trade weighted value of the rand in the first ten months this year fell by 11 percent. In 1984 it dropped by 13 percent.
- Credit creation, as reflected in M3 monetary growth, was 15,5 percent in the year to September 1984, which led to a six percent increase in the prime rate to 25 percent by November

This year, M3 in the first three quarters soared by 26,2 percent, and while prime has not yet reached 25 percent, further increases in the rate from its current level of 18 percent is on the cards Economists feel that in real terms prime should be about three percent higher anyway

- Finally, the announcement of special measures on August 12 this year was almost a spot-on anniversary of the drastic restrictive steps announced on August 3, 1984

"The virtually exact repetition of the economic trends of 1984 in 1988, and especially the fact that at present our foreign reserves are lower and domestic monetary expansion twice as high as four years ago, immediately prompts

'Wide range of negative trends on the cards'

the question of whether another severe depression is at hands," Trust Bank writes

In 1985/86 the extremely negative trends were largely a reflection of the extent to which the country had over-extended itself financially in 1984 The trends included a prime rate of 25 percent, real disposable income fell by 4,6 percent in 1985 and by 5,8 percent in 1986, GDE fell by 8,6 percent in 1985 and manufacturing production fell by 5,1 percent, producing extremely high unemployment.

"At present," says Trust Bank, "it is clear that a wide range of negative trends are on the cards next year

"Average interest rates will be higher than in 1988, the rand exchange rate lower, inflation higher and expenditure growth much lower"

Trust Bank concludes nevertheless that the negative economic trends in 1989 will in fact be much less severe than in 1985, a conclusion that is shared by other economists

In their argument Trust Bank stresses that the official debt standstill will limit net capital outflow to R3 billion as opposed to R10 billion, while the corporate sector is also better geared to handle a negative situation as inventory levels and gearing ratio's are much more conservatively managed than four years ago.

But Trust Bank stresses the need for a tighter monetary policy in order to bring private sector credit creation under control, indicating that the measures taken up to now could eventually bring the spending boom to a halt.

Adds Nedbank's Edward Osborn "I don't think the scenario will repeat itself What really hurt the economy in 1985 was the prime rate at 25 percent and the authorities will not allow that to happen again

Trust Bank, however, sounds a warning "The one major factor which could upset the applecart by extending the boom is fiscal policy If a repeat of 1985/86 is to be avoided in 1989/90 the maintenance of strict fiscal discipline is an absolute necessity"

SA must utilise informal sector more

PW blames inflation on poor productivity

Star 24/11/88 153

By Claire Robertson, Pretoria Bureau

South African business was yesterday urged by the President, Mr P W Botha, to increase productivity

Addressing the Manpower 2 000 conference held at Unisa yesterday, Mr Botha told the gathering of public and private sector and trade union representatives it was clear that in the face of foreign pressure — which had contributed to capital being even scarcer than in the past — South Africa "must particularly look to higher productivity to increase the economic growth potential"

"In South Africa wages and salaries increased so much faster than labour productivity that unit labour costs in the manufacturing sector were 312 percent higher in 1987 than in 1985," he said

Mr Botha said this disparity was partly to blame for high inflation

The competitiveness of South African industry came under heavy pressure because pay hikes showed little or no relation to increases in productivity

Mr P W Botha . SA business must increase productivity

He said everyone wanted more money, "but we can only get more by working harder"

Japan's unit labour costs for the same period had actually decreased, he said

"We must place South Africa on the road of self-sufficiency, self-confidence and progress There is no alternative," he said

Training was an important means of increasing productivity, and to this end the Government had set aside R365 million to train the unemployed Almost one million had been trained for 720 types of job nationwide

Mr Botha also said South Africa should make more of our informal sector Those people — or a high percentage of them — must eventually join the formal sector"

And in addressing himself to trade unions — the leading unions apparently having failed to attend the meeting — he said the attempt in some sections to use the sphere of labour for political aims was regrettable, "but is a reality of which we must take note"

The Government was aware of this strategy, and while it appeared that certain sections of the trade union movement occupied itself with pure politics, appropriate steps were being taken to resist this

'Inflation to rise, rand to fall'

Star 25/11/88

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By Michael Chester

A warning has been sounded by the Econometrix research unit that a sharp climb in inflation and a steep fall in the rand exchange rate look set to start in the New Year and worsen over the next two years.

Dr Azar Jammine, director of the think tank, forecasts that the rate of annual increases in the consumer price index will soar from the present 12,4 percent to around 17,5 percent by the end of next year and upwards above 19 percent by mid-1990 before the next possible slowdown

Renewed shrinking

And a renewed shrinking of the rand will mean the cost of buying one US dollar will climb from about R2,37 now to nearly R3 inside the next 12 months and on to more than R3,50 at the turn into the 1990s

Compared with several other major international currencies, the rand may drop at an even steeper angle, its value against the West German D-mark plunging from a 1988 average of about 78c to below 40c in 1991

Dr Jammine argues that the trends look likely to be the inevitable results of Government errors in allowing the rate of money supply to run far too high over the past 18 months

He believes it has been growing suspicion about the economic outlook that has helped to fuel the pre-Christmas spending spree as consumers flock to buy now rather than risk encountering even worse price spirals in the New Year

"The recent credit splurge — encouraged by the Government feeding too much liquidity into the banking system — virtually guarantees an increase in inflation," he said

"The error was creating so much new money when it was not backed up by an increase in the goods and services being produced

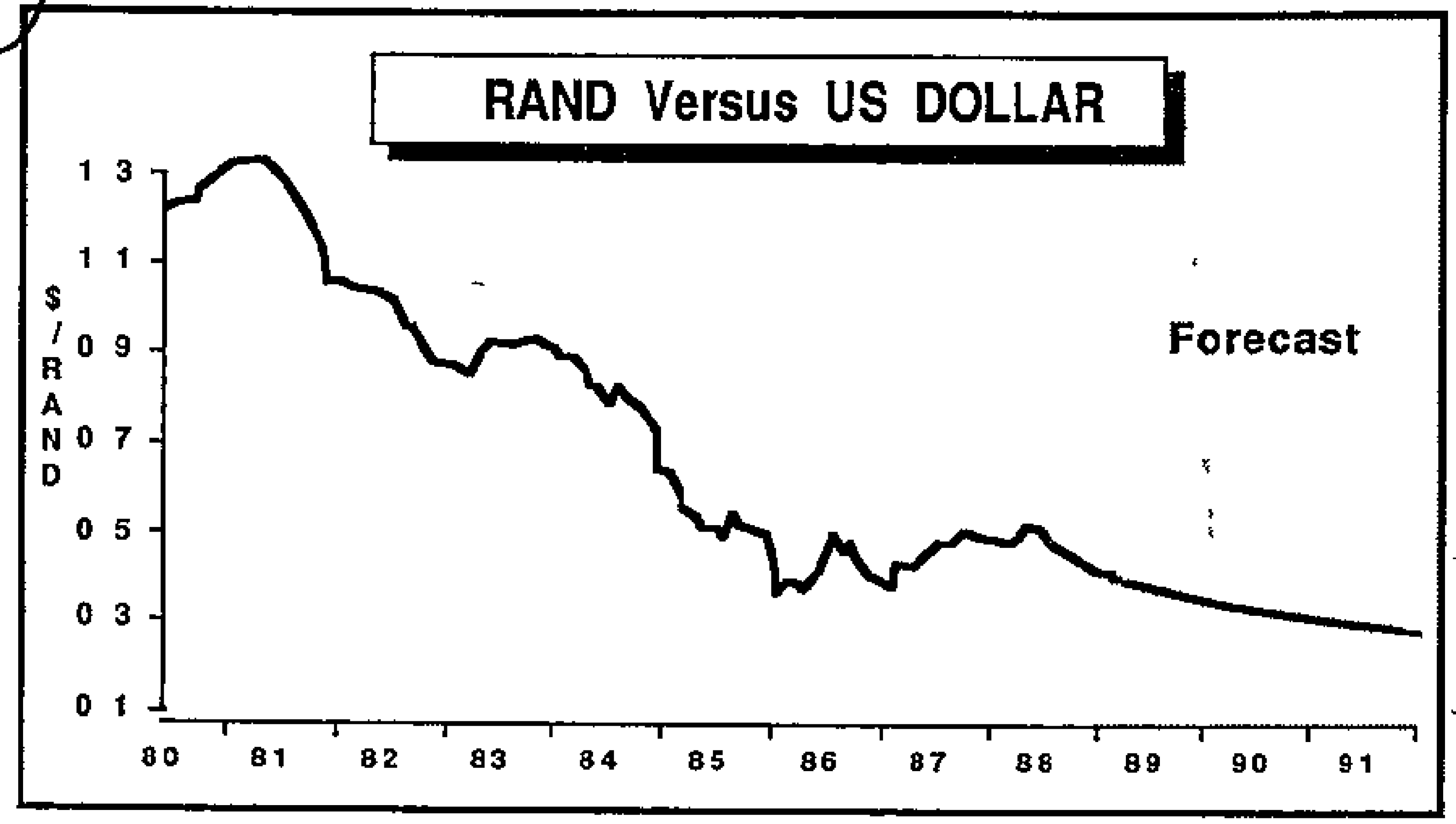
"Now South Africans must stand ready to pay the penalty for excessive government use of its printing presses to create more and more paper rands to pump into the economy when it has flagged

