CONCLUSION

The current situation and also the prospects for the South African economy can be seen to be anything but optimistic. With the debt crisis also casting its shadow over future developments it is highly unlikely that the Government can or will embark on any plans which would excessively stimulate the economy. The situation has become even more serious with the fall in the price of gold, South Africa's major foreign exchange earner.

For the foreseeable future it seems as if the economy will continue to fluctuate but that the short term upturns will be ineffectual against a long term trend of decay.

INFLATION – 1989

Up and up go taxes and inflation, down goes the rand

Star 4/1/89 (153)

Gloomy economic forecast

By Michael Chester

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

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

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

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

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

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

BLAME LAID ON AUTHORITIES

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

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

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

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

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

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

TWO WILD CARDS IN THE GAME

There were two wild cards that could alter the scenario — first the gold price, which heavily influenced the South African economy, and second the possibility of a 1989 general election Neither, however, should cause undue optimism cautions Dr Jammine

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

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

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

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

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

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

"Instead the country may once more be faced with an increase in unemployment and a corresponding escalation of social unrest"

January 1989.

Union wage rises beat inflation

By Dick Usher

CAPE TOWN — Unionised wages, on average increased above the rate of inflation for the second half of 1988, says an analysis by the Labour Research Service

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

The average wage agreement was R120,66 a week for labourers

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

"After a first-half increase of 22,9 percent, the second-half average of 20,6 percent is highly creditable, given poorer economic conditions, tougher bargaining and increased anti-union activities by employers and government," the survey says

It says the inclusion of mining wage settlements at 16,5 percent contributed to the lower average increase for the second half

Only four of the companies in the survey gave increases lower than 10 percent, 90 awarded 10 to 19 percent, 59 awarded 20 to 29 percent and 18 awarded 30 to 49 percent

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

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

But the minimum weekly wage is still only R71,55 At Mintek, NUM negotiated a 72 percent increase to R138,46 E12

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

Of gazetted wages, the Cape clothing industry had the highest percentage increase, negotiated by the Garment & Allied Workers Union at 52,7 percent, bringing the minimum to R113 a week

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

Industrial council and wage determination increases were 25,1 percent on average

But many were well over a year old, so these are not comparable with the private sector's average of 20,6 percent over a year

Only nine agreements, of those which provided figures, had a 40-hour week

Smoke not, drink not — and avoid the inflation trap

Star 6/11/89

153

If you're a teetotaller, vegetarian and non-smoker, there's a chance you're coping with inflation If not just suffer.
MICHAEL CHESTER reports

The latest review of inflation trends shows that eating and drinking habits may have a lot to do with the steepness of increases in the cost of living.

Teetotaller vegetarians, especially non-smokers and ones who use buses and trains rather than their own cars, have suffered least from the price spiral of the past year

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

And the rate of inflation may also depend heavily on where you live

Many of the mysteries of why almost everybody has a different version of how rising prices batter their own family budgets are answered by a deep delve into the mass of graphs and tables compiled at regular intervals by the mandarins in the Central Statistical Service

Worst culprits

First, the food basket, which has been one of the worst culprits of all since 1985, and which on average costs 13,2 percent more than a year ago

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

Meat prices, on average, have shot up as much as 18,4 percent

A change of pace to put fish dishes on the dining table has been no escape from inflation Average fish prices have soared by 20 percent.

A far better idea at breakfast time has been cereal and toast Grain product prices have gone up by only 11,3 percent Better still, cheese or eggs, only 9,5 percent dearer

This is where vegetarians have already started the day at an advantage — all the more so as vegetable prices on average have increased by only 11,4 percent

And the really strict vegetarians have had a bonanza Prices of fruit and nuts, taken on average, have actually dropped — by 1,6 percent

If inflation has made you down at heel, grin and bear it Footwear costs 17,6 percent more

And if you want to save wear and tear on your shoes by buying a new car — beware On average, vehicle prices have streaked no less than 23,5 percent this year

All in all, though, if you are an average South African, your overall cost of living has gone up about 12,4 percent, say the CSS mandarins

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

For example, if you belong to the lower income group, inflation has swiped a slightly more modest 11,5 percent

For the middle-income group, prices rose 12,2 percent.

In the higher-income bracket, the inflation rate was 12,8 percent

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

Worst hit has been Klerksdorp, where the consumer price index has soared 72,6 percent

Bloemfontein somehow found the best shelter, with the climb in prices held at 51,5 percent

P.T.O. for Pictures

Your house is NOT always a sensible way to beat inflation

MONEY MATTERS

by Magnus Heystek

Star 7/1/89

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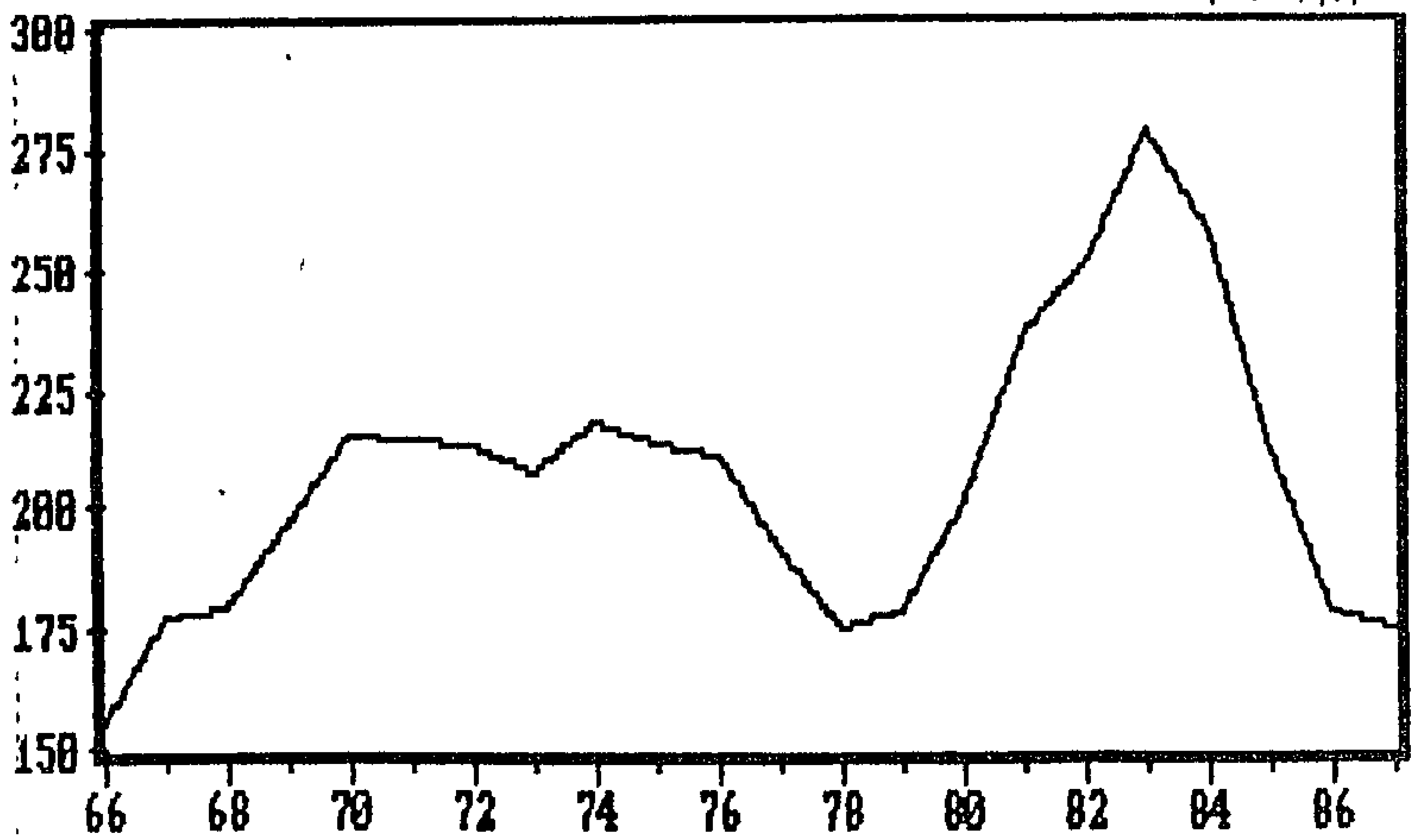
Star 7/1/8-

REAL HOUSE PRICES
Rode House Price Index deflated by CPI



IT WILL surprise many that house prices over the long run have NOT kept pace with the rate of inflation

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

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

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

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

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

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

Many people who entered the property market at its peak in 1982, especially in the case of townhouses and duplexes, are still licking their wounds

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

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

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

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

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

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

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

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

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

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

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

With the market softer and sellers more negotiable than six months ago, the time could be ripe

Old Mutual predicts not-so-severe slump

B/Day 12/1/87 153

CHRIS CAIRNCROSS

CAPE TOWN — Old Mutual chief economist David Mohr does not believe a widely forecast recession for this year will be as deep as that of three years ago.

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

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

One difference is that he does not foresee a repeat of the strong contraction in final demand of about 10% in 1985-86

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

The sluggish conditions are also not expected to be materially influenced by another major decline in fixed investment activity. Mohr maintains that, while a major recovery in public sector fixed investment is not foreseen, it is unlikely the 1986 cutbacks will be repeated

Mohr also does not foresee severe inventory depletions this year.

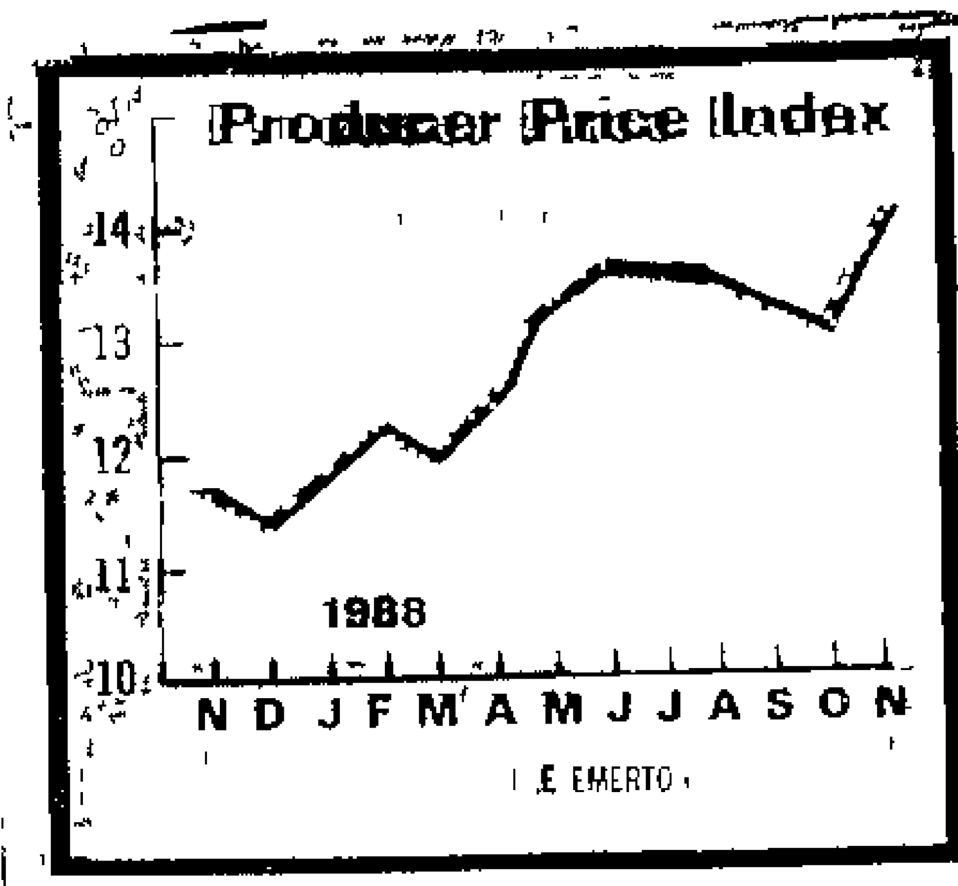
He also believes there are several major differences between the current balance of payments position and that of three years ago

Optimistic

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

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

These include a sharp decline in the price of gold and other commodities, a stronger-than-expected downturn in the world economy; imbalance in domestic economic policies that could be inappropriate to the country's balance of payments and inflationary problems and lead to another exchange rate crisis.



Inflation pushes producer prices

B Day 12/1/89 153

GRETA STEYN

INFLATIONARY pressure quickened in November last year, with the rate of increase in producer prices jumping to 14,1% from 13,1% in October.

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

Central Statistical Service (CSS) figures showed the Producer Price Index (PPI) jumped by 1,5% between October and November. Nedbank economist Edward Osborn pointed out this yielded an annualised rate of 19,6%.

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

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

The imported component of the PPI rose by 0,9% in November while domestic prices jumped by 1,7%

Osborn expected the rate of increase of the PPI to reach 15% to 16% in 1989.

Relatively large monthly increases were recorded in the prices of basic metals (5,0%), non-ferrous metals (11,8%), electrical machinery (5,7%) and transport equipment (4,8%).

LLOYD'S NAME DRAIN

After losing 1 750 names last year, Lloyd's of London has announced that only 970 new members will start underwriting this year. This net loss in membership of 780, together with deaths of existing names, reduced total membership to 31 300 from 33 600 a year ago

A total of 3 800 members have increased underwriting commitments so capacity to underwrite business remains unchanged at £11 000 This, however, represents a real shrinkage with inflation in Britain in the year to November running at 6,4%

The number of syndicates is up from 376 in 1988 to 407 183 non-marine, 135 marine, 44 aviation, 37 motor and eight short-term life

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

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

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

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

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

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

Unemployment in December dropped another tenth of a percentage point to 5,3% of the available work force Joblessness is at a 14-year low and the economy during the last year created nearly 3,8m new jobs. For the moment, the Fed's chief target has been the Federal fund's rate banks charge each other for overnight reserve lending Since November, the central bank has allowed the Fed fund's rate to creep over 9%

This in turn presses upwards on the banks' own prime loan rate to favoured corporate borrowers, which stands at 10,5% While the discount loan rate is largely symbolic these days, an increase of that rate over its present 6,5% level would be a clear signal from Washington to restrict business and consumer credit

The bad news is that every percentage point rise in general interest rates adds $5bn to the budget deficit financing problems George Bush will face after January 20 Also, the last time the Fed hiked the discount rate, Wall Street blamed it for the October 19 1987 stock market crash Yet with Congress and the White House in their traditional stalemate, what choice does the Fed have? ■

INTERNATIONAL BANKING

Deflecting default

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

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

- ☐ The UK, from 14,58% in 1986 to 2,24% in 1987,
- ☐ Canada, from 11,78% to minus 5,13%, and
- ☐ The US, from 11,2% to minus 15,45%

"Banks in other developed banking systems had long before accepted the irrefutable evidence of this truth by setting up sizeable problem country reserves " The result was that average returns for banks in Spain (19,10%), Belgium (17,35%), Finland (13,38%), Japan (12,24%) and Sweden (11,24%) actually improved — despite the world stock exchange crash

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

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

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

Lending to LDCs, however, rose more than 30% between 1982 and 1987, as "an integral part of the Baker Plan aimed at allowing indebted countries to grow their way out of problems " Though this new money, technically, allowed most to avoid default, it's increasingly clear that, with few exceptions, sovereign borrowers cannot or will not be able to service their debts

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

INFORMAL SECTOR

Diverging views

Jacobs

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

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

And he adds "It must be borne in mind that strong growth in the informal sector is only the second best that can be achieved This sector is a ready refuge for the unemployed as its importance grows as people grow poorer It is a myth, therefore, to suggest the per capita wealth of the nation can be raised by promoting the informal sector That is a contradiction in terms which belies all economic laws and the whole history of economic development "

Others are not so quick to run down the informal sector — saying that it can quite clearly make people better off As Senbank

Star 24/1/89

The 'richer' we get, the poorer we become

DEREK TOMMEY

SOUTH AFRICA is a world leader in price rises According to the latest IMF figures, prices in this country in the past five years have risen twice as fast as in New Zealand, the other worst performing Western industrial state And they have risen almost four times faster than in Britain and 16 to 20 times faster than in Germany and Japan

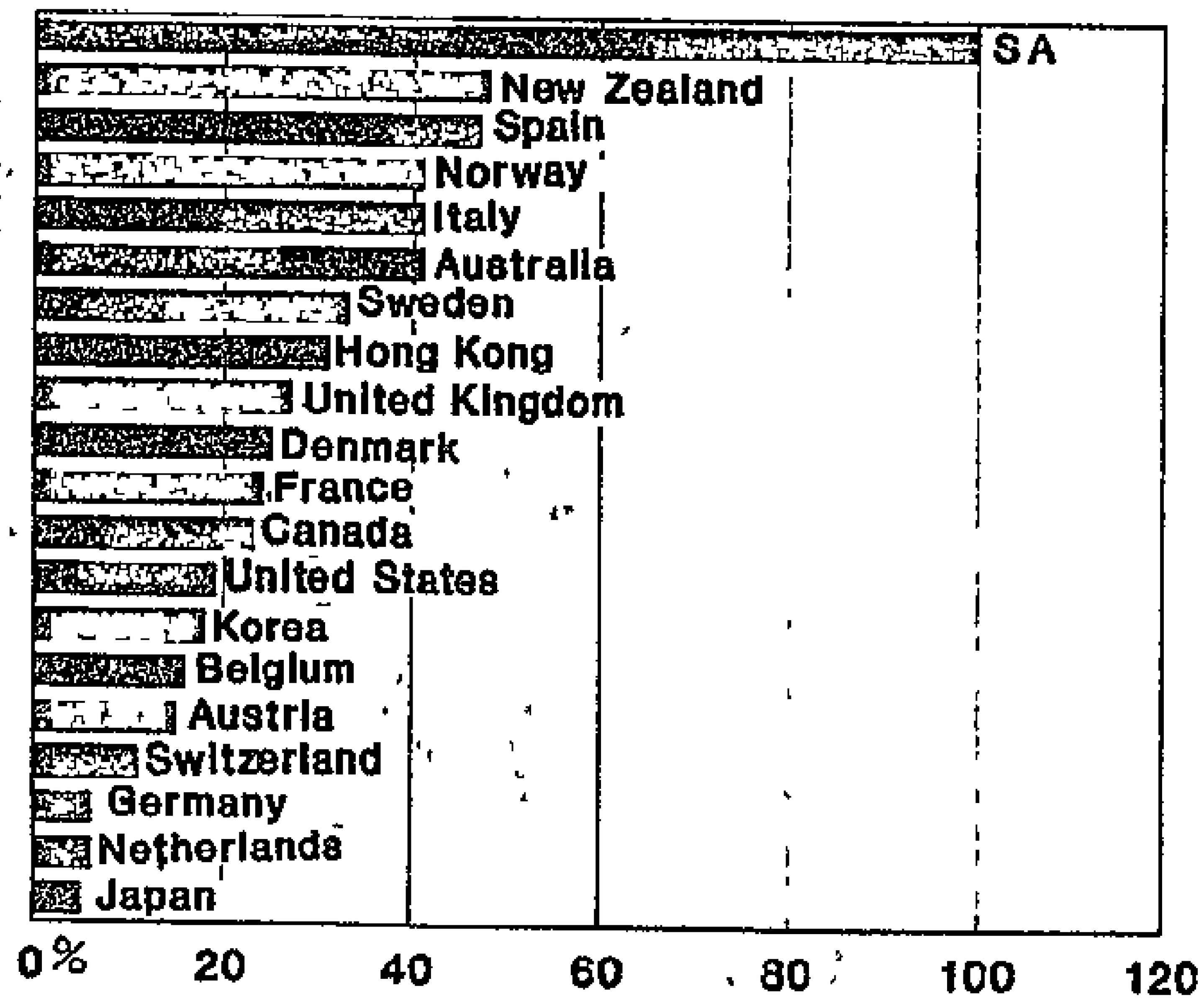
Since 1983 prices in South Africa have risen by 100 percent. In New Zealand the increase has been 48 percent, in Britain 27 percent, West Germany 6 percent and Japan 5 percent, the figures show To find price increases comparable to those experienced by South Africa one has to start looking at the South American "banana republics"

South Africans have grown so accustomed to rapidly rising prices that they have stopped asking why this is happening to them. But they should start asking questions because the high rate of inflation is keeping them poor, and if continued could possibly bankrupt them.

Inflation is "public enemy number one" in most Western countries because it retards and even destroys industrial growth

Inflation can certainly be blamed for much of this country's extremely poor growth record in recent years.

Between 1980 and 1986 South Africa's economic growth averaged 0,8 percent a year, IMF figures show In contrast, the British and New Zealand growth rate was three times higher at 2,4 percent and 2,8 percent respectively, while Japan's was more than four times higher at 3,7 percent. Germany was a laggard with a rate only double South Africa's. But with a national income of R27 000 a head which is some six times higher than here, it is possible that the drive there to raise living standards further is lacking



How the prices have risen between 1983 and 1988

It should be here too because this country is heavily dependent upon the gold mining industry which is extremely vulnerable to inflation The industry's costs are rising constantly but the gold price is not, and many marginal mines are in difficulties Three gold mines have recently announced major staff retrenchments in a bid to remain profitable, and more could soon be following their path.

Should inflation continue, a number of gold mines might have to shut, causing greater unemployment, reduced demand for manufactured goods, a weaker balance of payments and a reduction in living standards.

But it is not just the gold mining industry that is threatened by inflation. It is affecting every one in this country is many subtle ways. It is reducing work opportunities for unskilled people, which in South Africa means the blacks In inflationary times employers tend to replace workers with machines which do not ask for a pay increases every 12 months Usually it is the physical and simple tasks that are easily mechanised, so the unskilled worker is affected the most.

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

Inflation deters new investment and reduces job creation Rising costs increase business risks which make entrepreneurs reluctant to undertake new investments that would have provided more jobs.

Impoverishment

Inflation destroys the value of money and impoverishes people. Money placed in a building society five years ago today buys only half what it did them.

Inflation leads to a lower exchange rate which also makes everyone poorer In 1983 you could buy a British pound for R1 63. Today you pay R4,30 — a rand devaluation of 60 percent. In this period the rand has fallen 54 percent against the dollar, by 70 percent against the German mark and by 75 percent against the Japanese yen.

This means that American goods in South Africa costs more than double what they did five years ago, British goods two-and-a half times more, German goods three times more and Japanese goods four times more. Although individuals may not buy goods from these countries, the fact remains that commerce, industry and the service industries still have to do so This raises the country's costs which we all pay in the end.

Many reasons have been put forward for the continued high level of inflation in South Africa But ultimately here as anywhere else the blame must rest squarely on the shoulders of the Government. The only time a government can be held blameless for inflation is when there is a huge and unexpected inflow of foreign capital. This excuse will not hold in South Africa. Since 1983 the capital flow has been one way — out of the country

So while governments elsewhere have killed off inflation and launched their countries into real economic growth why has our Government been so ineffective in its management of inflation?

The answer seems to be that to tackle inflation it would have to end its excessive generosity with the taxpayers money and upset its power base

Last year the rand depreciated by some 17 percent against the major world currencies While making all of us poorer, this devaluation of the rand had one positive result — it helped to improve South Africa's competitive position overseas.

In this situation most Western governments would say 'We must not let domestic inflation rob us of this important foreign trading advantage We will squeeze prices at home so we will continue to remain competitive abroad This will help us boost our exports and increase prosperity"

Such countries would be likely to be even more determined to maintain this advantage if they were faced with sanctions

Surcharges

But your South African government is not your normal Western government And it did not see the rand's devaluation in this light at all. Instead, it imposed huge inflationary import surcharges to try to improve the balance of payments and then used the huge sums flowing from the surcharge to give the public service a major pay rise, which will also help boost inflation.

If the Government had been determined to fight inflation it would have taken the surcharge receipts out of circulation by sterilising them This would have reduced consumer demand and lessened inflationary pressures and helped keep our exports competitive

But alas, the surcharges raised far more than expected The politicians found it impossible to keep their hands off this money They traded political expediency for economic management, grabbed the money and used it to give the public sector a 15 percent pay rise.

However, as even the hundreds of millions raised by the surcharge are not enough for this purpose, it was also decided to perpetuate the new game of taxing imports to finance the public sector payroll and to impose this week's 10c a litre tax on petrol

So prices are set to rise again, and continue to rise, for no doubt the public service will demand a further pay rise to offset the inflation caused by its present pay rises And if the Government runs true to form it will get it.

At the same time South Africa's recently acquired competitive advantage in foreign markets is being sacrificed to the Government's desire to keep the bureaucracy sweet and voting for it.

So we can look forward to another year of showing that when it comes to price increases none of the Western industrial countries can beat South Africa

B/Day 23/1/89 (153)

DP staff's salary rises beat inflation

SALARY increases for data processing (DP) staff in SA leapt ahead of the CPI for the first time in four years, with overall increases for the year to end-June rising by 16,9%

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

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

P-E Remuneration Division manager Naomi Brehm says while overall increases were down on the previous year's 18,7%, DP staff received increases that were 4,5% ahead of the official CPI of 12,4% at the end of June

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

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

Salary increases commanded by analysts and programmers moved ahead of those for DP managers during 1988 In this category increases averaged 18,4%, compared to 17% in 1987, while for managers increases of 17,4% were granted, compared to 1987's 21,2% Operations and off-line staff received increases of 14%

Brehm says the increases underscore the strong demand for skilled people

"The improved economic climate increased job mobility with the overall average for staff turnover rising to 26% as against 15% in 1987 The last time a turnover of this proportion was experienced was in 1984 when the average was 29% The average turnover among technical support programmers was highest at 38%"

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

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

The survey also showed that more than 80% of all DP staff received bonuses at least equal to a double cheque, and 16% received bonuses of more than a double cheque

Steep surge in CPI expected

Inflation rate rises by 0,9%

CAPE TIMES 24/1/89 (153)

By AUDREY D'ANGELO
Financial Editor

THE inflation rate rose by only 0,9% between November and December, according to figures released yesterday by the Central Statistics Office

The consumer price index (CPI) for December shows a year-on-year rise of only 12,5% compared with 12,4% in November

But economists predict a steep surge in prices which will send the CPI up to 15,5% or 16% in the next few months

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

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

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

Old Mutual's David Mohr said he thought consumers were already suffering more than the figures suggested.

"The commodities section of the index has been increasing at a rate of 14% and I think the public have been experiencing that rather than the official CPI figure"

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

Factors which had been holding it down in the past year were the low housing component and low transport costs Administered prices had been frozen but this could not continue

Higher bond costs were only beginning to be felt and flat rents had not yet started to move up But a surge in rents was bound to come

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

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

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

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

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

Standard Bank economist Nico Czypionka said the CPI figure was exactly what he had expected, but "it will accelerate to reach 15% or 15,5% by the year-end"

The official figures show that a low rise in the food price index — which went up by only 0,3% between November and December and by 12,2% year-on-year, was a major factor in keeping the CPI down.

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

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

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

Clive Hirschsohn   Brian Belcher

Foschini MD retires

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

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

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

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

The Star
Finance

Inflation rate holds steady

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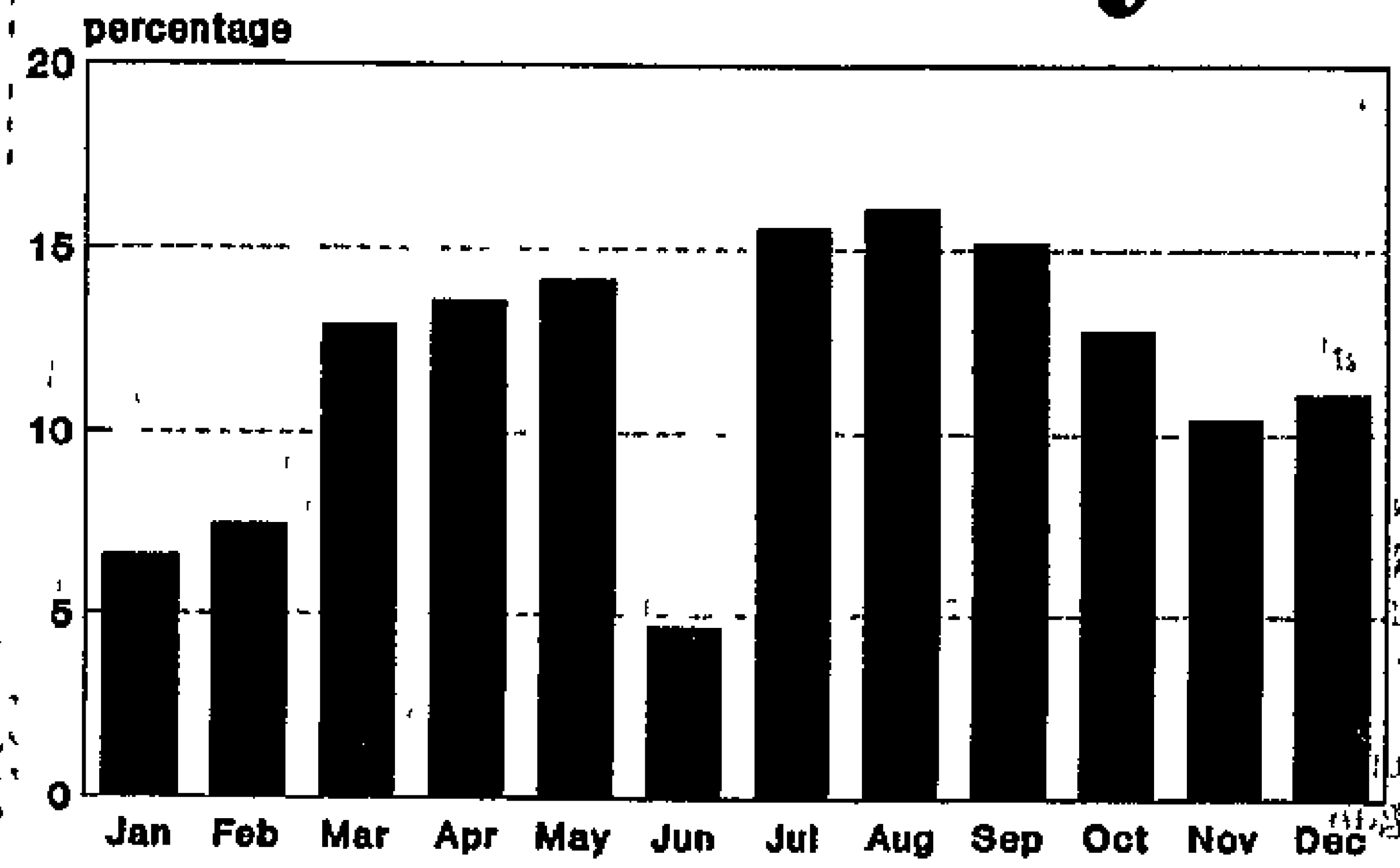
Star 24/1/89



Consumer price index — monthly change annualised

By Derek Tommey

The inflation rate showed little change in December

The consumer price index (CPI) — 1985 equals 100 — rose 0,92 percent to 164,2, after rising 0,86 percent in November

This brought the increase in the index for the 12 months to December to 12,5 percent, compared with 12,4 percent in the year to November and 12,3 percent in the year to October

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

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

In the past three months the annual rate of price increases has ranged between 10,4 percent and 12,8 percent.

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

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

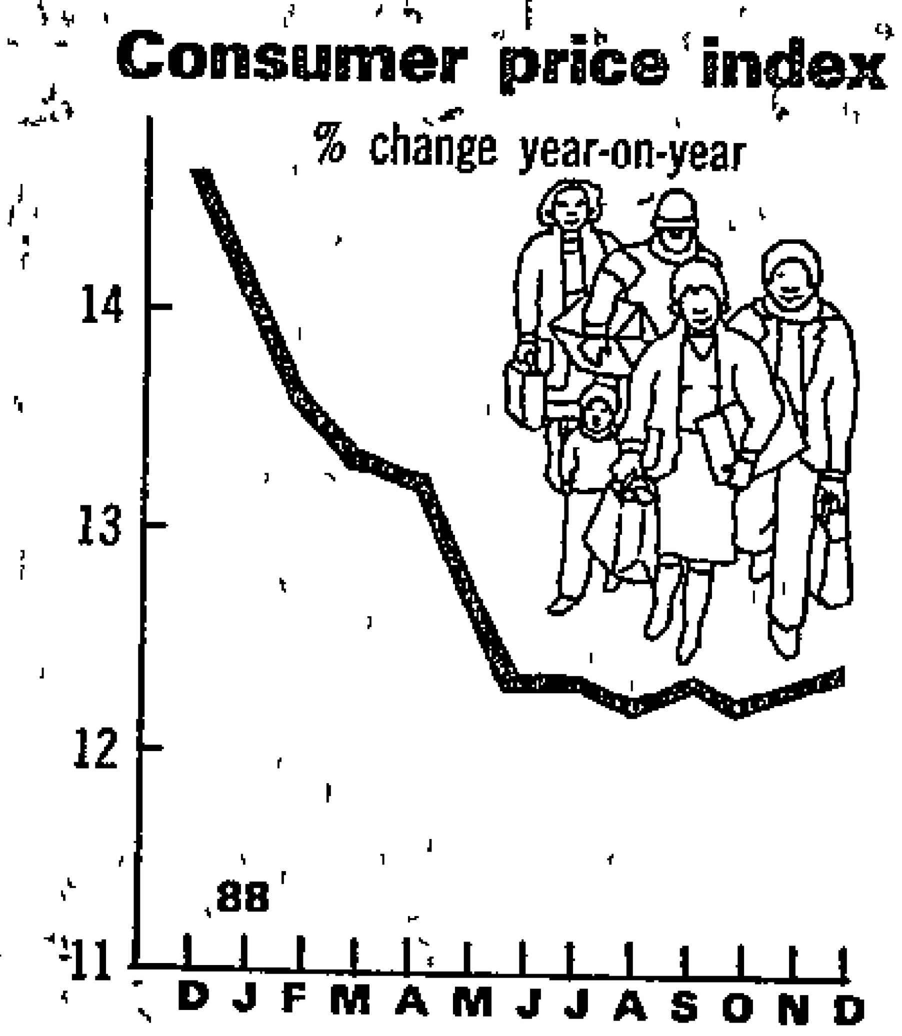
At the same time, the effects of the lower rand, the normal annual increases in statutory and other charges and the recent increases in mortgage rates, will also affect the index

Fruit and nuts

The food index rose by only 0,28 percent in December, despite a 9,3 percent rise in the cost of fruit and nuts.

The jump in these foodstuffs was offset by 5,8 percent drop in the prices of vegetables and a fractional drop in the price of meat, fats and oils. Milk, cheese and eggs rose 1,5 percent

Other commodities showing significant increases in November were· housing (1,89 percent), furniture (2,0 percent), appliances (2,3 prcent), medical care and expenses (2,3 prcent) and personal care (3,5 percent).



Graphic LEE EMERTON Source CSS

Inflation lower than expected — experts

B/Day 24/1/89 KAY TURVEY 24/1/89

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

Inflation as measured by the Consumer Price Index (CPI) rose 12,5% in December from a year earlier. This was marginally up on the 12,4% year-on-year increase recorded in November.

Central Statistical Service (CSS) fig-

● To Page 2 (153)

Inflation lower than expected — experts

(153) ● From Page 1 B/Day 24/1/89

ures show a jump of 1,1% between November and December, with higher mortgage bonds as the largest contributory factor

The average inflation rate for the year was 12,9%, which is lower than the corresponding rates for the preceding three years — 16,1% for 1987, 18,6% for 1986 and 16,2% for 1985

The lower inflation rate was helped by a declining trend in the increase of food prices which was 15,6% last year against 22,9% for 1987

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

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

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

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

Professor claims inflation is double the official rate

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Star 28/1/89.

TOM HOOD

CAPE TOWN — A battle is raging over the accuracy of official figures for inflation, which the government says is 12,5 percent and a mathematics professor says is nearer 26 percent

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

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

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

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

The CSS calculated a family spent 22,72 percent of income on food but Dr Posel said his calculations showed 40 percent was nearer the true figure

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

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

Bond repayments had risen 25 percent in the past two months — an item which took 15 percent of the budget and added another 3,75 points to the inflation calculation

Education had risen 20 percent a year, which added 1,6 points to the inflation figure

But in a broadside reply, Dr Treurnicht du Toit, head of CSS, dismissed Dr Posel's claim as a "diatribe"

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

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

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

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

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

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

One marketing department did its own research and told the company to allow for inflation nearer 40 percent than 25

Inflation raging at 'twice official rate' — claim

W/E Argus 28/1/89

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by TOM HOOD
Business Editor

A BATTLE is raging over the accuracy of official figures for inflation, which a mathematics professor says is 26 percent — more than double the government's claimed 12,5 percent

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

"If my calculations are right it could mean a tremendous economic upheaval, with unions negotiating for salary increases equal to the rate of inflation But I am not concerned with the political implications I am only interested in scientific calculations," he told Weekend Argus

Dr Treurnicht du Toit, head of CSS, dismissed Dr Posel's claim as a "diatribe"

"The accuracy of the index is sometimes questioned," he said

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

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

And he said he would ask the SABC to arrange a *Network* debate "eyeball to eyeball" to discuss this matter of major importance

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Averages

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BDay 21/2/89

Trust Bank stresses savings

SYLVIA DU PLESSIS

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

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

Trust Bank says increased saving is a national priority together with better utilisation of saving funds.

It advocates, in view of last year's record low in personal savings, a national saving campaign related to virtually all economic activity.

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

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

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

"The consequent revenue loss of about R800m to the fiscus would preferably be compensated by lower government spending but, if necessary, it could be financed by higher indirect taxation."

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

A good reaction by other exports to the low rand exchange rate, and continued economic growth, would also contribute to a real growth rate of 3% in total exports and 2,5% in GDP.

Trust Bank says higher exports, coupled with lower imports and a smaller capital outflow, could produce a net surplus of R2bn on the balance of payments.

"Consequently, the exchange rate and interest rates will remain relatively stable and inflation will not get out of hand. If the gold price stays close to $400 we foresee a year-end rate of R2,55 to the dollar, a prime rate of 17% and a CPI inflation rate of 14,5%."

Inflation and secrecy are blamed for bribery wave

21/2/89

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Business Day Reporter BDay

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

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

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

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

Vosloo said inflation led to irregularities by debauching the currency.

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

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

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

SA-Mozambique meeting

BDay 21/2/89 GERALD REILLY

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

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

Foreign Affairs Deputy Minister Kobus Meiring and Mozambique's Labour Minister Aguiar Mazula are joint chairmen of the commission.

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

Inflation and secrecy are blamed for bribery wave

21/2/87

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Business Day Reporter 4/Da/1

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WORLD

Lawson endorses G-7 strategy to contain inflation

6 Day 6/2/87 (153)

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

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

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

● LAWSON

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

The gathering of finance ministers was originally billed as a get-acquainted meeting with new US and Japanese officials

Though participants generally lauded the prospects of continued close co-operation, some downplayed the importance of the meeting, which did not produce a final communique A senior US official said the G-7 decided against issuing a statement because the group did not intend to signal any policy shifts

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

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

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

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

Acceptable

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

However, German officials said if the dollar moved to DM1,90 from its current level around DM1,87, it could cause worries about the adjustment process in international trade imbalances

The $161,4bn US budget deficit in the current fiscal year ranked high on the agenda, but officials from the other G-7 countries generally expressed satisfaction with plans outlined by US officials to reduce the budget gap as required under a US congressional mandate

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

Industry still riding the crest of a wave

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Star 8/2/89

By Magnus Heystek, Finance Editor

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

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

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

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

Monthly basis

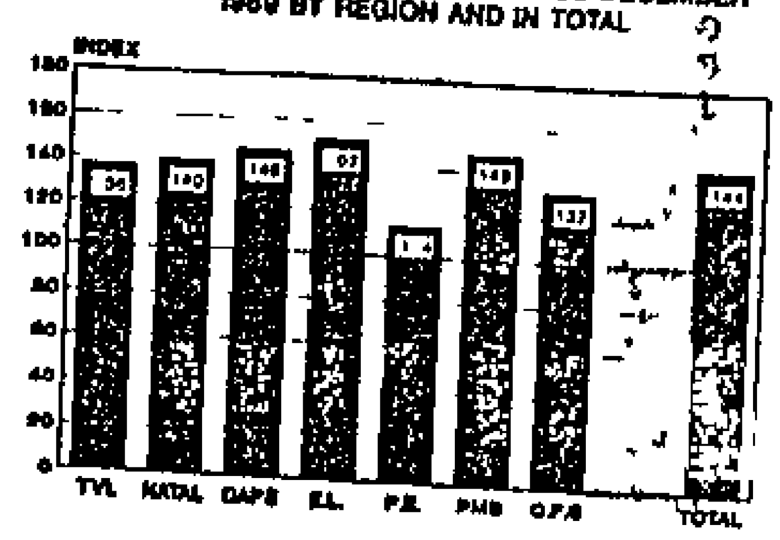
The survey is conducted by the the FCI on a monthly basis, and gauges members' views on both current and expected economic conditions

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

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

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

INDEX OF EXPECTED MANUFACTURING SALES FOR THE 12 MONTH PERIOD ENDED DECEMBER 1989 BY REGION AND IN TOTAL



Star 13/2/89

Inflation rate set to reach at least 15 percent soon

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By Michael Chester

New warning signals have flashed over the outlook for inflation with Central Statistical Services (CSS) evidence that the producer price index (PPI) now stands almost 200 percent higher than in 1980

The index, on the latest count taken in December, was perched at 295,9 points when measured on all commodities turned out for consumption inside South Africa The annual rate of increase accelerated from 14,1 percent to 14,6 percent

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

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

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

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

The rise in the PPI for imported items held steady at 14,2 percent Commodities produced on the home market reached 14,6 percent

Worries deepened when it was noted that the inflation rate on goods produced by the industrial sector in particular went ahead at an even faster 15,7 percent — the biggest climb since April 1987.

WORST OFFENDERS

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

Taking 1988 as a whole, the average increase in prices on locally produced goods works out at 13,8 percent Imported goods rose at a far slower 11 percent

The worst offenders, according to the CSS, were fresh meat producers, with prices climbing at no less than 5 percent a month, and producers of textiles and made-up goods, showing monthly price increases of more than 4 percent

Inflation rate performance 'better than expected'

BDay 20/2/89 153

PRETORIA — The performance of the inflation rate last year was better than initially expected, says Volkskas.