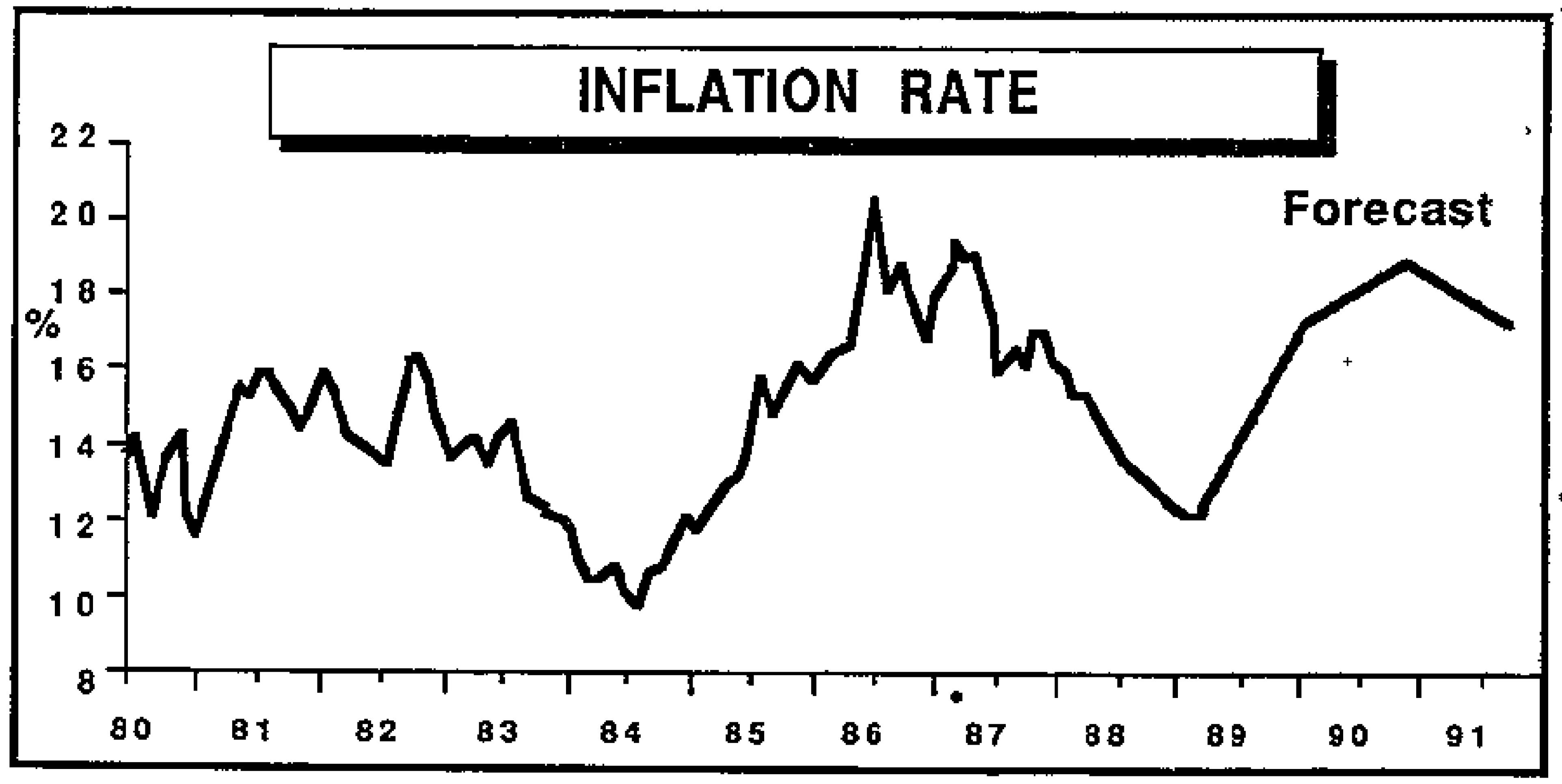
Chain reactions

"The authorities seem to repeatedly ignore the inevitability of chain reactions from movements in the rate of monetary expansion after a time lag of one to two years

"Thanks for the relatively low inflation rate of recent months must largely go to the discipline exercised in pushing down the rate of money supply in 1985/86

"In turn, we are all now going to pay the penalty for the excessive surge in monetary expansion over the past 18 months or so"





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THE OUTLOOK 153

Yet more gloom

The *Standard Bank Review* — projecting slow growth, higher inflation, lower car sales and higher government spending — warns businessmen to plan for a rough 1989. Standard expects real GDP growth to slip to 1,1%, from 2,7% this year.

Inflation is expected to average 13,2% this year and 15,1% next — rising towards end-1989.

Higher interest rates and stricter HP rules will cut consumer spending on items with substantial financing costs, such as cars, furniture and clothing. Car sales could fall to 205 000 next year from 226 000 this year.

Because of higher rates and more expensive imported capital equipment, Standard projects a fall in private investment across three main categories: inventories, plant and equipment, and construction.

"After some inventory building during 1988, a much lower rate of inventory building, or even destocking, is likely to occur in 1989."

Other projections:

☐ Real government consumption expenditure will continue to rise briskly — 3,5% in 1988, 4,4% in 1989. Subsequent tax increases or higher borrowing (plus continued growth in private consumption expenditure) will curb saving and private investment;

☐ Import volumes will fall 5,5% in 1989, after a 16% rise this year, partly because

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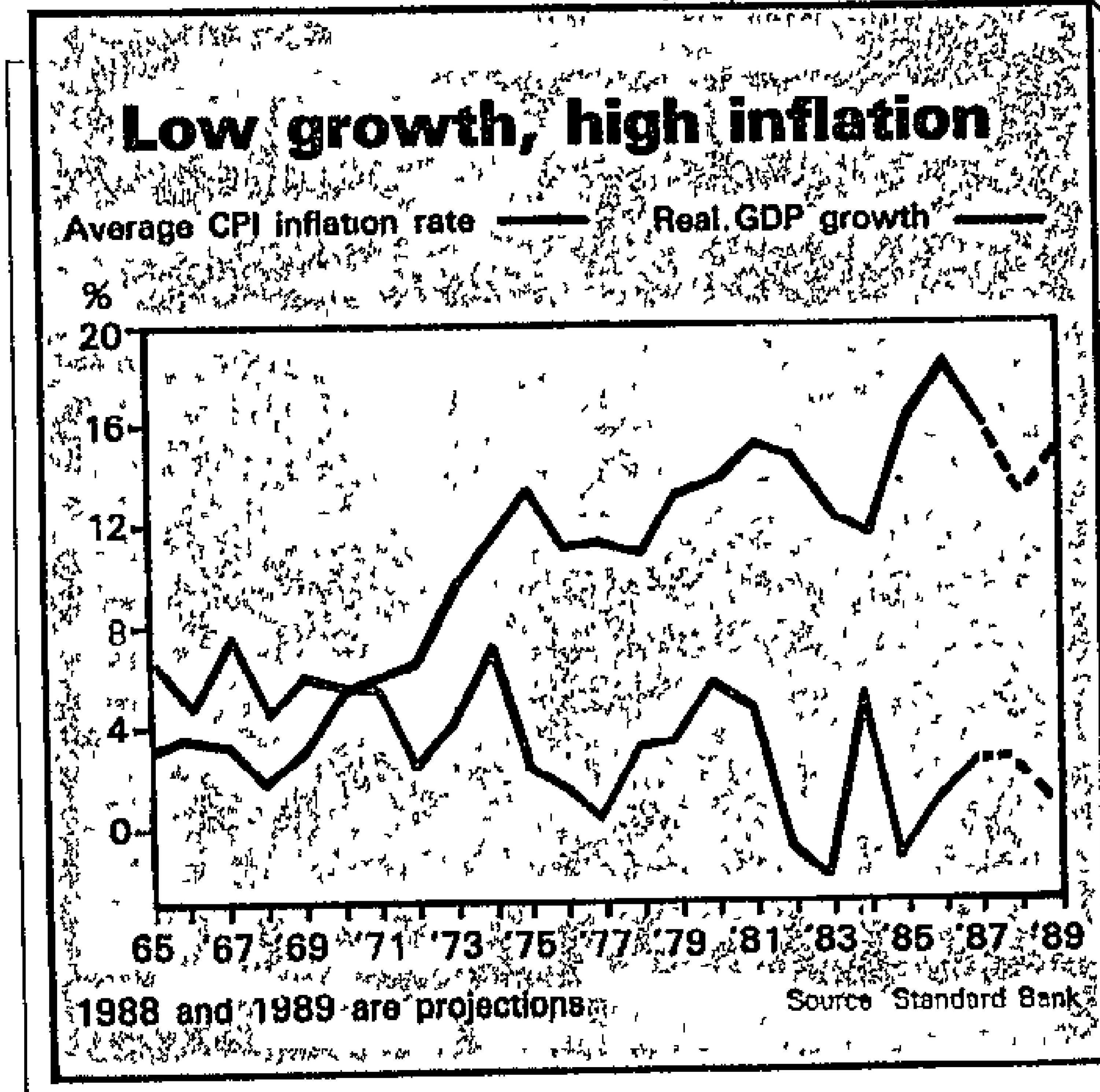

investment in plant and machinery will fall. The current account surplus will rise to R4,3bn next year; and

☐ Interest rates may not rise much more, but won't come down before mid-1989.

This is a good scenario — what Standard calls a "soft landing."