In its latest Economic Spotlight, Volkskas said the two main reasons for this were that food prices advanced at a lower-than-expected rate and certain administered prices such as rail tariffs and postal rates were subject to a temporary and partial price freeze and therefore showed no or very small increases

It said the total inflation rate as measured by the CPI in December was 12,5% compared with December 1987 The figure for the year before was 12,9%.

The figures showed the December-on-December increase for lower income groups was 11,4% compared with December last year (16,3% for 1986/87), 12,1% for the middle income groups (15,0%) and 13,1% for the higher income groups (14,3%).

The food sector declined dramatically for 1987/88 to 12,2% increase compared with the previous 20,8%

However, the lowest level of increases in food prices was registered in November, where the annualised seasonally adjusted figure was 0,7%.

It then moved up to 1,4% in December

It was 12,4% in August

The bank pointed out the CPI was lowest last October, when the year-on-year figure was 12,3%, and then moved up to 12,5% in December

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

The bank predicted an inflation level of between 15% and 16% for 1989, which could go higher if domestic demand was not curbed — Sapa

'Unnecessary to raise taxes'

CAPE TIMES 20/2/89 (153)

JOHANNESBURG — If the Minister of Finance can succeed in keeping the rate of increase in Government expenditure within reasonable limits, it should not be necessary for him to raise taxes, states **Sanlam**'s latest economic survey

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

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

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

Volkskas states the two main reasons for this were that food prices advanced at a lower than expected rate and that certain administered prices such as rail tariffs and postal rates were subject to a temporary and partial price freeze.

It said the total inflation rate as measured by the consumer price index in December was 12,5% compared to December 1987's 12,9%.

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

Spending spree hoists inflation

Star 23/2/89 (153)

By Sven Lunsche

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

As measured by the consumer price index (CPI), it rose by 0,8 percent in January to 13,3 percent, Central Statistical Services (CSS) said in Pretoria yesterday.

The monthly rate of increase in January was 1,6 percent (0,9 percent in January 1988) and was the largest monthly rate of increase since March 1987

Last year, inflation showed a delcine from an average of 18,6 percent in 1986 and 16,1 percent in 1987 to 12,9 percent

January's rise was fuelled by increases in the prices of food, housing, medical care and new vehicles

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

But in January food prices were 13,2 percent up on the same month last year and 1,6 percent higher than in December.

Low point

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

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

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

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

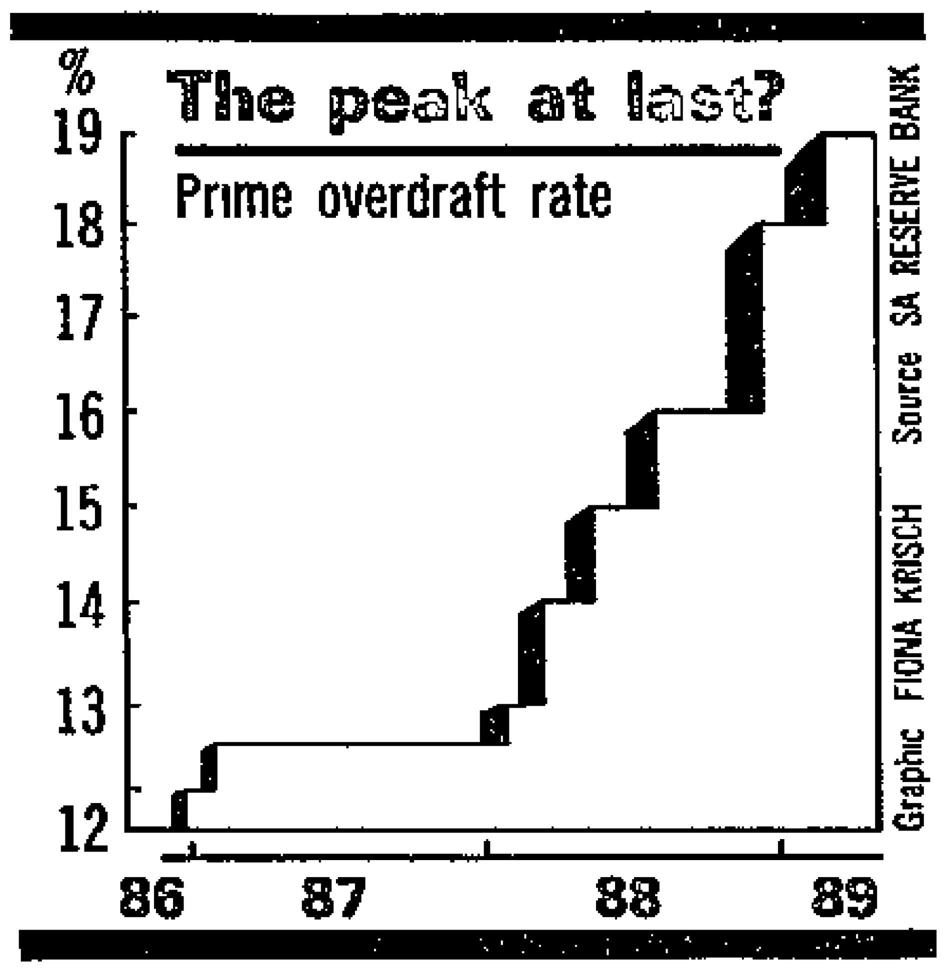
Major reason

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

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

"The buoyant nature of the economy impacted on the higher inflation rate," Simson-McKie economist John Banos said

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



BIDay 23/2/89 (153)

Inflation on upward path

KAY TURVEY

THE inflation rate as measured by the CPI has turned the corner and is on a definite upward path having jumped steeply to 13,3% in January from an annual rate of 12,5% in December

This higher annual rate of increase is a result of the sharp monthly rise of 1,6% for January 1989 against 0,9% for the previous year, the latest figures released by Central Statistical Services indicate

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

Medical costs are reviewed annually and embody an excessively long period of adjustment, therefore distorting the extent of the monthly climb

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

● To Page 2

Inflation 'distorting reports'

BDay 24/2/89

KAY TURVEY

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

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

"To ignore this impact is misleading and, on the evidence 98,5% of all company reports, could be said to be misleading"

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

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

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

Thompson said as an alternative to current cost accounting, the comparison of historic cost earnings with the CPI over a representative period provided some measure as to whether the enterprise was winning or losing the battle against inflation

Breaking po

Mrs Rosemary Magiera Struggling to sell her house

Mrs Karen Leetjer Owning a house "worse than a nightmare"

Mr Shawn Arendse Bitterly regrets buying his house

Mrs Yasmin and Nuraan Samsodien No money for food soon

THE dream of owning one's own home has turned into a nightmare for thousands of homeowners faced with crippling interest rates and the soaring cost of living

In Morgenster, a new housing scheme in Mitchells Plain, at least seven homes have been repossessed in the past three months, with several families moving out in the middle of night

As the latest jump in the interest rate takes its inevitable toll, hundreds of families are teetering on the brink of what estate agents call the "breaking-point"

In Morgenster, despair hangs like a dark cloud over the neat rows of attractive freshly printed homes

A year after the first families moved in the 'For Sale" boards are fast being erected in almost every street.

But Morgenster is only one of many areas where homeowners are showing signs of buckling under financial pressure

Many residents several months in arrears with bond repayments, are abandoning their homes in the middle of the night

The hike in interest rates — up from 13 percent to a staggering 18 percent in the past nine months — has pushed up bond repayments from as much as R200 to R400 a month

Some families, who qualified for a home a year ago on the joint income of husband and wife are having to fork out up to 80 percent of a salary as one of the partners becomes unemployed

With scores of families several months in arrears with their rents, an alarming number of homes are being repossessed by banks and building societies as families fail to meet the higher repayments

The housing boom of the past two years — which fulfilled a dream of owning one's own home for thousands of families — has come to an abrupt end

Not surprising, the demand for new houses has dropped by about 50 percent.

"It's worse than a nightmare " said Morgenster resident Mrs Karen Leetjer, echoing the frustration of hundreds of familes who are fast reaching their "breaking-point"

Jump in interest rate

'Who on earth can afford to pay these high rents? All we can do is wait for another summons '

Leetjer admits she and her husband are several months in arrears with their repayments

In less than a year their repayments have almost doubled from R476 in March last year to R912 with the current jump in the interest rate

For example, the Leetjer's bought their home when interest rates were at an all time low of 12,5 percent.in early 1987 They then watched in horror as interest rates increased by more than 40 percent over the next 10 months

Leetjer, like many other residents, has got used to the phenonemon of neighbours suddenly packing up and disappearing — often during the night.

"They re there in the evening and then gone in the morning," she said

For those families reeling from the shock of their increased bond repayments, the spiralling cost of living has placed on them an even heavier burden

It s been a terrible year," bemoaned Mrs Yasmin Samsodien, of Morgenster

"When we moved in they made it sound so simple, only R450, but now we are paying R750 a month

"The house is not worth it, but I don't think I can go back to living in a room or separate entrance with four children " she said

Like so many first-time homeowners, the Samsodiens qualified for a house on the basis of their joint income

She has since become unemployed and now about 75 percent of her husband s salary is spent on repayments

Mrs Rosemary Magiera, whose repayments have increased from R726 to R906 in recent months, said she bought her house because she was "desperate' for accommodation

"But I don t know for how long we can continue going to the bank to say that we can't meet our repayments," she said

It s becoming impossible My husband can just about afford to feed us

And it isn t just our family There is hardly a person in this area who isn t in arrears '

The Magiera's have tried four different estate agents to get their house sold, but without success

'I don't think we will be able to afford to feed ourselves if the interest rate goes up again,' she said

Morgenster resident Mr Shawn Arendse said he deeply regretted having bought his home

I would have been much better off just living in a room now that my payments have increased from R500 to R870, he said.

If it's a boom why all t

By IRAJ ABEDIAN

THE current economic situation in the country seems at best confusing to the man in the street

The economic professionals as well as the authorities speak of an economic boom But reality proves different

Daily it is becoming harder to make ends meet. Prices keep going up, salaries don't seem to keep pace with inflation, and the authorities continue to raise the rate of interest.

For instance, last February the prime overdraft rate was 13 percent, this year it is over 18 percent At the same time the mortgage bond rate was 12 percent as opposed to more than 17 percent currently

Such dramatic rises in the interest rates have a substantial impact on the well being of all, especially the middle and lower income groups

In terms of mortgage payments alone, it has caused close to an average 45 percent increase in the monthly bond repayments

For the average income earner this is almost unbearable its financial consequences are devastating

Not only must a larger percentage of the disposable income need to be set aside for housing (at the cost of less consumption of everything else), but families are left wondering if interest rates will rise again

This uncertainty forces many families to sell their properties, often in a depressed housing market with falling prices

Such developments could hardly be associated with a boom situation

Generally an economic boom implies more employment, higher income, a higher standard of living, or 'easier times

But South Africa s situation is peculiar, the country faces a dilemma On the one hand the country needs economic growth to help raise the standard of living in general On the other hand it cannot afford growth

Because as a developing economy South Africa's economic activity requires more capital goods to be imported

Ordinarily it would not have mattered, but with the international financial sanctions in effect, the situation is quite different

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

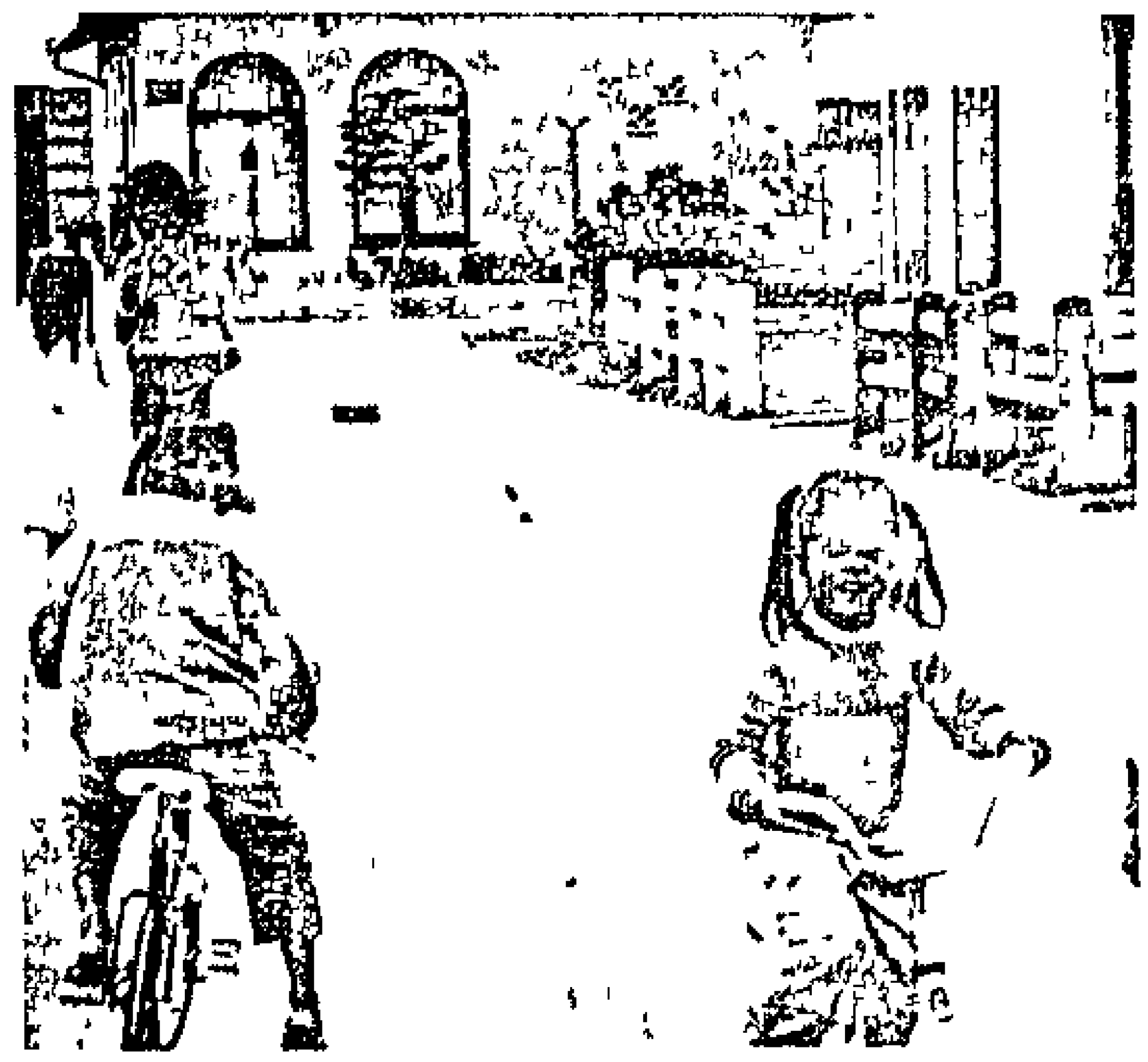
This means that from the proceeds of the country s exports we have to pay our debts first, and then spend the balance on necessary imports

For example, our 1989 debt repayment requirement, in terms of the debt moratorium, is R875 million

Outside the debt moratorium arrangements a further R2 812-million is required for 1989

g point!

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



Playing here today, somewhere else tomorrow? The worries of arrears and repossessions affect everyone in Morgenster

Brace yourself for more hikes

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

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

Dr Ockie Stuart, director of the Stellenbosch Bureau for Economic Research, views the latest round of price increases as the start of a new upward inflationary cycle

Stuart expects the crunch to come towards the end of 1989 when the economy will be in "very bad shape" and inflation set to take an even bigger chunk out of pay packets

In recent years South Africans have generally become poorer with salaries lagging behind inflation

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

Thousands have been pushed below the minimum subsistence levels

And according to a monthly comparison of food prices conducted by a local housewives organisation, a basic food basket of 29 items which cost about R50 two years ago now costs about R75 — a 50 percent increase

The consumer has taken a battering from all sides with rail and air fares and bus tariffs increasing by an average of more than 30 percent since 1986

A first-class single ticket from Cape Town to Mitchells Plain has jumped from R1,90 in January 1986 to R2 80 — and fares are set to increase again by between eight and 13 percent in April

A single bus fare ticket to Mitchells Plain has increased from R2 21 in 1986 to R3 00 in January

Very little has escaped the inflationary cycle — not even the once inflation free box of matches which has shot up in price from one cent to seven cents in the past five years

Price increases have been registered across the entire spectrum, but the biggest blow to the consumer came late last year when the price of petrol rose by more than 10 cents per litre — unleashing a wave of price increases

And more shocks are in store for the hard pressed consumer in the next few months, with the price of petrol and rail and air tariffs set to increase again on April 1

Thousands of homeowners throughout the country have in the past year faced a staggering interest rate increase of more than 40 percent

Many families, already reeling from the escalating cost of living are now paying hundreds of rands more on their bond repayments

v all the gloom

'= economic growth the standard of liv- On the other afford growth as a developing South Africa's eco- requires more to be imported it would not have with the interna- al sanctions in ef- situation is quite

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For example, our 1989 debt repayment requirement, in terms of the debt moratorium, is R875-million

Outside the debt moratorium arrangements, a further R2 812 million is required for 1989

In total, the country requires R3 687 million (roughly 1,5 billion dollars) in 1989 to finance the foreign debt

Our foreign asset holdings, meanwhile, stands at R4 975-million (Jan 1989)

At the same time the prospects for gold, by far our most important export, are gloomy

In short, given a low price of gold and the presence of international financial sanctions South Africa cannot afford any sustainable economic boom

This is a fundamental economic dichotomy that underlies the current situation

At the root of it are two government failures

First there is the failure to address the political problems of the country to prevent financial sanctions

Secondly there is the failure to diversify the economy's export and/or enlarge the domestic market to reduce the impact of the gold price volatility

These two basic factors are further exacerbated by the dogmatic quest of the (Reserve Bank) authorities for a high level of foreign asset holdings

Otherwise, as the figures suggest there is no obvious reason why the interest rates should go up now

(Abedian is a senior lecturer at the University of Cape Town's School of Economics)

Managed portfolio beats inflation

7/3/89 Cape Times (153)

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

QUOTED equities continue to provide by far the most lucrative and attractive long-term investment medium, says Tom Boardman, senior GM at the Board of Executors

Through all the vicissitudes following October 19, 1987 and the alarm and despondency surrounding the weak gold price, a well-balanced portfolio of quoted equities would have produced a healthy return in 1988

The JSE Actuaries Industrial Index showed a return of 38,4% in the year while the All Share Index, held back by the poor performance of the All Gold Index, still managed to produce a return of 14,8% So much for 1988, but how have shares performed over the longer term?

In order to gain the longer term perspective, examine the performance over the last 28 years of the shares comprising the JSE Actuaries Industrial Index

If one calculates the total return, capital growth or loss plus dividend income, for each of the last 28 calendar years, then one sees that an investor operating on a 12-month cycle (from January 1 to December 31) would have made money in 20 of the 28 years

The green line on the graph in Chart 1, showing the percentage total return for each year, clearly highlights the loss-making years (those below 0) with the biggest single loss of 38,4% being incurred in 1970, in the aftermath of the 1969 crash Interestingly enough 1987, the year of the October 19 crash, still reflects a profit, albeit only 4,8%

The green line also shows us the extreme volatility of returns on equities from year to year with the high of 75% in 1979 and the low of −38% in 1970

Volatility is generally equated with risk and indeed The Board of Executors regard a 12-month investment cycle as a speculative short-term cycle carrying with it a relatively high risk

Five years is generally regarded as a more reasonable investment cycle and the red line on the graph reflects the 5-year rolling average There we see that an investor, holding equities for any five-year cycle commencing 1961-1965 and ending 1984 to 1988, would have made small losses in only two years The red line also shows how the longer cycle irons out the volatility on both the peaks and troughs

How have equities performed in the more recent past and in particular how have they performed against inflation and compared with other investment options such as 12-month fixed deposits gilts?

Chart 2 shows us that inflation (the CPI) has averaged 14,9% pa over the last 10 years During this time the average return on gilts, (capital gain or loss plus interest) has averaged 9,2%, while fixed deposits have averaged 11,8%

Investments in both gilts and fixed deposits over 10 years would thus have resulted in an erosion of capital The 10-year average for equities, however, is 28,9% per annum, outstripping inflation by nearly 100%

The share market as a medium for long-term investment is clearly the place to be, but how does one get into it?

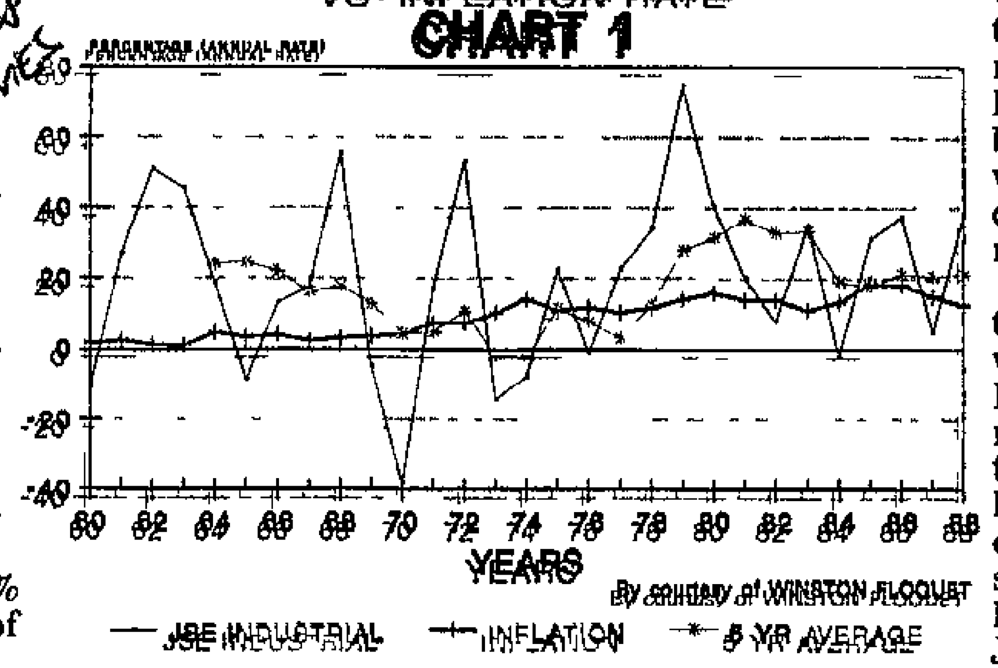
For the larger investor the most effective means is usually an individually managed portfolio A well managed portfolio should outperform the market.

Chart 2 shows that the average total return of the top 10 shares by weighting in The Board's portfolios yielded a total return of 36,1% pa over the last 10 years

Chart 3 shows the growth over 10 years, from January 1979 to December 1988, of R100 000 invested in either gilts, fixed deposits, the JSE Industrial Index or The Board's top 10 shares

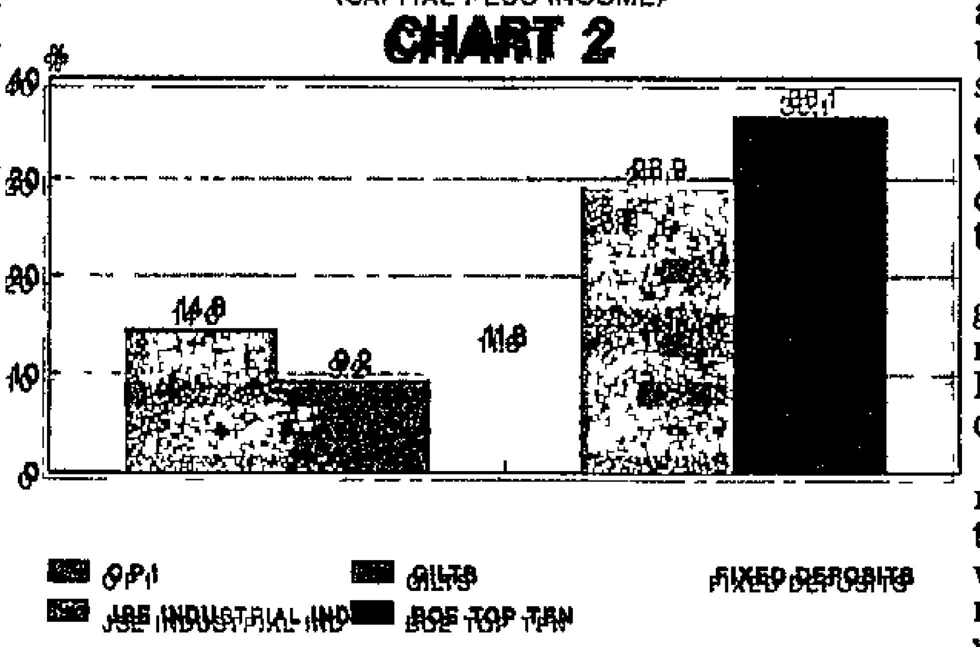
TOTAL RETURN ON JSE INDUSTRIAL INDEX VS. INFLATION RATE

CHART 1



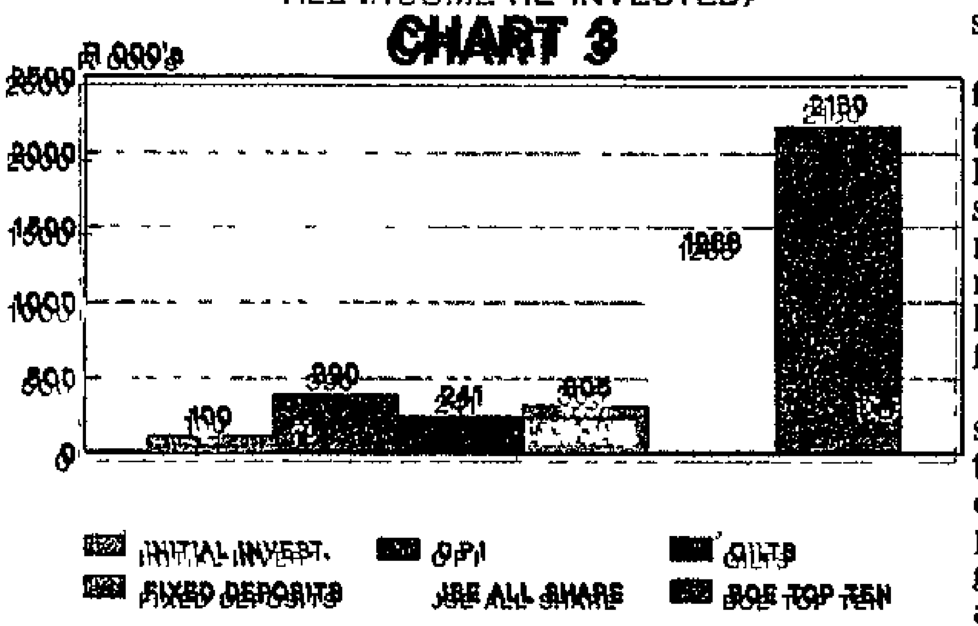
AVERAGE RETURN PER ANNUM
10 YEARS 1979 - 1988
(CAPITAL PLUS INCOME)

CHART 2



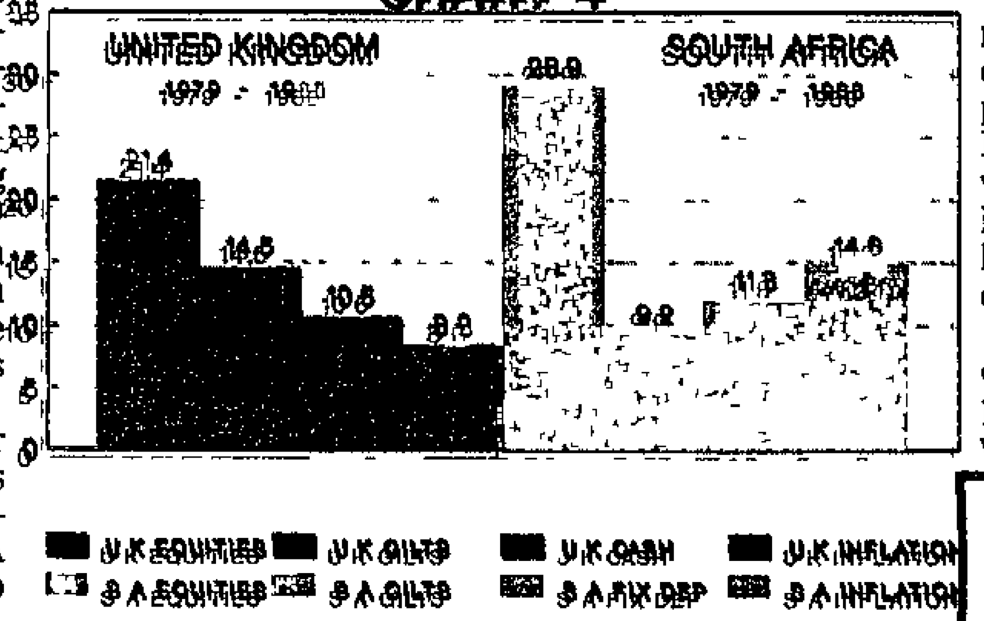
TOTAL RETURN OVER 10 YEARS
(CAPITAL PLUS INCOME - ALL INCOME RE-INVESTED)

CHART 3



ANNUAL COMBINED RETURNS %
10 YEAR AVERAGE

CHART 4



To keep pace with inflation your R100 000 would have had to grow to R390 000 and R100 000 invested in gilts would have fallen short of this by nearly R150 000, while the Industrial Index would have left you nearly R900 000 ahead

The more focused BOE top 10 managed portfolio would have turned your R100 000 into a staggering R2,18m (And just for the record the top 10 have included throughout the 10 years shares such as De Beers, Anglos, Remgro/Richemont, JCI and Amgold, together with a varying combination of other mainly blue chips — hardly a high risk portfolio!)

The superior performance of equities is not unique to SA — Chart 4 shows the same 10-year comparison in the UK, where equities have far outstripped the fixed interest options

Two other means of getting into the share market are equity-linked insurance products and unit trusts

The advantage of some insurance investments is that there are products which guarantee a minimum return over a 10-year period

However, when compared with the market performance in the last decade these returns have been on the low side

Unit trusts have performed well and since the composition of the large trusts is not dissimilar to the all share index their performances have been similar This is a good route for the smaller investor

However, investors should be aware that there is a 5% upfront charge plus a further ½% per annum fee, which together work out at 1½% annually over a five-year period

Individually managed portfolios thus still offer the larger investor the best vehicle

The minimum investment The Board will consider for individual portfolio management is R100 000, but, together with other major portfolio managers, The Board has recently started charging a minimum fee

Equities are thus undeniably an essential part of any long-term investment portfolio

Packages for senior executives

WITH high inflation now apparently a permanent fact of life more and more companies are providing specialized financial packages for senior executives, aimed mainly at ensuring they will be able to maintain their lifestyles after retirement

So many are now doing this that the Priceforbes Federale Volkskas Group formed a new company, Alexander Forbes Executive Financial Consultants, late last year to handle this specialized business

The new company's MD, Leslie Dawson, says response from the marketplace has been "strong and positive".

He explained: "The market today is more demanding Senior executives recognize that inflation is not going to disappear and that their particular mature lifestyles are in the short-term more vulnerable

"Companies are therefore looking to create specific financial planning packages for their most senior staff, the most popular of which is providing tax effective capital sums at or near retirement age."

Fight inflation in retirement

Star 11/3/88 (153)

INFLATION is one of the most serious problems facing people planning their retirement.

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

AA Life has devoted in-depth attention to the problem

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

Said Mr Howard "Generally, the person retiring goes on a fixed pension, with perhaps a 5 to 7 percent annual increase as provision for inflation

"Often a retired person can initially manage on less than his full pension and tries to save the surplus, as well as his retirement capital, to provide additional income in future when his pension's buying power falls "

An example illustrates one scenario

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

Previously, he did not consider investing in an RA, or, if he had, his investment was probably R1 750 a year (maximum tax deduction being the greater of R3 500 less deductible pension contributions, or R1 750)

Said Mr Howard "His pension is now 'non-retirement funding income' and qualifies for the 15 percent retirement annuity deduction

"Therefore, he can deduct a retirement annuity contribution of up to 15 percent of his pension (R36 000 a year) At least R5 400 will qualify for tax deduction, perhaps more if he also invests 15 percent of his other investment income under the 1988/89 tax tables

"Marginal tax rate is about 38 percent and he can invest his retirement annuity contribution annually or monthly, with a 38 percent subsidy from the Receiver "

He added "He will be building up a 'reserve pension' fund until he is 69 last birthday (latest retirement age under retirement annuity fund rules) or earlier, if needed, to supplement his pension when inflation eats into it

"The investment returns on this 'reserve pension fund' will probably be much greater than any alternative "

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

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

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

PRODUCER PRICES (153)

Tripling costs

FM 17/3/89

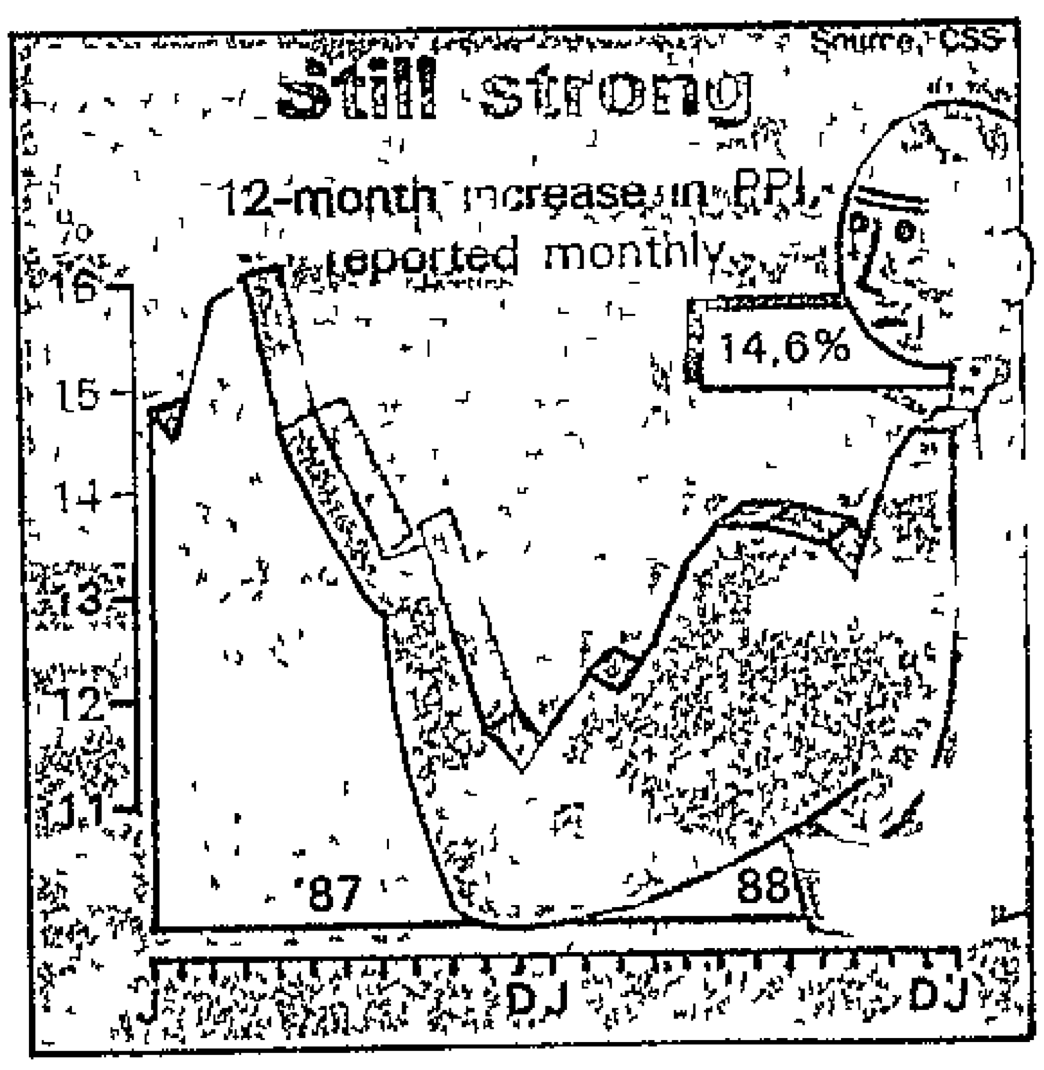
Producer prices kicked off the year with a robust 1,3% monthly increase, in line with predictions of higher price inflation in 1989 The production price index (PPI) rose to 299,8 in January from 295,9 in December (1980=100) — up 1,3% in the month and 14,6% over the past year This means a basket of commodities that cost R100 in mid-1980 cost just a shade under R300 in January, tripling in less than nine years

January's monthly increase was higher than the monthly increase in all but three months of 1988, it follows rises of 0,9% (December), 1,5% (November), 1% (October), 0,9% (September), 1,1% (August) and 0,8% (July)

January's 14,6% producer price inflation rate — that is, the running 12-month increase in PPI — follows 14,6% (December), 14,1% (November), 13,1% (October), 13,4% (September), 13,5% (August) and 13,6% (July)

In January, the price of locally produced commodities — which make up three-quarters of the index — showed more strength than imported commodities Local goods rose 1,5% in the month, while imports were up just 0,6%

☐ Central Statistical Service reports large monthly increases in sulphuric acid (13,2%), forestry (11,9%), plastic bulk forms (9,6%),



electricity, gas and water (7,5%), tobacco products (5,4%), paper and printing (4,1%), cement (4%), and chemicals (3,5%) Decreases were reported in natural rubber (22,6%), synthetic rubber (5,4%), scientific and optical equipment (1,9%), glycerine (1,1%) and fresh meat (0,5%)

Slower M3 growth holds little hope for inflation

Star 21/3/89. 153

By Sven Lünsche

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

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

The base for this "tunnel" is the fourth quarter of last year, when money supply increased by 26,5 percent on the fourth quarter of 1987, and given this high base, economists expect M3 to maintain monthly year-on-year increases of between 14 to 18 percent during 1989

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

The first evidence of this was given in January, when inflation, as measured by the Consumer Price Index increased to 13,3 percent, 0,8 percentage points higher than December's 12,5 percent.

This trend continued in February, albeit at a slower rate — the Central Statistical Services (CSS) reported yesterday that the year-on-year inflation was 13,5 percent last month

But the monthly increase of 0,8 percent was the major cause for concern, as it followed on a large 1,6 percent rise in consumer prices from December 1988 to January 1989

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

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

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

In its monthly inflation report, the CSS noted that the largest contributions to the 0,8 percent monthly rise were made by transport costs — mainly due to the increase in the price of new vehicles, higher running costs, as a result of the rise in fuel prices, and public transport fare increases

The annual percentage change in the price index for food for February 1989 was 11,8 percent, its lowest annual increase since June 1985, when it was 9,7 percent

WORLD EQUITIES

(153) FM ATC 24/3/89.

Shockwaves from US

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

With pundits forecasting the need for another full point rise in US short-term interest rates (taking prime to 12,5%) and warning of possible recession, the news wiped 48,6, or 2%, off the Dow Jones Industrial Average in the biggest one-day fall for 11 months Matters were not helped by Friday being one of those "triple witching hours" when all stock-related futures and options contracts had to be settled for the month.

As the dollar climbed in anticipation of better returns the drop echoed in bond markets, where the indicator yield on 30-year Treasury paper edged up to 9,3% from 9,1%

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

London matched Wall Street's dip Already waiting for a well-flagged climb to 8% (from 7,5%) in the rate of inflation in February, the *FT*-Stock Exchange index was down 2,4% in sympathy at the start of this week. And in Tokyo the dollar's climb towards Y132 (up 2,2%) combined with oil prices rising to 24-month highs to wipe 1,1% off the Nikkei Dow The 366 point fall on Monday was the biggest so far this year

The dollar's improvement was less impressive elsewhere (up 0,7% in D-mark and sterling), but none of the big equity markets was immune The fall of 1,4% in the *FT*-Actuaries world index was set to be followed by more weakness this week Hong Kong, for example, followed Tokyo with a 3% loss

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

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

Oil prices seem crucial Both market leaders, North Sea Brent blend and West Texas Intermediate (WTI), accelerated last week Breaking through to US$20,35 a barrel, WTI is 38% above the average for the 1988 fourth-quarter and 56% over the October low, at $18,80 a barrel Brent is showing similar increases The dollar's strength worsens the impact on D-mark and yen prices

Shorn of oil and fresh food, PPI was up by 0,5% — but even that could lift US inflation from last year's 4,1% average to 6%

Fresh food problems may be seasonally temporary. Crude is less certain. Three factors are underpinning it. falling non-Opec output, better discipline by Opec in creeping toward its 18,5m BPD quota ceiling, and the failure of surplus output in the second half of last year to show up in Western stocks, which are still down on 1988 levels.