Growth may fall more sharply and interest rates shoot up if government overspends and boosts borrowing, the prices of gold and other exports plunge, or political and social reform is halted — or goes in reverse — and undermines confidence.

In its previous *Review*, Standard warned that soaring spending could cause government to borrow heavily to cover current spending. It said the Budget deficit could be a "dangerously high" R12,1bn this year (about 6% of GDP) and R17,4bn next (about 7,5% of GDP).

Given the current uncertainties, Standard warns with its latest forecast of 1,1% growth that "businessmen should be aware of the risk and ensure that they are prepared for a more serious recession, and greater financial and exchange rate pressures." ◘

Quality in

Inflation rate stable, but sharp rise likely

(153) Star 25/11/88

By Sven Lunsche

The inflation rate, as measured by the consumer price index (CPI), has remained virtually unchanged over the last four months

In October it was 12,3 percent, compared with September's 12,4 percent

But actual price increases are higher because the inflation rate records only the percentage rise in the index over one year, without indicating recent increases in consumer prices

This was confirmed yesterday by Dr Treurnicht du Toit, head of Central Statistical Services, who said too much attention was being paid to year-on-year figures and not enough to month-on-month changes, which were a more accurate reflection of price alterations

Annualised increase

He said if one compared the third quarter with the second, the annualised increase was actually 15 percent

Mr du Toit said the monthly change in the index in October from September came to a non-seasonally-adjusted 1,1 percent which, on a 12-month basis, showed an increase of 12,7 percent

But given the volatility of one month's figures, they would not necessarily reflect the real trend

Looking at the seasonally adjusted monthly increases since July provides a clearer picture

In July, the figure was 1,1 percent, in August and September 1,4 percent and in October one percent. If this trend continues, the annual inflation rate from July this year to July 1989 will be 14,7 percent

By the same token, food prices — based on the monthly rises since July of 1,9, one, 0,9 and one percent respectively — will rise by about 14,4 percent over the period to July next year, although in October 1988 they registered only a 13,9 percent year-on-year increase

The higher monthly increases in consumer prices will eventually impact on the official inflation rate But, as Dr du Toit, said "The price increases over the past month have definitely been more significant than the 12,3 percent registered by the CPI

"There is no doubt that the underlying direction of the inflation rate is, at present, upwards," he said

This trend was confirmed yesterday by Sanlam's chief economist, Mr Johan Louw, who expected an average inflation rate of 13 percent this year and 15 percent in 1989, which takes into account a forecast of a slightly slower rise in food prices

Sharp decline

Apart from the sharp decline of the rand, a rise in unit costs, the impact of a higher fuel price and the soaring money supply, Mr Louw listed dearer home bonds and higher financing costs as major reasons for the expected rise in inflation

The increase in bond rates was the largest contributor to the monthly percentage change in October, which could continue over the next few months

The contribution of bond rates to the CPI is based on a weighted average interest rate calculated by weighting the respective rates of banks and building societies with the mortgage amount applicable Thus the rate calculated for October amounts to about 16 percent.

Shares as inflation-beaters

Diagonal Street

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ANN CROTTY

Inflation has been one of the major problems facing investors worldwide since it hit high levels in the post-oil crisis era of the Seventies While most Western economies have managed, since the early Eighties, to make some progress in bringing inflation under control, SA investors by contrast, have had to cope with the inflationary ravages caused predominantly by a declining rand. Star 30/11/88

The effects of inflation have been so damaging that, for many investors, beating inflation has become as important as security when it comes to choosing investment opportunities

In his speech to the recent Financial Mail conference, Liberty Life's Mr Roy McAlpine took the investment decision farther when he noted that in view of the 16,75 percent annualised return that could be earned on five-year government stock, investors in equities should be looking for an absolute minimum return of 19-20 percent per annum. This return would be earned through a combination of dividend income and share price appreciation.

For equity investors whose primary concern is beating inflation, a paper recently presented at the Economics, Business Economics and Manpower Research Conference at the University of Stellenbosch, may be instructive.

The paper, which was prepared by H Alant and F Mostert, found that in the 17 years to 1986 more than 60 percent of the listed companies used in their analysis were able to provide returns in excess of the inflation rate.

The downside of this, is that almost 40 percent of the companies were unable to produce real returns over that period.

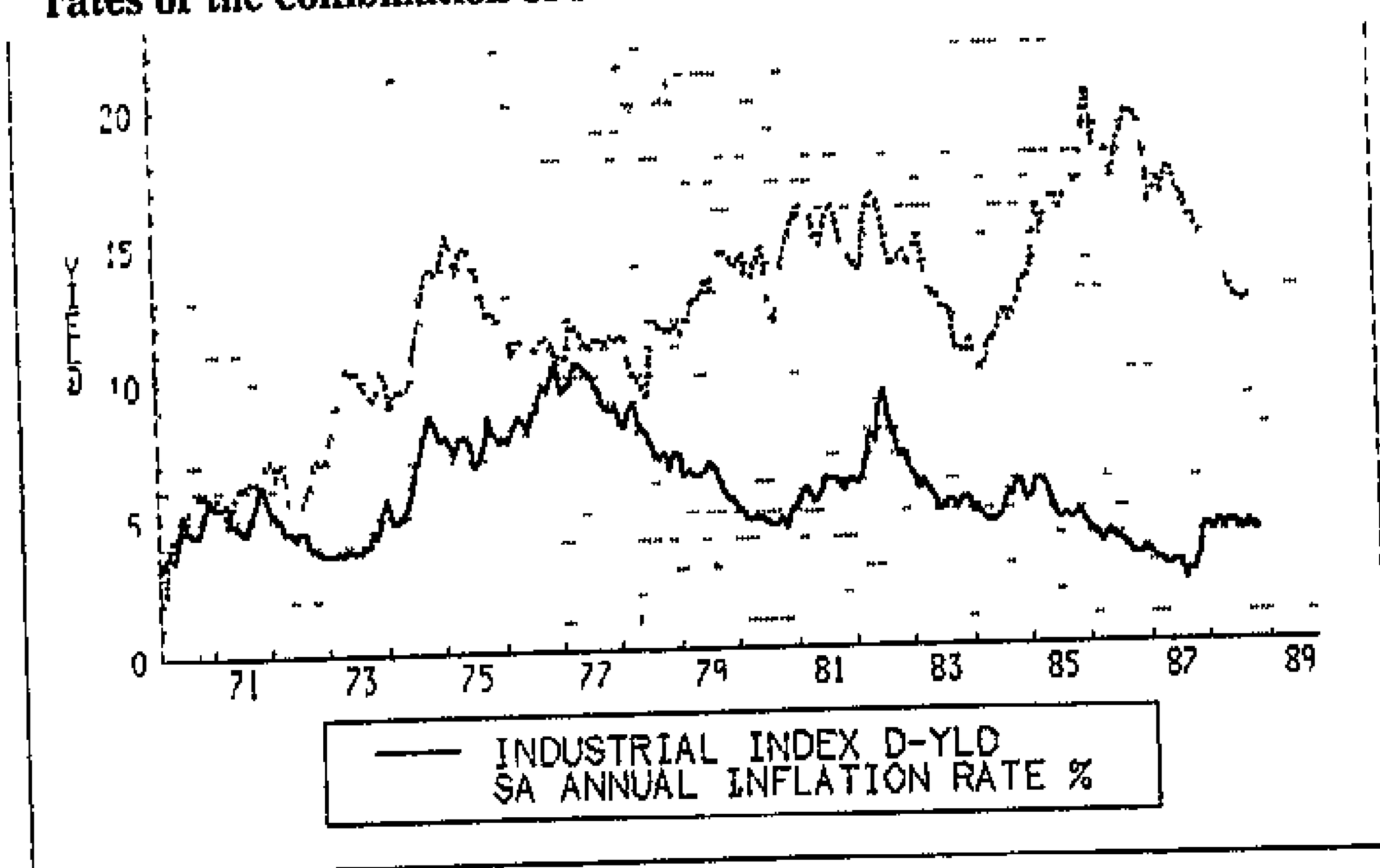
Companies in the sugar, transport and tobacco sectors provided the highest returns over the 17 years — in excess of 17,5 percent, compared with the 12,2 percent inflation rate.

The authors found that more than 62 percent of the companies in the survey "had annual growth rates of the combination of share prices and dividends, which equalled or exceeded that of the consumer price index (CPI)".

They said: "It is important to note that almost 30 percent of the annual growth rates concerned were more than 5,3 percentage points above that of the CPI."

The authors believed the fact that approximately 75 percent of the companies concerned had annual growth rates which were not below the 10 percent limit (thus not more than 2,2 percentage points below the CPI) was an indication of their ability to counter the effects of inflation.