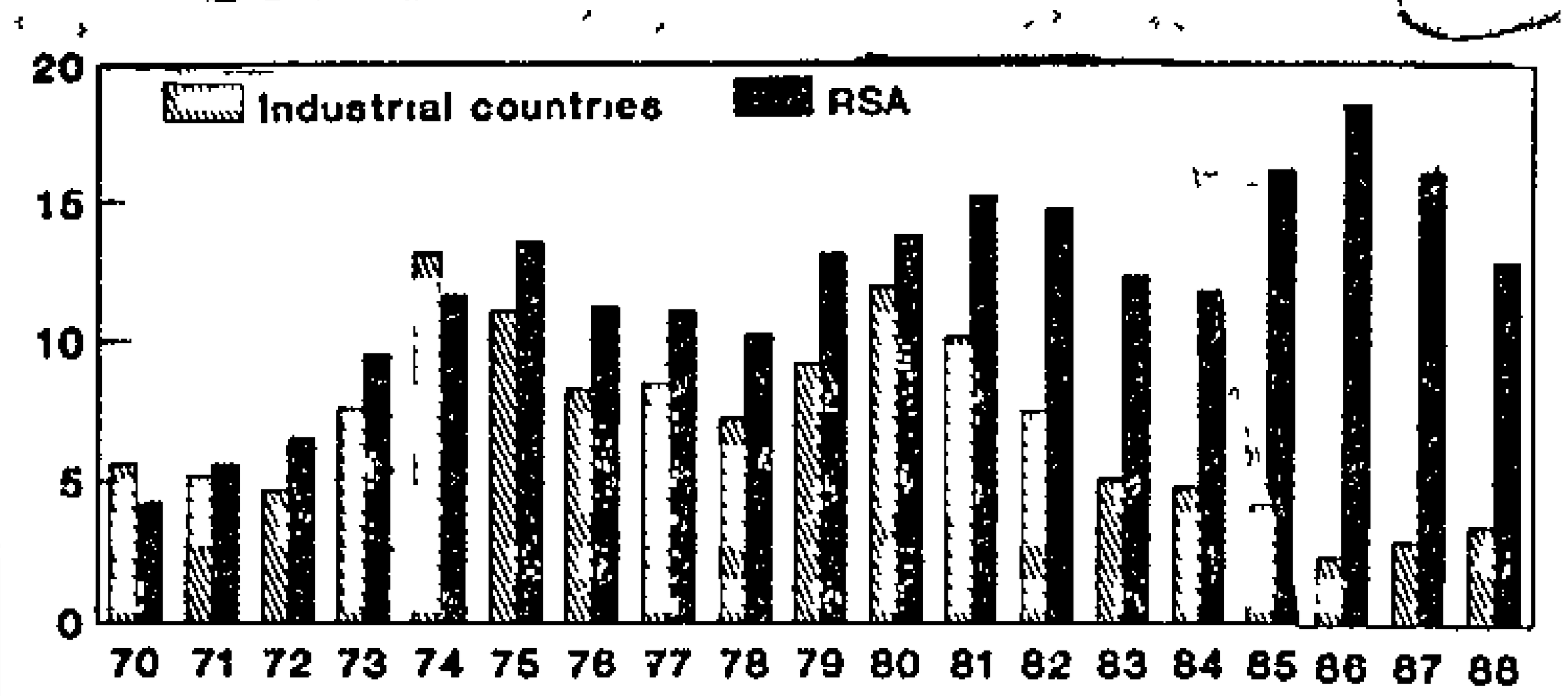
Non-Opec co-operation with the cartel is manifested in a series of production cuts of 5%, which total only 300 000 BPD (*FM* March 3). But the effect on the margin has been heightened by production problems (unquantified) in the North Sea and one-off factors raising demand outside the US.

Electricity generating problems in Russia, France (nuclear), Spain and Italy (hydro-electric) generation have increased the "burn" in oil-fired stations

Opec, however, is showing signs that it will accommodate shortfalls by increasing quotas Production of 19,4m BPD in February, while down from 20,2m in January, has been maintained without depressing prices And on the basis of International Energy Agency forecasts of a 2% rise in consumption this year, Opec is talking of being able to raise quotas to 19,5m barrels without endangering the $18 a barrel price target.

Energy price inflation, thus, could level off, but at levels 20% higher than last year's average cost of North Sea Brent Forward prices on the New York Mercantile Exchange crude futures contracts certainly indicate a drop the mean of August-November delivery quotations for WTI is $17,80, some 12,5% below spot levels ■

SA's inflation burden



While Western industrial countries have been experiencing a generally low level of inflation since 1983, South Africans had to deal with double digit inflation for 14 successive years.

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

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

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

FISCAL DRAG AND THE BUDGET

(153)

Hitting us when we're down

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

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

Consider a married man (with three children and standard deductions) who earned R20 000 last year and R23 000 this year, a 15% rise in line with inflation. Econometrix chief economist Azar Jammine calculates the man's tax payment would rise fully 35%, to R2 640 from R1 960 — with his average tax rate increasing to 11,5% from 9,8%.

The man whose salary "rises" to R57 500 from R50 000 sees income tax rising 23%, to R15 960 from R12 960 — his average tax rate increasing to 27,8% from 25,9%

The longer-term picture has also been bleak Jammine says a man who earned R10 000 in 1980 needs R35 000 this year simply to keep pace with inflation — not considering taxes But, meanwhile, the slice of his salary going to income tax would have risen to 19,2% — from 2,5% in 1980 and 17,2% last year "He will therefore be 2% poorer this coming year compared to last purely on account of fiscal drag and 16,7% poorer over the decade This is having a debilitating effect on disposable income "

Government has made minor concessions, such as increasing the standard rebate for married taxpayers to R1 250 from R1 100 and for unmarrieds to R850 from R750 This is wise politically as it will prevent hundreds of thousands of low-wage earners — mostly black — from being propelled on to the tax rolls But the concessions do little to alleviate fiscal drag without them, personal income tax collection would have risen 22,5%; with them, it will still rise 19,6%, substantially above the forecast 15% inflation rate

IMPACT OF FISCAL DRAG

(Assuming 15% inflation)

Salary 1988-1989	Salary 1989-1990	Tax 1988-1989	Tax 1989-1990	Tax Rate 1988-1989	Tax Rate 1989-1990
10 000	11 500	Nil	65	0,0	0,7
20 000	23 000	1 960	2 640	9,8	11,5
30 000	34 500	5 060	6 575	16,9	19,1
40 000	46 000	8 860	11 170	22,2	24,3
50 000	57 500	12 960	15 960	25,9	27,8
100 000	115 000	34 860	41 460	34,9	36,1

Source Econometrix

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

Says Jammine "I don't think Finance Minister Barend du Plessis has gone far enough in attacking the spiral of rising spending, rising taxes and slower growth "

SA'S ECONOMIC HISTORY

Average annual growth %

	1946-1971	1972-1979	1980-1988
GDP	4,9	3,7	1,4
Private consumption	4,3	3,2	2,3
Fixed investment	6,9	2,2	−3,0
Govt consumption	4,4	12,3	3,5
Gold price (US$/oz)	35	274	421
Money supply (M1)	4 3	13 5	27 4
Inflation (CPI)	3,1	11 6	14 6

Source Econometrix

At a Budget conference last week, Jammine said firmer steps are needed to break SA out of a historically deteriorating pattern Comparing 1946-1971, 1972-1979, and 1980-1988, he reported that average annual increases in real government consumption spending have moved from 4,4% to a whopping 12,3% to a still-high 3,5% As government took a significantly larger chunk of the economy from 1972 on, increases in GDP and personal spending slowed down This can be seen in the annual averages in those same three periods

- Increases in private consumption expenditure fell from 4,3% to 3,2% to 2,3%,
- GDP growth from 4,9% to 3,7% to 1,4%,
- Money supply (M1) growth rose from 4,3% to 13,5% to 27,4%, and
- Consumer price inflation rose from 3,1% to 11,6% to 14,6%

Meanwhile, between 1980-1987 central government employment rose 59,7% (to 519 000 from 325 000), while private employment fell in agriculture (-10,6%), manufacturing (-4,7%), construction (-8%) and trade and hotels (-1,3%)

Jammine says government should budget for *reduced* government spending in real terms, not constant spending — and so not allow the tax burden to rise as much

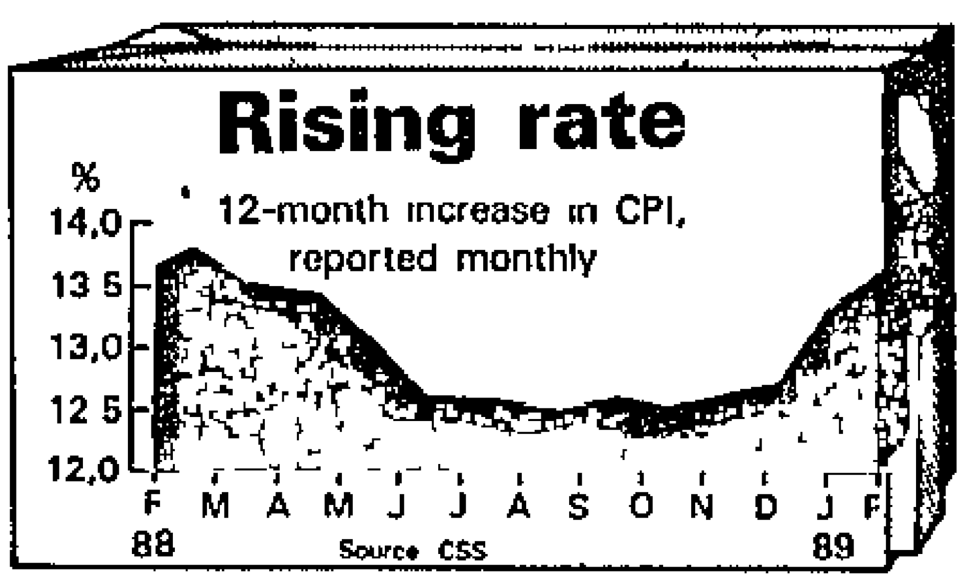
If, for example, it planned for spending to rise by 13%, not 15%, it could have kept GST at 12% — rather than raising it to 13% and hitting consumers for another R1,15bn

"We would have far rather seen more conservatism on the expenditure side (a real decrease in budgeted government spending) and a somewhat lighter tax burden," Jammine says "In the event, knowing government's proclivity to exceed its budgeted expenditure, and knowing budgeted expenditure has been based on the dubious

SLIGHT UPTICK IN CPI

February consumer prices rose a modest 0,8% — enough to push the 12-month rate to 13,5% from January's 13,3%.

February's increase was the lowest monthly rise since June's 0,3%, but



economists believe the trend is still up. January's increase was a strong 1,6% and followed 0,9% (December and November) and 1,1% in October

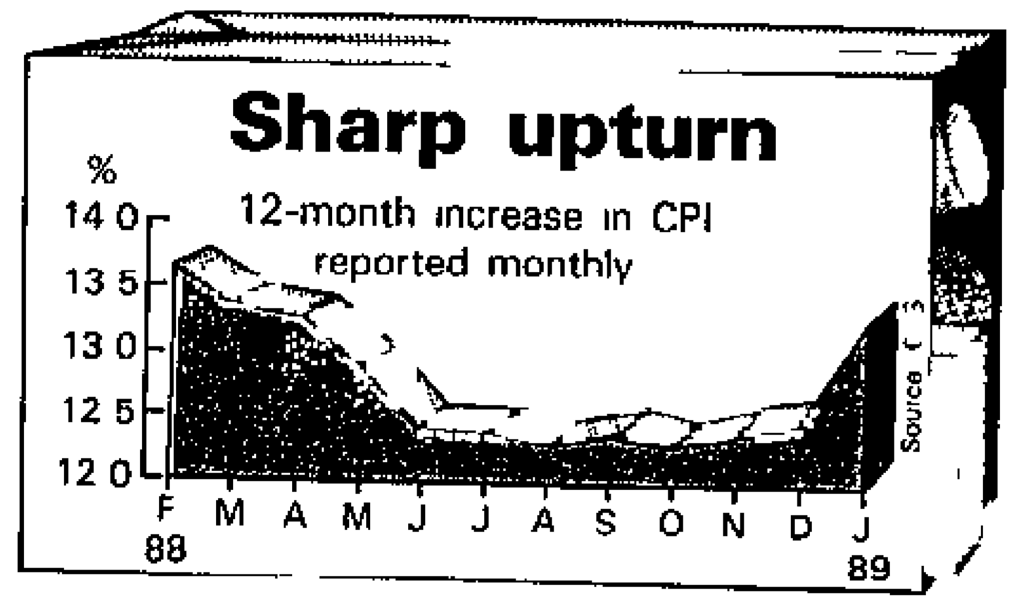
The inflation rate, now on a rebound, is at its highest since last February's 13,7%. In December it was 12,5% and in the previous six months wavered between 12,3%-12,4%. The index rose to 168,2 from January's 166,8 (mid-1985=100)

P.T.O.

INFLATION (153) FMAC 3/3/89

High and rising

After sticking at 12,3%-12,5% for seven months, inflation has shot up with a vengeance January's leap in consumer prices —



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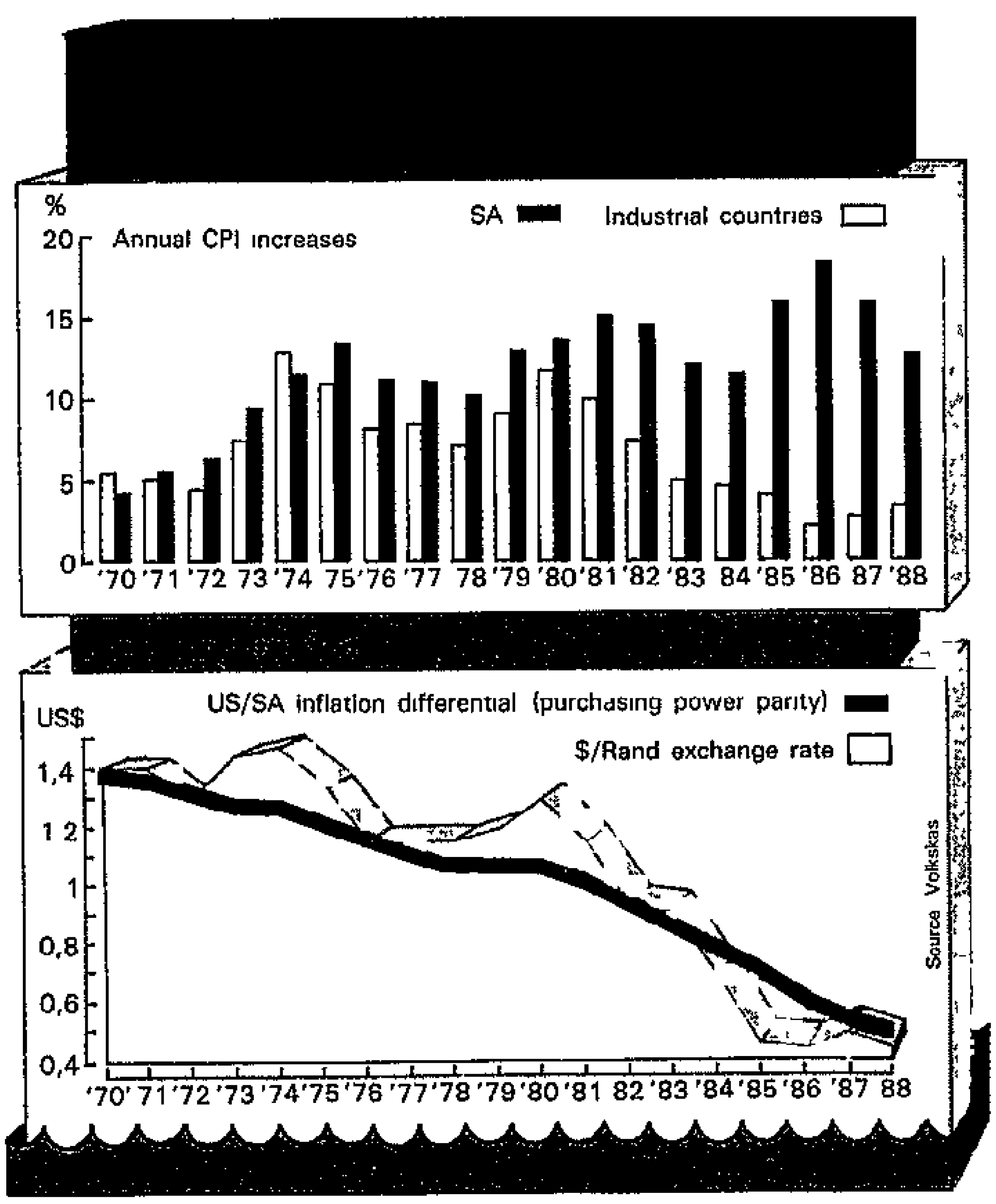


at 1,6%, the highest increase in almost two years — pushed the rate up to 13,3%

The 12-month increase in CPI has bottomed out after a three-year fall (from a record 20,7% in January 1986) This turnaround, long expected, follows two years of rising money supply growth

The outlook isn't bright, with economists predicting a rate as high as 17% by year-end State price rises are coming through On April 1, Sats will increase domestic air fares (9%-13,7%), rail rates (8,6%-10%) and the tariff on transporting crude oil by pipeline (12%)

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

The upshot of high and rising inflation is that the rand remains fundamentally weak

Gold booms in 1974 and 1980 pushed the rand unusually high, the 1985 foreign debt crisis made it plummet temporarily But, Volkskas says, one factor has been keeping it on a steady, downward path the high inflation differential between SA and the West

After the oil shocks of 1974 and 1979, industrial countries tightened money supply growth and curbed government borrowing The result their inflation rates fell fast

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

Comparing US-SA inflation and exchange rates since 1970, Volkskas estimates the rand would have averaged about US51c last year based strictly on purchasing power parity (see **graph**) In fact, it averaged US44c, 14% less

Last week, Federal Reserve chairman Alan Greenspan told Congress he expects US consumer prices to rise 4,5%-5% in 1989 Assuming a continuing US-SA inflation differential of 10 percentage points this year, parity would fall to US45c So if the rand remains slightly below parity, expect an average exchange rate near US38c (about R2,65/$) — lower if there are any political, gold or debt shocks

Hours after CPI's release — and just two days after targeted money supply growth was reported up 28,5% in a year — the Reserve Bank increased Bank rate to 16% from 14,5% Though a welcome step in curbing money creation and shoring up the rand, don't expect instant results

Econometrix, for example, has found the lag between excess money growth and price inflation can be as long as 32 months So we still have plenty of monetary indiscipline to pay for As for the long-term outlook, who knows whether the Bank will be allowed to keep monetary policy tight or be forced to ease it to meet short-term political interests?
☐ January's increase brings CPI to 166,8 from December's 164,2 (1985=100) The last time it jumped 1,6% in a month was March 1987 ■

Weekend FOCUS 2

THE INFLATION PUZZLE

The latest price trends show inflation is biting harder at people living in luxury and is easing its grip on poorer people.

WEEKEND ARGUS SPECIAL REPORT

by FRANS ESTERHUYSE, Political Staff

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

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

That may be good news for many despairing wage-earners, but Dr du Toit also has bad news there are individuals and groups hit by an inflation rate of over 30 percent — way above the official figure of 13,5 percent for the "average" household

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

He and his team are the first to know the latest price trends and to measure the rate of inflation as reflected by rising or falling prices affecting consumers

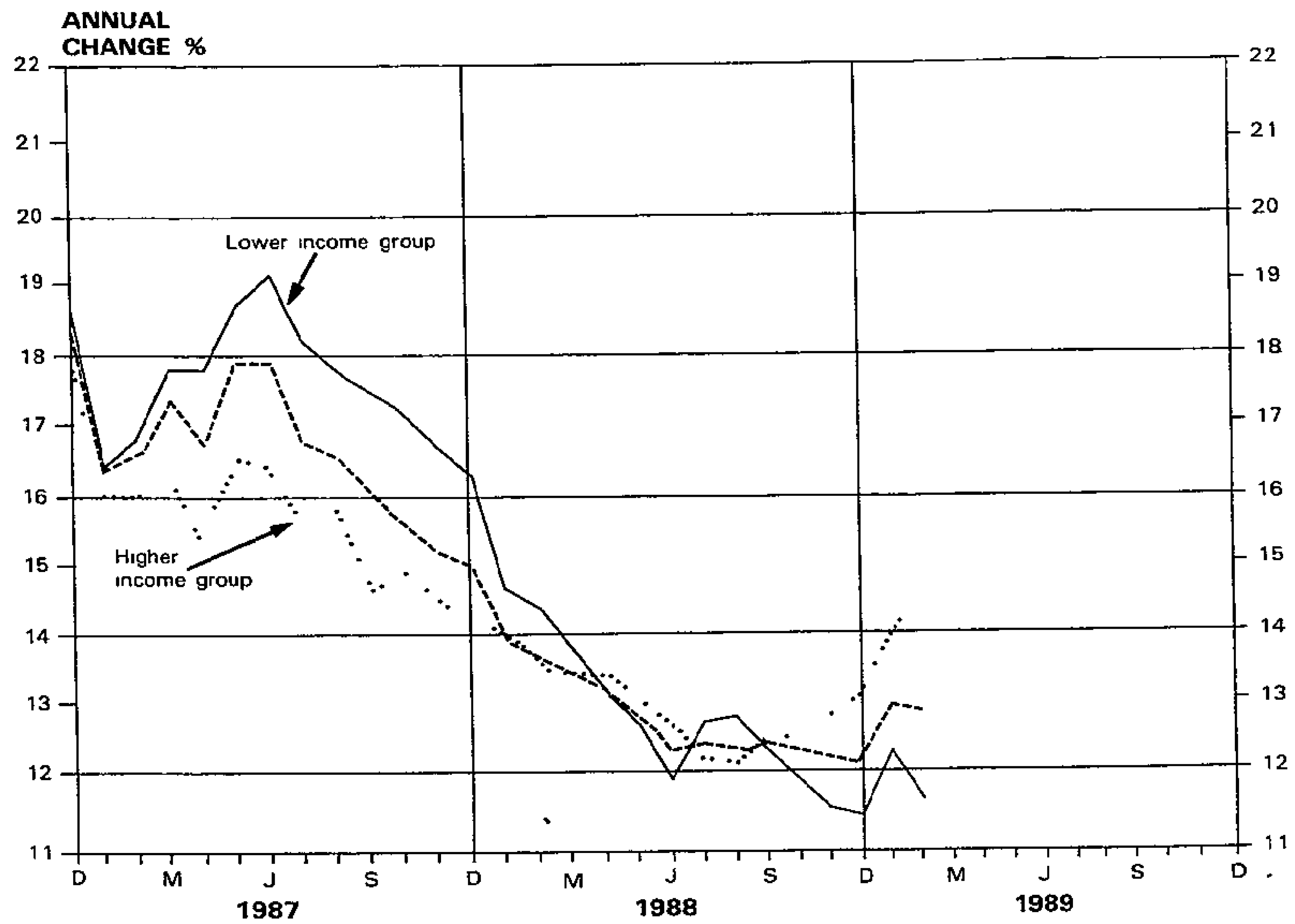
In an interview this week Dr du Toit made it clear that the CPI was often misunderstood The official inflation rate, he said, was an average figure for the whole country and did not necessarily reflect the individual's experience of inflation and price rises

SOME individuals and groups could even experience a far higher — or lower — rate of inflation than that reflected by the official figures

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

Dr du Toit said that when trade unions, for example, negotiated wage increases on the basis of the official CPI, the increases arrived at could be out of line with the inflation rate actually experienced by union members

It might be advisable, therefore, for such unions to construct a CPI that would be more



THE graph shows how the inflation rate for the lower-income group has been dropping while the higher and middle-income groups felt the bite of a higher rate in recent months. The new trend comes after a steady decline in the overall inflation rate since mid-1987.

applicable to the experience and life-style of their own members

Recent price trends showed that certain food prices had dropped, which meant that the lower income group, for whom basic foods were an important part of the "basket" of goods and services on which they spent their money, would experience an easing of the inflation rate. (Average food prices had increased 11,8 percent between February last year and February this year, which was lower than the overall inflation rate)

Prices of certain luxury goods, on the other hand, had shown faster increases, which meant that people spending much on such goods and services would experience a higher rate of inflation — even as high as 30 percent.

DR du Toit said housewives, for example, should not "stare themselves blind" at price increases in their grocery shops. They should take into account other price trends as well

Government statisticians point out that the change in prices over the period of a year is generally accepted as the inflation rate Changes are measured by using a CPI which is related to the value of goods and services during a base year

With 1985 as the "base year" from which calculations are made, the three income categories are lower: less than R8 000 a year, middle R8 000 to R19 999, and higher R20 000 and more

The index according to income group represents the change in the "basket" of consumer goods and services of an average household in each of the groups

Each group has a different "basket", which is arrived at from a study of the general spending patterns of a representative sample of about 10 000 households in the various groups The "basket" contains all the items on which an average household spends money to buy goods and services

The lower income group, for example, spends 55 percent of its total on food, clothing, footwear, housing and public transport, compared with 45 percent by the middle income group and only 28 percent by the higher income group

AGAINST this, the spending on more luxury items such as house-owners' costs, servants, vehicles, transport (running costs) and recreation and entertainment amounts to 41 percent of the "basket" of the higher income group, 23 percent for the middle income group, and only 15 percent for the lower income group

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

It is stressed, however, that these indices do not show whether it is more expensive to live in one city than another, but indicate only the general prices changes in each urban area, independently of the others (an inter-urban comparison of price levels is prepared and published occasionally by the Central Statistical Service)

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

Statisticians admit that the "basket" of goods and services which is used to measure price changes is fictitious and its composition could be altogether different from the "basket" of an individual household

To work out the CPI the prices of all the goods and services in the "basket" are needed The CSS has chosen about 600 different goods and services for this purpose The prices of these are regularly obtained by means of postal surveys from a representative sample of about 3 000 outlets in the 12 urban areas

THESE outlets range from large to small, suburban to downtown, and include such retail points as supermarkets, hairdressing salons, garages, cinemas and bottle stores Additional information is obtained from municipalities (property rates and charges for water and electricity), Posts and Telecommunications, universities and others

About 250 000 prices are collected in this way every year

But what do price index changes tell the ordinary person?

An index value of, say, 166,8 for January 1989 means goods and services which could be bought for R100 in 1985 — the base year — would have cost R166,80 during January this year — a price rise of 66,8 percent since 1985

The index value of 166,8 for January 1989, when compared, for example, with 164,2 for the previous month, shows that prices increased by 1,6 percent since December

The official inflation rate for a particular month reflects the percentage increase in the index since the same month of the previous year

While the general index relates to an "average" household, more specific indices are provided for not only the different income groups and geographic areas, but also for pensioners

THE statisticians say one of their more serious causes for concern is the distrust of the consumer price index among users in both the public and private sectors This is predominant during low business cycle periods, that is, during periods when many households experience hardship

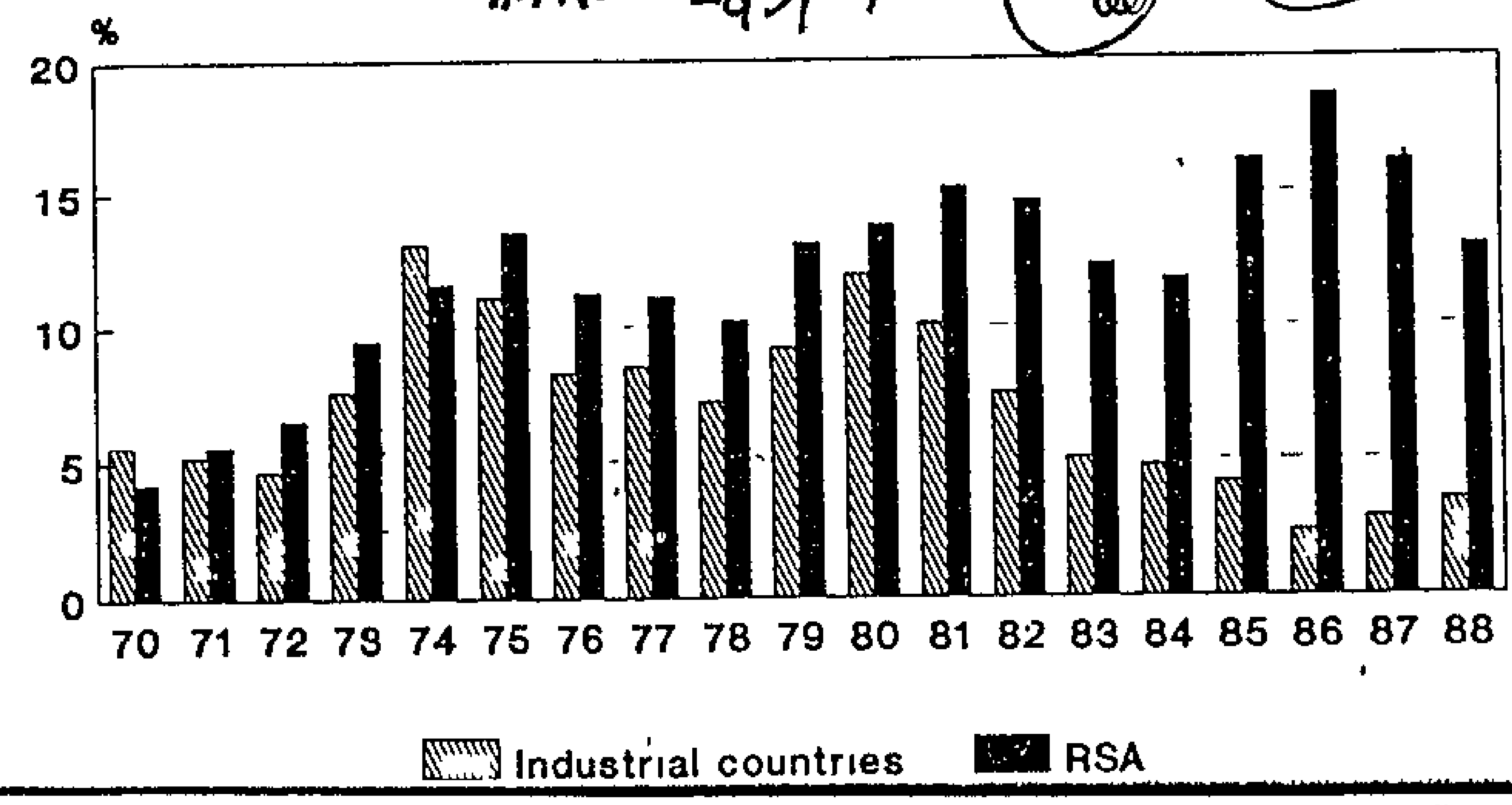
The CPI is criticised on the grounds that it does not reflect price changes to the same extent as that experienced by consumers Such criticism is usually as a result of the experience of individual consumers who try to make comparisons between the index and price changes of specific brands of goods at a particular store or stores

The experts say such comparisons are invalid in terms of the average "basket" of goods and services They point out that there are actually very few individuals or smaller groups of individuals who experience price changes similar to those reflected in the CPI

Consumer Price Index
Industrial countries & RSA

153

ASSS 28/3/89



South Africa has failed to keep pace with its major trading partners in the fight against inflation This graph clearly shows the strong impact high oil prices had on the inflation rates in the West and how quickly the strict fiscal and monetary measures that were adopted paid off Volkskas says in its latest Economic Spotlight that South Africa has been unable to shake off the stranglehold of a high inflation rate The bank says excessive growth in money supply played a pertinent role Volkskas says seen its entirety, and especially at times, the fiscal policy in the years 1974-75 and during the 1980s was too expansive and not always in accord with the monetary policy.

ECONOMY

Call to halt interest rates spiral

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

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

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

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

The 15 biggest debtors alone paid $10-billion more in interest in the past year, according to IMF managing director Michel Camdessus

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

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

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

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

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

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

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

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

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

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

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

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

But the senior US official said he had not detected any support within the Group of Seven industrial nations — the United States, Japan, West Germany, Britain, France, Italy and Canada — for a change in the G-7's exchange-rate arrangements—Sapa-Reuter

Short-term fiscal policy 'disturbing'

Own Correspondent

13 Aug 28/3/89 (153)

CAPE TOWN — SA is starting its fourth successive year of positive economic growth, say Standard Bank economists in their March review. Fundamental changes have taken place in the structure of the economy and, unlike short-term confidence, will not be reversed overnight.

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

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

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

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

"At this stage it is unclear to what extent the current economic strength may be illusory," says the report.

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How to track the rise and fall of prices

Star 29/3/89

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By FRANS ESTERHUYSE, Political Staff

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

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

There are individual people and groups hit by an inflation rate of more than 30 percent, compared to 13 5 percent for the "average" household

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

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

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

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

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

To work out the consumer price index, the prices of all the goods and services in the basket are needed The Central Statistical Service has chosen about 600 different goods and services for this purpose The prices of these are regularly obtained by means of postal surveys from a representative sample of about 3000 outlets in the 12 urban areas

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

About a 250 000 prices are collected in this way every year

All the indices have a value of 100 in the base year (1985) and this enables the user to make simple comparisons of how prices changed

An index value of, say, 166,8 for January 1989 means goods and services which could be bought for R100 in 1985 — the base year — would have cost R166,80 during January this year This means a price rise of 66,8 percent since 1985

The index value of 166,8 for January 1989, when compared, for example, with 164,2 for the previous month, shows that prices increased by 1,6 percent since December

BIDay 29/3/89

Boost for black business

(153)

PETER DELMAR

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

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

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

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

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

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

The immediate goals of the black

● To Page 2

US foundation to aid black business

BDay 29/3/89 (153)

● From Page 1

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

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

These include

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

● See Page 4

Inflation is mining's most pernicious enemy

153

Star 1/4/89

COLIN FENTON

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

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

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

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

Mr Fenton pointed out that while gold output rose from 604 tons in 1987 to 619 tons in 1988, profits decreased by 1,6 percent

The rise in costs could be laid at the door of the high rate of inflation, which was squeezing the marginal mines and undercutting their ability to develop.

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

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

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

Reserve Bank hopes to hold inflation at 15%

153 Star 31/3/89

Finance Staff

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

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

Prospects of rising inflation, and a weakening rand caused pre-emptive buying in anticipation of further price increases and for the early implementation of spending plans

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

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

Total claims of all monetary institutions on the private sector jumped by R5,1 billion in the fourth quarter Hire purchase and leasing rose by R455 million in the fourth quarter compared with R355 million in the previous nine months

Mortgage bonds

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

The Bank also said the rate of private fixed investment during 1988 increased by nearly 6,5 percent over the figure for 1987 compared with declines of nearly 18 percent and three percent in the previous two years

In the fourth quarter on an annualised, seasonally adjusted basis, salaries and wages rose by 23,5 percent compared with the same period in the previous year The average for the year was 16,5 percent (17 percent).

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

While the primary sector — mining and agriculture — lagged behind this overall growth rate, growth in the secondary sectors and in manufacturing reached impressive figures of 5,5 percent and six percent respectively

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

Reserves

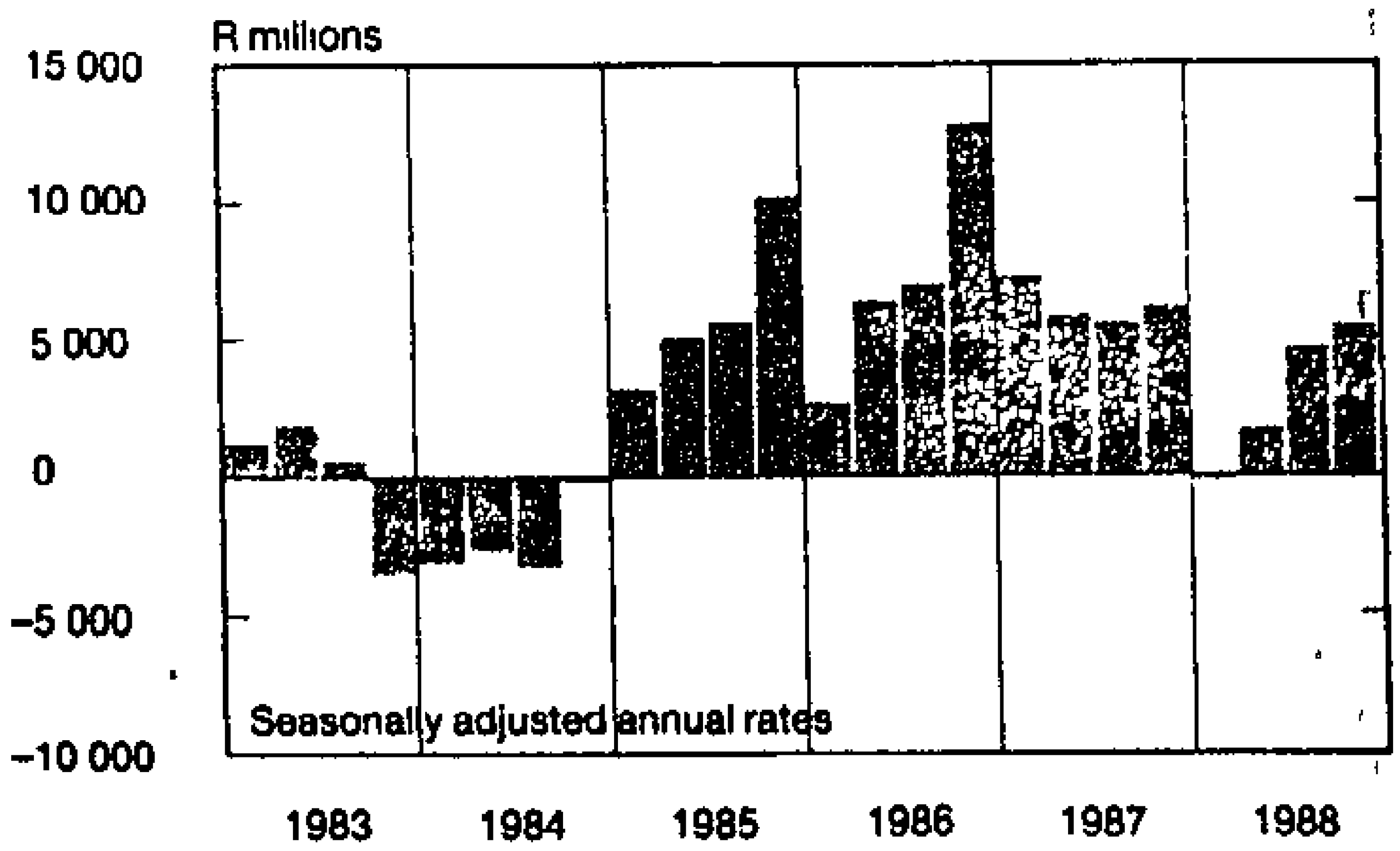
The Reserve Bank pointed out that a strengthening of the surplus on the current account and a markedly smaller outflow of non-reserve related capital in the fourth quarter helped arrest the decline in gold and foreign exchange holdings in December, January and February

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

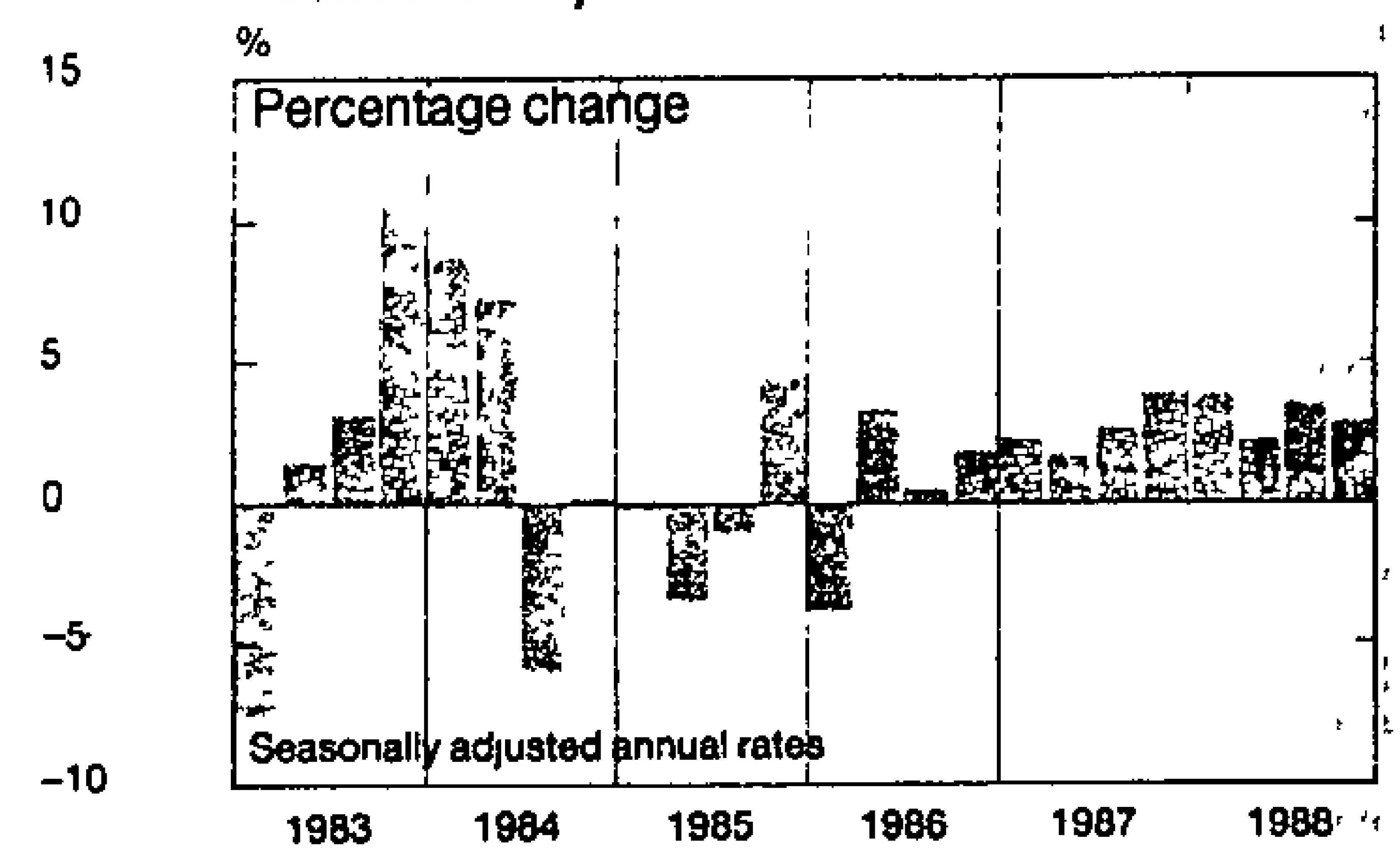
Reserve Bank Governor Gerhard de Kock said in a seperate article that fiscal and monetary policy had to recognise the existing short-term constraints

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

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



Balance of Payments on current account.



Real Gross Domestic Product.

Large SA corporations fuel domestic inflation rate

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CNL Times 3/4/89

By BOB MALCOLMESS

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

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

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

List of offenders

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

Also high on the list of offenders are municipalities, government agencies, utilities and state-owned corporations The red tape used over the years to unsuccessfully prevent misappropriation of funds has instead strangled any vestige of initiative that could have been applied to the procurement of materials and services There is no doubt that if purchasing in these areas was left to fully-trained professionals, the risk of fraud would diminish tremendously, while at the same time Barend du Plessis could find that he doesn't need his billion-rand buffer

The other category influences inflation in a more subtle and consequently more pernicious way These are the industrial and mining giants who should wield tremendous purchasing power and, in many cases, attempt to do so with frightening results The trap they fall into would be obvious if they took the trouble to consult their own highly successful marketing divisions, and it arises from their very size.