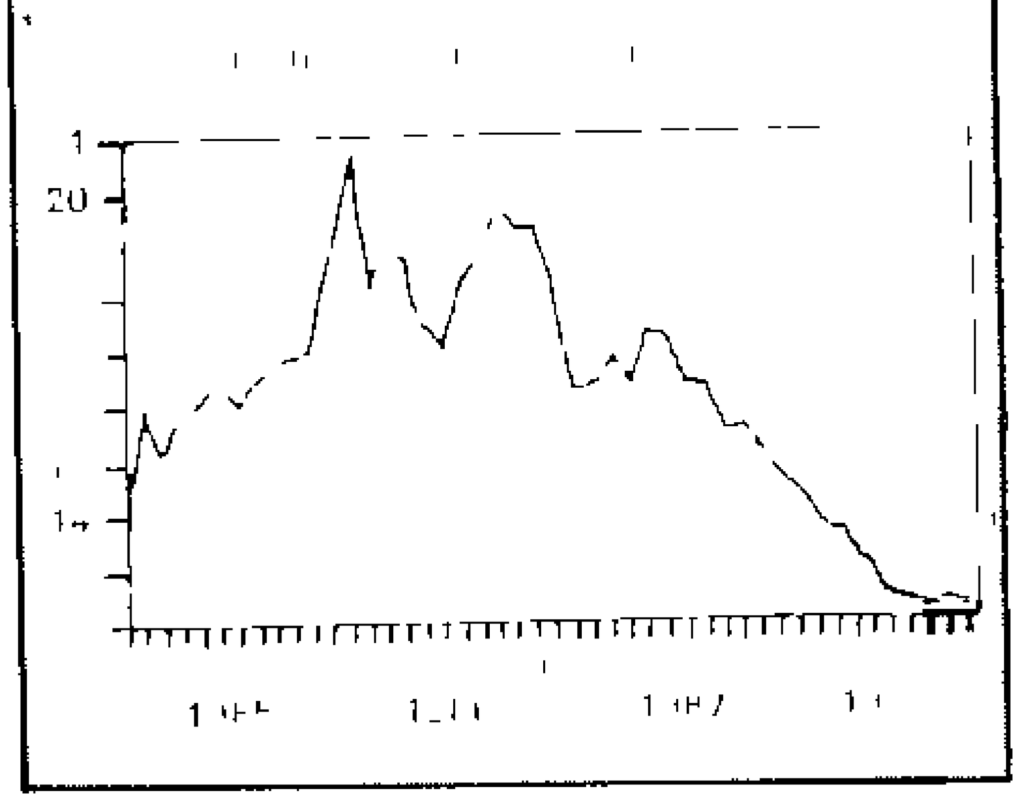
Other strong sector performers were liquor and hotels and food The comparatively weak sector performers were electrical, industrial holdings and motors and textiles



In terms of dividend performance, equity investments do not look attractive in the face of rampant inflation, but in more than 60 percent of cases the appreciation in share prices helps to ensure real returns. The graph was compiled by Simpson McKie.

(153)

Levelling out



INFLATION (153) FinMail 2/12/88

Two-tailed monster

Little of present reality is reflected in the official inflation rate, as recorded by year-on-year increases in CPI Central Statistical Service (CSS) reports a change of 12,3% in CPI for the year to October — compared with a year-on-year change of 12,4% in September. The monthly seasonally adjusted increase is 1%, following increases of 1,3% in September, August and July

However, both annual and monthly deceleration are deceptive

Says CSS head Treurnicht du Toit "CPI is a short-term series subject to short-term influences So figures for the past three months give a better indication In the three months August-October, the index increased at an annualised rate of about 15% on the previous three months."

CPI growth has been driven by rises in mortgage rates, which constitute 9,5% of CPI, a depreciating rand, import surcharges of up to 60% introduced in August, a bread price increase in August, a petrol price increase in September and increases in wages and salaries which Leon Steenkamp of Senekal Mouton & Kitshoff estimates are running above the inflation rate

First to be felt are price-push factors. Still in the pipeline are cost factors "These are effectively countered when levels of capacity utilisation are increasing and relatively high," says Steenkamp "But when capacity utilisation declines, the opposite applies"

And when short- and medium-term influences have been absorbed, there will be the lagged response to this year's excessive growth in money supply

It is of interest to look back to the end of 1986, when the long tail of inflation was still lashing the country — though everything pointed the way to deceleration. That November, the *FM* reported that despite low consumer demand, low demand for credit, low money growth, low oil prices, wage and salary increases well below the inflation rate, and an appreciating rand, inflation remained inexplicably high.

The report followed a year-on-year increase to October of 20,6% in the producer price index (PPI) and 19,2% in CPI

Not until January 1987, when PPI fell to 14,9% and CPI 16,1%, did the pace of inflation show signs of decelerating The rate of increase that year was volatile but CPI averaged 16,2% in 1987 and PPI 13,9% — against averages of 18,6% and 19% the previous year, 1988 is even more impressive, CPI sliding from 14,2% in January to 12,3% in October and PPI, which started at 11,8%

P.T.O.

"We increased stock levels, retailing, the need for a link with big buying power"

S/Times 4/12/88 153

Costly petrol fuels inflation

By Don Robertson

THE Government's inability to manage the Budget has been attacked by labour organisations, farmers and economists.

Their wrath was prompted by this week's announcement that the price of fuel will be increased by 10c a litre from January 16.

The Bureau for Economic Research at the University of Stellenbosch warns that the higher fuel price will add 0.54 of a percentage point to the inflation rate. It will also have ripple effects. The BER has lifted its estimate of inflation in 1989 to 16%

The increase comes after two months during which an overrecovery on the so-called slate was experienced in the sale of petrol. In other

□ To Page 2

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Petrol uproar

153 S/Times 4/12/88

□ From Page 1

words, motorists paid more petrol than they should have

The September overrecovery was 1,557c/l and 2,625c/l in October This was credited to the slate

For political reasons the Goverment supported the price of fuel to the tune of R551-million since last December

Koos du Toit, chief economist of the SA Agricultural Union says the farming fuel bill is about R800-million a year. Farmers will pay an additional R100-million next year

Higher interest rates, increased licence fees and dearer imported machinery will add pressure to profit margins and could result in higher consumer prices

The Federated Chamber of Industries (FCI) expresses concern at the fuel-price rise and attacks the use of administered prices as a fiscal instrument

"This decision will undoubtedly exert an inflationary effect on the economy as fuel constitutes an important cost element in industry," says executive director Ron Haywood.

Assocom questions whether a higher fuel price is the best way of keeping State financing sound

"Assocom is particularly concerned at the persistent failure to control State spending effectively, as this can only mean a continued heavy tax burden and additional levies on the private sector"

The Houswives League of SA says "Fuel prices ripple through the economy and affect every service and all goods purchased by the consumer"

National president Lyn Morris says. "The Government is a lousy housekeeper, incapable of budgeting and managing the funds entrusted to it Now it seems hell-bent on bankrupting the rest of us"

(153) 4/12/88

Pace of business is slowing

S/Times 4/12/88 (153)

Just a cyclical downturn — or could it be the start of yet another recession?

By IAN SMITH

INVESTMENT planners hoping for strategy leads from the likely direction of the South African economy in the year ahead are in for a rough ride

The range and magnitude of the problems facing the country mean that the economy watchers differ even more widely than usual in their predictions for 1989

It is clear the pace of business activity has started to slow But is the slowdown a cyclical pause, largely brought about by monetary action, or is it the start of a new recession? Memories of 1984 are being revived

So far the economy is still remarkably strong, with mining and manufacturing performing at near record levels, thanks largely to the low rand

Standard Bank chief economist Nico Czypionka says the slowdown next year need not prove severe, but the risks are there

If anything goes wrong, the slowdown may well turn out to be more severe than envisaged, interest rates and inflation could be higher than predicted and the exchange rate could be significantly weaker

Critical

Triggers for a steeper decline could come from fiscal policy working to defeat monetary policy, a plunge in the price of gold and other exports or political factors which undermine confidence

The balance of payments has become critical since the the loss of international confidence in South Africa and the imposition of a form of financial sanctions through the withdrawal of US banks in 1985

After a reasonable upward swing early this year there has been a more or less continual drain on foreign reserves By the end of September they had reached the critical stage where they barely covered six weeks' imports

The third quarter saw a huge outflow of R2,1-billion, largely brought about by importers switching to debt rather than use foreign credit lines

The continuous rise in the cost of imports, which started in the second half of this year, was the main source of pressure on the balance of payments as they coincided with a weakening dollar gold price and the commitments to debt redemption

The importance of the debt repayment can be gauged from SA's total outstanding debt at March 31 — $7,1-billion The bunching of the redemptions in 1990 and 1991 is already causing particular copncern

Nedbank chief economist Ted Osborne says the expected redemptions in the next three years will be $1,1-billion in 1989, more than R2-billion in 1990 and about R2,5-billion in 1991

"Clearly, every effort will have to be made to seek agreement for the rollover or conversions of government debt, where possible, as 1990 and 1991 are approached"

The alternative is to aim at surpluses on the current account of at least $2,5-billion in each of the next three years

Mr Osborne says no dramatic increase in the price of gold can be expected in the next three years because of chronic oversupply

"At best a steady increase in the dollar price can be expected in step with inflationary developments in the US and other developed countries

Reduction

"Prices for other export commodities can be expected to rise and fall and, overall, no significant improvements on the export front can be expected in the three-year period"

Therefore, he says the large surpluses on current account will have to be achieved by suppressing imports

The arithmetic suggests that imports will have to be reduced by about 12,5% from the 1988 level

On the face of it, this appears achievable, particularly as 1988 imports have been heavily inflated by inventory accumulation to forestall sanctions problems, currency depreciation and the threat of import control

This raises the question of how much economic growth will be possible with this level of constraint on the balance of payments

Growth from exports would be a pure bonus, and Mr Osborne believes they can be expanded in spite of sanctions

Gold production is now on an upward trend after hitting its lowest level in 1987 Other major commodities like coal, platinum and diamonds could also show growth, and, in general, Mr Osborne expects that total exports could rise by 1,55 in volume terms next year

Turnabout

Mr Czypionka believes the balance of payments pressures can only be eased if gross domestic expenditure, which has grown 7% in real terms this year, does not grow at all next year

"An absolute decline may even be required, given the extent of the external constraints"

But, he says, that kind of turnabout from rapid spending growth this year will be difficult to bear from a domestic, social and political point of view

It will, however, be necessary if a current account surplus of about R4-billion is to be achieved to meet debt commitments and replenish drained foreign exchange reserves

The projected slowdown in GDE that is bound to flow from tightened monetary policies will not have an equal impact on all sectors of the economy.