'Preferred customer'

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

So what? you may say So plenty! In closing the deal they often establish an artificial "lowest possible price" for that product, after all, they say with awe in their voices, ABC Group pays that price, how can you expect better? Back at the ranch, they have with great reluctance, allowed a "preferred customer" clause to be written into their contract with ABC This says in effect that should they sell that product to a third party for a lesser sum than that charged ABC, total future ABC purchases will be at the lower price From now on they cannot afford to sell at a lower price and the "artificial" lowest price now becomes reality, as their smaller competitors are only too happy to climb on the band wagon

Corporate incest

Apart from the previous example, giant corporation buyers are often lulled into complacency, a complacency to which the seller happily contributes by feeding their egos to the hilt Many of them are poorly trained and have managements that pay little or no attention to purchasing, all of which leads to gross inefficiencies and ultimately inflation of their product prices

I must mention in passing the evil of corporate incest — trading with parent and sister companies on a preferred basis at an artificial price which in turn gets built into the end product So who gets screwed in the end?

The end result of this bad buying is inflation and spiralling inefficiency The small companies go bust for lack of support and the giants grow bigger and less cost effective daily For the sake of South Africa our buyers must learn their trade and be given the teeth to practise it

□ *Bob Malcomess is director of group consulting services of Purchasing Management Services (Pty) Ltd*

STAR 12/4/89 (153) (32)

Saambou chief calls for better inflation controls

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

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

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

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

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

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

Interest rates were then raised to cool the economy However, without the support of sufficient fiscal discipline, interest rates were a blunt instrument

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

Tax incentives should be applied to encourage the individual to save Drastic steps to this end were required now

He suggested that tax on personal income from interest be abolished

The loss of R800 million should not be raised by way of alternative taxes, but rather through government expenditure. The existing tax-free and partially tax-free investments offered by the Post Office, building societies and the Treasury should also be abolished because this kind of investment was to the advantage of the high-income group only

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

Mr Sloet said that in future strong emphasis should be placed on increased productivity and improved training — Sapa

Inflation hunting down retirees

(153) B/Day 12/4/87.

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

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

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

Most pensions funds provide the normal retirement date for male employees is 60 to 65 years According to current life expectacy tables, a male is expected to live 74,6 years on average and a female 78,8 years

At an average inflation rate of 18% a year, the value of money halves every four years, so by the time a man reaches the age of his life expectancy the value of his pension would be about 10% of its original value

Manning says supposing the pension rules formula is the number of years as a member of the fund multiplied by 2% of final salary, then a person with 40 years service (unusual) would retire on 80% (ie, R48 000) of his final salary (R60 000)

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

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

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

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

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

Assuming a regular increase of 10% a year, however, the position is vastly improved Using the previous example, at the age of 74 a pension of R14 400 a year will be received instead of R4 347 a year — an improvement of 300%

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

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

- ☐ 34 will have died,
- ☐ 30 will depend on relatives,
- ☐ 20 will have to keep on working,
- ☐ 10 will be receiving a state pension (R185 a month), and
- ☐ Six will be financially secure

Most people will wake up to their predicement far too late

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

Underlying inflationary trends . . .

Strong rise of 1,9% in PPI

Grt Times 13/4/89

(153) (Econ)

By BRUCE WILLAN

THE producer price index (PPI) for February 1989 increased by 1,9% over January 1989 bringing the year-on-year figure to 14,9%, its highest level since May 1987

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

The increase in January this year was 1,6% with the year-on-year figure at 14,6%, which was the same as in December 1988

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

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

The annual rate of increase for imported commodities for February 1989 was 15,2%, which is 1,3 percentage points up on the January figure and the highest recorded since November 1986, when the rate touched 14,2%

Compared with the increase for locally produced commodities, which was 14,8% or 0,1 percentage points down from January 1989, adds to the belief that a large portion of inflation is either imported or a function of the depreciating rand

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

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

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

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

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

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

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

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

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

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

He adds that the available data received by the Reserve Bank indicates that the economy is slowing down

PPI rise reinforces inflationary fears

Star 13/4/89

153

By Sven Lunsche

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

Figures released by Central Statistical Services (CSS) yesterday showed that the PPI for February grew by a year-on-year 14,9 percent over the corresponding month last year — 0,3 percentage points higher than the annual 14,6 percent rise recorded in January

It is the monthly increases that are causing headaches. The rate of increase for February over January was 1,9 percent

Given the monthly increases of 1,3 percent, 0,9 percent and 1,5 percent in January, December and November respectively, the annualised figure points to a producer-price inflation rate of 16,8 percent towards the end of this year

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

The annual rate of increase for imported commodities for February was 15,2 percent — 1,3 percentage points up on the January figure and the highest since November 1986 when when the rate touched 14,2 percent.

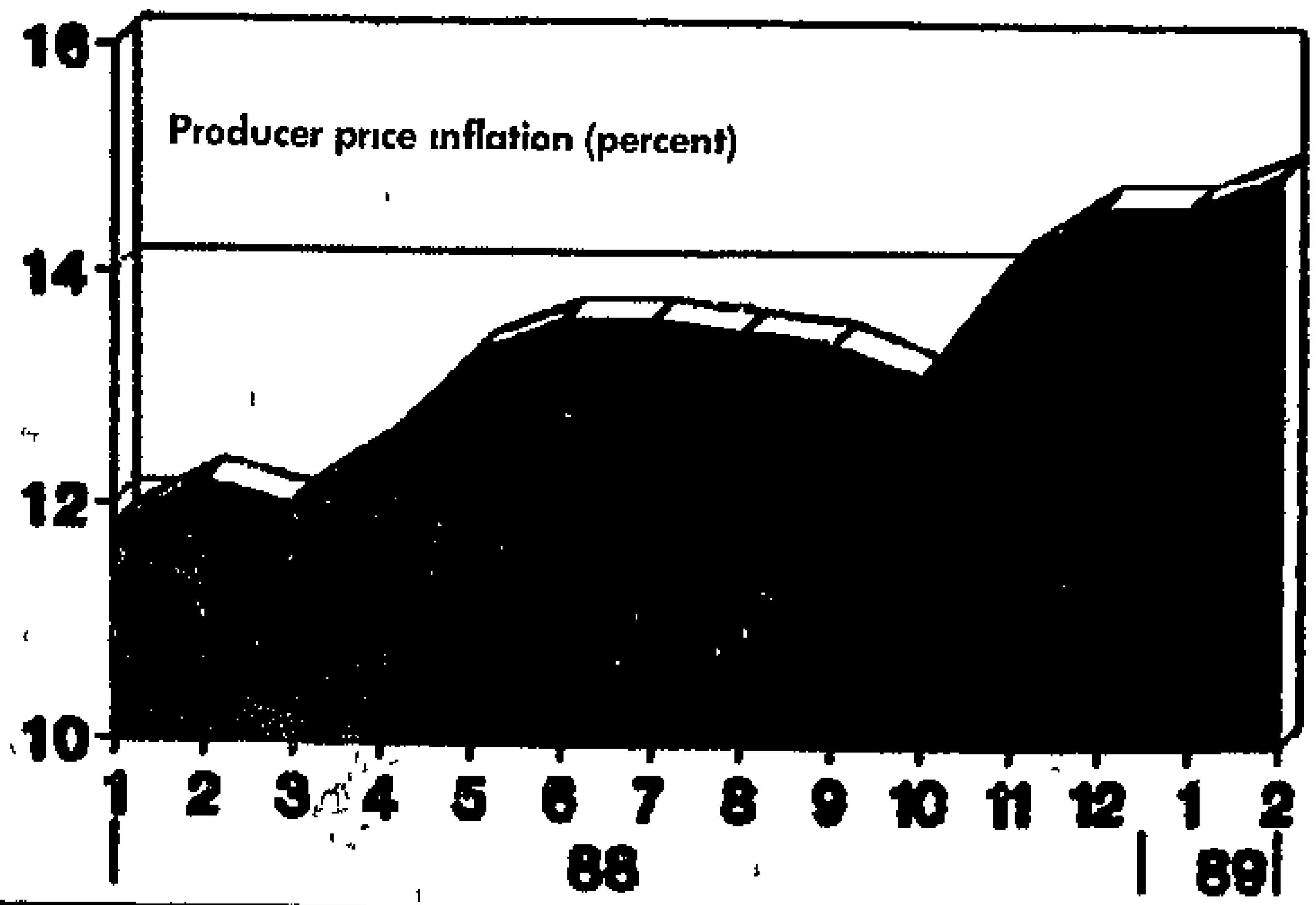
It appears that last year's lower rand exchange rate — the currency declined by over 20 percent against the dollar and by even more against other major currencies — is finally taking its toll on the price of imports

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

The increase for locally produced commodities was 14,8 percent in February — 0,1 percentage points down on the January figure of 14,8 percent.

The index for total industrial output showed an annual increase of 15,8 percent

A sectoral analysis showed that the largest monthly increases were recorded for petroleum and coal products (7,5 percent) after the rise in both the international and local price of oil



Latest fuel price hike will worsen inflation

153 8014

MARC HASENFUSS

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

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

The price of 87 and 93 octane petrol for Reef consumers increased 5c and 8c/l respectively, while the price for 97 octane petrol and diesel increased 7c and 11,9 c/l

Matus said Assocom acknowledged that cost factors were in the main responsible for the price increase, but the rise came just 12 weeks after the price of fuel was raised more than 10% for tax purposes.

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

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

Insufficient

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

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

Bungling

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

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

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

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

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

He said the increase was going to cause rumblings as it would affect the costs of day-to-day essentials and its consequences would be "disastrous"

Business Day 17/4/87

If nearly all your cash goes to food and rent, it helps to have a small appetite

When the old folk feel the pinch

Star 13/4/89 153

The elderly suffer the most as rampant inflation sends up the price of basic items, reports CARINA LE GRANGE

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

That was the response of National Council for the Aged director Mr Sid Eckley when asked to comment on the fact that the cost of living (CoL) has increased by more than 400 percent over the past 10 years

Housewives League president Mrs Lyn Morris has said the most worrying aspect of the CoL rise was how the aged coped with soaring prices of basic items like food — which are going up "on a daily basis"

Together with increased taxes through general sales tax and "bracket creep" — higher taxation through salary increases — the average income would have needed to grow more than fourfold since 1978 simply to keep pace with inflation

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

Mr Eckley said if a social pensioner "still feels positive about life today, it is a miracle — and there are thousands of miracles"

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

Social conscience

White social pensioners get R251 a month, Indians and coloureds R200 and blacks R150 Ten years ago it was R97 for whites coloureds and Indians received R54 and blacks R27 50 There has been a move towards greater parity between the races

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

Pensions have not kept pace with the rising CoL he said adding that every society should have a conscience about this

He quoted from the consumer price index [illegible] pensioners in [illegible] areas for the beginning of [illegible] with a base of 100 in 1985 the latest figure was 164 — almost two-thirds up Over the same time, pensions had increased by only 40 percent

Mr Starfield said there had obviously been a decline in the standard of living and it was "obviously harder for the aged" He said Jafta had noticed an increase in the request for aid from old people

A pensioner who was asked how she managed to live on her total income of R262 a month said "I survive because I live in a council flat in a Johannesburg slum And I'm a very light eater I have a small appetite and use food in an economical way"

The 84-year-old woman, who asked to remain anonymous, pays R55,74 rent a month and her only "major extravagance" is her telephone She makes use of every concession for pensioners such as free public transport and reduced cinema tickets

Apart from films, her other entertainment is listening to music on the radio

Asked how the ever-rising CoL made an impact on her life, she said that it restricted every aspect of life and that her pension allowed for only a "sub-subsistence living"

A 68-year-old single woman living in her own home on a fixed income of R1 100 might seem to be in a more favourable position, but she said she lived in "mortal terror in case anything in the house should break" as she could not afford repairs

She said her standard of living had fallen over the years She no longer bought meat but only chicken or cheap fish She bought the cheaper brands of other food and could not afford clothes unless they were absolutely necessary "It will be a major disaster if my house should need attention beyond the cost of its upkeep" she said

She belongs to a medical aid scheme with costly monthly payments but cannot afford to resign from it because of her age

An 81-year-old Soweto [illegible] to [illegible] live on R150 a month [illegible] grandchild who lives with him He buys her school uniforms and [illegible] other expenses Despite poor health he has to do piece jobs to supplement his pension

"I can't come out with the money It's not enough We live on mealie meal and tinned food and can't afford meat My rent is R30 a month and the water costs between R50 and R70 Buying four bags of coal for a month costs R24 There is very little over for other expenses"

According to Mr Eckley, research done in 1982 found that half of a pensioner's income was spent on accommodation and 40 percent on food, leaving 10 percent for contingencies and other expenses

He said the position of blacks was becoming desperate Part of the reason for this was the developing trend for fewer old black people to live with their families

Worse than animals

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

"Some people get close to perishing If it were not for community organisations and the Church, they would not survive Many live in worse conditions than animals"

The solution lay in long-term planning A national pension scheme, including medical care should be set up to which all people had to belong There should also be no difference in payments to different races

A vice-president of one of the Meals-on-Wheels organisations, Mrs Joan Sillman, said the CoL had severely affected the organisation Over the past 10 years requests for meals had been "increasing and increasing — not only from sick people but from the elderly who find they just cannot afford to buy food

Meals consisting of soup main course and pudding [illegible] to the home of [illegible]

BUSINESS

Will the Nats fiddle interest rates for the election (as usual)?

The Nats take no chances before the elections: they invariably raise interest rates. The question this year is how high a prime level the economy can tolerate

By BRIAN GOLD

WHAT will a general election mean for interest rates? The question assumes increasing relevance as election day — which, it is now popularly assumed, will be between July and early September — approaches

The concern all along has been that the National Party will not be willing to contest an election with high interest rates, in particular the high-profile prime overdraft and mortgage rates Disgruntled homeowners, small business owners and farmers are a problem they can do without.

Whether their votes are cast on economic criteria is doubtful — no recent South African election has been dominated by economics Certainly if this were the case, inflation has been so high, unemployment so rampant and growth and productive investment so miserable that the Nats would have been voted out of power long ago

Few Western governments would have survived with such an appalling economic record

But the Nats have also never taken the chance. Even by-elections (remember rates rose just before the Primrose by-election in November 1984, only to be brought back up soon afterwards) and municipal elections (witness October 1988) have taken precedence over monetary policy It is safe to assume this election will prove no exception

The question is how high is a tolerable mortgage and prime level for the Nats? They are unlikely to sanction another rise from present levels if the election is in July There is too short a time to increase rates and then to bring them down just before the election, or for borrowers to become accustomed to even higher levels than they are complaining about now

Most economists still reckon on a drop in rates towards the end of the year, whether from the present 19 percent or a 20 percent prime. A July election could disrupt this.

Why, it might be asked, is it a matter of concern that an upward movement in rates might be prevented by an election?

One consequence of delaying a hike in rates is that by the end of the year, it could bring a higher prime rate If rates are not sufficiently high to cool domestic demand, particularly for imports, the economy will require even more drastic measures, as still-buoyant demand does more harm to the balance of payments and reserves This means, at the best, higher rates at a later stage. It could even necessitate further import surcharges and restrictions.

A sufficient surplus on the current account of the balance of payments to repay foreign debt is non-negotiable as far as the authorities are concerned.

The prospect of an election could do more than delay a hike in rates. Possible fiscal sweeteners such as salary increases for civil servants will fuel domestic demand as the extra money is spent.

On a more positive note, July could be early enough to prevent harsh action later on. For this reason many economists favour a July election rather than one later in the year. "The longer the delay the worse the eventual pain," appears to be the popular view, even among the monetary authorities

But to assume a hike in rates will be necessary before July is also premature It is far from clear whether economic circumstances will justify a rise The latest car sales (4,5 percent down on the first quarter compared to the same period in 1988) seem to confirm that demand is slowing On the other hand the Bank's reserves are not improving (R5,1-billion in March, the same as in February)

For the moment the authorities are making it clear that the present situation requires no adjustment The Reserve Bank actively assisted the market towards the end of March by buying short-term assets — increasing liquidity by putting money into the system and reducing pressure on interest rates -

Further information on reserves, the money supply and consumption is needed before the authorities reassess the situation This month, too, the money market is seasonally liquid, with little pressure on rates

After a hectic few weeks following the budget on March 15, the markets seem to have realised this They have returned to some semblance of normality, with movements being based more on economic fundamentals than speculation

The three-month bankers' acceptance rate is down to 16,6 percent after reaching 17,1 percent at the end of March. It was 16,4 percent on budget day

At the long end of the capital market, rates are around 17,1 percent, compared to nearly 17,5 percent two weeks ago and under 16,5 percent on budget day

State may overspend by R2 bill·

Inflation should ease by year-end

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STAR 4/4/89

By Derek Tommey

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

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

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

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

Among obstacles to be removed in the short-term were

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

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

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

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

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

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

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

South Africa was being strangled by regulations However, although Government restrictions on the efficient functioning of the free market must be removed, some state intervention in the country's industrial development is requred, espcially in the beneficiation of minerals, he said

● The inflation rate for March, as measured by the Consumer Price Index (CPI), was 13,8 percent, 0,3 percentage points higher than the rate of 13,5 percent for February 1989, the Central Statistical Service announced yesterday

The monthly rise, after eliminating seasonal variations, was 1,4 percent.

The contributions to the monthly non-seasonally adjusted percentage change of 1,6 percent were made by a wide range of goods an services Of these the more important ones were housing, furniture and equipment and education which each contributed 0,2 of the 1,6 percent

The percentage change in the price index for food for March 1989 compared with March 1988 was 10,8 percent, which the CSS suggested was a continuation in the downward trend evident over the past few months.

In food item, relatively large increases occurred in the price of milk, cheese and eggs (2,1 percent), fruit and nuts (6,3 percent) and vegetables (2,4 percent)

RM's gold mines reel from inflation and sagging prices

Star 18/4/89

153

By Derek Tommey

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

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

The Free State mine, Harmony, reported a net profit for the quarter of R10,8 million, which was only 48,8 percent of the R22,1 million it earned in the December quarter

After paying the capital expenditure bill, net earnings were 13c a share — or 22,8 percent of the December earnings of 57c

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

But earnings a share after capital expenditure slumped to 14c from 40c in December

So much for the good news The bad news is that Durban Deep, which made a profit of R364 000 in the December quarter, is back in the red, reporting a loss of R2,5 million for the March quarter

However, the loss after capital expenditure contracted slightly to 160c from 167c in December

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

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

Slightly more encouraging for investors in Rand Mines is the increase in Witbank Colliery's profit by R2,5 million to R30,3 million thanks to increased export sales and higher tonnages going to Eskom

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

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

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

Blyvooruitzicht increased its milling rate, but the grade milled and gold produced declined

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

Durban Deep's milling rate dropped and, although grade rose slightly, production dropped from 1 524kg to 1 447,5kg However, the price received for gold showed a small increase

The tonnage of sands treated was more than doubled and made a significant contribution to earnings, even though the profit a ton from sands fell to R17,85 from R22,09 in December

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

But profits were hit by a jump in working costs from R91,25 to R96,28 a ton and a drop in the gold price received

Tons milled at ERPM dropped to 420 000 from 505 000 in the December quarter, reflecting the withdrawal of operations from the west section

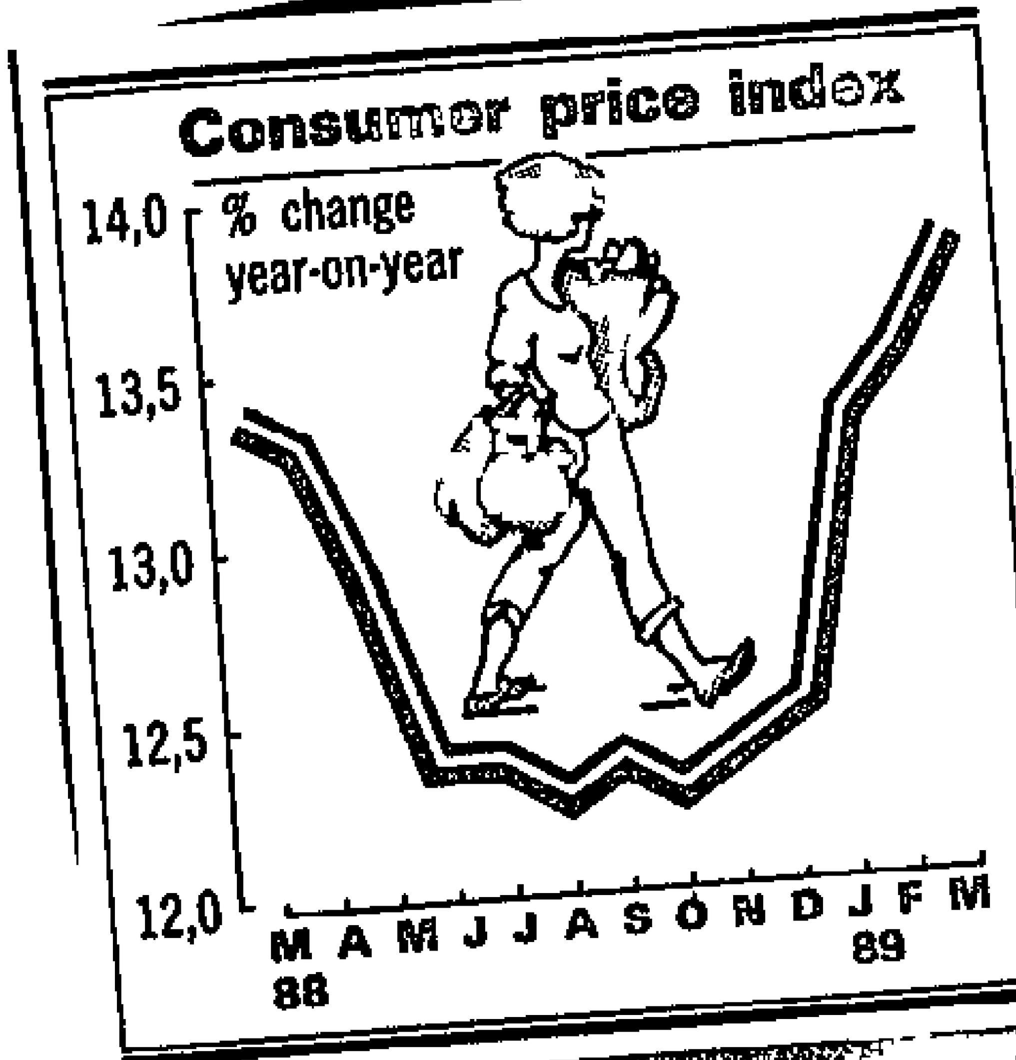
Grade improved from 3,56g to 3,67g a ton Costs rose from R163,43 to R189,9 a ton, resulting in a loss of R74,81 (R33,59 a ton

Sand treated rose to 335 000 ton (260 000) and made a significant contribution to profits

ERPM's directors say production fro the Far Eastern Section is building u and the tonnage milled for the quarter in line with projections

At the end of March the mine ha utilised loans of R318 million (December R289 million).

However, as a result of the restructuring of the loans, interest paid w R5,1 million (R5,2 million)



Inflation increases to 13,8% mark in March

153 B Day 21/4/89

MARC HASENFUSS

THE inflation rate, as measured by changes in the consumer price index (CPI), climbed to 13,8% in March this year from 13,5% in February, Central Statistical Service figures released yesterday show.

Largest contributors to the monthly changes were made by housing (interest rates on mortgage bonds), furniture and equipment and university fees, which each contributed 0,2% of the 1,6% increase

Nedcor chief economist Edward Osborn said the annualised CPI figure of 21,1% was significantly higher than last year's

TS

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TAX AND INFLATION

THE impact which inflation has on investments plays a large part in effective tax planning

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

"Naturally there is still a role for traditional fixed interest tax free investments. However, wise investors are still investing only enough to guarantee their minimum income requirements in such investments.

"Shrewd investors, who look at the long-term scenario, are generally far happier with a lower dividend producing investment with the potential for capital growth.

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

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

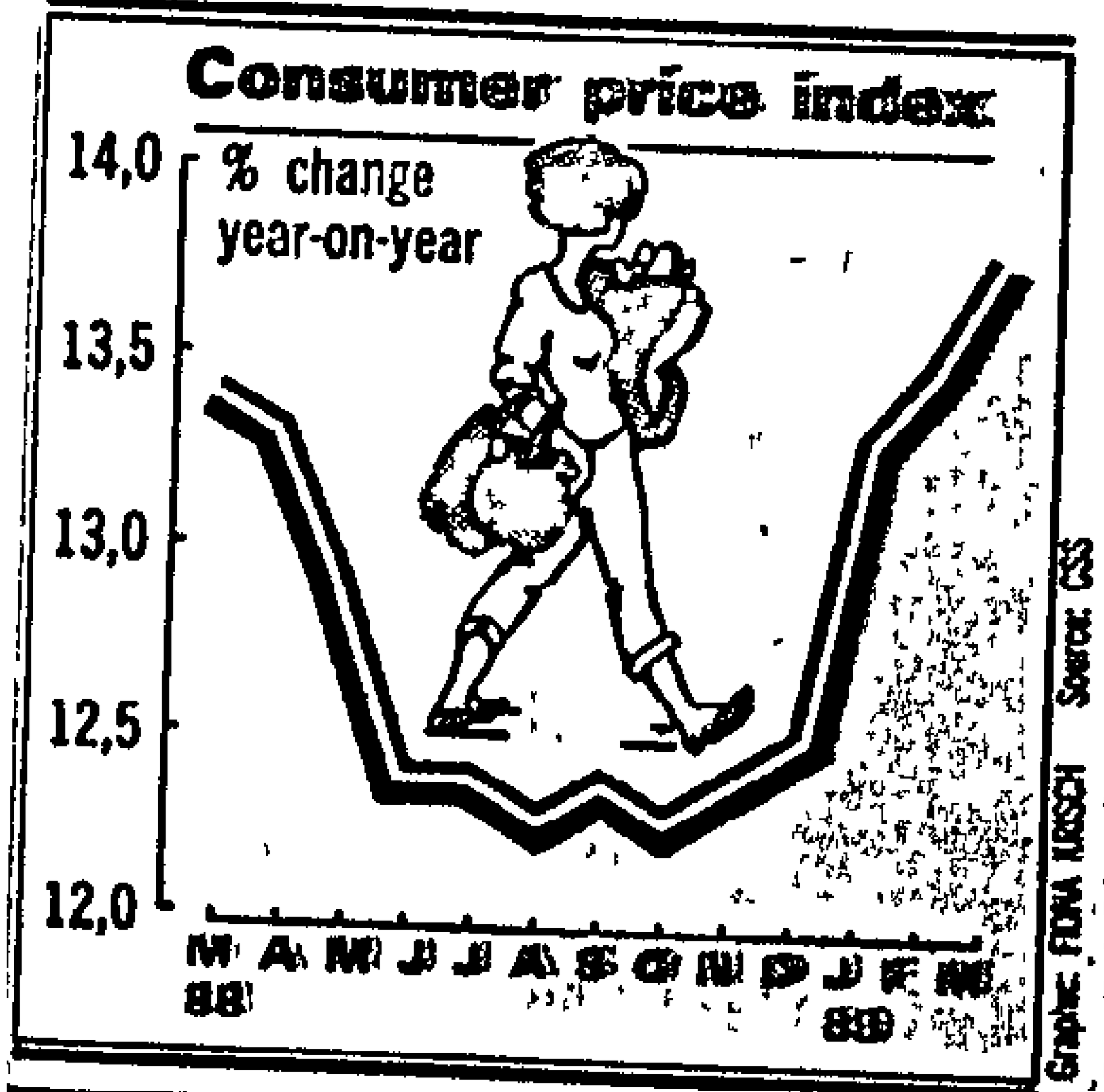
"To this income should be added the tax free capital gain of 20% per annum, which investors could have obtained via the overall index These returns are naturally well in excess of those provided for by traditional fixed interest investments

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

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

"It is therefore imperative that investors obtain asset management guidance from experts," Burgess concludes

ACCOUNT BOARD



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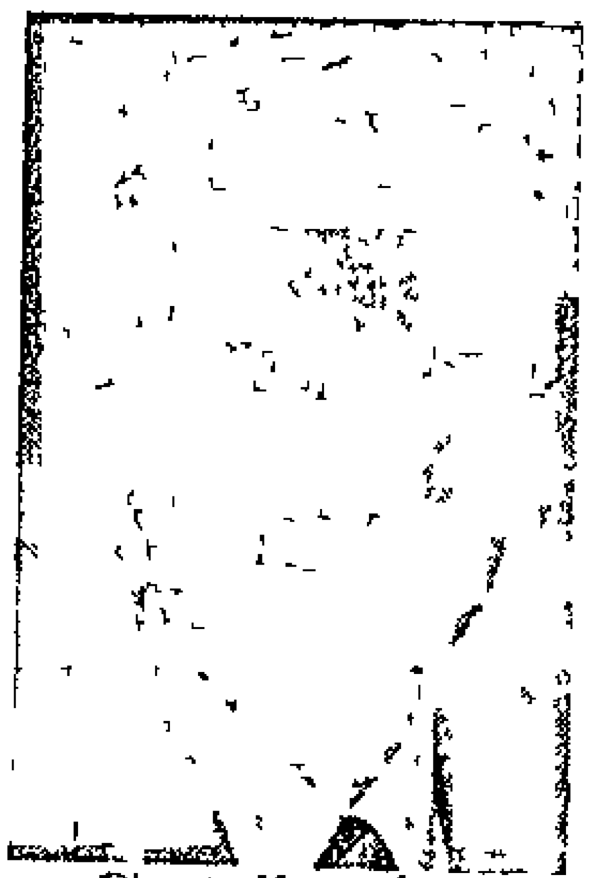
Town planners seen as a key to urbanisation

Star 25/4/89 153



Christo Kenneberg

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

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

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

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

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

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

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

OPPORTUNITIES

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

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

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

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

When the old folk feel the pinch

Argus 25/4/89 (153)

THE elderly suffer the most as rampant inflation sends up the price of basic items, CARINA LE GRANGE reports.

INFLATION

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

That was the response of National Council for the Aged director Mr Sid Eckley when asked to comment on the fact that the cost of living (CoL) has increased by more than 400 percent over the past 10 years

Housewives League president Mrs Lyn Morris has said the most worrying aspect of the CoL rise was how the aged coped with soaring prices of basic items like food — which are going up "on a daily basis"

Together with increased taxes through general sales tax and "bracket creep" — higher taxation through salary incrases — the average income would have needed to grow more than fourfold since 1978 simply to keep pace with inflation

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Mr Eckley said if a social pensioner "still feels positive about life today, it is a miracle — and there are thousands of miracles"

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Social conscience

White social pensioners get R251 a month, Indians and coloureds R200, and blacks R150 Ten years ago it was R97 for whites, coloureds and Indians receive R54 and blacks R27,50 There has been a move towards greater parity between the races

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

"Pensions have not kept pace with the rising CoL," he said, adding that every society should have a conscience about this

He quoted from the consumer price index for pensioners in major urban areas for the beginning of the year with a base of 100 in 1985, the latest figure was 164 — almost two-thirds up Over the same time, pensions was increased by only 40%

Mr Starfield said there had obviously been a decline in the standard of living and it was "obviously harder for the aged". He said Jafta had noticed an increase in the request for aid from old people

A pensioner who was asked how she managed to live on her total income of R262 a months aid "I survive because I live in a council flat in a Johannesburg slum And I'm a very light eater I have a small appetite and use food in an economical way"

The 84-year-old woman, who asked to remain anonymous, pays R55,74 rent a month and her only "major extravagance" is her telephone She makes use of every concession for pensioners such as free public transport and reduced cinema tickets

Asked how the ever-rising CoL made an impact on her life, she said that it restricted every aspect of life and that her pension allowed for only a "sub-subsistence living"

It helps to have a small appetite...

A 68-year-old single woman living in her own home on a fixed income of R1 100 might seem to be in a more favourable position, but she said she lived in "mortal terror in case anything in the house should break" as she could not afford repairs.

She said her standard of living had fallen over the years She no longer bought meat butonly chicken or cheap fish She bought the cheaper brands of other food and could not afford clothes unless they were absolutely necessary "It will be a major disaster if my house should need attention beyond the cost of its upkeep," she said

An 81-year-old Soweto pensioner has to survive on R150 a month He also supports a greatgrandchild who lives with him He buys her school uniforms and covers her other expenses Despite poor health, he has to do piece jobs to supplement his pension

"I can't come out with the money It's not enough We live on mealie meal and tinned food and can't afford meat My rent is R30 a month and water costs between R50 and R70 Buying four bags of coal for a month costs R24 There is very little over for other expenses."

According to Mr Eckley, research done in 1982 found that half of a pensioner's income was spent on accommodation and 40 percent on food, leaving 10 percent for contingencies and other expenses

He said the position of blacks was becoming desparate Part of the reason for this was the developing trend for fewer old black people to live with their families

Worse than animals

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

"Some people get close to perishing If it were not for community organisations and the Church, they wouldnot survive Many live in worse conditions than animals"

The solution lay in long-term planning A national pension scheme, including medical care, should be set up to which all people had to belong There should also be no difference in payments to different races

A vice-president of one of the Meals-on-Wheels organisations, Mrs Joan Sillman, said the CoL had severely affected the organisation Over the past 10 years, requests for meals had been "increasing and increasing — not only from sick people but from the elderly who find they just cannot afford to buy food"

Meals consisting of soup, main course and pudding are delivered to the homes of people in need Until last October, this was done at a cost of only 15c per recipient

"We very sadly had to increase the price to 45c last year This has always been a very necessary service but is now even more so," Mrs Sillman said

'Living wage under attack'

"WE cannot afford to live."

That was the message from unions this week as consumers reeled under the news of a rise in the price of maize and bread — both staple foods.

The increase raised the price of white bread by five cents to 90 cents and that of brown bread by seven cents to 76 cents

A Cosatu pamphlet distributed in the Western Cape this week said workers were celebrating Mayday at a time when they faced "many attacks on their standard of living and the majority of people were living in poverty".

National Council of Trade Unions vice-president Patricia De Lille said the increases meant workers were faced with a desperate situation

"It means we cannot afford to compromise at wage negotiations We have to demand wages that we can live on," she said

A Garment and Allied Workers' Union spokesperson said the increases represented an attack on the Living Wage campaign and workers would have to take the increases into account when formulating wage demands at negotiations.

The price spiral began with a 10 percent fuel hike in January this year, followed by a second increase earlier this month

The rise in fuel costs led to a spate of increases in the price of consumer goods and transport.

In Cape Town busfares are to go up this week by an average of 10 cents a ride

The increase from 12 to 13 percent in general sales tax in the budget was another blow for consumers

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Smith 27/4-3/5/89

INFLATION (153) FMAIL 28/4/89.

Missing the point

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

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

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

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

This reduced the danger of a dangerous inflationary spiral How close we came is seen in annualised inflation of 24,9% in first-quarter 1986 — a rate which could trigger hyperinflation

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

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

This admission must be seen in conjunction with one conclusion in his case study (see "A fighting chance"), that eliminating ex-

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cess demand "by monetary and fiscal policy, even if this means significantly higher interest rates, reduced government spending and/or increased taxes" is a pre-condition for an effective BoP adjustment On the record of the past year, the only one of these that politicians wholeheartedly support is a tax increase — and this alone cannot support the burden of economic policy

Star 15/4/89 (153)

Inflation index rises to 13,8 pc

Staff Reporter

The South African annual inflation rate as measured by the Consumer Price Index (CPI) in March 1989 was 13,8 percent — 0,3 percent higher than February 1989

The percentage change in the price index for food for March 1989 compared with March 1988 was 10,8 percent

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

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

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

EDUCATION FEES

Relatively large increases occurred in the price of milk, cheese and eggs (2,1 percent), fruit and nuts (6,3 percent) and vegetables (2,4 percent) There were also large increases in the prices of alcoholic beverages (5,4 percent), clothing and footwear (2,4 percent), fuel and power (2,5 percent), furniture and equipment (3,3 percent), household operation (2,3 percent), personal care (4,1 percent) and "other goods and services" (2,4 percent)

The price of education (mainly university fees), which is determined once a year, increased by 20,2 percent

Of the various urban areas, the Vaal Triangle area experienced the largest monthly increase (1,8 percent) which, annualised, exceeds 21 percent

The CPI for pensioners for March 1989 indicated an annual increase of 11,4 percent. This was 2,4 percentage points lower than the inflation rate of 13,8 percent for all income groups for March 1989

From page 1

Inflation

Cape Times 8/5/89 (183)

income spent on a certain type of ~~goods~~ — differ markedly from those used by the CSS For example, the CSS gives food and household supplies as making up 22,72% of expenditure, while Dr Posel calculates a minimum 32%

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

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

The Housewives League, though, believes the CSS figures are not anywhere near reality National president Mrs Lynn Morris said yesterday "The latest CSS release says that food increased in price only 10,8% in March, showing a continued downward trend This is nonsense, as any regular shopper can tell you"

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

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

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

He said that matching the 31% inflation rate would not help — "it will simply contribute to the inflationary spiral Hopefully, what will happen now is that government's eyes will be opened to the urgency of the situation and the need for a drastic solution"

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

"But it is questionable whether they will, given that there is an election in September"

Row over 30% inflation rate

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Cit Times 8/5/89

By MEG BRITS

A ROW is brewing over calculations which put the inflation rate at 31% — rather than the 14% suggested by the Consumer Price Index, calculated monthly by Central Statistical Services.

The author of the 31% figure, Dr Karl Posel, former professor of applied mathematics at the University of Durban Westville, says the only thing which would bring the inflation rate under control now is an immediate price and wages freeze — and an immediate halt in the increase of the money supply

He said yesterday that his calculations, based on the monthly expenditure of specific model families, showed that the "real inflation rate" — the amount by which expenditure of disposable income increased — was close to 31% a year

This does not include the effects of the latest petrol price increase or Friday's economic package, which will push up the costs of all consumer goods, hire-purchase payments and mortgage bond rates

Consumer organisations support his theory — but supermarket spokesmen said yesterday that his figures were way out

Drawbacks

Assocom statistician Mr Ed Verberg took a middle path saying that Dr Posel's figures were "in a certain sense correct", in that they were based on the experiences of individual families

"However, one cannot take issue with the CSS figure, which reflects a national average Its drawbacks might be that the weightings of items of expenditure in the CPI are incorrect because the last household survey was done more than four years ago, and that the 'average' CSS family is fictitious "

Dr Posel has previously taken issue with the CSS for the manner in which it calculates the CPI, saying that its lack of a "model family" means that its postulate is unsound, in that it conflicts sharply with reality

His latest figures are based on the expenditure of three different types of family, for which he has made assumptions of monthly outlay on various household goods and services

The weightings of items — or the percentage of the

To page 3

CONT.

Inflation — who is right?

(153)

Star 9/5/89.

Diagonal Street

DEREK TOMMEY

What is the current inflation rate in South Africa? The Central Statistical Service is said to put it at 13,8 percent while a professor in Natal says that 31,0 percent is nearer the mark. In fact both could be right

Much depends on what figures you take and how you intepret them. Actually if you look hard at the CSS figures for March — the last month for which figures are available — you will find that inflation in that month was running at 19,26 percent.

Therefore it is clear that the figure of 13,8 percent does not reflect the current inflation rate. But to be fair to the CSS it has never in so many words claimed that this is the case.

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

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

An analysis of the CSS's consumer price index for March showed that prices in that month rose 1,6 percent — the greatest monthly increase since September 1986. It also indicates that inflation could currently be running at an annual rate of more than 19 percent. However, economists do not like paying too much attention to one month's figures as they could be inflated or deflated by special non-recurring factors

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

For example, the 10 percent rise in liquor prices in the first quarter becomes a 40 percent annualised rate which is probably much too high. The same can be said about the 12,47 percent rise in medical costs in the quarter which translates into an annual increase of 49 percent, and the 20 percent increase in education and training fees which becomes 80,9 percent on an annual basis

The increase for the lower income groups was estimated at 11,9 percent and at 14,8 percent for the middle income groups.

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

It is rather mind-numbing to realise that clothing prices were up 20 percent a year in the first quarter, that vehicle running costs were rising at a rate of 26,8 percent and that vehicle prices were rising at a rate of 28,1 percent.

This table shows the rise in prices in the three months ended March at an annualised rate, and the corresponding annual price increases in 1988

	JAN/MARCH annualised %	1988 %
ALL ITEMS	16,3	12,5
Lower income groups	11,9	11 1
Middle income groups	14,8	12 1
High income groups	18,8	13,1
Commodities	15,8	13,9
Services	16,9	10,1
All items excl housing	17,1	12,8
All items excl food	18,8	12,2
Food	8,7	12,2
Low income	6,3	11,5
Middle income	8,5	12,4
Higher income	10,9	12,5
Grain	1,8	11,0
Meat	6,6	17,1
Fish	-6,4	16,7
Milk	15,3	12,4
Fats	9,6	0,2
Fruit	—13,8	— 0,5
Vegetables	8,7	4,1
Sugar	21,6	24,1
Coffee, tea cocoa	31,5	6,6
Other	22,7	12,6
Non alcoholic beverages	—2,2	16,4
Alcoholic beverages	41,8	21,8
Cigarettes, tobacco	8,6	6,0
Clothing -footwear	20,8	12,4
Clothing	21,8	11,8
Footwear	16,5	15,2
HOUSING	13,2	11,0
FUEL AND POWER	12,2	11,3
FURNITURE AND EQUIMENT	15,4	7,5
Furniture	19,2	6,4
Appliances	10,8	7,5
Other	12,8	9,5
HOUSEHOLD OPERATION	13,4	14,0
Consumable goods	13,3	14,9
Domestic servants	12,8	14,2
Other	17,2	8,6
MEDICAL CARE AND HEALTH EXPENSES	49,9	12,6
TRANSPORT	22,6	15,8
Vehicles	28,1	23,5
Running costs	26,8	15,6
Public & hired transport	5,7	2,5
Communication	—	—
Recreation	9,7	12,8
Reading matter	2,2	8,0
Education & training	80,9	15,8
Personal care	19,2	13,1
Other	16,9	11,8

Schwarz calls for inflation probe

CAPE TIMES 9/5/89

By MEG BRITS

15.3

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

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

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

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

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

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

Substantial economic growth seen . . .

Inflation expected to 'skyrocket'

Cape Times 11/5/89

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By AUDREY D'ANGELO
Financial Editor

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

BER director Ockie Stuart and economist BA Mocke expect average pay increases of 17,5%. But they also expect an increase in direct taxation, due to fiscal drag

As a result of this and rising prices they expect real disposable income to go up by only 0,7% this year and to fall by 1,2% in 1990

Consumer demand

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

But although private consumption expenditure is expected to increase by only 1,9% in real terms compared with 4,8% last year, they think "the propensity to save will average out at a mere 0,6% in 1989"

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

They expect the inflation rate for 1989 to average 15,5% and the inflation rate for 1990 to average at least 14,5%

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

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

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

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

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

They expect merchandize exports at current prices to grow by an average of 20% in the current year and 9,6% in 1990

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

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

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

Stuart and Mocke expect a current account surplus of R2,9bn for 1989 and R6,7bn for 1990

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

Capital outflows of approximately R4bn are expected for 1989 and R5,3bn for 1990

"Short-term capital outflows will amount to about R1,9bn and long-term outflows to around R2,1bn for the current year

"The implication of this is some inroad into reserves with capital outflows exceeding the surplus on the current account."

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

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

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

Direct taxation

They say that, since no provision was made in the last Budget for fiscal drag, growth in direct taxation could be as high as 22,4% on average.

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

"The net outcome of the above trends is a projected increase of 16,2% in nominal disposable income in 1989 "

Stuart and Mocke expect 1990 to be "a difficult year", with higher unemployment and lower pay rises and an increase of 13,1% in direct taxation

Stressing that inflation in 1990 could be higher than the 14,50% they forecast now, Stuart and Mocke say the nominal increase in disposable income of 13,1% which they expect "will convert into minus 1,2% in real terms

"After provision has been made for population growth we find that in per capita terms real disposable income will decrease by 1,8% in 1989 and by a hefty 3,6% in 1990 "

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Even more punishing inflation ahead — BER

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

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

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

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

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

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

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

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

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

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

At one stage in 1988, the BER's forecast for the rate of expansion of gross domestic product (GDP) was scaled down from an initial 3,6 percent to as low as 2,5 percent

There had thus been some surprise at the Government's preliminary official estimate of 3,2 percent

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

Last year the average inflation rate declined from 14,2 percent in January to 12,5 percent in December, with an average rate of 12,9 percent

For the current year the Bureau forecasts an average inflation rate of 15,5 percent, dropping to 14,5 percent for 1990

The remuneration of employees is projected to increase by 17,5 percent — a percentage point higher than last year

Income from property is expected to increase more rapidly, resulting in a 1989 personal current income growth of 16,9 percent, which is 2,4 percentage points higher than the previous year's growth rate

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

The combined net result of these trends is a slow growth of 0,7 percent in real disposable income, which is half a percentage point lower than last year's figure

As a result, private consumption expenditure was expected to increase by 1,9 percent in real terms, compared with the 4,8 percent recorded in 1988, the Bureau said — Sapa

New challenge to statistics

7/7 Times 14/5/89

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By Udo Rypstra

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

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

The first challenge to CSS came from Karl Posel, former professor of applied mathematics He claims that SA's inflation rate is more than 30% a year instead of the 13,8% calculated by CSS.

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

Potential

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

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

Mr Strauss says that instead of conducting research on a "horizontal level" — for instance, on consumer response only — BMI carried out a "vertical" study of the home improvement market. It is based on a "comprehensive sample of 2 000 manufacturers, builders, merchants, contractors, specifiers and local authorities" It also covered 150 building products.

Misleading

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

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

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

"Expenditure on alterations and extensions to residential buildings definitely exceeds expenditure on non-residential property."

Economic

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

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

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

Negative

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

The survey also found that the private sector's contribution to building activity grew by 37% between 1985 and 1987. This is 72% of all building activity. Public spending rose by 15% in the same time, but its share of the market fell from 32% to 28%.

CAPE TIMES 15/5/89 153

Estimate of rise in food prices 'low'

Own Correspondent

DURBAN — The government's estimate that food prices rose by just 10,8% in the past year is "just not feasible", says a former professor of applied mathematics.

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

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

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

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

Regarding the 10,8% suggested as the increase in the price of food from March '88 to '89, Dr Posel said this was possibly calculated by comparing two identical baskets of foodstuffs.

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

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

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

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

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

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

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

• Dr Posel's family models' rates of inflation range from 31,53% for a non-working wife, middle-management husband and two primary school-going children to 33,5% for a retired couple living in a bond-free home

Yesterday he calculated rates for two single reporters in their mid-twenties, neither of whom paid the car instalments, bond repayments or education costs of the average family

The first, who paid a monthly rental of R350 and R200 for petrol, had an inflation rate of 25,7%, while for the other, who cut down on expenses by living in a commune, it worked out at 20,8%

Although they did not have some of the most inflationary expenses, Dr Posel said, the reporters' inflation rates, indicative of many young single South Africans, were still way above the official figure

PE director pleads for sounder statistics on rate of inflation

BDay 15/5/89 KAY TURVEY 153

CENTRAL Statistical Service's inflation figures should be scrapped if they were not an accurate guide for companies as a basis for pay structures, PE Corporate Services director Jon Cole said on Friday

"If the figures have no practical application in wage and salary planning, then the service is a total waste of the taxpayers' money and should be scrapped," he added

He was reacting to studies by Prof Karl Posel which put inflation at about 31% and not the official 13,9%.

Cole said CSS head Treunicht du Toit had admitted the consumer price index was not an accurate guide for salary negotiations. He argued the CPI should be turned into a meaningful measure for economists and others who needed a reliable indicator

Employers left without 'yardstick'

CAPE TIMES 16/5/89 (153

By AUDREY D'ANGELO
Financial Editor

DOUBTS about the accuracy of the consumer price index (CPI) have left employers without any yardstick for deciding on annual wage and salary increases, says a leading firm of management consultants

A director of P-E Corporate Services, Jon Cole, said that all employers in the country used the CPI "as a basis on which to begin remuneration planning and negotiations"

Economist Adriaan Mocke of the Stellenbosch Bureau for Economic Research said the CPI had been used as the basis for its recent forecast that wages and salaries would rise by an average of 17,5% this year

"Adding 2% to the CPI enables staff to maintain their purchasing power They are at least then standing still and not going backwards"

But the director of the Cape Chamber of Industries, Colin McCarthy, said the CPI was never intended to be used for this purpose but was only a short-term measure to show the movement of a basket of prices

McCarthy said that pegging wage and salary rises to the CPI without any equivalent rise in productivity was inflationary

He thought the PPI a more realistic basis for pay rises But he thought the best way was a comparative survey among employers "to show what the market will bear"

Cole said he thought an admission by the head of the Central Statistical Services, Treurnicht du Toit, that the CPI was not an accurate guide for companies to use as a basis for pay structures or to conduct wage and salary negotiations "has made a strong case for the service to be closed down"

Cole added that if the figures had no practical application in wage and salary planning the service was a total waste of taxpayers' money and should be stopped

"In 13 years of being involved with organizations as a consultant in wage and salary structuring and negotiations we have always used the CPI as an official guide to the rate of inflation

"This policy continued even after the CSS changed the shopping baskets a year ago and it was widely accepted that the CPI presented a conservative view of inflation"

Now, Cole said "Du Toit has wiped out the only indicator by which standards are set in this country"

It would be almost impossible for individual businesses to construct their own index and have meaningful results without a common approach

"It would mean taking on extra staff and at the end of the day the measure would be challenged by unions and possibly even the industrial court

"Surely the CPI must be turned into a meaningful measure"

Cole said that while inflation was obviously running well ahead of the CSS estimate of 13,9% there were other factors undermining the relative wealth of all South Africans

"Account must be taken of factors such as increased taxation and fiscal drag"

McCarthy said "The CPI is not reliable enough over the long term to be used as a guide when fixing pay rises It was never intended to be that

"Very often when there is a massive hike in the CPI the ability of the employer to give a large pay rise goes down It is at such a time, when people should be tightening their belts, that they say they want more money

"To peg pay rises to the CPI is to fuel inflation It is market forces, not the CPI, that should decide pay levels"

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INFLATION THE ISSUE FOR WHITES, SAYS SURVEY

RIAAN SMIT

WHITES living in Johannesburg see inflation as the primary problem facing SA rather than such issues as meeting black demands for political participation, a survey conducted for the American Chamber of Commerce in SA (Amcham) has found

The survey of 1 672 respondents —on perceptions of civil liberties, sanctions and the economy — undertaken for Amcham by Wits University senior political science lecturer Dr Philip Frankel also found.

□ White reaction to the political system is largely determined by economic conditions,

□ There is widespread apprehension over the "quality of life" under a constricted economy in the long-term future Half the respondents considered emigrating for economic reasons

Security

In this category, respondents are largely concerned with the economic consequences of political developments rather than political developments as such,

□ There is strong support for dialogue to resolve the political crisis but equally strong aversion to political communication with groups which utilise violence,

□ The white public is sensitive to violations of civil liberties but largely unyielding on the issue of maintaining state security as a primary concern,

□ While there is limited support for the release of Nelson Mandela and other political prisoners, a significant proportion of whites identify with a conditional release process as a stimulant for political negotiation,

□ The overwhelming majority have difficulty comprehending a political settlement embracing actors outside establishment politics

"What we are dealing with here is the epitome of the problem facing the State: an unmoveable and largely conservative electorate," Frankel said.

ECONOMIC OUTLOOK (153)

Finmail 19/5/89

Tears or cheers?

First significant indication of an economic slowdown has come in the quarterly GDP figure released by Central Statistical Service (CSS) this week First-quarter GDP was only 1,6% up on the previous quarter, at a seasonally adjusted annual rate This follows growth of 2,8% and 3,5% in quarters four and three of 1988

A breakdown, based on factor incomes, shows that agriculture grew by 16,4%, at constant 1985 prices This seems to have been the result of the seasonal adjustment, as Department of Agriculture figures show a quarter-on-quarter annualised but unadjusted *decline* of 24% in nominal terms In the agricultural context, a more realistic picture is provided by comparing the same quarters and a comparison with the first quarter of last year shows a 10,1% increase

Whichever figure is used, 16,4% seems hard to reconcile CSS's Helene Coetzer explains that a new method introduced last quarter of calculating growth is responsible.

Sectors hit hardest were mining, which registered negative growth of 4,4%, and manufacturing, with negative growth of 0,7% This is a reversal of the pattern of the second half of 1988, when agricultural growth was sharply negative and mining and manufacturing were comfortably up

The figures, released 45 days after the end of the quarter, are preliminary, based on incomplete information, says Coetzer, and may be revised. Moreover, they are based on production, so do not necessarily establish that spending slowed It is known that government outlays accelerated towards the end of the fiscal year in March Reserve Bank Governor Gerhard De Kock has already spoken of a provisional estimated 6% annualised growth in GDE in the first quarter

However, Coetzer points out experience shows CSS's provisional estimate is a reliable indication of a trend And deceleration in production growth and, consequently, income, will inevitably lead to a reduction in demand — unless counteracted by substantial future spending in the public sector

This should reduce inflationary pressures and ease anxieties about the current account

A sign of our troubles is that it has become difficult to tell good news from bad De Kock has pointed out on several occasions that last year's GDP growth was, in some ways, bad news Unlike most major industrial countries which in the past six years managed to grow without uncontrollable inflationary pressures or other adverse side effects, SA has to count the cost of growth carefully

So the deceleration in GDP growth must be counted as good news The really bad news is that we find ourselves in an anomalous position buying time at the expense of growth is the best we can hope for

A fundamental problem is that so many people in positions of power need the spectre of a vanishing balance on the current account to force them into action If we could rely on capital inflows, as in the past, politicians would presumably be content to allow expenditure levels to run on unchecked as we head for hyper-inflation

Quarter-to-quarter growth of 48% in credit extended to the private sector in the last quarter of 1988 is awesome Had it been supplemented by substantial inflows of foreign exchange, money supply growth would have exceeded its 28,3% final-quarter growth — a frightening prospect'

So even our precarious balance of payments could be looked on as good news, as it concentrates politicians' minds on the need for fiscal and monetary restraint ■

HOME BUYERS' BURDEN

The Usury Amendment Bill, tabled in parliament last Friday, opens the way for additional charges to home buyers It will allow institutions granting credit against the security of property to charge a valuation fee It will have retroactive effect, thereby legalising valuation fees charged in the past by banks and building societies

In recent years these fees have escalated sharply. According to deputy registrar Financial Institutions Chris Mostert, tariffs now vary from R50 to over R1 000

The Bill, which will allow the minister to lay down a maximum tariff from time to time, was referred to the Joint Committee on Finance It should be passed next week

The tariff is likely to be a percentage of the loan advanced, with a higher percentage for building loans The maximum is likely to be about R1 000

FINANCIAL REPORTING

Falling into line

The biggest package of proposed changes in the history of financial reporting is being visited on 'accountants and businessmen worldwide The International Accounting Standards Committee (IASC) is on a world tour with its exposure draft (ED) on the comparability of financial statements

Economists defend inflation figures

By JACOB MOKANA

DESPITE sharp cricism from some quarters against what Central Statistical Services (CSS) consider to be the official rate of inflation, economists say there can be no doubt "these figures represent the best that can be expected".

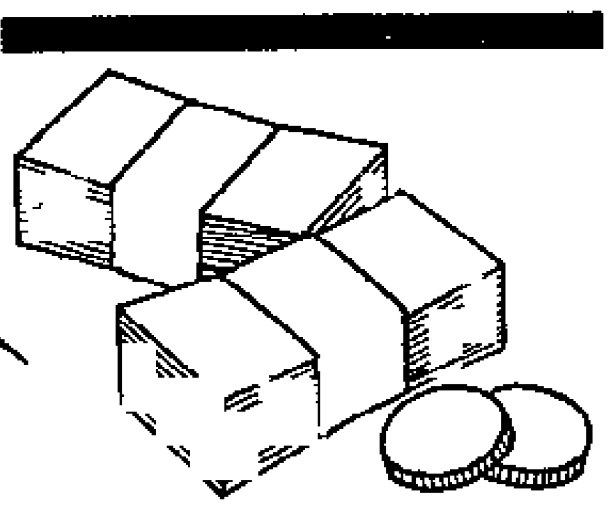
None of the seven economists approached said the official figures were out of touch with reality

Dr Karl Posel, former professor of applied mathematics at Durban Westville University, alleged recently that the inflation rate was 31 percent, compared with the CSS rate of 13,5 percent

One economist, however, criticised the CSS for not taking more trouble to promote the reliability and credibility of its inflation rate figures among ordinary citizens and participants in the financial markets

Posel alleged the method by which the inflation rate was being determined was unscientific and unreliable That is not true, say the economists

"The methods of measuring the inflation rate meet international standards and the test sample is big I am therefore completely satisfied with the figure offered as being the inflation rate, as measured by the CSS," says Rand Merchant Bank chief economist Rudolf Gouws



■ MONEY TALK

Inflation rate soars as root cause is ignored

Apartheid driving SA down

By REVELATION NTOULA

SOUTH Africa has become one of the most expensive countries in the world to live in – and the situation is deteriorating daily

Worst off are those who live on or under the breadline, which includes the vast majority of blacks in this country

The average family requires a minimum of R850 a month to survive, but many black families earn less than half that amount

A former professor of applied mathematics, Dr Karl Posel, recently alleged that inflation in South Africa has been running at no less than 31 percent

Posel's finding, which contradicts the official 14 percent inflation rate, has found widespread support among senior economists

Ironically, employers tend to base the re-adjustment of their workers' salaries on the official figure, which many economists and analysts now believe to be false

The price of basic foodstuffs such as mealie-meal, bread and milk rose sharply this year So did sugar, petrol, electricity, interest rates, bond repayments and hire purchase interest rates

The soaring cost of almost all consumer commodities, rampant inflation, unemployment and general economic misery have become a feature of everyday life in this country.

What has gone wrong when only a decade ago Pretoria boasted that South African blacks were the best fed and best clothed in Africa, despite their political deprivation? What can be done to return South Africans to the good old days?

There are many contributing factors, but apartheid has led to

- ■ Reluctance by international banks to make funds available to South African business,
- ■ Sanctions, which have meant the reduction of the export market and a consequent shortage of foreign exchange,
- ■ Disinvestment – particularly by some of the large American multi-nationals; and
- ■ The collapsing value of the rand.

Economists predict that in two years time the rand will only be worth 25 US cents.

If and when that happens, SA exports will be worthless in terms of international trade and it will be almost impossible for us to buy or import goods from Western countries

Our only solution lies in scrapping apartheid – and if this does not happen soon the country is headed for a major financial disaster!

Star 22/5/89.

Unstable interest rates under fire

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BLOEMFONTEIN — The disruptive effect of unstable interest rates, speculation on the inflation rate, the inability of the Government to stay within its budget and the treatment of teachers were highlighted as matters of great concern by Henri Lerm after his induction as president of the Chamber of Commerce OFS in Bloemfontein at the weekend

Mr Lerm said unstable interest rates had a disruptive effect on both individuals and businesses, while the Government's inability to stay within its budget affected everyone

Speculation on the inflation rate should be avoided, he said

Mr Lerm said the poor treatment of teachers was a major worry because these were the people who had to shape the leaders of the future

Mr Lerm drew attention to the tourism potential of the Free State

While this was not as great as that of other regions, the Free State nevertheless had much to offer the tourist

Greater efforts should be made to promote tourism in the region, he said

Raoul Cilliers, outgoing president, said the industrial climate had improved in Bloemfontein

The factories being erected at Bloemdustria would eventually provide better opportunities for jobs and satellite industries for the population of Bloemfontein

The city should never be negative about any industry, he said. There should not be an attitude that because an industry was "dirty", it was not wanted

Ways should be found to accommodate such industries

Mr Cilliers said the Government should be asked to try to persuade the outside world to change perceptions

Perceptions were all-important, while the facts were irrelevant, he said — Sapa

Car to cost R150 000 by 2000 — De Beer

Political Staff

CAPE TOWN — A small car will cost R150 000 and a "very modest" house R500 000 by the year 2000 if inflation continued to rise by 15% annually, DP co-leader Zach de Beer said last night

Speaking at the Democratic Future Fund's launch rally in Cape Town, De Beer said government's own estimates of inflation would produce price increases in the coming years that were "frightening"

He said that the price of a kilogram of chicken — R4,00 in 1987 — would increase sixfold to R24,60 by the year 2000 if inflation increased by 15% annually

There had been marked increases in retail prices over the past decade, he said.

A kilogram of chicken which cost 141,1c in 1979 now cost 400c

The price of half-a-kilogram of filleted stockfish had jumped from 115c in 1979 to 493c in 1987

The cost of a 397g can of condensed milk jumped from 48,4c in 1979 to 144c in 1987

Medical care and health services had increased by 223% from 1979 and 1987

De Beer said government had exceeded its budget every year in the present decade

"It is soaring government expenditure more than anything else which fuels the fires of inflation

"It is the government more than anyone else which is systematically debasing our country," he said

De Beer said SA needed a government which would manage the financial affairs of the country "as though it were a proper business and not a gravy train careering down a steep slope, with no brakes"

Experts had predicted that inflation would climb even faster, he added

3/10/23/5/87

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ARGUS 25/5/89

Poverty buck stops in Pretoria, says DP adviser

By REHANA ROSSOUW
Staff Reporter

DR Org Marais, Deputy-Minister of Finance, must have used "the gravy train between Pretoria and Johannesburg" for figures to back his controversial remark that white South Africans were not worse off than 20 years ago

This was said by Professor Sampie Terreblanche, economics adviser to the Democratic Party

"The buck stops in Pretoria", said Professor Terreblanche, reacting to attempts by Dr Marais to defuse the row that has exploded over his recent statement

Explaining his remark yesterday, Dr Marais referred to a survey of 5 000 white families whose salaries were lower but whose fringe benefits had increased.

"That sample must have been taken on the gravy train between Pretoria and Johannesburg," Professor Terreblanche said

COST OF LIVING CRISIS

The National Party government was living in a "fool's paradise" if it believed it could cure South Africa's economic problems without addressing political issues.

Professor Terreblanche said it was not realistic to examine the standard of living of the "fringe benefit" society

Poverty had been shifted onto the shoulders of blacks since the National Party rose to power and it was "unfortunate" to brag that whites were better off

"It's a shocking miracle that by way of favouritism to whites they could keep their standard of living where it is"

Since the beginning of 1974 the growth rate had been less that seven percent and the per capita income had dropped by 15 percent

Professor Terreblance said the economy had gone into decline after Soweto 1976, when disinvestment had begun because of political instability

Capital

He said R25 000-million had left South Africa since the Rubicon speech, half through disinvestment and the rest as payment on foreign debt

The government was forced to cool down the economy to "extraordinary" levels to produce capital to pay back its foreign debt.

"The buck stops in Pretoria. They are responsible for the dismal state of the economy It is because of the National Party government that the rest of the world has a poor perception of South Africa"

Professor Terreblanche said it was no use waiting for a "miracle" to happen There would not be a higher growth rate without a government more acceptable to the international community

● See page 6.

Org Marais silent as opposition anger grows

By ALAN DUNN
Political Staff

THE Deputy Minister of Finance, Dr Org Marais, fell silent today as opposition MPs and economists tore into his assertion that white South Africans were no worse off than 20 years ago

People were furious at the statement, said the Democratic Party spokesman on finance, Mr Harry Schwarz, "when so many are struggling to maintain reasonable standards"

DP co-leader Dr Zac de Beer said last night at a fund-raising function in Port Elizabeth that ordinary South Africans were growing tired of government excuses and prevarications about the economy.

"We are all getting poorer because of apartheid," he said

An official at Dr Marais' office said today he had decided commenting further on the row his comments stirred would not advance matters

Addressing the plight of pensioners, Mr Mike Ellis (DP Durban North) said Dr Marais' statement again revealed "the government's insensitivity towards the senior citizens of this country"

Qualifying his controversial remarks last week, Dr Marais said this week pensioners who did not have the help of fringe benefits had suffered reductions in real income

"If the State has any money available," he pledged, "I will fight to improve their pensions and circumstances."

Dr Org speaks out on costs

ARGUS 24/5/89

By TOS WENTZEL
Political Correspondent

DR ORG MARAIS, Deputy Minister of Finance, has conceded that his remarks on white South Africans being on average no worse off than they were 20 years ago were poorly timed.

He also conceded that pensioners who did not have fringe benefits had experienced a drop in real income and that they were suffering.

He committed himself to try to better their pensions and circumstances if the government had any money available.

While defending his remarks in Parliament last week, that white South Africans had on average not become poorer in the past 20 years, he said today it was a bad time to make a speech like that because people were not interested in the economics of the situation, which were too complex.

Economic facts

People were at present finding it difficult to cope as the government was cooling down the economy because of balance of payments problems. People were sensitive in the cooling-off period and did not want to hear the hard facts from an economist.

It was a miracle that the government was able to keep the country up to standard in

the past 15 years ... mendous onslaughts

The fact that the income of each member of a household had not collapsed amid the adverse conditions of the past few years and that there had not been an inflation rate of 1 000 percent was the achievement of a good government.

Dr Marais was reacting to criticism of his remark in parliament that whites had, on average, not become poorer in the past 20 years.

Gold price blow

He said his speech in parliament had to be seen against the background that the gold price had dropped from a high of 870 dollars a fine ounce to the present 350 dollars

This was a bad blow as gold represented 40 to 45 percent of South Africa's exports

It should also be remembered that the country had to contend with two oil crises, that the price of the country's minerals and agricultural products had dropped on the international markets, that sanctions had damaged the economy, that the country for seven years had to struggle against drought conditions and that the government had to help the farmers with subsidies of R2,4-billion

The subsidies to whites had also been maintained in relation to the gross domestic product At the same time the government had to ensure that the country remained militarily prepared

Dr Marais said that, according to figures of the statistical service after a survey of 5 000 households, the direct income of the head of the family had gone down in the period 1975 to

(Turn to page 3, col 1)


Dr Org Marais

He's out of touch, says bureau

By DAVID YUTAR, Staff Reporter

DR Org Marais, Deputy-Minister of Finance, is out of touch with harsh realities if he thinks South Africans are no worse off than they were 20 years ago, according to Dr Ockie Stuart, director of the Bureau for Economic Research at Stellenbosch University.

He said Dr Marais's claim was invalidated by hard facts

INFLATION

"One way of showing how much worse of the average South African was today, said Dr Stuart, was to look at the dramatic decline in real disposable income, a process which started in the 1970s and had continued unabated.

Real disposable income (RDI) was total individual income after tax and allowing for inflation

From 1960 to 1969 RDI increased by 2,2 percent a year. From 1970 to 1979 it increased by only 1,5 percent a year and from 1980 to 1988 RDI actually decreased by 0,5 percent a year

This meant that from 1976 to 1988 RDI declined by 0,6 percent a year

Dr Stuart said these figures were based on statistics supplied by the Reserve Bank.

Another accurate measurement of a country's wealth was its gross domestic product (GDP)

"Gross domestic product by definition reflects the wealth of a country. If it increases at a rate less than the population growth, this indicates a process of impoverishment."

TAXATION

Dr Stuart said that from 1960 to 1969 the per capita GDP increased by 3,5 percent a year. From 1970 to 1979 it again showed an increase but this time only of 0,8 percent a year and from 1980 to 1988 it declined by 0,6 percent a year.

(Turn to page 3, col 1)

Marais is 'out of touch'

AK645 24/5/89

(Cont from page 1)

COST OF LIVING CRISIS

From 1982 to 1987 per capita GDP decreased by 1,5 percent a year.

Another measurement was the growth in direct taxation of individuals.

In the 1960s the annual growth in taxes was 12,2 percent, in the 1970s this increased to 16,2 percent and in the 1980s swelled to 22,8 percent.

Yet another way of illustrating how much worse off South Africans were today compared to 20 years ago was to compare local trends with what had happened in other countries.

Since 1983 prices in South Africa had risen 100 percent. In New Zealand they had increased by 48 percent, in Great Britain by 27 percent, in West Germany by 6 percent and in Japan by 5 percent.

QUESTIONS

One commentator said that to find price increases comparable to those experienced in this country one would have to go to the banana republics of South America.

"South Africans have grown so accustomed to rapidly rising prices that they have stopped asking why this is happening to them. However, they should ask questions because the high rate of inflation is keeping them poor and, if continued, could possibly bankrupt them," he said

In contrast to South Africa, Britain was becoming one of the cheapest countries in the world, according to a survey published to guide international companies on cost of living allowances for employees sent overseas.

The survey by Employment Conditions Abroad Ltd showed that between 1980 and 1988 the cost of a shopping basket of essential items had increased by about 60 percent in Britain, opposed to 92 percent in Western Europe as a whole.

In South Africa the cost of food had escalated by 1 000 percent in 17 years. Motoring costs were on a par and property and rent were not far behind. These figures were based on statistics supplied by the government's Department of Statistics.

According to the Automobile Association, in 1972 it cost 7,3c a kilometre to run the smallest car. Today it costs 50c a kilometre.

While in 1972 there were at least half a dozen cars that sold for less than R2 000, today the cheapest car cost a little under R20 000.

BREAD

A few basic statistics supplied by the Central Statistics Services illustrate again how much the cost of living has rocketed

According to the CSS the basket of essential food that cost R53,01c in 1980 cost R170,90 in 1988, an increase of 222 percent.

White bread cost 29,7c in 1980, 77c in 1987 and now costs 85c, an increase of 186 percent.

Ninety-three octane petrol was 55,6c a litre in February 1984, jumped to 96c by February 1989 and was recently increased again to R1,03c, representing an increase of about 85 percent in five years.

Org concedes poor timing

(Cont from page 1)

1985, but his indirect income, largely through fringe benefits such as company cars, house subsidies and better contributions to pensions and medical aid funds and other benefits, had on average increased by 71,8 percent.

The basic point he wanted to make in his speech was that the average South African had not gone under as a result of the onslaughts against the country, but that he was in fact still keeping his head above water.

He described the way in which his recent remarks about the economy had been quoted in some cases as a transparent stunt aimed at the election

Dr Marais said there were opposition-minded critics who tried to create the impression that he had said that the average South African had become richer in the past 20 years while this was not what he had said

Revolt over cost of living

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Cape Times 25/5/89

By MEG BRITS, Political Staff and Finance Staff

THE revolt against the government's economic policies came to a head last night with:

- Mr Colin Eglin (DP Sea Point) accusing the government of becoming so obsessed with power it no longer "gives a damn" about the economic hardships being suffered by millions of ordinary people
- The Conservative Party saying it was "a national scandal" that white pensioners would have to survive on "the monthly pittance" of R250 which the government allotted to them
- City tax expert Mr David Clegg revealing that the average employee was much worse off than in 1970 and would be in an even worse situation next year

Figures released by the Cape Town Chamber of Commerce showed that, using 1970 as a base year and the official consumer price index (CPI), personal disposable income in 1990 would not keep up with inflation

- DP finance spokesman Mr Harry Schwarz saying consumers were furious at being told by Deputy Finance Minister Dr Org Marais that they were no worse off than they were 20 years ago

The public was convinced inadequate measures had been adopted to control the inflation which, to a considerable extent, was due to the mismanagement of the economy last year, he added

Yesterday's outcry over the state of the economy came as figures were released by the Central Statistics Services revealing that the cost of living had risen by 14% in the 12 months to April

And yesterday the Bureau for Economic Research showed that the average South African is poorer than 20 years ago — and has continued to get poorer over the past 10 years

The BER figures show that real disposable income — that portion of individual earnings left after tax — has fallen by 7,2% in the years 1980 to 1988

In real terms, the average South African can now afford 7,2% less goods each month than in 1980

Page 2

'We're far poorer than 20 years ago'

By BRUCE WILLAN

CITY tax expert Mr David Clegg yesterday repudiated statements by the Deputy Minister of Finance and said the average employee was much worse off than in 1970 and would be in an even worse situation next year

He was responding to recent statements made by Deputy Minister Dr Org Marais

Figures released by the Cape Town Chamber of Commerce show that using 1970 as a base year and the official consumer price index (CPI), personal disposable income in 1990 will not keep up with inflation

As Dr Marais yesterday tried to defend his statements, Mr Clegg, who is chairman of the chamber's tax committee repudiated the comments and said the average employee was much worse off now than in 1970 and will be in an even worse situation next year

Before the budget announcement the chamber had written an open letter to the Minister of Finance Mr Barend du Plessis appealing for relief from fiscal drag

The chamber wrote that if no adjustment was made the standard of living would be worse in the coming year

Now Mr Clegg has shown that the situation has become even worse than before with the higher inflation rate and higher interest rates

The individual's salary which may have kept up with the official inflation figure does not allow for fiscal drag and the person is consequently much poorer

Attempts by the government to allow for fiscal drag have not managed to keep the average taxpayer abreast of inflation

According to Mr Clegg any reduction made by the government to the individual's tax bill will have to be made up elsewhere and this compensatory revenue will eventually lead to higher prices

That remedy is no solution at all, he says The time has come for the government to tighten its belt, since the man in the street has done so for long enough

EFFECT of fiscal drag on personal incomes

Mr X

	1970	1980	1985 at CPI	1990 at CPI
Pre-tax actual	2 165	6 000	11 120	21 021
After tax — actual	2 163	5 720	10 136	18 685
After Tax — 1970 base	2 163	6 025	11 623	21 971
		−305	−1 487	−3 296

Mr Y

	1970	1980	1985 at CPI	1990 at CPI
Pre-tax actual	4 331	12 000	22 240	42 043
After tax — actual	4 153	10 750	18 253	32 245
After Tax — 1970 base	4 163	11 569	21 441	40 532
		−819	−3 188	−8 287

Mr Z

	1970	1980	1985 at CPI	1990 at CPI
Pre-tax actual	8 662	24 000	44 480	84 086
After tax — actual	7 938	18 690	30 540	56 288
After Tax — 1970 base	7 938	22 112	40 980	77 469
		−3 422	−10 440	−21 181

(CPI for the year ended February 28, 1990 is taken at 14%. Other calculatoins and assumptions on which these tables are based, are available)

Pensions a national scandal, says CP

Political Correspondent

THE Conservative Party last night said it was "a national scandal" that white social pensioners would have to survive on "the monthly pittance" which the government allotted them

The CP's health spokesman, Dr Willie Snyman, said his party deplored the NP's "callous disregard" of South Africa's elderly citizens

"R250 is not enough to feed a single human being for one month, to say nothing of the other necessities of life such as medicines, a roof over one's head, clothing and transport," he said

"So many people in South Africa today talk of human rights. The CP believes that a priority human right is the right of an old person to be looked after by the community he has served all his life"

Dr Snyman said the government's financial credibility was at "rock bottom"

"Tales of corruption, high state spending, golden handshakes to disgraced officials and the pumping of money into political bottomless pits make the amount given to our old people much more shameful," he said

Dr Snyman called on the government to stop adding to South Africa's growing number of poor whites, "who will no doubt show their disgust in the forthcoming election"

SA economy: 'Govt doesn't give a damn'

Political Correspondent

THE government had become so obsessed with power that it no longer "gives a damn" about the economic harships being suffered by millions of ordinary people, the MP for Sea Point, Mr Colin Eglin, said last night

Mr Eglin said the "tortuous explanation" offered by the Deputy Minister of Finance, Dr Org Marais about why South Africans were no worse off than 20 years ago "will convince nobody"

Dr Marais yesterday accused opposition parties of using the alleged poverty of whites as a propaganda ploy ahead of the election

He said the government opponents were incorrectly stating he had claimed the average South African had become wealthier over the past two decades

However, Mr Eglin said last night the government was so hopelessly out of touch that it no longer cared about the economic hardship of ordinary people, particularly pensioners

'Cold, aloof, callous'

"The fact is that galloping inflation and the rising prices of food, clothing, rentals and other basic necessities of life are destroying the financial security of many older people and placing them under tremendous emotional strain"

Addressing the annual meeting of the DP's Sea Point constituency committee, Mr Eglin said the government was adopting a "cold, aloof and callous" attitude to the economic problems faced by many citizens

"This is the direct consequence of years of wasteful government policies combined with the government's chronic inability to cut its own expenditure," he said

Mr Eglin said the government's insensitivity was illustrated by:

- The introduction of the new system of metering of local telephone calls
- The fact that there was no provision in the budget for an increase of old-age or war-veteran pensions during the current financial year
- The way rent control was being lifted or being applied, with the result that many elderly tenants were being squeezed out of their flats without alternative accommodation being made available to them.

Schwarz: Reasons for public anger at govt

Political Correspondent

THERE are nine major reasons why consumers, taxpayers, pensioners and the public in general were angry with the government, the Democratic Party's spokesman on finance, Mr Harry Schwarz, said yesterday

Speaking during the Income Tax Bill in Parliament, Mr Schwarz said the chief grounds for anger from these groups were that they were

- Furious at being told that they are not worse off than they were 20 years ago — when so many were struggling to maintain reasonable standards
- Overtaxed.
- Convinced that inadequate measures had been adopted to control the inflation, which, to a considerable extent, was due to the mismanagement of the economy last year
- Unhappy about ideological expenditure on apartheid institutions that in any case would, over time, no longer exist
- Angry about the duplication of services
- Not satisfied that their money was being used for purposes they regarded in all cases as being necessary
- Confused about the government's priorities for expenditure
- Frustrated about the implementation of tax reform and ad hoc action in respect of new revenue
- Dissatisfied with the degree of inefficiency in administration.

Individual tax payments 'have doubled'

Political Correspondent

THE man-in-the-street's tax contributions to the state had doubled in the past 10 years, the Democratic Party's spokesman on finance, Mr Harry Schwarz, said last night

Mr Schwarz said individual income tax had contributed 15% to the State Treasury 10 years ago, but had climbed to 30% last year

Ten years ago general sales tax had amounted to 12% of the tax base, but this had rocketed to 30% last year.

From page 1

Cost of living

It is true that salaries have risen. The official figures show the national average salary in 1969 as R104 a month, and as R1 018 in 1987, the latest figure available.

But most salary increases have been eaten up by inflation What each rand will buy has fallen from 100c worth in 1970 to 12c worth in 1988, according to the official figure calculated by the government's own Central Statistical Services.

And the contribution of the individual to the national coffers in the form of income tax is also taking bigger and bigger bites out of gross salaries In the 1960s this amount was increasing at 12,2% a year, while in the 1980s it has been growing at 22,6%

Despite the remark of Dr Marais last week that whites were no worse off than they were 20 years ago, many families are finding it increasingly difficult to make ends meet.

The CSS's figures show that:

- The Consumer Price Index, which was increasing at 5% a year in 1969, is now increasing at almost 14% — which means prices are rising almost three times faster than in 1969
- A hypothetical basket of household goods and services which cost R17,60 in 1969, cost R170,90 in 1988.

The cost of food, housing and transport have all risen dramatically in the last 10 years Food makes up 22,7% of the household budget, according to the CSS

Lower income families spend an even bigger percentage on food, which means poorer people are hurt even more by this rise.

- A major indicator of the economic plight of most families is that personal savings have reached the lowest-ever level in 20 years

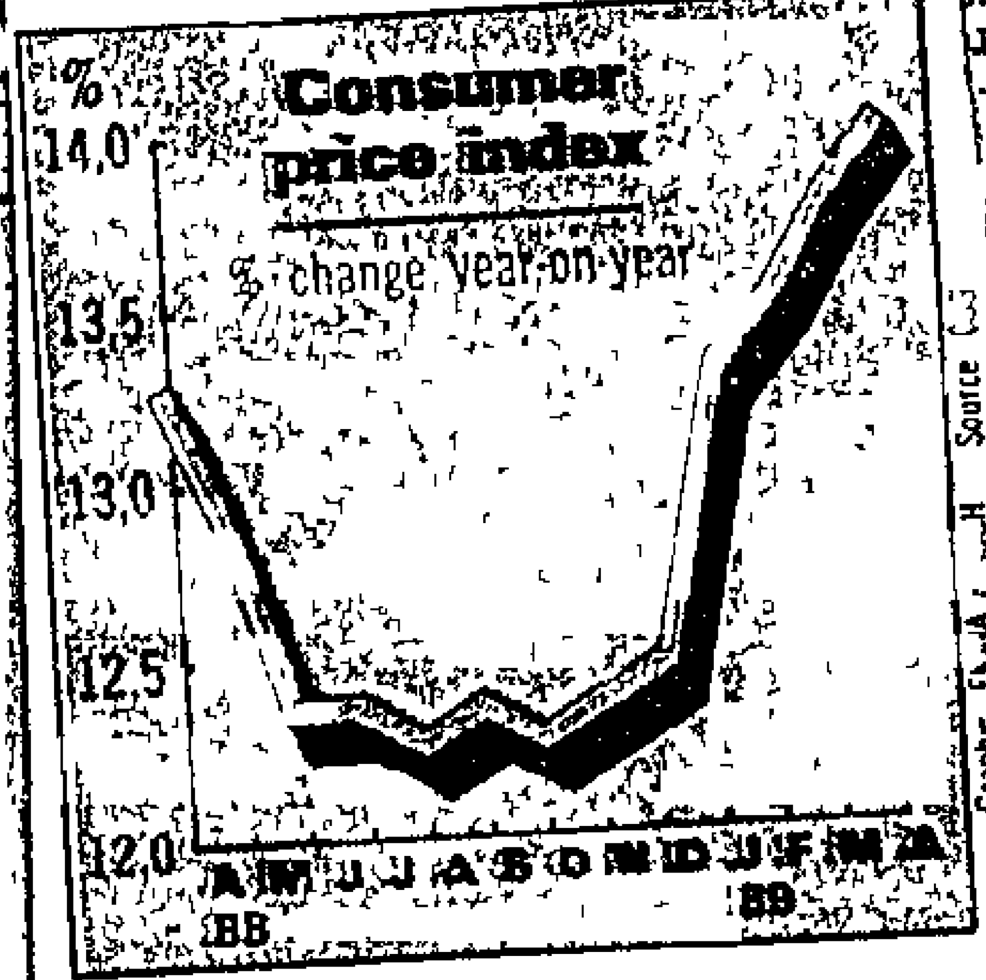
According to the BER savings have declined from 9,7% of disposable income in 1969 to a mere 1,6% last year The bureau forecasts that this will fall to 0,6% this year as budgets are further stretched

Another sure indicator of the seeping poverty which besets the average family is that gross domestic product (GDP) has fallen from 3,5% a year in 1969 to 0,6% a year in 1980-88

According to Dr Ockie Stuart, director of the BER, if this falls to below the population growth rate, the simple conclusion is impoverishment.

The national figure for the population growth rate of all races is currently above 2%.

The worst news, though, is that disposable income is still falling by almost 1% a year — so the average South African is going to get even poorer



Inflation rate now stands at 14%

153

GRETA STEYN

STABLE food prices moderated the increase in SA's inflation rate, which moved up by only 0,2 percentage points in April to 14%

BDay 25/5/89

Food prices on average remained unchanged from March, in sharp contrast to the situation a year ago when the prices of food soared As a result, the percentage change in the food price index for April 1988 was only 7,8% — the lowest annual increase in this index since October 1976. Because food represents 22% of the total basket of goods, the positive developments on that front counteracted negative movements in other areas, notably transport, clothing and footwear

The overall consumer price index (CPI) advanced to 173,1 in April — which means a consumer now needs R173,10 to buy what he could with R100 in 1985 In March the index stood at 170,9 The monthly increase in the CPI was 1,3%

Economists said the figures were better than expected, especially given the last increase in GST. Some economists suspected the GST hike had not yet been included and would only appear in the figures next month They agreed inflation could only accelerate, possibly reaching 16,5% by year-end

Rand Merchant Bank economist Rudolf Gouws noted that, on a non-seasonally adjusted basis, the CPI had risen by 17% in four months.