"Some will experience an absolute fall while others will continue to grow, albeit at a significantly lower rate This is to be expected — some areas of expenditure are naturally more volatile than others"

But, he says, a twist is likely to be given to the uneveness of the slowdown by emerging trends in short-term economic policy

Currently emphasis is being placed on monetary policy, where interest rates are being used to slow expenditure

By contrast, fiscal policy will impart a net expansionary impulse to expenditure because a general civil service salary increase of 15% — which may well translate into an effective rise of up to 22% in the public sector salary bill next year — will result in a significant increase in consumption expenditure by central government

But not all sectors of private consumption expenditure will be affected equally: Sales of durable goods are expected to fall substantially next year and spending on semi-durables will at least slow significantly

Growth

But spending on non-durables and services is far less affected by higher interest rates and weak exchange rates, and they will be helped by the civil service pay increases

The role of these two categories will be to sustain real growth in overall private consumption expenditure

Mr Czypionka says if both government and private expenditure continue to rise, and GDE remain static or fall, it is clear that fixed and inventory investment must fall off next year This will be dampened by high interest rates and the weak rand because much capital equipment is imported.

The beleagured construction will again face pressure from spiralling building costs and from high interest rates and a large rise in mortgage costs

The improvement in the construction industry's fortunes in 1988 will not be sustained in 1989

Real investment in plant and machinery increased moderately this year, although the cost soared in rand terms because of the weakness of the currency

Investment in plant and machinery is expected to fall next year, contributing substantially to the fall in imports

Inflation will continue to bug the South African economy. Most economists are predicting an average rate next of 15%, well above the average year-on-year increase this year of 13%.

But Sanlam pointsd to several factors that could exert considerable upward pressure next year

The sharp depreciation of the rand, reinforced by surcharges, will lead to noticeably higher prices. At the same time, the slower rate of expansion in the economy could lead to a rise in unit costs

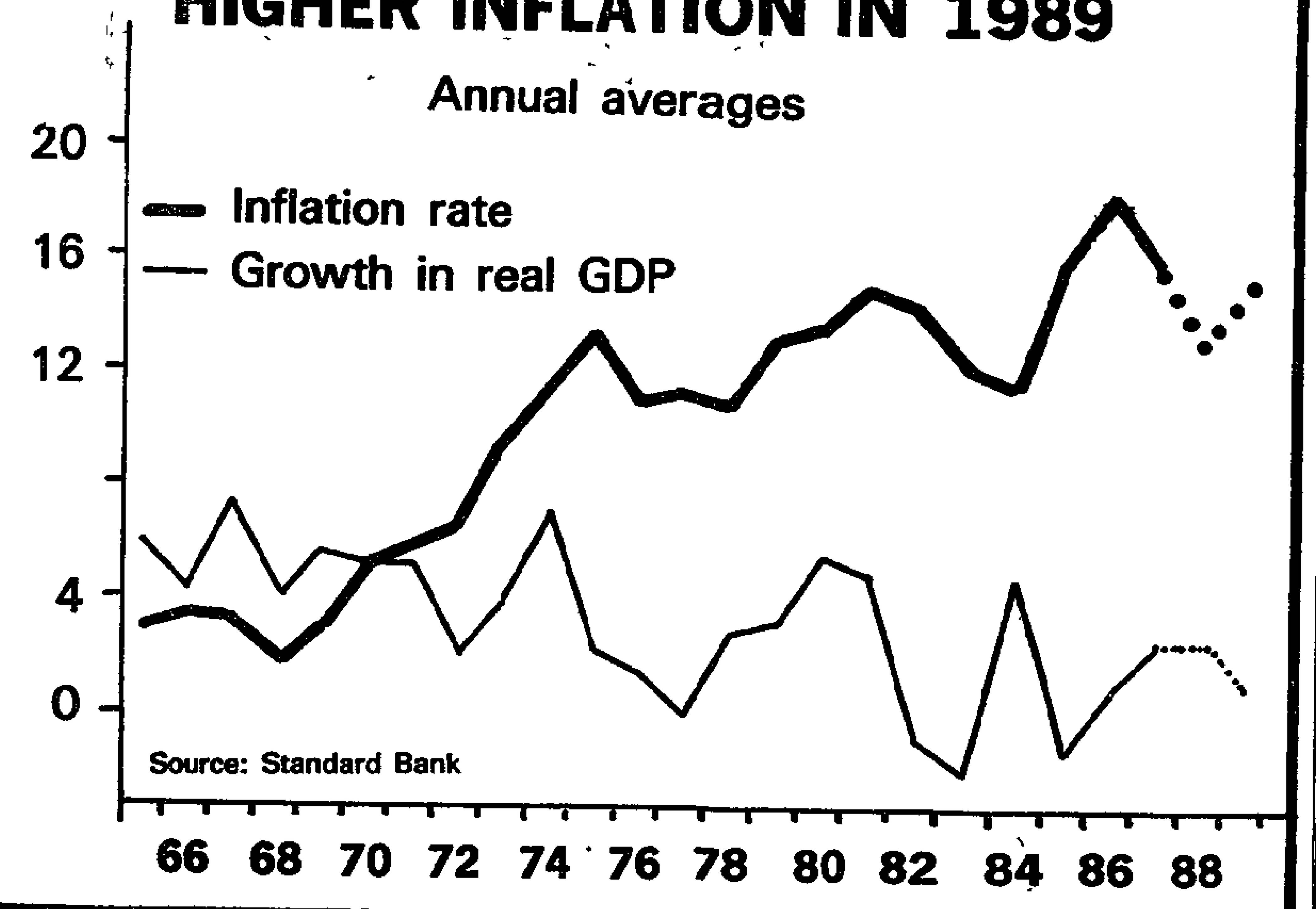
Administered prices of some goods and services will be increased, bonds and financing costs will rise and the effect of the fuel price increase will be felt more generally

The effect of these factors should wane in the second half of next year and this will lead to a gradual increase in the inflation rate, says Sanlam's Economic Survey

"It is alarming that despite a phase of perceptibly slower economic growth, SA continues to be saddled with unacceptably high inflation," says the review

LOWER GROWTH - HIGHER INFLATION IN 1989

Annual averages



Economy now more adaptable to taking knocks

Star 7/12/88 (153)

On course for recession

Finance Staff

South Africa is on course for a repeat of the recession of 1985 and 1986 — the worst since World War II But the economy is more resilient and buoyant and should avoid the depths which fiscal and monetary austerity reduced the country to two years ago, according to researchers with the Trust Bank economics division

Nevertheless, they point out in their Economic Report for December the dangers of the Cabinet insisting on an expansive fiscal policy next year The consequences would be "unpalatable", they say

The deficit before borrowing in the current year should be no more than about R10,5 billion, a level which will not place much pressure on the capital market.

Government's undertaking to reduce borrowing as a ratio of gross domestic product limits the deficit next year to R11 billion.

"Bearing in mind the inevitability of additional spending, the Finance Minister cannot budget for a deficit of more than R10,5 billion in the March budget.

Maintaining tax levels and without any other unforeseen income, revenue should rise 18 percent to R53,7 billion, limiting budgeted expenditure to R64 billion — 14 percent above 1988-89

However, says the bank, civil service salaries, pensions and interest bills are in line to rise 17 percent, limiting other Government spending to a rise of only 11 percent.

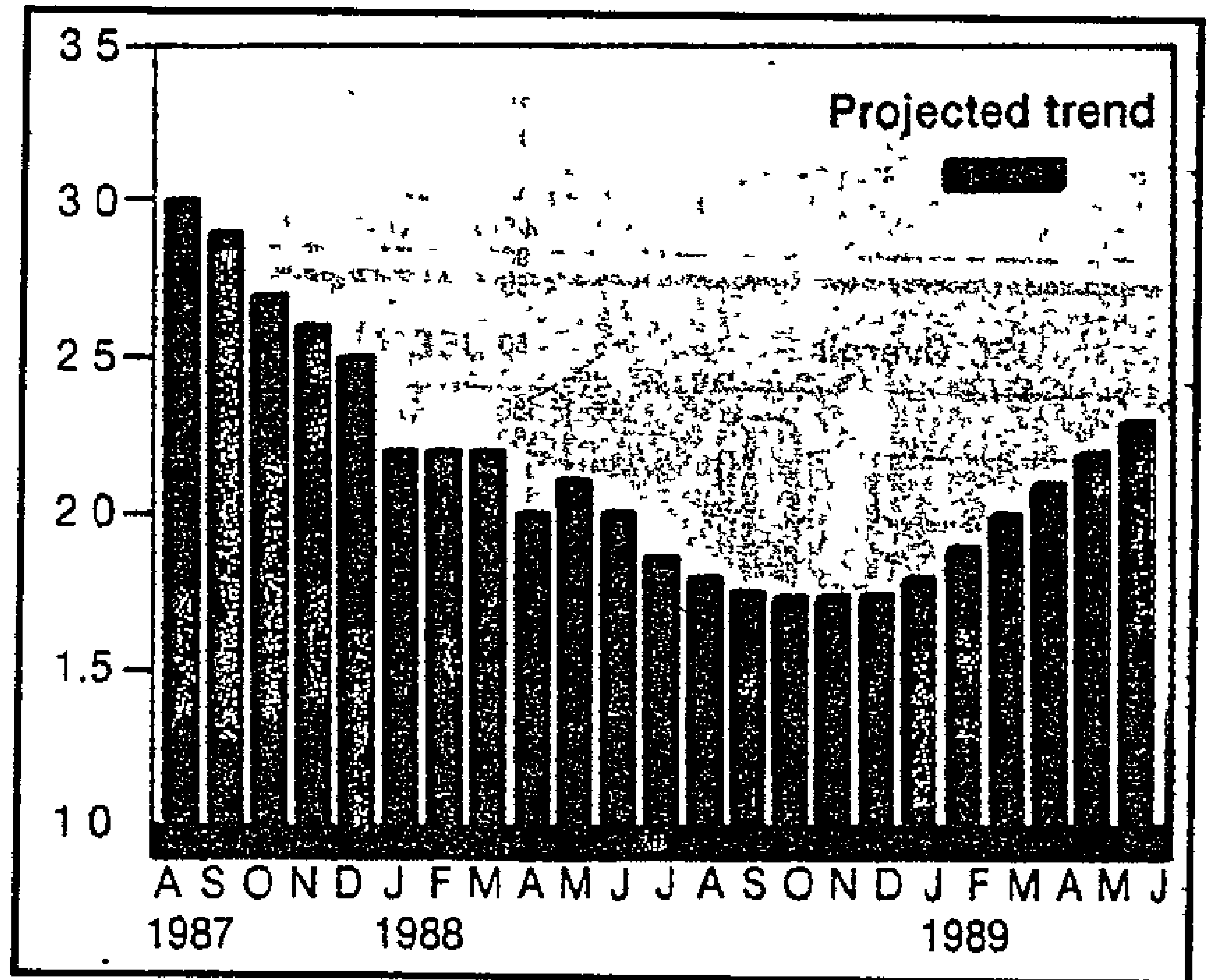
"This implies a reversal of the 1988 situation in which civil service salary increases had to make way for a large real increase in the non-salary, non-interest, non-pension half of Government spending," says Trust Bank.

"However difficult it may be, a real decline in this component of Goverment spending is imperative for next year

"The eventual economic consequences of an expansive fiscal policy in 1989 would be truly too ghastly to contemplate"

The bank says that in spite of marked similarities in economic patterns between 1984 and this year, several factors will work to limit the damage of recession

These include the debt standstill, which will, with the financial rand, limit net capital outflows to R3 billion next year, as opposed to



Gross foreign reserves (import cover in months).

the R10 billion of 1985 and a much fitter, leaner corporate sector

Inventories and borrowing are low, while encouragement of small business and the removal of influx control have made the economy more adaptable to knocks

The researchers say that trends in the economy this year, though, are even more unhealthy than those of 1984.

In August four years ago, domestic spending was killed stone dead, this September, credit, as reflected by M3 money growth, had grown 26,2 percent from the position 12 months earlier. The figure for the year to September 1984 was 15,5 percent.

Economy now more adaptable to taking knocks

Star 7/12/88 (153)

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The deficit before borrowing in the current year should be no more than about R10,5 billion, a level which will not place much pressure on the capital market

Government's undertaking to reduce borrowing as a ratio of gross domestic product limits the deficit next year to R11 billion.

"Bearing in mind the inevitability of additional spending, the Finance Minister cannot budget for a deficit of more than R10,5 billion in the March budget.

Maintaining tax levels and without any other unforeseen income, revenue should rise 18 percent to R53,7 billion, limiting budgeted expenditure to R64 billion — 14 percent above 1988-89

However, says the bank, civil service salaries, pensions and interest bills are in line to rise 17 percent, limiting other Government spending to a rise of only 11 percent.

"This implies a reversal of the 1988 situation in which civil service salary increases had to make way for a large real increase in the non-salary, non-interest, non-pension half of Government spending," says Trust Bank

"However difficult it may be, a real decline in this component of Goverment spending is imperative for next year.

"The eventual economic consequences of an expansive fiscal policy in 1989 would be truly too ghastly to contemplate."

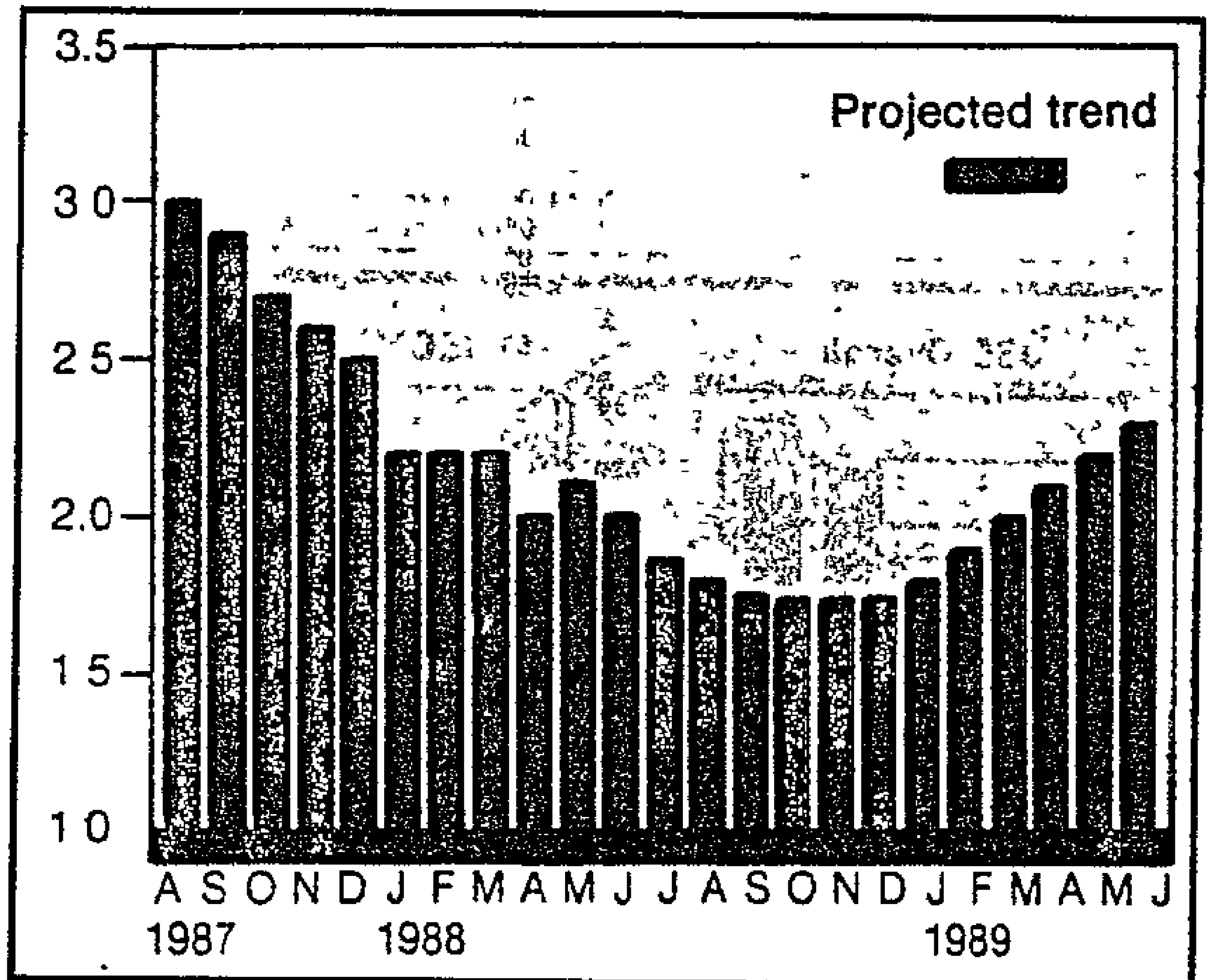
The bank says that in spite of marked similarities in economic patterns between 1984 and this year, several factors will work to limit the damage of recession

These include the debt standstill, which will, with the financial rand, limit net capital outflows to R3 billion next year, as opposed to the R10 billion of 1985 and a much fitter, leaner corporate sector.

Inventories and borrowing are low, while encouragement of small business and the removal of influx control have made the economy more adaptable to knocks

The researchers say that trends in the economy this year, though, are even more unhealthy than those of 1984.

In August four years ago, domestic spending was killed stone dead, this September, credit, as reflected by M3 money growth, had grown 26,2 percent from the position 12 months earlier. The figure for the year to September 1984 was 15,5 percent.



Gross foreign reserves (import cover in months).