The release of April's inflation figures comes at a time when the official rate is hotly disputed by retired mathematics professor Karl Posel However, economists are adamant the Central Statistical Services (CSS) figures are acceptable

Comment: Page 6

Sanlam predicts still higher inflation rate

Star 25/5/89

By Sven Lünsche

The inflation rate, as measured by the consumer price index (CPI), is still rising

In April it reached 14 percent on a year-on-year basis — 0,2 percentage points up on March's 13,8 percent

Figures released by Central Statistical Services (CSS) yesterday reflect a monthly rate of increase, after eliminating seasonal variations, of 1,3 percent

This pushes the figure for January to April on an annualised basis to 14,9 percent, indicating that inflation will rise further in months to come

Food prices, which previously had been the main culprit in the rate of increase in the CPI, remained unchanged on average in April, with whatever increases that took place being cancelled out by decreases

CSS said the food price index in April, compared with April 1988, was only 7,8 percent higher — the lowest annual increase since October 1976 when it was 6,3 percent

This conflicts outright with statements by consumer organisations and many economists that the cost of food is rising at a faster rate than are most other items

However, the relatively low increase in food costs is partly a statistical distortion caused by the fact that the increase is off an already high base — food prices rose 2,9 percent in April last year from March

During that month milk, cheese, sugar and egg prices rose, while decreases were seen in meat and fish products, fruit and vegetables

Economists expect the CPI to continue rising rapidly over the next few months, given the higher sales tax, more expensive fuel, increased interest rates and the weaker rand

Sanlam's May *Economic Survey* points out that the production prices of imported and locally manufactured goods have gone up considerably in recent times (see graph)

"The sharp increases in the prices of imported goods since the middle of 1988 can be mainly ascribed to the effect of the weaker value of the rand, while the lively domestic business conditions were clearly an important reason for the higher prices of locally manufactured goods," Sanlam says

The economists expect that the input prices of imported goods will keep on rising for some months yet, but that the more sluggish domestic demand will in due course place a damper on sharp increases in the prices of locally manufactured goods

"Taking everything into account, we believe that the CPI will be roughly 15,5 percent higher this year than last year, compared with 12,9 percent in 1988," Sanlam says

Inflation rises by 425 pc in 14 years

Star 27/5/89

PRETORIA CORRESPONDENT

INFLATION, as measured by the Consumer Price Index (CPI), has rocketed by 425 percent in the past 14 years

Adviser to the Reserve Bank Dr Basie Kleu told a meeting of the SA Consumer Union in Pretoria yesterday that inflation undermined saving as investments with fixed interest rates becoming unattractive.

To have any hope of successfully insulating themselves against the effects of inflation, consumers should invest in assets that increased in value in tandem with rising inflation, such as fixed property and shares

VAT seen adding to inflation

Star 31/5/89

CAPE TOWN — Consumers will pay about 50 percent more in tax if GST is replaced next year by a value added tax (VAT) based at 13 or 15 percent, says Raymond Ackerman, chairman of Pick 'n Pay

He told the company's annual meeting in Cape Town yesterday "I appeal to the Government not to introduce VAT at 13 or 15 percent, but to bring it down substantially because VAT will include foodstuffs"

He said Pick 'n Pay wanted to be able to lobby the Government to bring VAT down to nine or 10 percent

"GST works out at only about 9 percent because many foods are excluded. To bring VAT on at these rates will be roughly 50 percent more

"It would be highly inflationary and absolutely wrong," he said

Mr Ackerman said as part of the fight against inflation, he had called for a Supermarket Institute like the Food Marketing Institute of the US to fight on four fronts

- To lobby the Government on anything affecting the consumer
- To fight any collusion by monopolies or cartels
- To share knowledge with other supermarket companies of their operations to try and improve efficiency and technology
- As a supermarket industry, to try and prevent international manufacturers from disinvesting

Inflation was really getting serious, he said

"If we hammer these four areas, we will play a significant role in the country

"But as competitors we will continue fighting each other tooth and nail on prices"

This year had already shown it was tough.

"Consumers are definitely spending less and spending more selectively, he said"

"You cannot have interest rates of 20 percent and not be affected" — Sapa

50% tax leap if VAT replaces GST — Ackerman

B/Day 11/6/87

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CAPE TOWN — Consumers will pay about 50% more in tax if GST is replaced next year by a value added tax (VAT) based at 13% or 15%, Pick 'n Pay chairman Raymond Ackerman said yesterday

At the company's annual meeting here he appealed to government not to introduce VAT at those levels, but to reduce it substantially, as VAT would be added on to foodstuffs

Ackerman said Pick 'n Pay wanted to be able to lobby government to bring VAT down to 9% or 10%

"GST works out at only about 9% because many foods are excluded To bring VAT on at these rates will add roughly 50% more

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- Lobbying government on anything that affected the consumer;
- Aggressively fighting collusion by monopolies or cartels,
- Sharing knowledge with other supermarket companies of their operations to try and improve efficiency and technology, and
- As a supermarket industry, to try and prevent international manufacturers from disinvesting as a collective voice — "and not just myself talking to American companies"

Inflation was really getting serious, he added "If we hammer these four areas we will play a significant role in the country

"But as competitors we will continue fighting each other tooth and nail on prices"

This year had shown it was tough "Consumers are definitely spending less, more selectively" — Sapa

INFLATION (153) Fmail 2/6/89

More to come

April's solid 1,3% rise in consumer prices pushed the inflation rate to 14%. It seems on track to hit, if not beat, the 16,5% predicted for year-end by 12 economists (*Leaders* May 19).

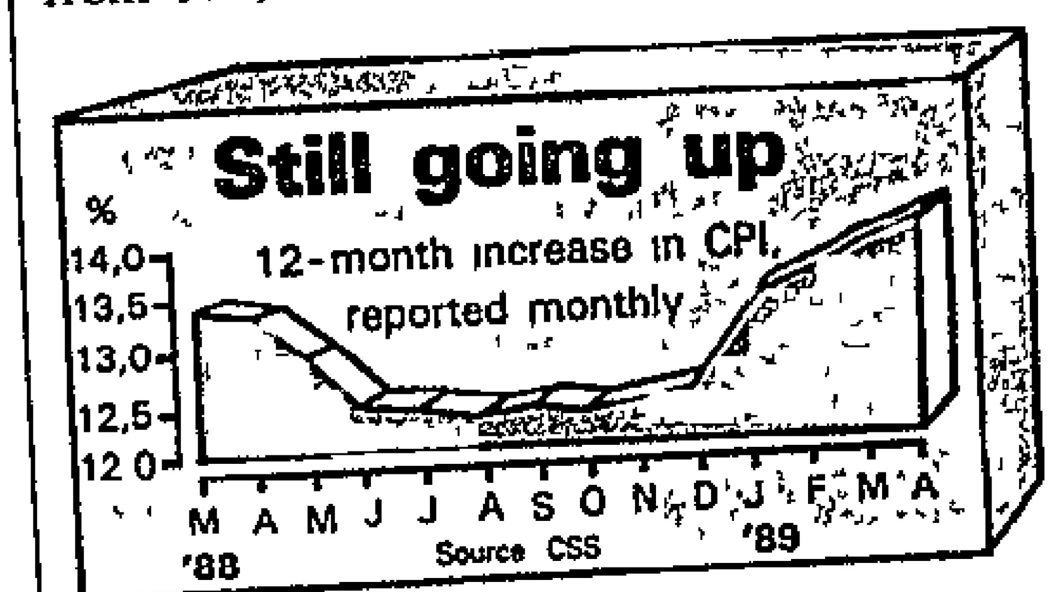
The running 12-month increase in CPI bottomed at 12,3%-12,5% in July-December and has since moved up steadily

- ☐ January, to 13,3% (on a 1,6% monthly increase),
- ☐ February, to 13,5% (0,8%);
- ☐ March, to 13,8% (1,6%), and
- ☐ April, to 14% (1,3%).

Smart money is preparing for a jump in inflation in the next two months — if only for technical reasons Last year, prices increased just 0,8% and 0,3% in May and June, providing a low base on which the 12-month increase will be calculated this year.

Specifically, modest increases (by 1980 standards) of 1% a month in both May and June would push the rate to 14,2% and 14,9% In fact, monthly rises have averaged *1,3%* so far this year, if that keeps up, the rate will soar to 14,6% and 15,6% — embarrassingly large in the run-up to an election.

April's increase brings the index to 173,1 from 170,9 in March (mid-1985=100). ■



INFLATION (153) FMail

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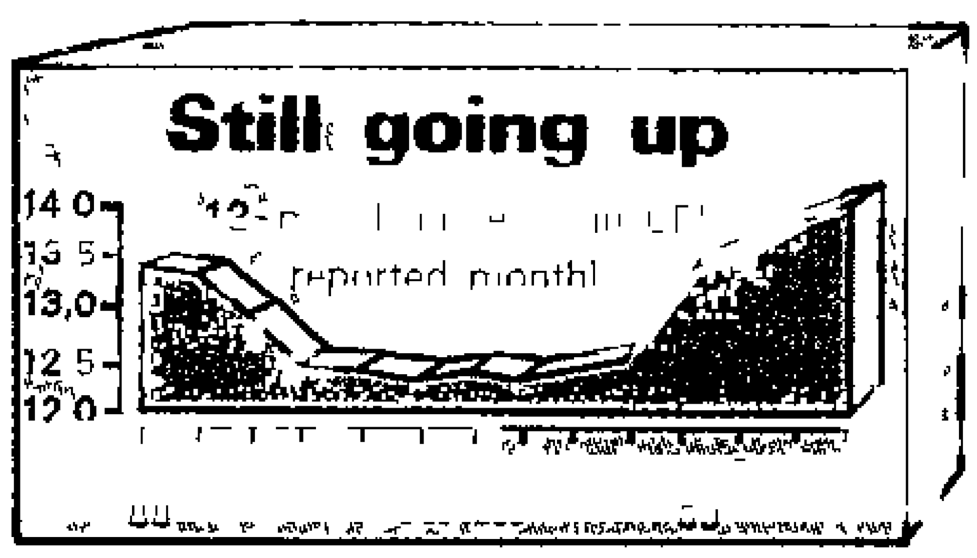

INFLATION: A RAPE OF DIGNITY AND HARD-EARNED SAVINGS

W/C ARGUS 3/6/89 153

By ISIDORE GOLDBERG
An Economist

THE insidious scourge of inflation is relentlessly invading the homes, jobs and businesses of everybody in our country The impact, of course, varies

To the opulent, it may be a little worrying and even provide a topic for bridge tables but barely influence their lifestyle or eating habits, to pensioners and families with young children the impact is becoming progressively sad and terrifying and is reflected at shrinking supper tables

The ruling official consumer price index (CPI) of 14 percent pa (1,2 percent per month) is being vigorously challenged and ridiculed A mathematician produces a theory that the figure is 31 percent.

One thing emerging with certitude is that the purchasing power of the rand has declined over the past 10 years to 20 cents This provides the most eloquent testimony to the compounding ravages of inflation. Simply put, it would now cost at least R500 to purchase a basket of goods that cost R100 ten years ago

Thus, whatever the percentages and charts attempt to say, they serve to obfuscate rather than illuminate

People suffer, and the compounding effect of inflation bids fair to destroy the very fabric of decent, hard-working families It is an invasion no self-respecting nation can afford and amounts to rape of the dignity and savings of hard-working people

It becomes more evident by the day that the strain of the inflation virus is resistant to orthodox anti-biotics or medicines A major recession or depression is, of course, the ultimate cure

However, with all its concomitant disasters, may heaven preserve us from it! So, are we doomed to semi-economic survival in our darkened world of exponential inflation, with its inevitable consequences?

Inflation must be checked

Firstly, it must be recognised that unchecked inflation is a breeder-reactor; it feeds and grows off itself Therefore, the spiral must be checked

To the understandable horror of free market protagonists, it has been suggested that immediate freezing of prices and wages should be introduced The army of inspectors to police such freezing is too awful to contemplate

It would result in more abuses than uses and should be rejected The free market forces may possibly, in the distant future, have some effect, but time is of the essence

Let's accept as pure hypothesis that the official CPI of about 14 percent pa is correct; let us also concentrate on the basic constituents of family living — food, toiletries, rent, clothing, medical expenses — as being the prime targets of our proposed initial attack on inflation

Contain prices

If the price of these could be contained in the coming months and year to, at most, half the present official inflation rate it could be the catalyst to a gradual general diminution in prices of all non-imported articles.

To give effect to this, an *A-Team* should be created, representative of the giant retailing industry (with annual turnover of about R30-billion), supermarkets, merchandisers, etc.

It should be led by a proven entrepreunarial businessman unafraid to speak his mind and to challenge manufacturers, producers and bureaucrats, to procure lower prices from these sources I can think of a no more superb choice than Raymond Ackerman of Pick n Pay

It would be necessary for such a leader to detach himself from his company for at least a year to give full time to the project of *inviting* powerful support from manufacturers, producers and retailers to cry halt or at least contain inflation of their products to at most half the CPI

It would be essential that he and the *A-Team* should have delegation of powers of authority from government in such a mission

To bring almost immediate relief to the parlous plight of pensioners and families (with young children) whose income is below a determined figure, I suggest that the *A-Team* should invite all major merchandisers and supermarkets (names to be prominently published in the media) to become involved in an operation whereby, from a prescribed date any item sold retail that exceeds the previous sale price of that article by more than half the prevailing CPI figure of 1 2 percent per month, would result in the following

The amount by which the article exceeds the O 6 percent per month would be required to be paid in by the merchandiser/retailer to a trust fund to be administered by the *A Team*, the consortium of supermarkets/retailers would then undertake to provide qualified pensioners and families under a certain income figure with a coupon book entitling the holders to a discount of say 20 percent on purchases in food, basic clothing, footwear and medical and household necessities up to a determinable amount per month

A similar formula could be made applicable to rental increases and thus lead to subsidised rentals for specifically qualified people The trust fund would regularly reimburse retailers who have given qualified customers the discount

If the supermarkets/retailers are unable to resist price increases because of escalating source prices to below the O 6 percent per month level and have to pay the excess to the trust fund, they should have recourse to the manufacturers of such items for a credit

Thus mechanics could be involved which hopefully would not make the operation too onerous by providing for self-policing by the retail customers

By targeting such an operation at particular basic items, relief would not only be afforded to hard-pressed sectors of the general population, but the puncturing effect to the spiral might well be the catalyst, through the market mechanism, of causing a general attitude of inflation reduction throughout the whole manufacturing and retail industry

Imported articles are, of course, of a different genre We should embark on a crusade of buying South African products where at all possible

Expensive imported articles should be extra heavily dutied, those whose palates cannot live without caviar may be supplied with caviar at a price and duty that will help make bread a little more affordable and digestible to the masses

Mr Isadore Goldberg

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Inflation an ally of life assurers

By David Carte

LIFE assurers are winning the battle in financial services because of inflation, says Old Mutual managing director Mike Levett

"Inflation is negative for savings, but it is less negative for us than for banks and building societies," he says

"As a country, we are saving less But the life offices are capturing a bigger proportion of savings"

Plight

The big advantage life companies have is being able to invest in real assets, such as shares and property, rather than claims on depreciating money, which is the plight of their rivals

Mr Levett applauds Finance Minister Barend du Plessis' approval of the new "trusteeship principle" of life company tax

It recognises that a tax on life companies should be on the same basis as one on investment income earned by individuals This would imply that the average individual tax rate should be used Life offices estimate that this is about 30% Any expenses incurred in the production of this income should be deducted

Expenses

As the fiscus does not wish to see a decline in the tax received from life offices this year, a tax rate of 45% (being the highest marginal individual tax rate) will be used and only 35% of expenses incurred in the production of income will be allowed instead of the 100% that an individual can claim

In general it is expected that this formula will yield the same amount of tax as the old formula, which was calculated at the normal company tax rate (ie 50%) This was applied to 70% of all income with no allowance for expenses

The life offices expect, however, that in time, the trustee principle as explained above will be used in its entirety It will put an individual investor in a neutral tax position as to saving by life policy or directly in shares or fixed deposits

Soared

Clearly the life companies expect to give a better return In the long run, both the individual investor and life company profits should benefit from the new formula

Mr Levett says life assurers' basic tax rates have soared from 30% to 40% in the 1970s to the high rates that apply at present

Life companies will be treated in the same way as individuals on capital gains If the investments are held for a long time, the gain will be tax free Otherwise they will be taxed as revenue

Mr Levett agrees with the Margo Commission that there should be an objective definition of a capital gain He contends capital gains should not be taxable

I asked Mr Levett whether Old Mutual was not at a disadvantage to chief rival Sanlam in not controlling companies outright Several Sanlam companies, notably Gencor but Malbak and others as well, have scored on disinvestments

Mr Levett's reply "We are not standing here with a cheque book looking for disinvestments If operating companies want to acquire companies quitting SA, and it makes sense, we will support them

"We remain convinced that it is best not to have control or even strategic investments It means we can make investments on two considerations only — price and value"

Mr Levett does not contest Sanlam's claim that it now has 33% of the total premium income in SA

He believes market-share statistics must be handled with care New business, for instance, breaks down into recurring and single-premium policies and then there is the distinction between individual and group business, single premiums and employee benefits

Prescribed

"We could have brought new pension fund business on to our books and boosted premium income, but did not do so We keep it out of the books because the pension fund clients would have incurred marketable securities tax unnecessarily and because of prescribed asset requirements in the past"

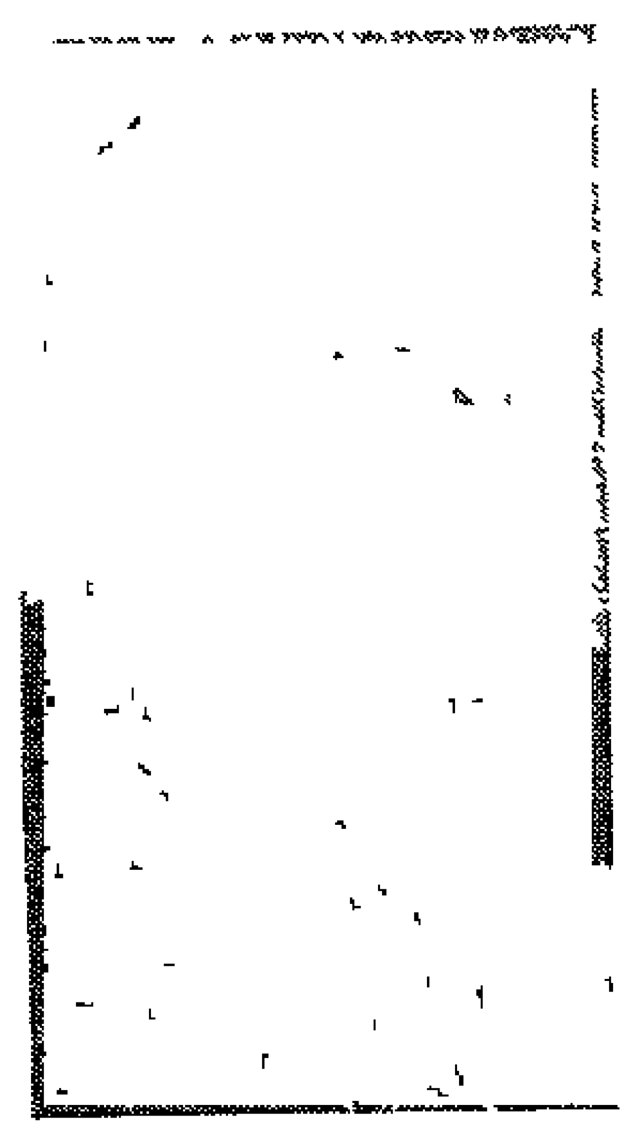
Mr Levett concedes that Sanlam has been worthy opposition since all its problematical controlled subsidiaries came right He also recognises a likeable marketing campaign in its babies advertisements — but he does not acknowledge that it has made inroads on Old Mutual's business

He contends the Big Two have increased their stake at the expense of some of the others The market share of Liberty today, for instance, is the same as that of Liberty plus the Pru before their merger

The success of the big two Cape mutuals is ascribed to their relative success in investment and to the economies of scale in information technology

Namibia

Although my broker complains about poor administration at Mutual, Mutual has spent R200-million on its IT system, which it believes is the equal of anything in SA "We do not look over our shoulders at competitors all the time We try to do the right thing for the business"



MIKE LEVETT

Old Mutual has significant business in the UK (assets of more than R1-billion), Zimbabwe, Malawi, Kenya, Namibia and the TBVC countries

Mr Levett says all policies sold in Namibia until a few years ago were payable in Cape Town in SA currency It will not be necessary for Old Mutual to acquire vast new assets in Namibia to match its liabilities there

But new policies are now payable in Windhoek in the currency of Namibia and liabilities on them will have to be matched there

Wilson warns on hyper-inflation

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CAPE TOWN — South Africa could be pushed into hyper-inflation by factors such as capital outflows and expenditure on infrastructure, former Shell chairman John Wilson warned last week.

He said large corporations, the major employers in South Africa, had to take a lead in pushing society into accepting an education system geared to preparing people for work, rather than an almost exclusively academically -based system. Star 12/6/89

The large corporations, had to play a leadership role by working towards a co-operative effort with unions, educational leaders and the black community. — Sapa

Economists expect further increases

Cape Times 23/6/89 153

CPI rises to 14,9%

By AUDREY D'ANGELO
Financial Editor

HIGHER food prices, fuel prices and GST helped push the official consumer price index (CPI) for the 12 months to May to 14,9% compared with 14% in April The monthly rise was 1,6% compared with 1,2% in April

Economists said yesterday that they expected the rise to continue, reaching 16% or 17% by the end of this year

Old Mutual chief economist David Mohr said he thought there was little chance of a soft landing for the economy — "it will probably be rather hard"

He said the steep monthly rise "again underlines the fact that inflationary pressures are accelerating"

He expected this to continue into 1990 He thought the CPI would reach 16% by the end of this year and average 15% for 1989 and 16% for 1990

At this stage in the business cycle, it was increasingly unlikely that pay rises this year would keep pace with inflation and it would be tougher for the consumer next year "Things will get worse before they get better"

Southern Life economist Mike Daly said the higher petrol price had made a big impact and there was almost certain to be another rise of about 10c a litre soon

"I expect the CPI to rise to 16% or 17% by the end of the year — and there is a chance it might be higher"

Trust Bank economist Nick Barnardt commented "The rising inflation trend will continue and a rate of 15,5% is expected in June or July

"Thereafter a slight retreat could occur but a large fuel price after the September election would kick the inflation rate up to around 16% and keep it there into the first quarter of next year

"The rising inflation rate will probably peak below 16,5% and begin to subside from about March next year"

Boland Bank economist Louis Fourie said the 2% month-on-month rise in food prices had been substantial And although the year-on-year rise in food prices of 9,3% had been below the inflation rate it should be remembered that it was from a high base

He expected the CPI to rise to 16% or 17% by the end of this year but thought it would stop short of 18%

Pointing out that the rand was strengthening, Fourie said the balance of payments (BoP) would improve in the second half of this year

He thought it encouraging that the pressure on interest rates was tapering off and he did not foresee any further rise in the prime rate

INFLATION (Fin Mail (153) 23/6/89

Monetary threat

While the inflationary effects of excess money creation are generally recognised, Mathison & Hollidge economist Jos Gerson told an Economic Society meeting this week that supply side factors are "less readily appreciated, especially by some academic economists" Flight of foreign capital or a deterioration in the terms of trade, he said, can stimulate inflation "even in the face of relatively slow monetary growth, as in 1985-1986"

In projecting inflation over the next five years, both must be taken into account

"Whatever the origin of the problem," he says, "inflation in SA always lags (and to a great extent cannot take place without) a depreciating rand

"The task, therefore, is to predict how rapidly the rand will continue to depreciate in the years to come"

On the supply side, he predicts the comparative recent stability of the gold price (against a basket of currencies) will continue as long as international inflation rates remain low and stable "While the outflow of foreign capital will continue, it will probably be managed smoothly and without crises of the order of 1985"

These factors, therefore, "should be favourable for inflation"

As to monetary policy, however, he perceives "much to worry about" Excessive growth in money supply across the business cycle could produce a secular long-term increase in the average rate of inflation "This remains a problem as long as interest rates are subject to political manipulation"

Inflation rate surges ahead

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Star 23/6/89

By Sven Lunsche

Food prices surged by a monthly two percent in May as the recent rise in general sales tax to 13 percent and higher fuel costs impacted on consumer prices

Food prices were virtually unchanged in April as the GST increase was not included, but last month the full impact of the tax hike was being passed on to the consumers

As a result of the surge in food items, which make up 22 percent of the basket of goods used to measure the Consumer Price Index (CPI), the inflation rate continued its steep climb in May, justifying recent forecasts that it could hit the 17 percent mark by the end of the year

Inflation rose by a year-on-year 14,9 percent, compared with annual increases of 14 percent in April and 13,8 percent in March, the Central Statistical Services reported yesterday.

The monthly seasonal adjusted rise of 1,6 percent, following a 1,3 percent hike in April, indicates that further increases in the annual rate are on the cards.

Southern Life's Mike Daly earlier this month predicted a rate of 17 percent by year-end, citing the recent sharp increases in producer prices as a major reason

From February to April producer prices rose by an annualised rate of about 20 percent and once these increases filter through to the CPI the consumer could end up paying substantially more.

Pressure on rand

Producer prices were largely pushed up by the rapid decline in the rand and since there is no immediate end in sight to the fall in the currency, pressure on prices from this quarter will continue to be substantial

Trust Bank economist Nick Barnardt is less pessimistic

He expects the rising inflation trend to continue to a rate of 15,5 percent in June/July, but thereafter a slight short-term retreat could occur.

Mr Barnardt adds, however "A large fuel price increase after the September election would kick the inflation rate up to around 16 percent and keep it there into the first quarter of next year

"The rising inflation cycle will probably peak below 16,5 percent and begin to subside from about March next year

"The extent of the decline next year will depend largely on the behaviour of the rand exchange rate in coming months," Mr Barnardt says

Another factor is the extent of the slowdown in consumer demand, which, judging from the continued decline in the broad money supply in May, is on its way to a soft landing and could help slowdown the rate of increase in consumer prices

Beating inflation — car or allowance?

S|Times 25/6/89 153

By BRONWYN ALLAN Associate Director Coopers & Lybrand

IN this day of rampant inflation and rising costs the question often asked by executives in respect of motor vehicles is would I choose the company car option or the travel allowance route?

It is difficult to recommend one above the other as the benefits derived from each change depending on the circumstances.

In other words, not every executive may be offered the travel allowance option as it is generally offered only to the executive who has to travel on company business — the executive who is "desk-bound" will derive no benefit from it.

The first question to answer in respect of choosing between the two is: do you do the necessary business mileage? If not the company car may be the choice for you.

The Company Car

The company car has for many years been a firm favourite as the executive only pays fringe benefit tax on the private usage of the car which represents a certain amount every month, which is deducted from his salary (according to Government company car tables).

For example the value of private use for a car with a determined value of R90 000 and a 3 000cc engine, is R541 per month (according to the 1988 tables). This amount is subtracted from the executive's salary.

The Margo Commission suggested that the fringe benefit tax should be increased every year, which makes this option less popular.

The value of private use of the same car increases to R622 a month on June 1 1989, with the introduction of the amended company car tables.

This represents a sizable increase of 15%. The following table demonstrates the difference in the fringe benefit tax between the 1988 and proposed 1989 tables.

Example Determined Value	Value of private use 1988 R	1989 R
R45 000-3 000cc engine	334	384
R69 000-over 3 000cc engine	483	555
R97 000-3 000cc engine	587	675
R125 000-3 000cc engine	759	820
R150 000-3 000cc engine	863	940

As can be seen from the above example, the increases are quite substantial. It has been argued that even with the adjustments in the annual company car tables this benefit still remains attractive, as it is cheaper to have the use of a company car than to purchase a car oneself.

But what must be considered is that a company car never belongs to the executive. However, he has a cost in the form of a taxable benefit.

On the other hand the travel allowance finances the acquisition of the car which is an attractive option with the current high resale value of certain cars.

The question has been raised as to whether the fringe benefits tax payable on company cars can be reduced in any way. Generally, the answer is no.

There are circumstances where it may be, for example, if the executive chooses to drive a less expensive car, he will then pay less fringe benefit tax every month.

In our experience this is not the prevailing attitude, as executives prefer to drive expensive cars. The fringe benefit tax can be reduced if the executive bears the cost of the petrol for private use — by R58 per month or by R35 if he bears the cost of the maintenance.

Due to the escalating cost of cars, even the employer has had to look at the company's fleet option more closely.

Many are opting to replace company cars every four or five years as opposed to the traditional three years in order to reduce the costs.

The Travel Allowance

The question facing many executives is that it might be cheaper to choose a company car instead of a travel allowance.

This may be so in certain circumstances but it depends on the executive's intention — does he want ownership of the car or is he prepared to use the company car, whichever model is offered?

The majority of executives opt for ownership, but are frightened of escalating car prices and petrol increases.

Is there any hope? Yes, the travel allowance offers a way of financing a car because, in effect, the employer is "purchasing" the car for the executive.

How? The allowance granted to the executive every month (to compensate him for using his private vehicle on company business), takes into account the monthly payments to the bank, (be it on instalment sale, lease or rental), petrol and maintenance.

So in effect, the employer is "giving" the executive an allowance for the latter to purchase a vehicle and to cover the costs of the business kilometres driven. Business kilometres are calculated at the rate per kilometre, multiplied by the distance travelled during the year but *not* including the distance travelled between home and work.

A distance of 10 000 kilometres is deemed to be private use if no logbook is kept.

The allowance is granted to cover the *business kilometres* undertaken every year, and the executive will therefore be taxed on the *unexpended portion of the allowance*, as illustrated below.

Example.

Value of vehicle	R57 000
Annual kilometres	35 000km
Private	10 000km
Business	25 000km
Fixed cost portion	50,0c per km
Fuel cost portion	12 5c per km
Maintenance cost portion	7 1c per km
	69,6c per km

Tax deduction will be 25 000km x 69,6 = R17 400. Thus if an allowance of R17 400 is given to the employee it will not be taxed, as it has been used entirely for business.

The remuneration package of the executive is reduced by the amount of the allowance (just as with company cars), but although the amount is larger, the executive will be the *owner* of the vehicle.

Other advantages of the travel allowance, from the executive's point of view, is that they are not subject to PAYE which provides cash flow advantages and the employee can choose the vehicle he wishes to drive.

In addition, certain tax advantages can be gained depending on whether the car has been financed by lease, rental or instalment sale.

Rental and lease payments are 100% tax deductible while a wear and tear allowance on the costs of the motor vehicle and the annual finance charges can be deducted on an instalment sale.

For the executive who does not do the necessary kilometres, in other words, who is desk-bound, the company car is recommended.

If the executive undertakes a substantial amount of business travel or wishes to own his own car in times of escalating costs, the travel allowance is the ideal route to go.

CPI (153) FMail 30/6/89

Snowball effect

Latest data on inflation indicates it is likely to reach 17% by December, even more if the recent acceleration continues The seasonally adjusted consumer price index (CPI) grew at an annual 20% in the past three months

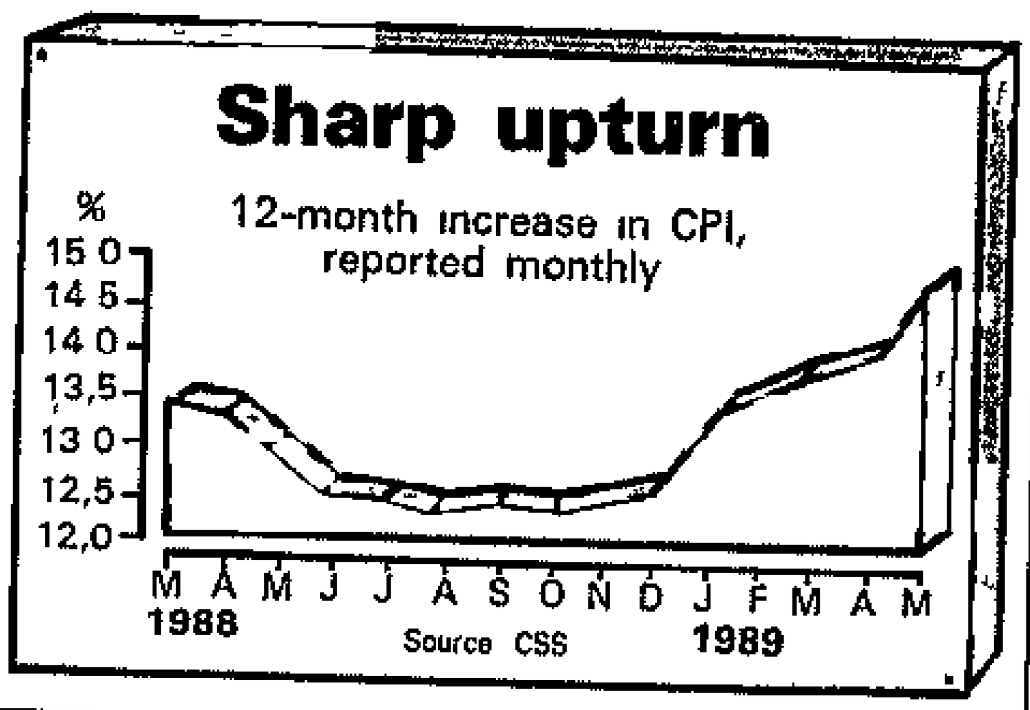
Central Statistical Service (CSS) last week reported a leap of 2% in prices, seasonally adjusted, in May This is the biggest seasonally adjusted monthly increase since July 1986, when it topped 2,5%, and January 1986, when it went over 3%

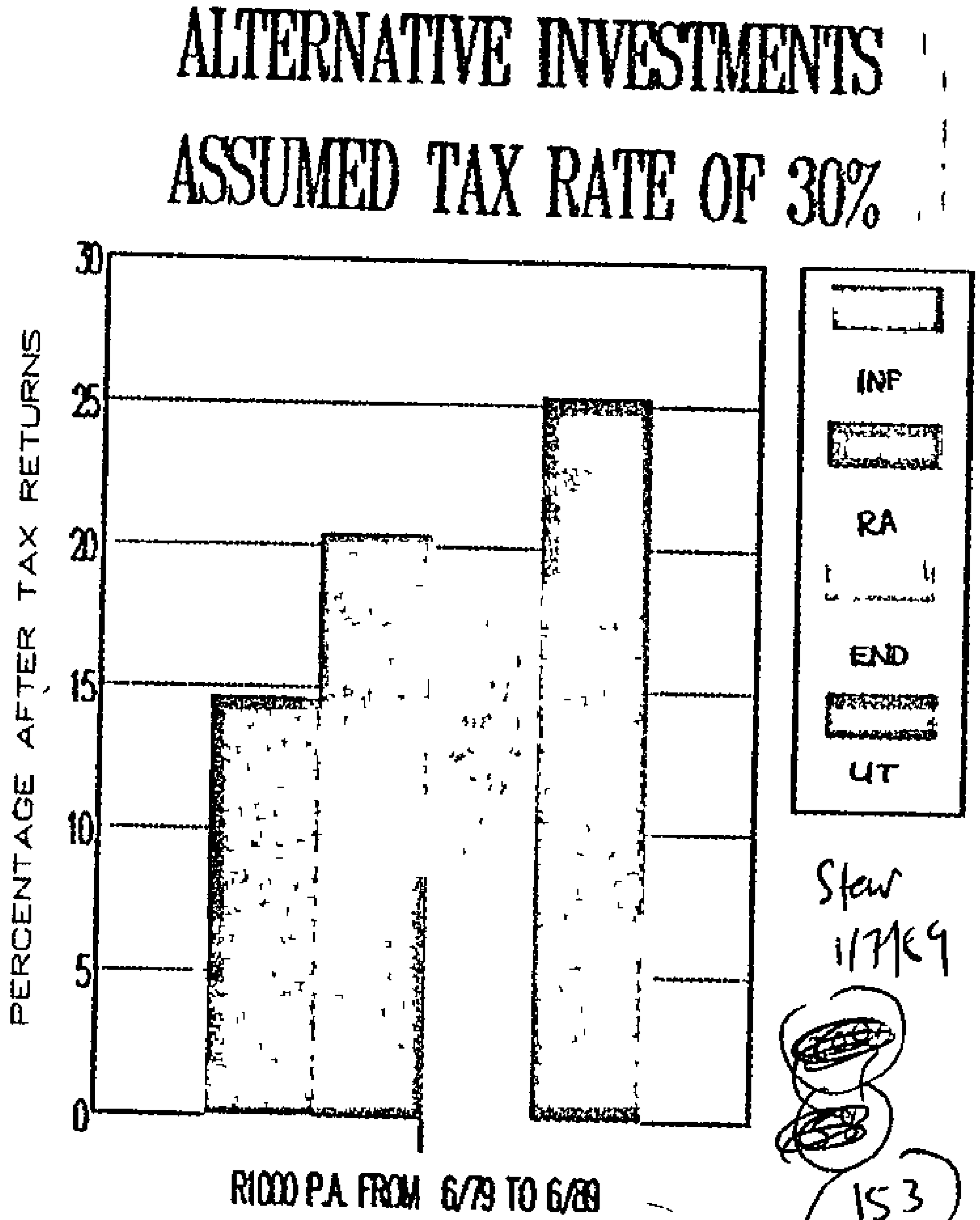
The unadjusted rise in May was 1,6%, pushing the official inflation rate — the year-on-year increase in CPI — to 14,9% Much of the impetus came from vehicle prices (which climbed 5,3% in the month and 29,2% in the year) and cost of running vehicles (5,4% and 28,3%)

Also contributing was food (2% up in the month but only 9,3% in the year) and housing (1,3% and 15,6%) which have heaviest weighting in the index Clothing and footwear prices also climbed sharply (1,5% and 16,9%) but this category has a comparatively low weighting and therefore less impact

While not too much can be made of one month's figures, Old Mutual chief economist Dave Mohr points out that all recent figures reflect a sharp upward trend "Inflation feeds on itself, so it's likely to build up momentum well into 1990"

Certainly inflation has accelerated sharply Rand Merchant Bank economist Rudolf Gouws calculates "Inflation, at an annual rate, rose 10,4% in the first half of 1988, 12,4% in the second half and 17,6% in the first five months of 1989 The same exercise with unadjusted rates reflects increases in those periods of 10,8%, 12,5% and 18%" ■





Stew
1/7/89
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Unit trusts, endowments and RAs beat inflation

RETIREMENT annuities, unit trusts and endowments are all inflation-beating investments and each has a place in the well-balanced portfolio

This chart by Old Mutual shows the after-tax yields of these investments over the past 10 years with R1 000 invested annually

RAs had a 20,4 percent return, endowments 18,6 percent and unit trusts 24,3 percent and each category easily beat the inflation rate of 14,7 percent.

Old Mutual emphasises that portfolios should include a broad range of short and long-term investments ranging across the risk spectrum

All belong in the balanced portfolio

Although unit trusts had the best performance one has to consider the very different risk ratings Unit trusts have a comparative higher risk profile with no guarantees of capital invested — you could over the short term receive less than your capital

Endowments have a lower risk profile and guarantee more capital than was invested The guarantee in the above example was R11 206 — although only R10 000 was invested over the period The proceeds after 10 years are completely tax-free and life cover, disability cover and other rider benefits can be added

RA contributions are tax deductible but the proceeds are to some extent restricted Only one-third of the proceeds may be taken in cash (in this case R9 497) and the balance must be used to purchase a lifelong pension The pension in this instance yielded R220,16 a month after tax

153 1/7/89

Calculate your own i

KARL POSEL PhD (Wits) DSc (Eng) (Natal)

THE argument currently raging concerning the magnitude of the inflation rate is quite surprisingly capable of extremely simple resolution This is merely for each family to calculate its own inflation rate figure This is the prime aim of this article

There are two further aims, the first of which is to indicate to the reader that we do not need any recourse to the erudite and debatable concept of the Consumer Price Index (CPI) to be in a position to calculate the inflation rate More on this possibly surprising statement later

The second is to commence thought on the aspect that the householder does not in point of fact need a knowledge of the inflation rate (if such a figure is conceptually valid) He wants to know his own figure in order to make his own characteristic decisions regarding investment policies and savings techniques

Calculation

There is one crucial characteristics to these calculations, best illustrated as follows Imagine yourself on a train journey You can sit either facing the engine, or alternatively with your back to it Inflation rate calculations are equivalent to sitting with your back to the engine Thus in undertaking the required investigations we are concerned primarily with the path we have travelled, and not that which is still to face us

Thus for example our first concern in this matter is the percentage increase which has taken place in each of the quoted items of expenditure over the past year Please note the absolutely vital mode of expression here It is for each item of expenditure listed in the table which follows

Should for example this item of expenditure comprise a multitude of individual components, such as the overall monthly food expenditure, we must be extremely careful not to fall into an apparently common mathematical pitfall Those families relying on a total payment to a supermarket, for example, will be using the correct figure Those who rely on the apparently more erudite technique of the "trolley of foodstuffs" are in error, as has been discussed in a previous article

In order to explain the method to be used yet again, I have been asked by a telephone caller to consider his real-life situation As I have to take a mathematical model here in any case, I kill two birds with one stone by complying with his request

He is in top management, with one of his two offspring at univesity The other is in matric at a public school, which still involves him in a "voluntary" levy of R1 200 a year for computer after-school teaching facilities He is only too happy to comply with this "request" since his son obviously benefits greatly by the facility However, as opposed to my model 2 of my Sunday May 7 article wherein the family analysed had completely liquidated its home bond, he upon his relatively recent promotion had moved house into a higher, "far higher" to quote his actual words, bracket and is now paying a monthly bond figure of R1 500

The rest of his figures, as actually quoted by him, as shown in the table

Since the prime aim of this article is to enable each family to calculate its own inflation rate, I now go over each step in the compilation of this table in some detail

Step 1

The very first step is to compile columns 1 & 2 of the table namely to detail in sequence each item of expenditure incurred averaged over the period of one month Some explanation may be necessary here Take the item of car repairs This should not occur each month, but conventionally twice a year for each car run

The family being analysed has three cars The new one replaces the old banger, which the university-going daughter now drives Total repairs for the past year amount to R2 400, which averaged out per month yields the fixture of R200 shown

Step 2

Determine the weighting factor for each item of expenditure

Having itemised the expenditures in column 2 of our table, obtain the total For our family shown this is R6 780 Now divide the expenditure for each item by this total to obtain what is esoterically termed the "weighting factor" Taking the R1 500 bond payment as an example, the weighting factor here is obtained by dividing this 1 500 by the total of 6 780, to result in 1 500/6 780 or 22,1 percent

Repeat this procedure for each item of expenditure The total of the weighting factors must obviously be 100 percent

Step 3

Note the increases which have take place over the past year in each item of expenditure Since we are travelling with our backs to the train engine, we need events precisely one year in the past as our reference level I have given in the table those annual increases which are in conformity with conventional occurences This means that these increases have actually been witnessed by real persons in real situations, and not hypothetically deduced by thousands of questionnaires averaged out to lead finally to figures which bear no resemblance whatever to reality

Step 4

Obtain the contribution of each item toward the inflation rate

For each item of expenditure shown, now multiply the weighting factor shown in the third column by the annual increase shown in the fourth column For example, taking once again the bond-repayment expenditure, we have a weighting factor of 22,1 percent to be multiplied by an annual increase of 45 percent, or 0,45, we thus obtain 0,45 x 22,1% or 9,95 percentage points towards our final figure of the inflation rate for the family being analysed

Item	Amount spent per month	factors
Food and household	R1 200	17,7
Do, ex house	150	2,2
	200	2,9
Entertainment	350	5,1
Bond repayment	1 500	22,1
Domestic servants	450	6,6
Car repayment	500	7,3
Telephone TV	350	5,1
Petrol	350	5,1
Car repairs	200	2,9
Education. fees	450	6,6
books	200	2,9
Personal care	350	5,1
Electricity, water	180	2,6
Clothes, footwear	350	5,1
Total monthly ex	R6 780	100,0

Repeat this for each item of expenditure, then total up the figures emerging in

For the family shown, the final inflation rate emerges as 34,645%

Comments

I have not mentioned the phrase Consumer Price Index once throughout the whole procedure involved h…

PERSONAL FINANCE

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Item	Amount spent per month	Weighting factors %	Annual % increase	Contribution to inflation rate points
Food and household	R1 200	17,7	40%	0,4 × 17,7 = 7,08
Do, ex house	150	2,2	60%	0,6 × 2,2 = 1,32
	200	2,95	60%	0,6 × 2,95 = 1,77
Entertainment	350	5,16	40%	0,4 × 5,16 = 2,06
Bond repayment	1 500	22,1	45%	0,45 × 22,1 = 9,95
Domestic servants	450	6,64	20%	0,2 × 6,64 = 1,33
Car repayment	500	7,37	22%	0,22 × 7,37 = 1,62
Telephone TV	350	5,16	15%	0,15 × 5,16 = 0,77
Petrol	350	5,16	25%	0,25 × 5,16 = 1,29
Car repairs	200	2,95	40%	0,4 × 2,95 = 1,18
Education. fees	450	6,64	25%	0,25 × 6,64 = 1,66
books	200	2,95	60%	0,6 × 2,95 = 1,77
Personal care	350	5,16	20%	0,2 × 5,16 = 1,03
Electricity, water	180	2,65	10%	0,1 × 2,65 = 0,265
Clothes, footwear	350	5,16	30%	0,3 × 5,16 = 1,55
Total monthly ex	R6 780	100,0%		34,645%

Repeat this for each item of expenditure, then total up the figures emerging

For the family shown, the final inflation rate emerges as 34,645%

Comments

I have not mentioned the phrase Consumer Price Index once throughout the whole procedure involved in arriving at the inflation rate of 34,645 percent for our family shown Conventionally this calculation makes mention and use of nothing but this CPI concept How have I then achieved my aim in the method shown?