Economy now more adaptable to taking knocks

Star 7/12/88 (153)

On course for recession

Finance Staff

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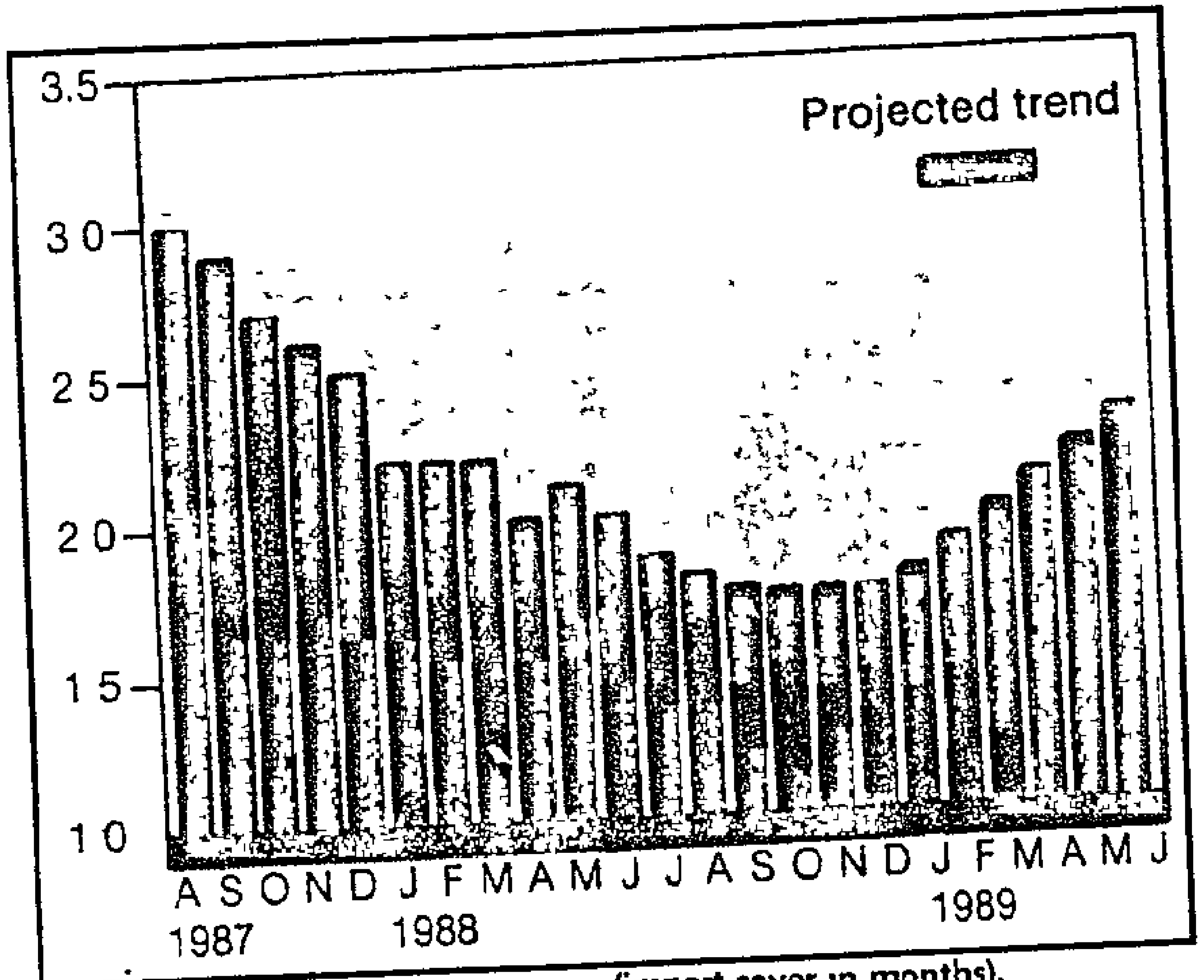

Gross foreign reserves (import cover in months).

FASFAX Pretoria leads downturn

(38)

Pay rises outstrip inflation

PRETORIA — The Reserve Bank says salaries and wages have increased by more than the rate of inflation

It adds in its latest monthly report the year-on-year increase for the third-quarter averaged 17,5% which is well in above the comparable increase in the consumer price index of 12,5%

The Bank says: "The annualised rate of increase in total nominal renumeration of employees rose from 14,5% in the first quarter to 15% in the second."

Pay rises remained at an annualised 15% in the third quarter

The Bank points out, however, the rate of quarter-on-quarter increases has risen from 18,5% in the second quarter to just under 20% in the third

Individual savings declined in the third quarter while corporate savings rose slightly

The ratio of personal savings to personal disposable income has continued to decline and was about 1% in the third quarter compared to 2% in the first six months and 3% for the same period last year — Sapa

ISN 153 B/day 13/12/88

Star 14/12/88

Inflation remains at 12,3 pc

The South African inflation rate for October 1988, as measured by the consumer price index (CPI), was 12,3 percent — the same as for the previous four months

The annual rate of increase in the indices for the lower, middle and higher-income groups for October 1988 was 11,9 percent, 12,3 percent and 12,5 percent respectively.

The monthly rate of increase in the seasonally adjusted CPI was about 1 percent and the monthly non-seasonally adjusted rate of increase was 1,1 percent

According to Central Statistical Services, the largest contribution to the monthly percentage change was the increase in the interest rate on mortgage bonds

The monthly rate of increase in food prices was 1,6 percent (seasonally adjusted 1 percent) in October

Relatively large monthly increases occurred in the prices of meat (1,6 percent), fish and fish products (1,4 percent), fruit and nuts (4 percent), vegetables (1,8 percent), "other" foodstuffs (3,1 percent) and coffee, tea and cocoa (6,3 percent).

Slight decreases occurred in the prices of milk, cheese and eggs (minus 0,3 percent) and fats and oils (minus 1,1 percent)

In urban areas, the largest annual price increases occurred in the Klerksdorp/Stilfontein/Orkney area (15,1 percent) while the lowest occurred in the Bloemfontein area (9,7 percent).

The CPI for pensioners showed an annual percentage change of 11 percent This is 1,3 percentage points lower than the 12,3 percent inflation rate for all income groups for October 1988

'Stagflation' to continue

153 Star 14/12/88

Finance Staff

The overall impression of the most probable course of the economy over the next two years was one of "continued stagflation," Volkskas chief economist Adam Jacobs says in the bank's latest economic report, which focuses on prospects for 1989

Volkskas says that given the developments that took place this year and the expected continued capital outflow, "it is difficult not to foresee a drop in the standard of living per capita of the population."

With the expected economic conditions in view, "the most pressing challenge remains improved utilisation of the production factors in the economy to bring about increased production at lower cost escalations"

"In this respect, the country's capital assets in particular must be applied more productively as the availability of capital is the most conspicuous problem in the economy," Mr Jacobs writes

"If we could succeed in achieving this, the performance of the economy may surpass expectations. We certainly hope that this will be the case."

The remaining period was one of consolidation

"Reduced expenditure, enhanced savings and the ratification of that which is wrong now, more than ever before, deserve more earnest attention of everyone in every field of the economy."

Volkskas said the economy had, in certain respects, performed more favourably in 1988 than was anticipated this time last year.

Growth rate

"For instance, the growth rate will be slightly better than was anticipated, real domestic expenditure considerably higher and the average inflation rate will be lower than predicted."

There were therefore certain issues about which one could be fairly satisfied

"However, there were also certain developments in 1988 that cast a dark shadow over economic prospects for at least the next two years

"This may be attributed to the fact that the money supply increased much faster than was planned; that domestic expenditure, supported by bank credit, increased sharply and that imports increased considerably in the process.

"As a result the surplus on the current account of the balance of payments will be much smaller than was expected, and that in the process interest rates rose sharply and the exchange rate of the rand deteriorated substantially.

"Added to this, we were very much under the impression last year that the authorities were determined to curtail the growth in government spending.

"Government spending did in fact show favourable signs for some time, but according to the latest information and statements it would seem that government expenditure is still not under control at all," Volkskas writes.

Inflation indicator *is* accurate — CSS

Cap Times 19/12/88

153

Own Correspondent

JOHANNESBURG — Questions over the accuracy of SA's inflation rate are unfounded, says Central Statistical Services head Treurnicht du Toit

He was responding to persistent talk that the inflation rate, as measured by changes in the consumer price index (CPI), understated price increases Capital market dealers say they do not believe the official inflation rate and some economists have also questioned the accuracy

Critics of CSS say the weightings accorded the different items in the CPI basket do not reflect current spending patterns because they are based on a 1985 survey Consumers also claim that price increases, in their own experience, often outstrip the official inflation rate

Certain economists say CSS measures too many prices, so that there is an "equalising effect" with stable prices neutralising sharp increases in other prices They also note that the rate of increase in the CPI has not responded to the upward trend in the PPI inflation rate

However, Du Toit says many misconceptions exist over the CPI Writing in the latest edition of The Securities Markets, Du Toit says the first point of fallacy concerns the basket of consumer goods and services used

"It is a mistake rashly to describe the CPI as unreliable, simply because the weight structure is not based on today's actual spending patterns — normally, the weight structure does not change significantly in the short term and, should a veriation indeed arise, it will not necessarily have a meaningful effect on the CPI and the inflation rate "

On criticism that the price information gathered by the CSS surveys is not an exact indication of actual price variations, Du Toit said internal controls were adequate to ensure the accuracy of the surveys This had been confirmed by the findings of external and independent investigations

Consumers who saw prices increasing faster than the official rate should bear in mind that groceries only comprised about 27% of the average household's total monthly spending

The accusation that the measurement of too many prices had an "equalising effect" indicated a failure to understand the application of weights to the different items in the basket.