Let me hasten to assure the reader that what I have done is completely correct mathematically I have eliminated the unnecessary and complicated CPI diversion as follows

Let us assume you wish to find the difference in heights between your two sons One method is to measure the height of each separately, and then to subtract these figures Another, and more accurate procedure, is to place your sons back to back and to obtain the difference in height directly from the top of the one head to the top of the other For esoteric measurement reasons this direct-difference method is the more accurate in actual practice

This is precisely what I have done in obtaining the inflation rate figure This inflation rate is mathematically defined to be the difference in the CPIs one year apart Instead of then calculating these individual CPI figures and then only subjecting these values to the procedure of subtraction, I have proceeded to the subtraction directly by using the figures for the annual increases experienced in each item of expenditure directly

Conclusions

I request that each family which has calculated its own inflation rate please to send the final outcome to the Saturday Star Only mathematical details of total monthly expenditure and weighting factors need be included

This will then provide a vital service to those, such as myself, who are committed to disprove the ruling Central Statistical Services figure of some 14 percent

Of particular interest are the inflation rate figures of groups other than the white families I have analysed to date I have adopted the latter approach merely because of a lack of experimental data for the remaining groups I hope this article will enable me to cure this lack

'NEED FOR INVESTMENT SELECTIVITY'

LIZ ROUSE

PROSPECTS of stagflation in the economy over the next 12 to 18 months increases the need for selectivity in equity investment, says the portfolio manager of Syfrets' two growth trusts, Anthony Gibson, in his June quarter report.

The SA economy could, as a result of foreign exchange problems as well as lower international economic growth, go through a period of stagflation with little or no economic growth and stubbornly high inflation.

The fall in the gold price, coupled with the drain on our foreign reserves through foreign disinvestment and foreign debt repayment, and our need to import plant and machinery and consumer goods has resulted in the current high interest rates and the authorities' struggle to cool the economic growth rate to a level which these constraints will permit."

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"SA is highly unlikely to be rescued from this difficult scenario by any significant rise in the gold price, as long as leading world economies continue their cycles of lower economic growth and deflation, and international stability prevails."

Syfrets Growth Fund maintained a nearly fully invested position during the June quarter. The net inflow of R7,1m was used to increase existing holdings with the introduction of Berzack Borthers Holdings. At June 30 the cash holding respresented 11% of the portfolio.

Unitholders have received a total return of 49,4% over the 12 months ended June. Income distribution for the past quarter is 1,74c a unit, which gives a total income distribution of 5,74c a unit for the past 12 months, a 16% increase over the previous comparable period.

The Syfrets Income Fund has over 1 000 investors representing R34,6m.

Get something solid for your money

Star 8/7/89

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FINANCE STAFF

WHAT would you do with R100 000? Pay off your bond, buy a small plot at Magaliesburg, fill up with petrol, get a new set of farm gates or have a tea party?

Inflation has hit the South African currency pretty badly, but the news recently that a tea party for all the President's women had cost the defence ministry R100 000 came as something of a shock Was General Geldenhuys milked? You could throw a lunch, at least, for that price

Gary Player was paid R100 000 for a hole-in-one not along ago and when his wife, Vivienne, was asked what she would like to buy with the pin money, she said "farm gates"

Getting back to property and the value of the rand, there appears to be no better investment in South Africa than bricks and mortar. At least you are receiving something concrete for your money

If you already own a home there is nothing wrong with buying another or putting money into commercial or industrial buildings.

There is no fixed deposit that will give you a real return against inflation at even 15 percent and the fundis say that our rate is far higher than that

Nest eggs are for the birds The Receiver of Revenue will take a large slice of any interest paid by a financial institution and, unless you take your chances with the stock exchange, there are few worthwhile investments for the ordinary saver

Unfortunately, inflation forces you to prepare for retirement at a young age and property — if you can afford it — offers the best hedge against this evil Ownership offers the benefits of capital appreciation as well as an income

Inflation has taken even some of the gilt out of golden handshakes, but none of the steam from the gravy train which still calls in at all government stations en route to retirement

We all know the R5 note does not last long and the Reserve Bank is coining it with the new R5 piece

Signs point to higher inflation

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Star 12/7/89

Finance Staff

Inflation is heading for a peak of 17,5 percent later this year, economists say after the release of the producer price index (PPI) figures

Central Statistical Services (CSS) said yesterday the PPI rose 1,5 percent in May, equal to an annualised rate of 15,8 percent.

Main contributor to the large increase was the jump of 31 percent in the price of petroleum products, mostly diesel, petrol and coal

But large increases were noted in meat (5,4 percent) and metal products (4,7 percent)

GOODS

The PPI reflects the price of raw materials used in the production of goods, but excludes the cost of services and GST.

It is generally considered a reliable guide to movements in the consumer price index (CPI), albeit with a time-lag of two to three months.

Economists believe that after the rise in the PPI, the upward movement in the inflation rate will be irreversible for at least the rest of the year

The consensus is that as the PPI will be reflected in the CPI, it is inevitable that the inflation rate, indicated by the CPI, will show a corresponding increase which could touch 17,5 percent by the end of the year

Norton pleas for real interest rates

By Frank Jeans

A much healthier economic climate is on the horizon and "less politicised interest rate patterns" can be expected

Tony Norton, president of the Johannesburg Stock Exchange has little doubt that Minister of Finance Barend du Plessis and the Governor-elect of the Reserve Bank, Dr Chris Stals, are more objective in economic strategy than the politics of the day would indicate

Speaking at a Property Writers Club lunch in Johannesburg yesterday, organised by architectural firm Stucke Harrison and Partners of Sandton, Mr Norton said "There is no substitute for good politics and good economics

"People are now revolting over the confusion in rates patterns, tax laws and inflation, but I believe the new leadership will create new opportunities"

He saw the abolition of prescribed-assets requirement as a landmark for South Africa and said it was certain there would be better fiscal and monetary policy co-ordination, which must eventually result in greater acceptance of real interest rates

"We can therefore expect shorter-term interest rate patterns to fluctuate less widely than before, but above an axis higher than inflation," he said

"At the same time, the long-bond market could well move shorter in average life and demonstrate similar but obviously smoother tendencies

"This does not mean that in future interest rates will not temporarily fall below inflation But this will, over time, be more than corrected by extended periods of real rates"

On the downside, Mr Norton referred to the disturbing drop in the productivity of capital because of relatively cheap loan capital — and "this, in a society with an unemployment problem of serious and growing proportions" Star 13/7/89

Referring to government intervention in the economy, the JSE president said "Just as government distorted the cost of long-term capital, so too there was an unacceptable mix of trying to use monetary policy to do too much while, at the same time, unduly politicising short-term interest rate patterns"

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Economists warn on further rise in price of petrol

By MALCOLM FRIED

ECONOMISTS and industrialists have warned that the pending petrol price rise will drive up the inflation rate, boost prices across the board and further weaken the economy

The Minister of Mineral and Energy Affairs, Mr Danie Steyn, said this week that a price hike was imminent

National Energy Council data show that at least 12c a litre extra will be needed to offset government subsidies from the equalisation fund, as the cost of petrol continues to be inflated by the drop in the rand's value

South Africa has absorbed three price increases in the past nine months, the last in April

A litre of petrol now costs up to R1,12 and a 10% price increase will mean a 0,6% rise in the inflation figure — running at more than 15% — according to economists

"As the new price works its way through the economy, so every sector will be hit" said Dr Ockie Stuart of the Stellenbosch Bureau for Economic Research yesterday

Professor Brian Kantor, of UCT's school of economics, agreed with the estimated effect on inflation

"Another point is that petrol actually costs far less than we pay — there is tax, the equalisation fund and other hidden costs"

He suggested the government cut its revenue taken from petrol to lessen the impact of the weaker rand

The director of the Cape Chamber of Industries, Mr Colin McCarthy, was "deeply disappointed" with the announcement of a pending price rise

"This is going to have a major impact on the cost of living index and will cascade over into every facet of the economy"

Retailers believed distributors would have to raise their prices through higher transport costs and these higher prices would eventually be passed on to consumers

The managing director of OK Bazaars, Mr Gordon Hood, said an exacerbating factor was that such costs were passed on without adding value to services

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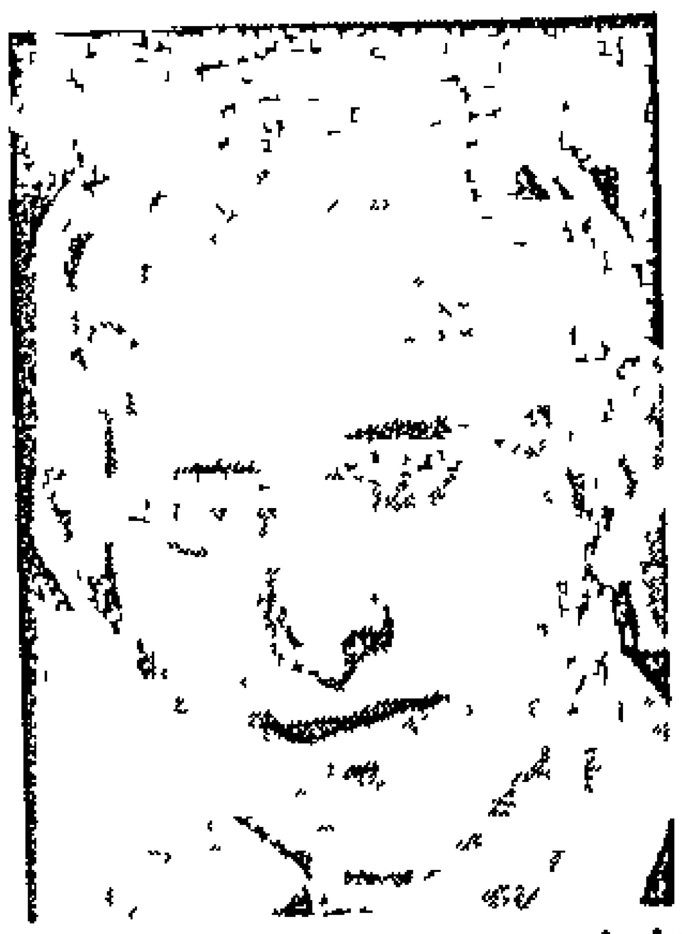
Rise 'will push inflation up to 18 percent'

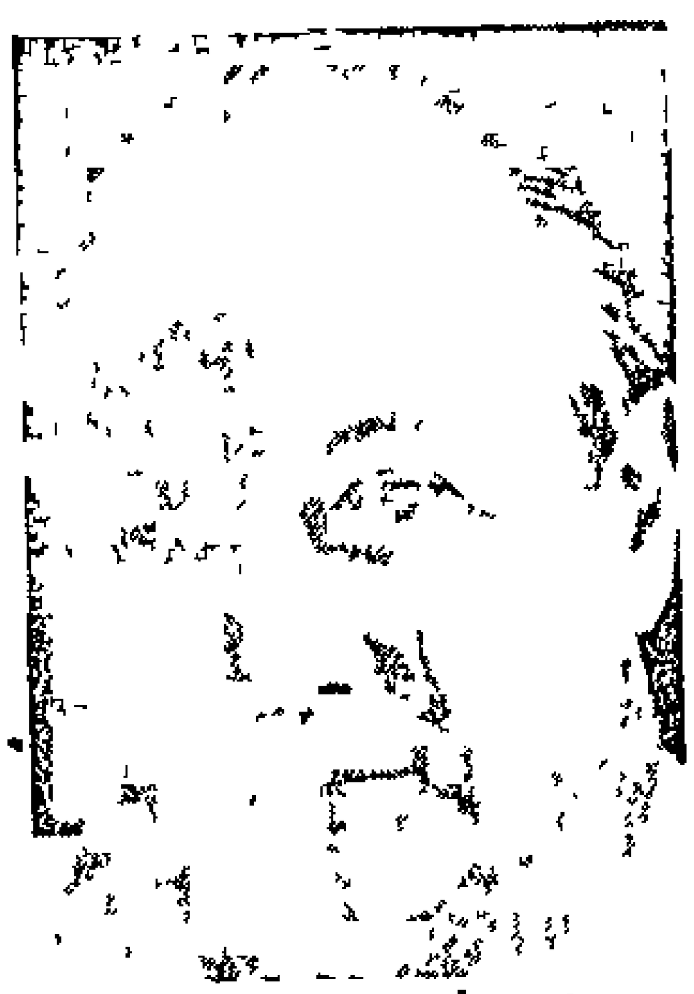
Fuel's upward spiral condemned

Star 14/7/89

By Sue Valentine



Gross mismanagement to blame . . . Mr Ken Andrew.



Cost always passed on to consumer . Mr Gordon Hood

Consumer organisations have slammed the petrol price increase announced on Wednesday by the National Energy Council, which will raise the cost by 6c a litre.

The increase is the third this year

In the PWV area 87 octane petrol will cost R1,15 a litre, while 93 octane will cost R1,18

At the coast, 93 octane will cost R1,09, and 97 octane R1,12 Diesel at the coast will be R1,04, and R1,11 in the PWV Agricultural diesel at the coast will be 75,6c, and 82,8c in the PWV

Preliminary calculations by the Federated Chamber of Industries and the Steel and Engineering Industries Federation of South Africa suggested the increase would raise the Consumer Price Index by 0,4 percent, but the indirect impact would make itself felt only in coming months

NEC chief executive Mr Lourens van den Berg said the average exchange rate of the rand to the US dollar in June this year was R2,79 to one dollar, making the deficit on petrol more than 12c a litre

Democratic Party

Democratic Party MP for Gardens Mr Ken Andrew said the present and recent increases were a direct result of the collapsing value of the rand, rampant inflation and excessive taxation on petrol

"The tragedy is that most of these price increases would not be necessary if it were not for the gross mismanagement of our economy by Government"

Conservative Party spokesman on economic affairs and technology Mr Clive Derby-Lewis said the 44 percent increase in the petrol price in less than a year was an admission of defeat by the National Party — the type of gross inefficiency which would bring a government down in any civilised country

Automobile Association managing director Mr Peter Elliott said the under-recovery on the fuel price arising from the deteriorating exchange rate was a factor no one had control over and the organisation supported the decision to impose smaller price increases when necessary

Inflation rate

Checkers group managing director Mr Sergio Martinengo said the price rise would push the inflation rate up to about 18 percent

OK Bazaars managing director Mr Gordon Hood said fuel price increases always had an inflationary effect as the costs had to be passed on to the consumer

Dawn Barkhuizen reports that the Housewives League of South Africa slammed the latest petrol price rise, saying it was "disgraceful" that South Africans had to suffer increases while people in Europe enjoyed reduced fuel prices due to lower crude oil prices

The Federated Chamber of Industries and the Steel and Engineering Industries Federation of South Africa said they were encouraged by the fact that the increase had been kept to 6c a litre

They said the price of crude oil on international markets had increased since the beginning of September 1988 by approximately 30 percent

Over the same period, the price of 93 octane petrol on the Witwatersrand had increased by over 24 percent, if tonight's increase was included

Rhodes gets a woman professor

Religion Reporter

Dr Felicity Edwards, a senior lecturer in the faculty of divinity at Rhodes University, Grahamstown, has been promoted to associate professor, becoming the first woman professor in divinity in South Africa

The faculty of divinity at Rhodes is the only official university training centre in South Africa for the ministry in the Anglican, Methodist, Presbyterian and Congregational churches

Dr Edwards' appointment is therefore a major development in South African theology

Import costs 'to fuel inflation'

(153)

KAY TURVEY

RISING inflation due largely to higher import costs could cut deeply into real living standards later this year and in 1990, much as it did in 1985 says Southern Life economist Mike Daly

He said the high rate of real monetary growth, far in excess of what is required to support real growth in gross domestic expenditure (GDE), could power this inflation

M3 has continued to grow at rates abouve 24% for the past 12 months to May, said Daly in his latest economic review It is this excess money which tends to flow out through the balance of payments and is reflected in acute exchange rate weakness and loss of reserves.

BDay 20/7/89

The rand has lost 15% against the dollar and is about 10% weaker in terms of the cost of a currency basket for the first half of the year

This weak external value of the rand and gradually rising inflation among SA's trading partners could keep the cost of imported goods rising strongly over the next few months, Daly said

During the two previous import inflation peaks in this decade, world inflation has either been low or declining, this time round its rise could see a delay in the peaking of the inflation rate for imported goods

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Inflation points to colour TV costing R8 000 next decade

By Michael Chester

Prices of colour TV sets will soar as high as R8 000 inside the next 10 years if double-digit inflation trends stay on their present course.

Only five years from now, even a small black-and-white set will cost about R1 700

HOLOGRAMS

The estimates were quoted by Mr Raymond Parsons, chief executive of the Association of Chambers of Commerce and Industry, when he opened the 1989 Consumer Electronics Trade Show in Johannesburg

He said a major challenge facing the electronics sector over the next decade was to develop and produce a low-cost TV set more affordable in the black consumer market

As technology improved it was possible that three-dimensional pictures — known as holograms — would become available to many wealthier TV viewers

But South African suppliers and retailers also needed to watch the potential growth of black consumer spending power over the next few years, especially the likelihood of a boost in TV demand as more and more urban black households were equipped with electricity.

On latest estimates, no fewer than 95 percent of all white households now had TV sets installed, with 2,2 million sets sold since television start in South Africa in 1975

Yet while the white market was near saturation point, the number of black homes with TV was still only about 25 percent

South African manufacturers still had a long way to go with overall penetration of the home market and also had big opportunities to export monochrome sets still in demand in most poorer countries.

But the electronics industry, and indeed the entire business community, also needed to tackle the problems caused to consumer relations by inflation

Though profit margins had been squeezed as a result of fierce competition, the pricing policies of suppliers and retailers remained under suspicion.

Because the businessman was the messenger of all the bad news on prices, he got all the blame for price increases, even though he was a victim of inflation, too

CUSTOMER HOSTILITY

The hostility of customers towards higher prices was a problem the whole consumer electronics industry would have to address

The solution was in collective action, not only on inflation, but also on such issues as import surcharges, taxation and industrial strategy

Gold industry in vicious circle

B|Day 25/7/87 153

ANDREW BUDDEN

THE gold industry is caught in a vicious circle of stagnant rand gold prices and rising inflation, which has locked many mines into dependence on an ever weakening rand

Economists warn that SA finds itself in a similar position to that of the late 1960s, when mines' rising working costs threatened to overtake the artificially fixed gold prices of the period

At the time, many SA mines faced the prospect of closure Their rescue came in the form of subsequent liberalisation of gold markets, which allowed the price to rise above the artificially low $35 an ounce

Today many mines face the same crisis — in dollar terms gold has been in a steady decline for the past 19 months, and officials remain pessimistic about its short-term to medium-term outlook

Over the same 19 months, marginal mines have been rescued more than once by a weakening rand, which fell in response both to gold's dollar decline and to political pressure, economists say

The weaker rand has maintained mining income in rand terms, but brought with it rising inflation Increased inflation has inevitably translated into higher working costs, so reducing the margins bolstered by a weaker rand

Economists have forecast an effective inflation rate of 17% by the end of this year, and warn it will probably rise to about 20% in 1990 The implications for gold mining are disturbing

Working costs have been rising at 20% to 25% a year, and without a marked improvement in the dollar price, many mines will join the ranks of the marginals by next year

The metal recently recovered some of the ground it lost earlier in June, when prices plunged to a three-year low of $356,96, but analysts say this does not mark the beginning of a prolonged upswing

Technical analysis shows the price would have to climb well above $390 and stay there for about six weeks to mark an extended break-out of the decline, says one

Gold industry officials this week also said they were not convinced the dollar gold price had bottomed out

No end in sight to the galloping inflation rate

153 Star 25/7/89.

By Sven Lunsche

The inflation rate is still soaring, while increases in consumer prices show no signs of abating in the wake of recent fuel price hikes and the weakening rand

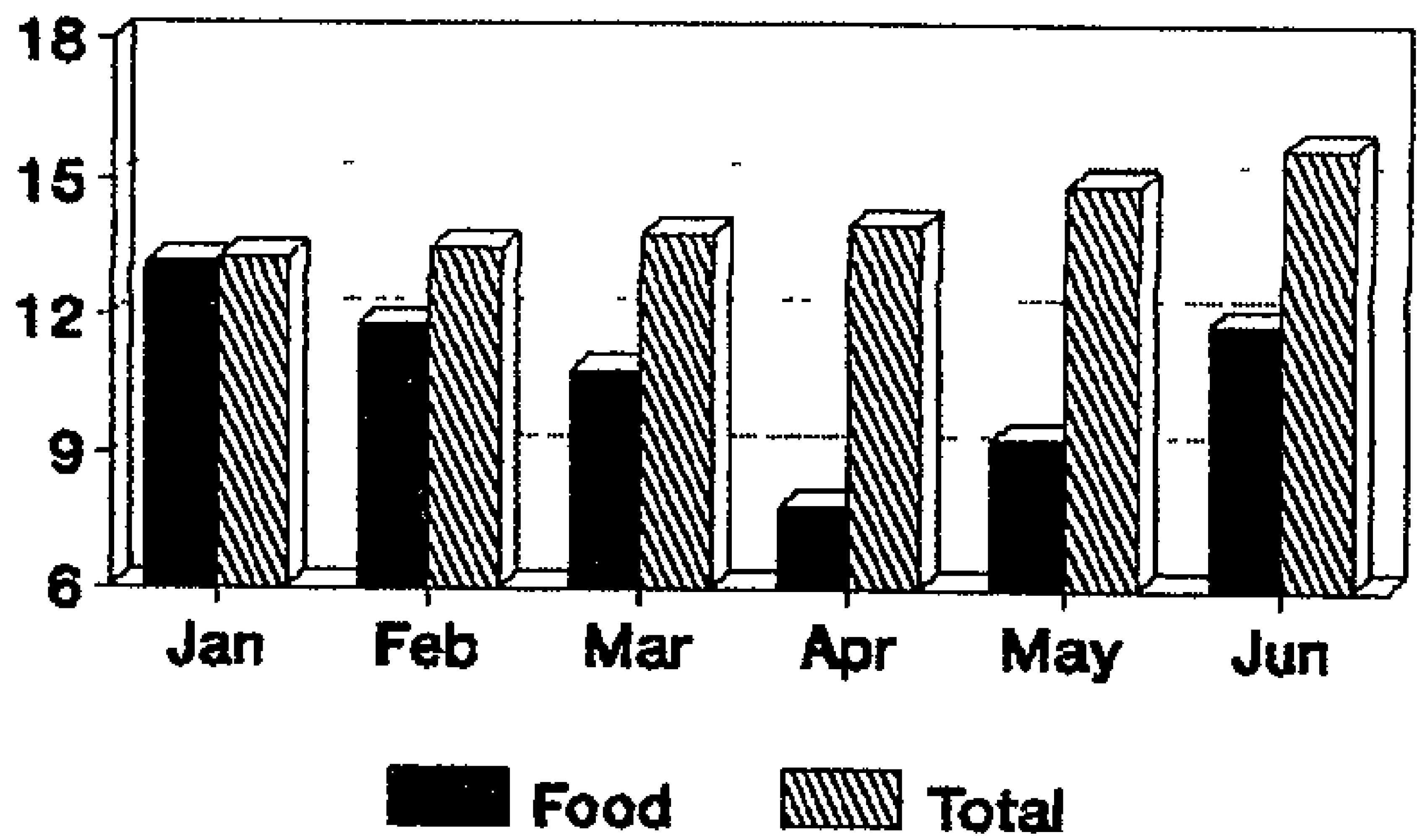
In June the year-on-year inflation rate, as measured by the rise in the consumer price index (CPI), rose to 15,7 percent, compared with 14,9 percent in May

The monthly rate of increase in June, when compared with May, was 1,4 percent, the main price hike contributions coming from food, housing (increases in bond rates), furniture and equipment, household expenses, medical care and health services

The percentage change in the food index, on a year-on-year basis, was 11,2 percent, its highest rise in four months, reflecting monthly price rises of vegetables (7,9 percent), coffee, tea and cocoa (2,8 percent) and fish (1,6 percent)

However, meat fell by 0,6 percent and sugar by 1,8 percent in June

Medical care and health expenses are having an increasing influence on overall costs They rose by 4,9 percent when state hospitals announced significant tariff hikes



Percentage change in the consumer price index compared with the same month a year ago.

Underlying the high inflation rate is the fact that producer prices have gradually tended upwards in past year and a half, fuelled this year in particular by two major factors the petrol price rise and the weakening rand

Sanlam economist Johan Louw says in the group's *Economic Survey*, which was released yesterday "The price index of imported production goods (with a weight of some 23 percent in the total production price index) increased significantly from less than seven percent in December 1987 to its present level of 17 percent

"The more expensive imports can be attributed almost exclusively to the effective depreciation of the rand by 23 percent in this period," Mr Louw says

He expects the weakening in the external value of the rand — against the dollar in particular — will later be reflected in even higher prices of imported goods and "in conjunction with the continued cost pressure on locally manufactured goods will contribute to a strong rise in the prices of production goods in the second half of 1989 and in 1990

"It is unavoidable that these increases will in due course lead to higher consumer prices"

The weaker rand has pushed up the rand price of crude oil Since September last year 93 octane petrol, for one, has risen by 24 percent, culminating in the recent 6c rise

It is unavoidable that these increases will contribute substantially to the financing costs of many producer goods and will eventually lead to higher consumer prices

Most economists forecast an inflation rate of 16 to 17 percent by December This is backed up by recent annualised monthly increases, the monthly increases in the first half of the year indicate an annualised inflation rate of 16,6 percent

This is very much in line with the forecast by Southern Life economist Mike Daly, who expects the annual rate to reach 16,5 percent by December, giving an average for 1989 of 15,2 percent

Sanlam's Mr Louw sees an average of 15,5 percent, compared with 1988's of 12,9 percent

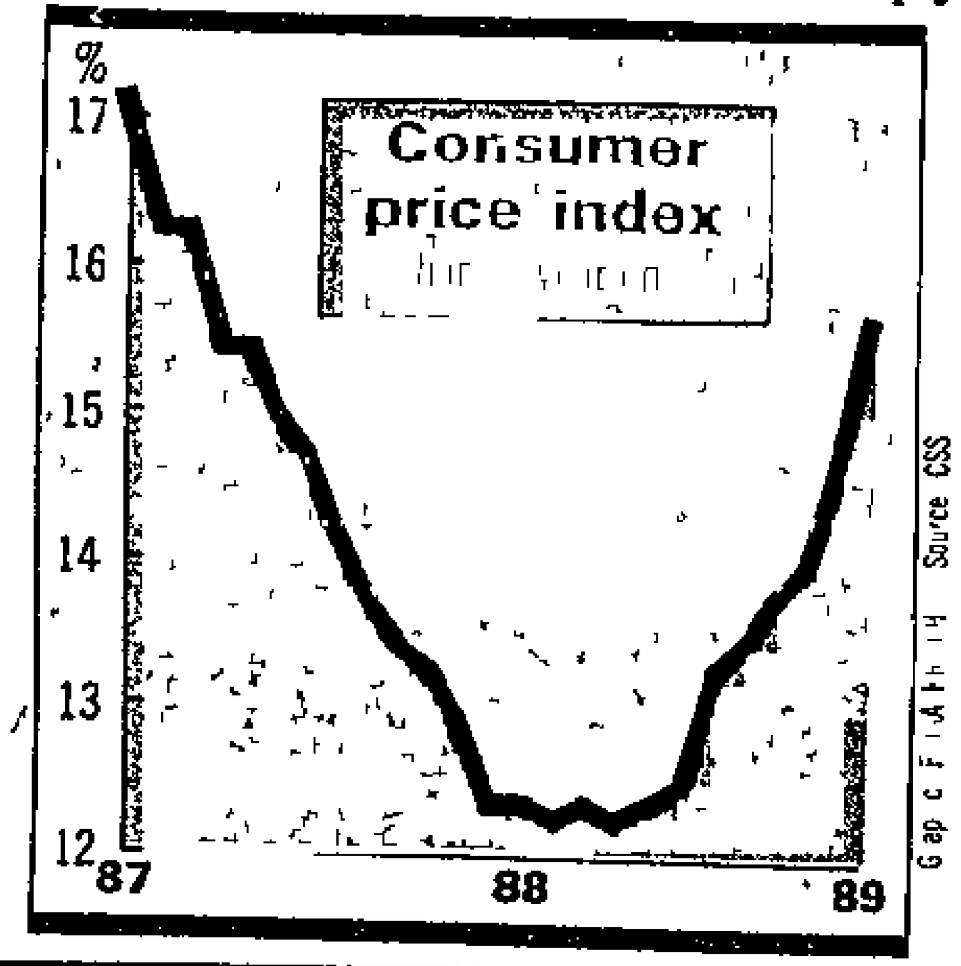
CPI, money growth reveal economic woes

BDay 28/7/89

GRETA STEYN

INFLATION and money supply growth figures released yesterday are evidence of the SA economy's ill health

Inflation continues to climb steeply while the money supply has again jumped out of the target range for growth of 14% to 18% set by the Reserve Bank



Inflation — as measured by the percentage increase in the Consumer Price Index (CPI) from the same month last year — accelerated to 15,7% in June from 14,9% in May Economists predicted yesterday that the rate could reach 17% by year-end

The CPI reflects the cost of a basket of goods and services purchased by the average household. According to CSS statistics, the CPI advanced to 177,7 in June from 153,6 the same month in 1988 — an increase of 15,7% On a month-on-month basis, the increase in the CPI between May and June this year was nearly one percentage point

The trend on food prices kept the overall rate of inflation from rising faster Excluding food, more than a fifth of the basket, the rest of the goods and services cost 17,2% more than in June last year

The rate of increase in food prices, compared with last year, has generally been slower than that of other important categories — although this positive trend is now showing signs of turning around

The food price index rose by 11,2% in the year to June 1989 — compared with 24,1% for transport and 15,4% for housing

Old Mutual economist David Mohr described the latest figures as "just another step in the current upward phase" Among factors underpinning the uptrend he noted the high petrol price, inflated by the additional tax on fuel introduced last year

Econometrix economist Azar Jammine said "The uptrend in the inflation rate should come as no surprise It was preceded by rapid growth in the money supply If the rate at which you print money is faster than the growth in Gross Domestic Product, one must expect this to translate into a higher price level"

Yesterday's money supply growth figures showed the rate of increase in M-3 had slowed to 24,56% in June (preliminary) from 24,66% in May and 25,28% in April May's preliminary data was revised upwards, out of the tunnel M-3 measures all deposits with banks, building societies and the Post Office, ranging from current accounts to long-term deposits It is used as an indicator of spending

Economists said the figures showed a renewed pick-up in credit spending Between May and June, M-3 (seasonally adjusted) rose by R2,8bn to R129,5bn, R1,7bn more than the upper tunnel limit of the target range Annualised, growth between April and June is almost 27%

Rand Merchant Bank economist Rudolf Gouws, while not calling for an increase in interest rates, warned that monetary policy could not be relaxed

● Comment Page 6

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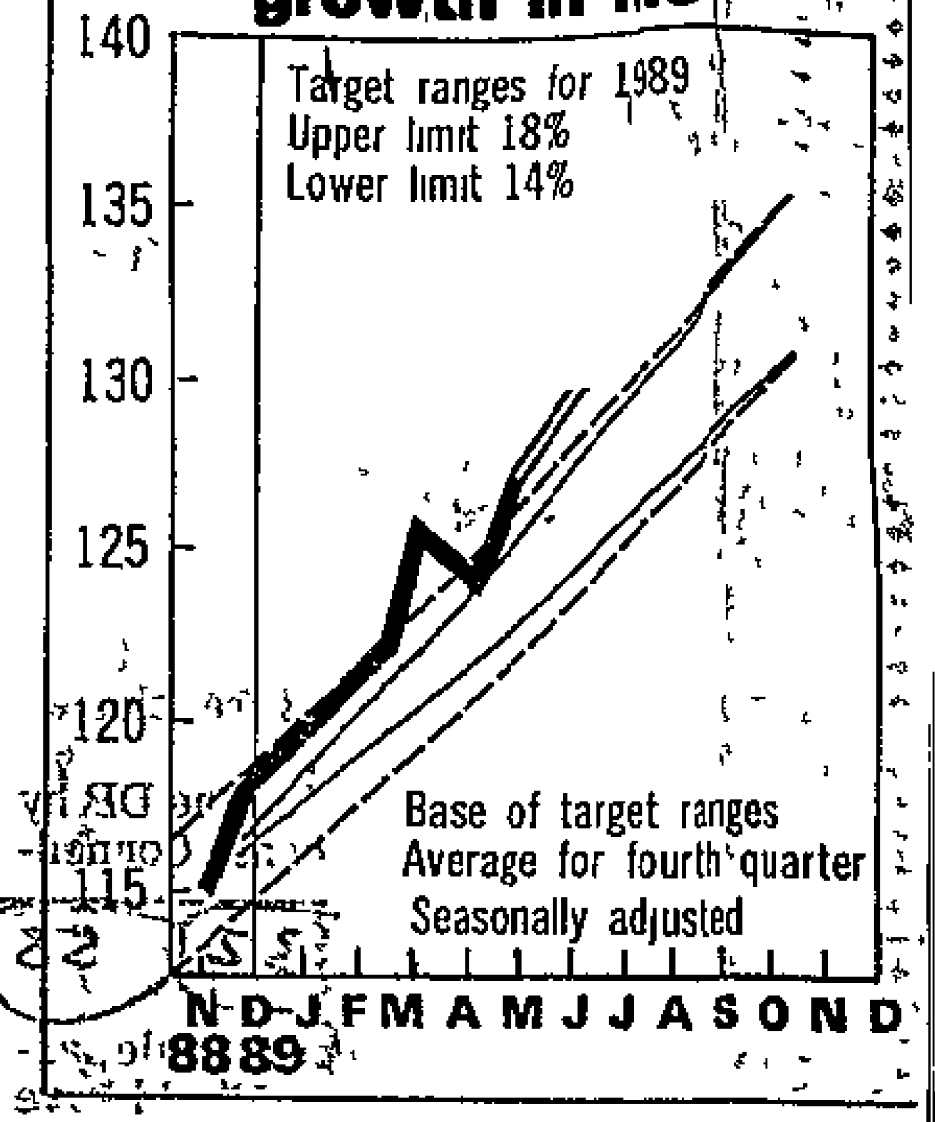
Target ranges for growth in M3



Higher petrol price still to have an effect

CAPE TIMES 25/7/89 153

CPI rises by 15,7% to 18-month high

By AUDREY D'ANGELO
Financial Editor

THE consumer price index (CPI) rose by 15,7% in the year to June 30 — the highest level for 18 months — after a jump to 14,9% in the year to May The month on month increase was 1,4%

The rise did not surprise economists, who say they expect it to accelerate in the last half of the year, to pass 17%

They pointed out last night that this month's rise in the petrol price, and the weaker rand, still had to affect the CPI

Figures released by the Central Statistical Services (CSS) yesterday showed that the food only index rose to 188,1% from 186,5% in May and 169,2% in June This means that the month-on-month rise in the food only index is 2%

The CSS says 80% of the increase in the CPI was due to rises in the price of vegetables and fruit, housing (increases in bond rates), furniture and equipment, household running costs, medical care and health services and personal care

Ockie Stuart, director of the Stellenbosch Bureau for Economic Research, said the rise in the CPI was "a little bit higher than I expected "

He thought the CPI would "possibly be above 17% by year end And next year will be a very difficult year "

Attie de Vries, professor of economics at Stellenbosch Graduate School of Business, said he thought the CPI would reach 17,5% by the end of this year "and it will probably remain high for two or three months "

He pointed out "Given the depreciation of the rand, and the fact that higher food prices are beginning to come through, this type of acceleration in the cost of living is to be expected

"It is likely to accelerate further in the months ahead and my feeling is that it will do so sharply "

Volkskas Bank economist Adam Jacob said he expected the CPI to be "between 17% and 18% by year end "

He added "It should come down slightly next year But we can't expect single digit inflation for the next two or three years

"That means it will remain high relative to the inflation rates of our major trading partners The rand exchange rate will remain under pressure, feeding inflation

"It will be hard for SA to bring down its inflation rate, just as it is hard for an individual with financial troubles to get out of them "

No let up in high inflation rate

Star 28/7/89

Finance Staff (153)

The annual inflation rate, which rose in June to 15,7 percent from 14,9 percent in May, is likely to rise further in the months ahead, with no sign that pressures on higher prices are easing

The recent petrol price increases have yet to take effect on producer and consumer prices while the weakening rand exchange rate is expected to push up the cost of imported commodities dramatically in the next few months

A third major impetus on consumer prices is coming from the rising money supply which the Government is allowing to persist

Figures released by the Reserve Bank yesterday showed that the broad money supply measure, M3, was rising at 24,56 percent in June, substantially above the targets set by the bank earlier in the year

Money supply has been running high for more than 18 months and many economists ascribe the present rising inflation rate to the Government's loose monetary policy

The persistent surge in the money supply is expected to exert upward pressure on consumer prices for some time to come

The money supply targets are used by the Reserve Bank as its major monetary policy instrument

● See Page 12

CM-Times 26/7/89 (153)

Inflation rate 'will hit 17,5%'

By MALCOLM FRIED

THE inflation rate, rising steadily, will hit 17,5% by the end of the year — and government spending is a prime cause, say economists

A statement by Deputy Minister of Finance Dr Org Marais this week, that there were signs inflation could have reached its peak at its present 15,7%, was yesterday dismissed as completely inaccurate by academics and bankers

Used up more

The petrol price rise, the weak rand, a steady demand for credit and, particularly, untamed government expenditure would be working their way through the economy for some time, said the economists, and inflation would not peak before next year

Government finance statistics show that the state has used up more of its budget this year than it had by the same time last year

The economists also warned that South Africa would have to curb inflation to regain a stable position in world trading

Experts blame govt spending

Dr Marais had reasoned that forecasts for good crops, a drop in interest rates and the effects of the government's steps to cool the economy would soon have a positive impact

But Assocom statistician Mr Ed Verburg did not expect a change in interest rates before next January He said crop forecasts were too tentative and noted that the economy was still experiencing a demand for credit

Mr Verburg cited official expenditure as the main cause for concern "I think it's gone too high and, if civil servants get what they want, could rise even more "

Inflation had been going up strongly and "a figure of 17,5% is predicted for the year-end"

Volkskas economist Mr At Engelbrecht said bank projections showed a year-end rate of 17% to 17,5%

"Of course, there are many reasons, but I'm also very worried about increasing government expenditure "

The Stellenbosch Bureau for Economic Research believed the prime rate would remain unchanged until at least December, said Dr Ockie Stuart

Keen demand

"And the economy will be feeling the effects of petrol-induced price increases and the unstable rand for many months "

He said that the latest money supply figures, indicating a still fairly keen demand for credit, showed that government efforts to slow down the economy were taking a long time to bite

"A lot has to happen before the economy turns "

Don't be silly, Dilley, say Weil and Ackerman

Cape Times 27/7/89 153

Staff Reporter

LEADING retailers this week rebutted claims by Nationalist candidate for Simon's Town Mr Harry Dilley that supermarket "monopolies" were responsible for profiteering at the expense of consumers

Mr Dilley, the NP MP for Simon's Town, said earlier this week at a meeting in Kommetjie that petrol price rises did not push up the the price of food He added "Ask Mr Raymond Ackerman who is a super-retailer"

Consumers were being hammered because of the monopoly among food suppliers and the big companies were making astronomical profits — but the government was being blamed, he said

"That is nonsense because the government has not got a lot do with the price of food," Mr Dilley said

Approached for comment, Pick 'n Pay chairman Mr Raymond Ackerman said he agreed with Mr Dilley that the price of food was rising A recent survey found staple food prices had risen 12%-13% from last year

"But examples of where the government is at fault include the allocation of licences to sell wine, bake bread and sell petrol," he said

Illustrating this, he said Pick 'n Pay had only 36 wine licences for its 108 stores, would "love to bake bread" and could "immediately" sell petrol between four and five cents cheaper than the fixed price

"I urge the government to take the lead in implementing privatisation and deregulation, and to be much stricter towards monopolies," he said

And chairman of the Checkers chainstore group Mr Clive Weil said yesterday while it "did not help to point fingers at any one person" the government could not claim to be blameless in its contribution to inflation, price rises and concentration of economic activity

"We are all responsible for inflation, but it's not fair to say supermarkets are making excessive profits Checkers, for example, is making slightly less than 1% on pre-tax turnover. It does not help to be simplistic," he said

Inflation was a reflection of the country's poor political image which, in turn, influenced the value of the rand and the gold price

Likewise, low productivity was a function of inferior education

Referring to Mr Dilley's remarks about the influence that petrol price increases had on the cost of food, Mr Ackerman said

"The man in the street is being hammered by the petrol price, which does marginally bring up the price of food"

(Report by C de Villiers 122 St George's Street, Cape Town)

INFLATION

Botha's baby

153 Fin Mail 28/7/89

South Africans, who have seen the official inflation rate remain stubbornly in double digits since 1974, must have been surprised to hear that State President P W Botha has been cast in the role of the country's economic saviour by Budget Minister Kent Durr. Durr told the Cape NP congress at the weekend that Botha had rescued the country from hyper-inflation.