Du Toit said there was nothing "sinister" in the divergence between the rates of increase of the CPI and PPI — in the short term, this was possible as not all products went directly to consumers

CSS head defends accuracy of CPI inflation measure

19/12/88 B/Day

GRETA STEYN

QUESTIONS over the accuracy of SA's inflation rate are unfounded, says Central Statistical Services (CSS) head Treurnicht du Toit.

There has been persistent talk that the inflation rate, as measured by changes in the consumer price index (CPI), understates price increases. Capital market dealers say they do not believe the official inflation rate and some economists have also questioned its accuracy.

CSS critics say the weightings accorded the different items in the CPI basket do not reflect current spending patterns because they are based on a 1985 survey. Consumers also claim that price increases, in their own experience, often outstrip the official inflation rate.

Certain economists say CSS measures too many prices, so there is an "equalising effect" with stable prices neutralising sharp increases in other prices. They also note that the rate of increase in the CPI has not responded to the upward trend in the PPI inflation rate.

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Sinister

The accusation that the measurement of too many prices has an "equalising effect" indicates a failure to understand the application of weights to the different items in the basket.

Du Toit says there is nothing "sinister" in the divergence between the rates of increase of the CPI and PPI — in the short term, this was possible as not all products went directly to consumers. The only products which flowed directly to the retail trade were food, beverages, tobacco, clothing, footwear, textiles, furniture and domestic appliances.

Star 21/12/88 (153)

Fears of boost to rate of inflation in 1989

By Michael Chester

Renewed fears of an upward swing in the inflation rate next year have been voiced by big business in a survey of economic forecasts carried out by the Bureau of Market Research at the University of South Africa

Predictions inside the top 100 industrial corporations covered in the survey see the annual pace of inflation climbing to at least 14 percent and perhaps as high as 17 percent.

All the executives pointed to uncertainties in the economic, social, political and business environment.

The 1989 outlook in general

- Real economic growth of between 1,9 and 2,8 percent
- Prime overdraft interest rates at 15 to 17 percent by the end of the year
- The rand/dollar exchange rate ranging between R2,73 and R2,82.
- A median gold price of $475 an ounce, with a spread of between $441 and $495 from one quarter to the next

UNEMPLOYMENT

- More than seven out of every 10 corporate executives foresee an increase in total unemployment — with more labour unrest and more strikes
- Almost all of them — 95 percent — predict that sanctions and disinvestment pressures will intensify next year
- Two-thirds fear a deterioration in the overall political situation,
- Almost as many, 62 percent, expect an acceleration in the privatisation of State enterprises
- A 60 percent majority are braced for increased pressure on the manufacturing sector, the Government and the media to be more responsive to consumer problems
- As many as 88 percent of executives expect more pressure on manufacturers to assume greater social responsibilities next year

Outlook '89

INFLATION

By Johan Louw, Sanlam chief economist

I believe that the year-on-year increase in the consumer price index — the general yardstick for measuring inflation in respect of consumer goods — has now reached a low point and that in the next 12 months the inflation rate will increase sharply, despite the expected marked slowing down in general economic activity.

My expectation that the pace of price rises will pick up significantly in 1989 is coupled with the following:

● The drastic increase in the fuel price from September 1 which has not yet taken full effect and which has now been followed by a further increase of 10c a litre as from the middle of January

The total increase in fuel prices in six months amounts to almost 30 percent and if the international oil price rises, further increases can be expected

● The sharp depreciation in the external value of the rand (The rand has depreciated by about 17 percent on a weighted basis in the past 12 months) It has not yet had a noticeable negative effect on consumer prices, but I expect that it will lead to markedly higher prices in 1989.

The increase in the surcharge on certain imported goods and the expected higher overseas inflation will reinforce this tendency further.

● Higher, but still restrained, adjustment in the administrated prices of some goods and services such as transport, electricity and communication

● More expensive house bonds and higher financing costs which are not yet fully reflected in consumer prices

● The past few years' continued sharp increases in the money supply which will be reflected in higher prices after the usual time lag.

In contrast to this, normal climatic conditions should lead to a somewhat slower rise in food prices which should in turn place a damper on steep price rises in the total consumer price index (Food represents roughly 23 percent of the consumer price index)

It is obvious from the above that, in spite of a phase of considerably slower economic growth, in 1989 the country will still have continuing high inflation, particularly of a cost-push nature.

I estimate the average increase in the consumer price index for 1989 to be about 15,5 percent, a rate which compares most unfavourably with an expected average rate of about 4,5 percent in the major industrial countries.

This unacceptably high rate of inflation has negative implications:

● It does not foster a healthy personal savings effort.

● It means that interest rates will have to stay at fairly high levels, which is not beneficial for private fixed investment (which is the real driving force behind growth in the economy).

● It harms our international competitive ability, something that the country can hardly afford in view of the fact that we are compelled to maintain considerable surpluses on the current account of the balance of payments so that we can meet our foreign debt obligations

● It places downward pressure on the external value of the rand which can in turn lead to higher inflation.

For the man in the street, 1989 will be a year when he will have to contend with continued sharp increases in the cost of living. Housewives in particular will have to count their pennies.

For the businessman, the curbing of cost rises will have to be a high priority, especially since he will not be able to pass on increased costs to the consumer so easily.

The Government will in turn have to ensure that monetary discipline is backed-up by fiscal discipline, particularly in the form of strict control over government spending.

Higher inflation in 1989 feared

(153) B/day. 30/12/88

KAY TURVEY

THE sharp depreciation of the rand in 1988 and increased fuel prices will give a sharp twist to the inflationary spiral in 1989, economists believe.

Inflation, which has been on a downtrend since 1986, is expected to start rising next year, climbing from the current (November) Consumer Price Index of 12,4% to between 14,5% and 17%

Standard Bank economist Nico Czypionka says the softness of the rand, resulting from the authorities' relaxed grip on monetary policy, will be the main cause of higher inflation next year.

Runaway money supply, showing a 25,05% year-on-year rise in November, is a concern since it debases the currency, intensifying inflationary pressures.

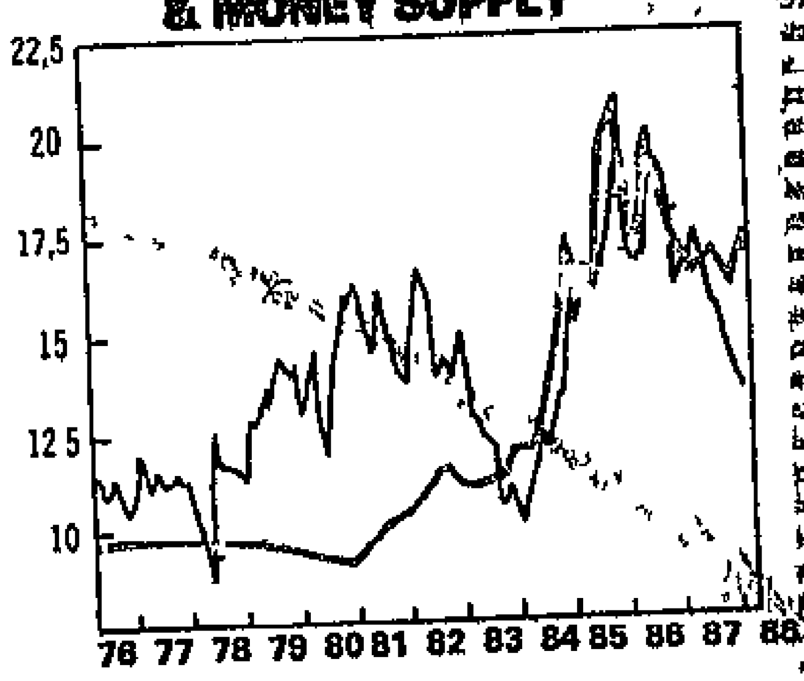
United Bank economist Hans Falkena agrees a lower rand exchange rate combined with import surcharges as well as the explosion in money supply will power inflation

Bureau for Economic Research's Ockie Stuart estimates the depreciation of the rand could add as much as 17% to import prices during the next 12 months.

This inflationary trend will be strengthened by the rise in fuel prices Fuel prices rose 15% in September and a further increase of 10,5% has been announced for January 16

Kaplan and Stewart analyst Terry Contogiannis says taking into account

INFLATION RATE vs R/$ EXCHANGE RATE & MONEY SUPPLY



Graphic LEE EMERTON Source KAPLAN & STEWART INC

● To Page 2

Economists fear high inflation in 1989

(153) B/day 30/12/88

● From Page 1

that petrol/diesel carries a weight of 4,56% in the construction of the CPI, the two increases should add another 1,2% to the index

However, he adds it is impossible to assess the indirect effects as many consumer goods have fuels as a major component of their input costs

Sanlam economist Johan Louw attributes the relatively sluggish movement in the CPI over the past seven months to a slow increase in housing costs and a sharp drop in food price increases

However, the recent hike in bond rates will be reflected in steeper housing costs which have a weighting of just over 21% in the total CPI

The outlook for food, which has a heavy weighting in the index, is more positive, as input costs for food in the form of raw materials are falling and at present the capital infrastructure of the wheat and maize industry requires no additional spending

But economists are looking to the expected slowdown in economic growth to moderate the inflationary spiral.

Czypionka says high interest rates could well result in a smaller than feared rise in the inflation rate, and he predicts the average inflation rate for 1989 may not greatly exceed 15%

● Comment. Page 4