There is much evidence to suggest the contrary.

The latest Reserve Bank *Quarterly Bulletin* shows:

- ☐ Government departmental Exchequer issues rose from 22% of GDP in the fiscal year ending March 1982 to 27,4% in 1989 — and in the first quarter of the 1989 fiscal year it went to 32,8%;
- ☐ Current government expenditure went from R14,6bn in 1982 to nearly R54bn in 1988;
- ☐ Growth in the broad money supply aggregate M3 rose from 15,4% in 1982 to 27,6% in 1988 — and remains at 26,6% in the first quarter; and
- ☐ The consumer price index went from 59,8 in 1981 to 155,4 in 1988 — and reached 172,6 by April to rise to 177,7 in June according to Central Statistical Service figures released this week (**see P39**).

The sequence of events is clear, as is the role of politically malleable interest rates. As Reserve Bank Governor Gerhard de Kock pointed out in May last year, real interest rates have been abnormally low in SA in most years since the early Seventies with the exception of the 18 months between late 1983 and early 1985.

"Prime overdraft rates of the commercial banks and the home mortgage rate of the building societies have actually been negative in real terms in eight of the past 16 years," he said, while the commercial banks' 12-month deposit rate was negative in 11 years.

Whatever the external factors that may or may not have contributed to inflation, there is no doubt that all these factors were under the control of the head of government in the period.

That SA does not have hyper-inflation is due to the untiring efforts of governor De Kock to introduce the concept of fiscal restraint to Cabinet ministers and positive real interest rates to South Africans and their parliamentary representatives.

And we haven't even mentioned what happened after the Rubicon speech. ■

Fmail 28/7/89.

INFLATION (153) Fmail 28/7/89

One swallow?

June's 0,2% increase in the US rate of inflation, after a 0,6% increase in May, could be a sign that the success story of the decade *will* have a happy ending

For some time, it has seemed likely inflationary impulses would put an end to the period of high growth and low inflation which started in 1982-1983 And this remains very much on the cards The US seasonally adjusted year-on-year inflation rate of 5,9% in June, is still accelerating As reported to the IMF, annual inflation in the five previous months was 5,4%, 5,1%, 5%, 4,8% and 4,7%

The continuing strength of world-wide inflationary forces is also reflected in IMF figures published this month They show that, year-on-year, the world's consumer price index rose 14,8% in December 1988, 14,7% in January 1989, and 14,8% in February, latest figure available

Because of their relatively high weighting in the index, the world's 21 largest industrial economies provided much of the impetus After reaching a low of 2,3% year-on-year in 1986, average inflation of these countries was 2,9% in 1987 and 3,3% in 1988 In December 1988, the year-on-year increase was 3,7%, in January 3,9% and in February 4,1% That the world trend will continue up for a while is ensured by figures available for most of the industrial countries for March and April These averaged 4,2% and 4,6%

Countries, apart from the US, for which May figures are published are

- ☐ Germany, 2,6% in January to 3,1%,
- ☐ Iceland, 18,3% to 22,3%, and
- ☐ Sweden, where inflation is down to 6,5% from 6,6%

Prices in developing countries, where inflation rose from 26,8% in 1986, to 35,7% in 1987 and 57,9% in 1988, have been erratic in recent months From 64,7% in December, average inflation in those developing countries which have reported, declined to 62,9% and 62,6% in the two months following. Much of this was due to the contribution of Asia which saw inflation fall from 11,6% in each of the last three months of 1988 to 5% in January before rising to 5,3% in February

No average figure is available for Europe's developing countries this year Last quarter of 1988, however, produced an inflation rate of 70,4% Biggest contribution came from Yugoslavia which, in that quarter, saw prices rise 228,4% The country's inflation is accelerating in December, January and February it reached 240,5%, 276,4% and 327,9%

The world's basket case, of course, is Nicaragua (in the category Western Hemisphere) Latest available figure remains that of December, when the annual inflation rate stood at 23 997,4% The country's performance is a frightening example of the snowballing effect of hyperinflation From 219,5% in 1985, it rose to 681,4% in 1986, 911,9% in 1987, and 10 205% in 1988

Some relief was experienced by Brazil (Western Hemisphere), which has the world's second highest inflation rate This fell from a peak of 1 170,2% in January, to 1 118,1% in February, 984,4% in March and 854,5% in April

To put the current position in perspective, one must go back to the last decade when, in the aftermath of massive increases in the oil price, international inflation reached a peak of 15% in 1974 and 15,1%-15,2% in 1979/1980 The implementation of positive real interest rates from the start of the Eighties in most of the world's major industrial economies and in some of the developing ones (see "Development link,") accompanied by lower oil prices, put a stop to price surges that threatened the world's currencies.

But, having rescued the world from the ravages of inflation in the first half of the Eighties, policymakers failed the crucial test of keeping prices stable and low World inflation bottomed in 1986 at 7,2% (the lowest rate of inflation for 14 years) and has been edging up ever since

Fears are that, though still relatively low, inflation will soon be moving too swiftly to control with anything other than draconian rates of interest which will trigger a dreaded hard landing

But if inflationary forces at work in the US have been contained by the series of interest rate increases (to a peak of 11,5% in the base rate between February and June), the next decade may see monetary policy continuing to triumph in the battle to keep price movements under control

Whether the June CPI figure in the US, which indicates inflation is on the retreat, proves to be the first sign of summer remains to be seen It may well be the one swallow that doesn't make a summer

What is certain is that, if inflation is to be kept under control, policymakers can't afford to relax their vigilance Their actions in the closing months of the decade will determine the strength of long-term growth in the Nineties ■

CPI (153) Fmail

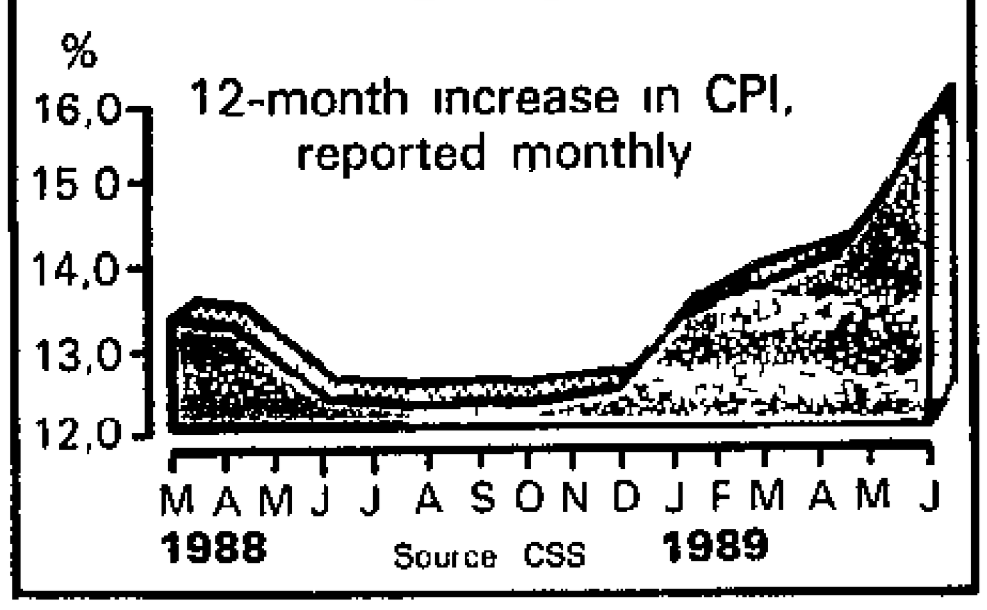
Overdrive

Driving inflation to heights last seen in August 1987 is the cost of transport, which rose 24,1% in June compared to the same month a year ago Transport costs were revved upwards by exorbitant rises in prices of vehicles (29,2%) and running costs (28,3%) However, these excessive rises were neutralised somewhat by the relatively slower rise in the cost of public and hired transport (9,1%)

FINANCIAL MAIL JULY 28 198

Fmail 28/7/89.

Soaring upwards



June's inflation rate, as measured by the year-on-year increase in the consumer price index (CPI), rose from 14,9% in May to 15,7% Further annual upticks may be less sharp for technical reasons Month-on-month increases in the second half of last year were higher, averaging about 1,2% compared to a May-June increase of only 0,4% This means year-on-year figures in the second half of 1989 will be off a higher base

However, the annualised rate of increase for the past three months is around 16,9%

The CPI rose to 177,7 (1985=100), a seasonally adjusted increase of 1,4% compared to May — slightly lower than May's 2% rise on the previous month

But where to from here? Will we see inflation galloping on uncontrollably or can the reins be pulled in in time?

Trust Bank economist Nick Barnardt believes the rand's recent relative stability against non-dollar currencies in the first half of this year will keep SA's inflation rate from reaching the 20,6% peak of January 1986 Sharp decreases in the value of the rand against all major currencies last year helped push the inflation rate upwards in 1989 but recent relative stability is expected to keep inflation close to 16% until February next year, he says But only if VAT isn't introduced at a high rate to accommodate excessive government spending

"The exchange rate is the best indicator of where inflation is going because it's the fundamental barometer of domestic spending and tells us if this exceeds the country's financial resources," says Barnardt.

However Econometrix economist Azar Jammine isn't as optimistic. He believes damage already done by a sustained period of excessive credit growth from 1987 to the present, coupled with ongoing higher levels of government spending, has condemned SA to an increasing inflation rate for longer than is generally anticipated "It could possibly hit 20%," Jammine says "The effects of money supply growth take two years to filter out of the inflation rate"

Other components contributing to upward inflation in June were the cost of education (20,2% up) and reading matter (20,7%) And having a roof over one's head was 15,4% more expensive — the results of steep bond rate increases in the past 12 months

Food costs rose a more moderate 11,2%, pushed up by a 23% rise in fruit and nuts. Alcoholic drinks rose 22%, cigarettes, cigars and tobacco 21,4% and coffee, tea and cocoa 22,5%.

The last time annual inflation was over 15% was in November 1987 on its downward path from the January 1986 high of 20,6% And once again transport costs made the major contribution — soaring by 37,3%, while housing rose 13,5% and food 18%

Low transport costs helped produce the lowest inflation rate (10,1%) in recent years in February 1984 They rose only 5,4% while housing rose 17,4% and food 9%

Inflation last dropped to single digits for four months in 1978. But to experience what most Western and other developed nations have mastered — average annual single-digit inflation — one would have to go back to 1973 when it stood at 9,6% ■

153 Fmail 28/7/89

MONEY SUPPLY

Tidal wave of inflation

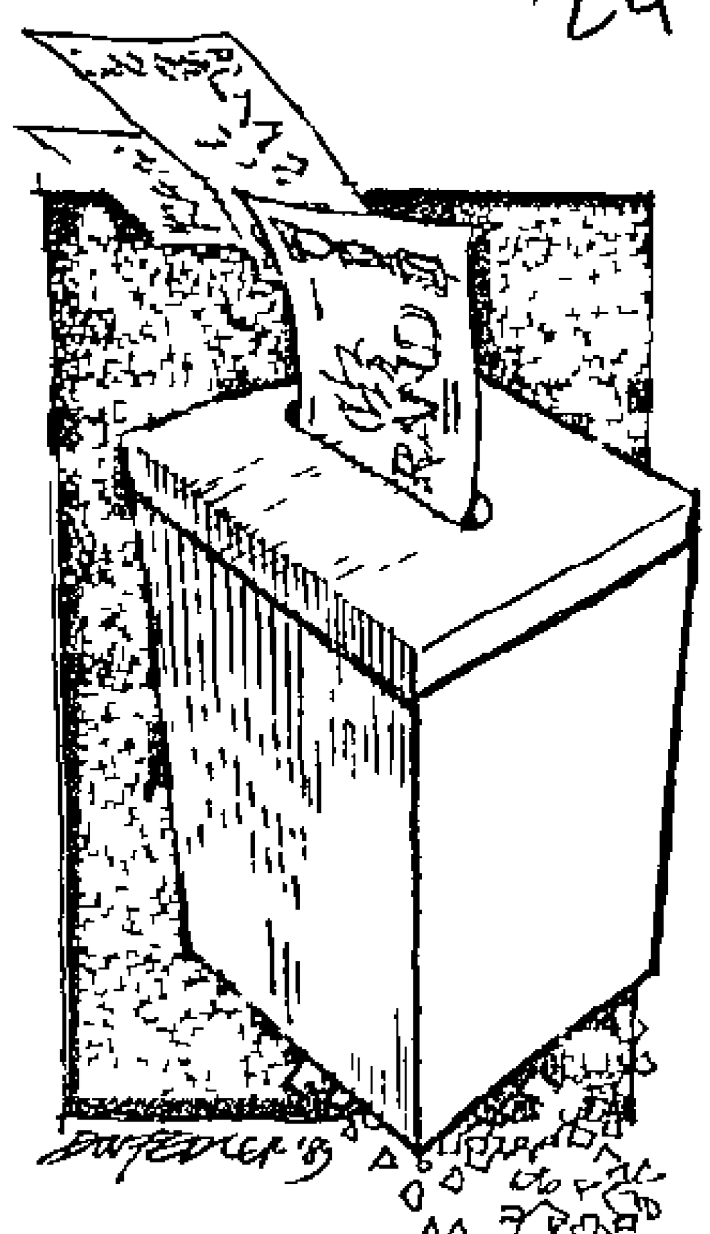
Nothing seems to work for a Reserve Bank trying to clamp down on the money supply. Not higher money growth targets to make it easier to hit the mark, not higher nominal interest rates to dampen the demand for money

In June, the money supply again exceeded the Bank's wildly liberal target of 14%-18% growth And for May the Bank revised its figures upward, meaning that the Bank missed its target after first believing it had scored a hit In fact, the Bank has overshot its own target every month this year except January and April, after missing nearly every month last year

More disconcerting than Pretoria's inability to control the amount of money it prints is the vast inflation already unleashed that will surge through the economy over the next two years Even if the Bank slammed the door shut on money creation tomorrow, inflation-weary shoppers are condemned to spiralling prices until at least mid-1991

That's because it takes about 21 months for changes in the seasonally adjusted M3 measure — the broadest measure of money and the one the Bank targets — to show up in the consumer price index (CPI). And the increases being built into the economy now are enormous. M3 rose 24,56% last month over June of last year But the June figure was slightly lower than May's year-on-year increase of 24,66% and continued a four-month gradual reduction in the year-on-year growth rate As recently as February the year-on-year growth was 27,35%, just below the recent peak rate of 27,85% last August.

Money supply growth like this, even if it's slipping a bit, means inflation could reach 22% next year, "certainly over 20% for a period of perhaps three to six months," says economist Tony Twine of Econometrix With June's year-on-year increase in CPI only 15,7% (see "Overdrive"), inflation will be soaring in the months ahead



But the inflation rate probably won't reach the peak rate of growth in the money supply The difference, perhaps five percentage points or so, is the rate of real economic growth, about 2%-3% annually, plus the effects of the changing levels of imports and exports and the decisions Pretoria makes on the prices it sets for petrol, maize and other products, Twine says "It's not a pure one-to-one relationship"

One month's figures can be misleading and are almost always revised, but the disappointing June numbers — 2,7% growth in M3 from May to June alone — postpone the day when inflation is reined in

It's a lesson the major industrialised countries have learnt Only Australia and the UK have money growth rates approaching SA's; the other countries have rates at half SA's or lower, with Belgium's the lowest at 3,9%. And all these countries have inflation rates in single digits In SA, even meeting the Bank's 14%-18% target will not mean a return to the single-digit inflation not enjoyed since 1973 "unless real growth is 9%-10% and that's unlikely," Twine says

What can the Bank do? Without dramatic cuts in government spending, there's no weapon in the Bank's arsenal except raising interest rates again With the prime rate already at 20% and an election six weeks away, this is unlikely Twine doesn't believe a one- or two-point rise would tighten the money supply much anyway

"If they decide to raise it, it would only punish homeowners without stopping the real demand for credit They'd have to raise rates to 25% to cut the demand but that would kill the economy stone dead, as in late 1984 when prime went to 25%"

Twine surmises that the 6,9% year-on-year jump in real wholesale trade in June helps explain why the money supply continued to spurt last month "People saw the rand dropping against the dollar and that had a huge psychological effect So people got ahead of the expected price increases and bought things they probably would've bought later in the year"

June figures reported this week are

☐ Seasonally adjusted M3 rose to R129,5bn, exceeding the upper limit of the bank's target by R1,7bn.

☐ Unadjusted M3 rose to R129,8bn, a 24,56% year-on-year increase, and

☐ M0 dropped to R10bn, R187m less than May but 35,5% greater than June of last year M0 has dropped in June in each of the last four years, a trend attributed entirely to seasonal factors

May figures reported

☐ M2 rose to R100,2bn (a 29,98% increase over May 1988),

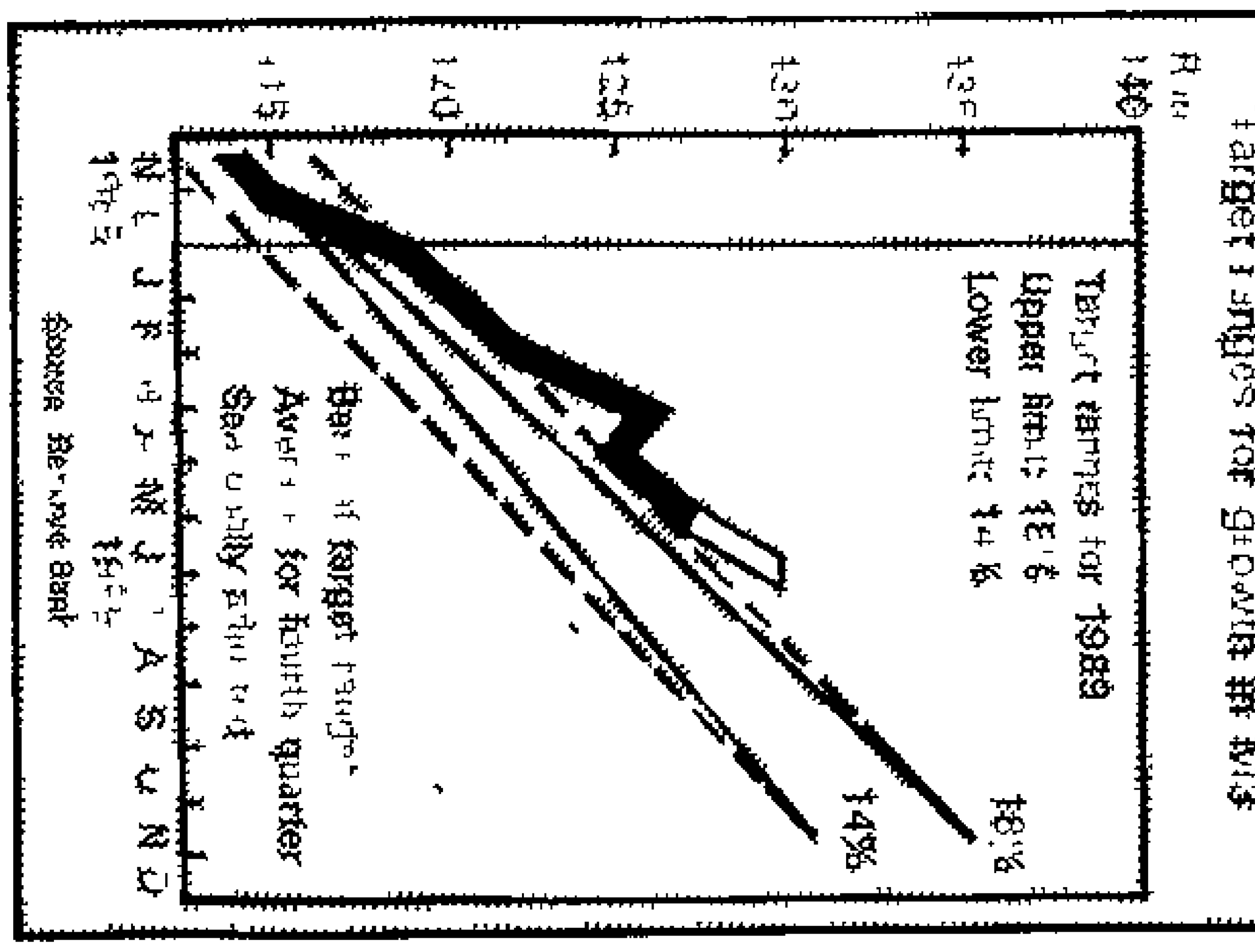
☐ M1 rose to R42,2bn (16,98%), and

☐ M1A rose to R20,911bn (17,22%) ■

153 Fmail 28/7/89.

Missing the target

Target ranges for growth in M3



Tighter belts for all as curbs fail

S/Times 30/7/89 (153)

By Ian Smith

EMERGENCY measures to cool the economy introduced "temporarily" earlier this year look set to remain in force — probably well into 1990

Inflation is rampant, accelerating to 15,7% in June from May's 14,9%, and it is likely to hit 20% before the yearend

There is no prospect that high interest rates can be reduced Some economists argue they must be kept at least at the current level — prime overdraft is 20% — until the middle of next year

Benchmark

This is the grim picture emerging as South Africa's spending spree continues, the gold price remains depressed and the long-awaited export boom remains stifled

Although spending on consumer durables and houses has been curbed by high interest charges and tougher HP terms, credit granted by banks and building societies jumped by 2,2% in May — more than double the 1% increase benchmark set by the Reserve Bank earlier this year

Fixed investment, which increases the cost of imports, is sensitive to high interest rates, but it will fall only after a time lag because projects given the go-ahead last year are still being completed.

Danger

Standard Bank economist Nico Czypionka expects no fall in private fixed investment until 1990.

Old Mutual chief economist David Mohr says the tighter policies to cool the economy will have to remain in force for some time

"Any premature relaxation of policy would increase the danger of the measures merely adding to the price spiral without having the necessary impact on real spending patterns. This is particularly so in a high-inflation economy such as ours.

"From both a balance of payments and an inflation point of view the present restrictive policies are therefore likely to remain intact for the rest of this year and even into 1990 in spite of signs that certain sectors of the economy are already cooling down," he says in Economic Monitor

DAVE MOHR

Although there has been a slowdown in the steep decline of the Reserve Bank's gold and foreign currency reserves, they remain low at R2-billion, barely covering imports for six or seven weeks

Mr Mohr says foreign debt repayments of $1 3-billion are due this year

Although repayment schedules and successes in rolling over some commitments are not known, capital outflows are bound to sustain downward pressure on reserves for the rest of this year

The current account of the balance of payments deteriorated in the first five months of this year The R5,5-billion surplus in the last quarter of last year was reduced to a R2,7-billion surplus by March this year

Preliminary trade statistics for April and May suggest a narrowing in the first two months of the second quarter

"This deterioration in the current account surplus in the first half of 1989 stemmed from poor export performance," says Mr Mohr.

Underlined

In rand terms exports fell by 5,4% in the first five months of the year compared with the same time last year Imports rose by 11,9%

"Given the fall in the gold price and the recent easing in other commodity prices, domestic demand is going to have to be curbed further to improve the current account surplus," says Mr Mohr

Rising inflationary pressures underline the need for the authorities to maintain proper policies

In the first five months of this year the rate of increase in the consumer price index accelerated to an annual rate of 17,3% compared with 13,5% in the previous five months

The year-on year inflation rate increased from an average 12,4% in the last five months of 1988 to 14,9% in May

But, says Mr Mohr, the overall CPI figure conceals some of the strong inflationary pressures in the economy

If food prices, which increased at a slower rate than other items, are excluded the CPI rose at an annual rate of 20,4% in the first five months of this year

Depreciation

If the housing and the food index are excluded, the increase is an annualised 23,6% for the five months

At the same time the depreciation of the rand increased imported inflation

The average value of the rand against a basket of currencies, weighted according to SA's pattern of foreign trade fell by 11,4% in the past year Imported inflation increased from a year-on-year rate of 11% to 17,8% in April

"Overall, inflation is on a strong upward trend and although policy has been tightened since 1988, it is unlikely to exert a positive influence on the inflation rate in the short run" says Mr Mohr

Namibian hotel for Sun International

(288) S/T 30/7/89 (221A)

Business Times Reporter

SUN International is moving into Namibia

The hotel, resort and casino chain has bought a majority shareholding in prestige hotel Kalahari Sands in Windhoek, and is spending R6,5 million to make it one of the most luxurious in Southern Africa

Chief executive officer Ian Heron says Sun International has big plans in Namibia

Opportunities

"We aim to make the Kalahari Sands a hotel that all the people of Namibia can be proud of We look forward to the independence of Namibia in October and the opportunities it will bring

"Sun International is committed to investing and developing in the country We believe that Namibia has tremendous untapped tourist potential which the group has the knowledge and expertise to help develop

Mr Heron says the company's policy is to promote the tourist industry in the countries in which it operates Namibia will be no exception, especially because of its considerable natural resources

Namibia is scenically beautiful, with its spectacular coastline and game reserves It has a developed infrastructure and the people are friendly and efficient. He believes that with these attributes, Namibia could become one of Africa's major tourist destinations

"We also envisage Windhoek becoming an important regional capital and we will cater for the needs of the business and diplomatic community who travel there"

The 14-storey Kalahari Sands stands in the heart of Namibia's capital and has long been a premier hotel Sun International acquired it by buying a controlling interest in holding company Sands Hotel

The deal became effective on July 1, and Sun International immediately started refurbishing Kalahari Sands

The 181 bedrooms have been upgraded The public areas are being redesigned There will be a new a la carte restaurant to seat 100 people and a 140-seat coffee shop as well as a new luxury bar

Sun International development director Dene Murphy says that in spite of the large scale of the project, the group is determined to have it completed by the time the elections are held

By October, businessmen, holiday makers, families and children from both Namibia and South Africa will be able to stay in the hotel.

Loan levy loophole for some companies

S/Times 30/7/89 (150) (220)

Business Times Reporter

COMPANIES and close corporations may still challenge their liability to pay loan levies — due tomorrow — if they believe they can claim a reduction on normal tax assessments.

Ron Rankine, a partner in chartered accountants Aiken & Peat, says companies must be sure that the tax rate they are objecting to or appealing against was applied and posted by the Receiver of Revenue before July 15

A company must have a "reasonable prospect of succeeding" before the taxman will consider allowing the loan levy to be based on a lower assessment

Mr Rankine says the possibility of relief came to light in a case where a company received an assessment which showed the Receiver had "added back" a large sum, which had expensive implications for the company's 10% levy commitment

The basis for the "add back" was open to question. But before the Receiver would agree to the levy's being calculated on a reduced amount, he required the company to lodge a formal objection to the assessment.

Companies which believe their assessments warrant an appeal or an objection will have to move fast if they wish to take advantage of paying a levy on a lower rate, says Mr Rankine.

The relief could also be obtained if the Receiver is satisfied that the normal tax for a company's latest assessment is due to an error

There is also the possibility that loan levies could be handled as negotiable financial instruments A register of loan levy certificates will be drawn up by the Treasury each six months.

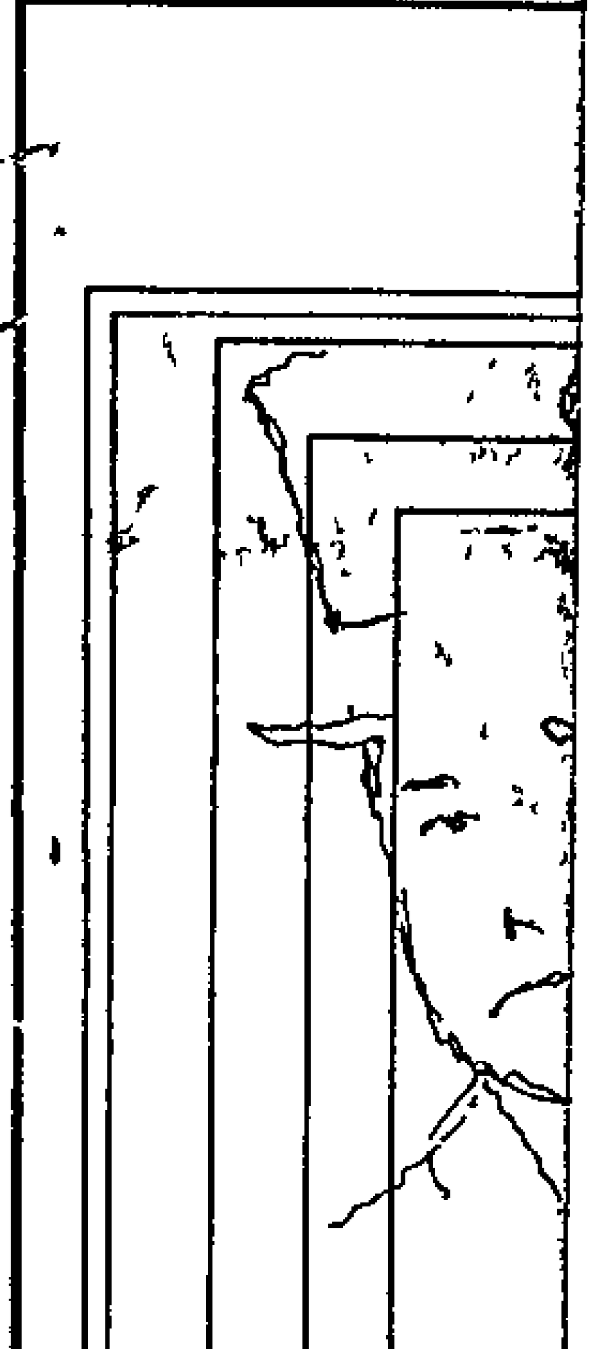
Thousands to protest

By Robyn Chalmers

THOUSANDS of trade unionists will meet next month to protest against the Labour Relations Act (LRA)

The Congress of SA Trade ... at the Cosatu national congress this month called for second workers' summit to discuss plans for action against the amended LRA.

Cosatu says, "We resolve ...



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Inflation: Aid for elderly

ARGUS 3/8/87 153

By TOM HOOD
Business Editor

INFLATION running at the current rate of 15 percent halves the value of money every five years with serious implications for senior citizens, says Mrs Shereen Walbeck, who is co-ordinating an Old Mutual programme to help the elderly fight inflation.

A rand in 1979 bought two litres of milk, three loaves of bread and a packet of cigarettes, she has calculated.

Today a rand buys a quarter litre of milk, a quarter loaf of bread and two cigarettes.

The company today launched a R1-million information programme to help senior citizens.

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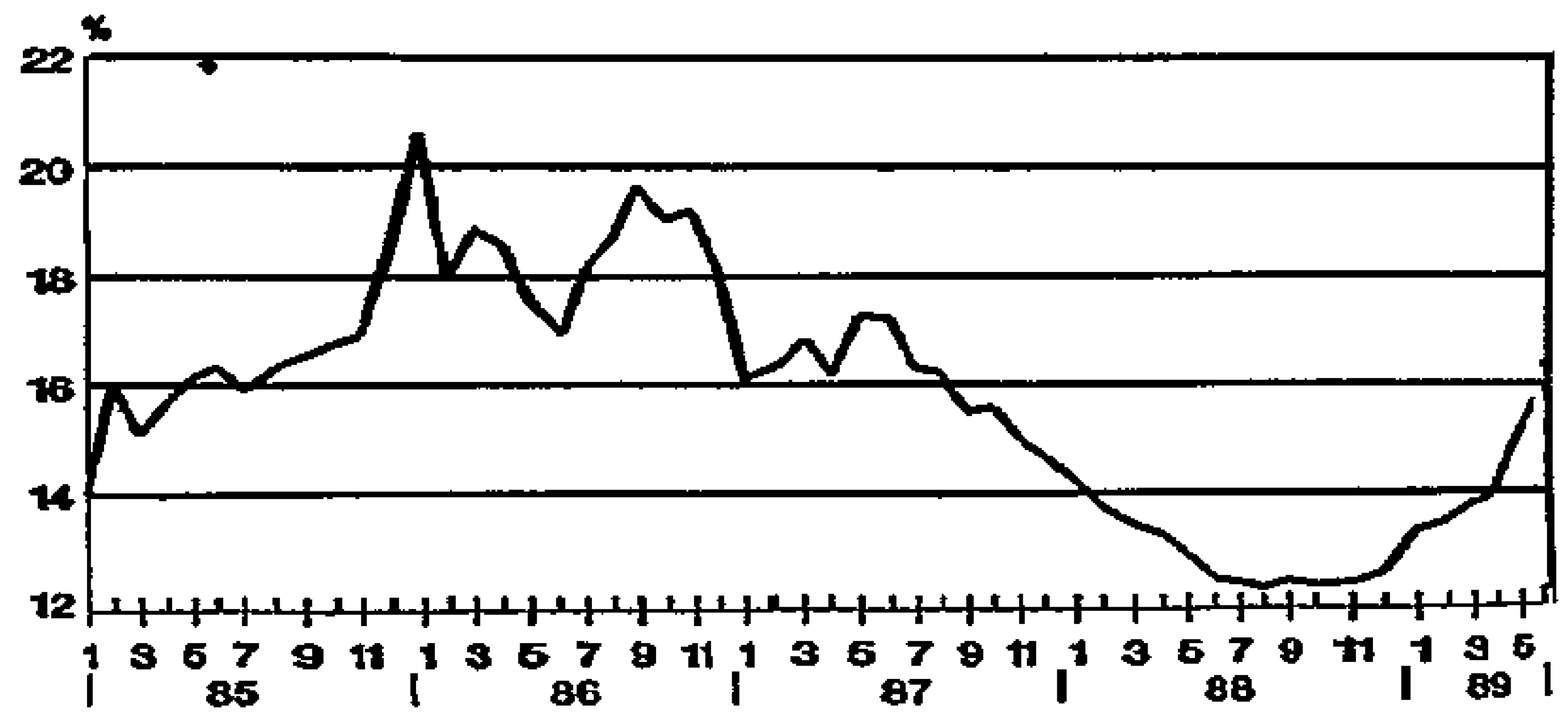
W Mail 4-10/8/89

Inflation will simply continue to spiral

While the deputy finance minister claims the inflation level will drop from its 14,9 percent peak, the reality is the inflation rate is likely to exceed 17 percent by December.

By KURT JENSEN



The inflation trend is once again sharply upwards. Graph Senbank

WHEN the Central Statistical Services announced recently that the inflation rate in June had soared to 15,7 percent, from 14,9 percent in May, deputy minister of finance Dr Org Marais commented that inflation had peaked

Known for his controversial economic statements — Marais recently said South African whites were better off than they were 20 years ago — he was once again alone in his judgement.

Opposition spokesmen and representatives of both black and white consumer bodies described his claim as a farce and added that the "real" inflation rate was probably closer to 20 percent

Certainly the underlying economic fundamentals do not justify Marais' forecast

Inflation, as measured by increases in the consumer price index has risen ever since it touched a low of 12,3 percent eight months ago

As the South African economy is not characterised at present by excessive demand for goods and services, the current sharp rise in the CPI is largely caused by cost-push inflation — in other words, price increases of inputs on the supply side of the economy, like indirect taxation, high salaries and wages and the rising costs of imported products because of the weaker rand

Simple statistical calculations confirm that this trend is likely to continue and push inflation to even higher levels by the end of the year.

For example, if the monthly increases in the CPI continue at the rate evident during the first six months of the year, inflation will equal 18 percent by year-end.

In a recent report, Senbank economist Emile van Zyl also points out that the increase in general sales tax from 12 to 13 percent implies a monthly rise of 0,9 percent in the price of goods and services taxable under GST More than half of the goods and services in the CPI are taxable which means that increases in GST have a significant impact on it, Van Zyl adds

Even more telling is his analysis of the three components which make up almost two-thirds of the CPI, namely food, with a weighting of 22,7 percent, housing (21,2 percent) and transport (17,2 percent)

The annual increase in the CPI for housing was 15,4 percent in June this year Taking into account that interest rates represent 44,6 percent of the housing component, it is inevitable that the recent increases in mortgage bond costs will have a negative impact on inflation

Interest rates represent almost 9,5 percent of the all-item CPI so the hike in rates over the last 18 months will push up the prices further

Food price increases had shown a welcome decline to 7,8 percent in April after standing at 22,7 percent only 20 months ago. But since then increases have picked up again to 9,3 percent in May and 11,2 percent in June and indications are that food prices will continue to soar

Much of this has to do with the recent petrol price hikes Fuel prices have risen by 44 percent over the past year and since the contribution of petrol and diesel to the CPI alone is 4,6 percent, the direct impact of fuel price increases has been to push up the inflation rate by over two percent.

But the impact of higher petrol and diesel prices goes beyond that It pushes up producer prices for most goods and this inevitably filters through to the consumer level

This is most obvious in the transport sector The annual increase in running costs of cars was a staggering 28,3 percent in June, beaten only by the 29,2 percent surge in the cost of motor vehicles themselves

The hike in fuel prices and the escalating prices of imported goods in general can be traced to the weaker rand exchange rate, which by June had fallen by 22,8 percent against the US dollar over the past year and by 13,2 percent against a basket of currencies

And Senbank's Van Zyl says this trend is likely to continue "It can be assumed that the rand will weaken further against major currencies and that the authorities may introduce further import control measures to protect South Africa's foreign exchange — all factors that make imports expensive and therefore contribute to inflation."

Org Marais, in justifying his claim that inflation had reached its peak, pinned his hopes on the steps the government had taken to cool the economy

But as Old Mutual's economist Dave Mohr points out in the life assurer's latest *Economic Monitor*: "The tighter monetary and fiscal policy is unlikely to exert a positive influence on the inflation rate in the short run

"The restrictive policies followed by the authorities are mostly market-related and influence economic activity via the route of higher prices, for example the lower currency, higher mortgage rates and increased indirect taxes

"These measures, designed to deflate effective demand and encourage switching of consumption to local goods away from imported goods, should contribute to the cooling down of the economy but with the normal lags involved, and in the interim will raise the inflation rate," Mohr comments.

Given this set of circumstances most economists predict that consumer prices will continue to rise over the next few months and anticipate that the inflation rate will exceed 17 percent by the end of the year

Stable interest rates get vote over negative

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S/Times 6/8/89

By Ian Smith

THE long-held belief in business that negative interest rates — below the level of inflation — are essential for South Africa's healthy economic growth is being questioned

Increasingly, the argument of economists is that stability in interest rates — even at higher levels — is far more beneficial

Old Mutual's economic research unit makes a strong plea in Economic Monitor for the maintenance of positive interest rates

With long-term interest rates on the uptrend since the beginning of the year, and little likelihood of an early fall, the subject is important right now says chief economist David Mohr

He says that although rates are likely to remain high for some time, the next trend in short-term money is likely to be downward

"For this reason it is appropriate to argue the case for maintaining positive real interest rates in the long run

"Real short-term rates, as measured by the prime overdraft rate, have been positive since March 1988 It is our opinion that the monetary authorities should prevent rates from falling in the next downward phase to below the rate of inflation"

Constraints

The ultimate aim of economic policy, says the Monitor, is to promote economic welfare within the constraints of SA's human, natural and financial resources

"The achievement of the aim requires the maintenance of stability in respect of, among others, domestic price levels and the balance of payments which traditionally fall within the ambit of monetary policy"

With a small, open economy, SA is highly exposed to business cycle fluctuations in the world economy

These trends need compensatory short-term policy adjustments by the authorities

"However, we believe these policy adjustments should take cognizance of the long-term aims of economic policy in that changes of policy to facilitate certain short-term adjustments should not, in the process, jeopardise the achievement of the long-term aim

"Too much emphasis on the achievement of short-term objectives could foil the achievement of long-term goals"

The Monitor says it is often argued that positive real interest rates are detrimental to real economic growth and to job creation because times of very high interest rates are invariably followed by weak economic growth or even a full-scale recession

The rapid growth of SA's labour force and high unemployment have highlighted the importance of economic growth, and this has increased opposition from several sources to the main tenance of positive rates in the short and long term

"However, we feel that the secular maintenance of positive real interest rates is beneficial to the long-term economic growth performance of the economy as it makes an important contribution to the achievement of the desired more stable economic environment within which economic decisions can be made with more confidence

Detrimental

"In fact sharp fluctuations in real (and nominal) interest rates, such as those experienced so far in the Eighties, are probably more detrimental to the maintenance of a sound long-term growth performance than is the maintenance of positive real interest rates"

Interest-rate fluctuations tend to exacerbate cyclical fluctuations in the economy

In the 12 years to 1972 the real prime overdraft rate was never negative and, in the midst of cyclical fluctuations, averaged 4,1% a year In spite of this, real gross domestic product rose by an average of 5,4% a year and there were no serious recessions

The lowest GDP increase in the 12 years was 2% in 1972

The world recovery since 1982 supports the argument, with high real interest rates accompanied by strong economic growth

Major industrialised nations like the US, the UK, Japan and West Germany all maintained positive real interest rates throughout this time and still recorded sound real economic growth The real prime rate in the four countries averaged 5,5% between 1982 and 1988, and gross national product increased by an annual average of 3,5%

"International and domestic experience indicates that the maintenance of positive real interest rates is totally compatible with a sound real economic growth performance

"The feeling in certain circles that the maintenance of positive real interest rates is, in the long run, detrimental to the achievement of the long-term growth objective appears, therefore, to be largely unfounded"

Nevertheless, there is little doubt that large changes in the level of real interest rates have some short-term effect on economic growth

This is illustrated by domestic experience since the mid Seventies The graph shows that periods of fast real economic growth (as in 1978 81, 1983-84 and in the latest upswing) were consistently preceded by sharp falls in real interest rates, often to very negative levels

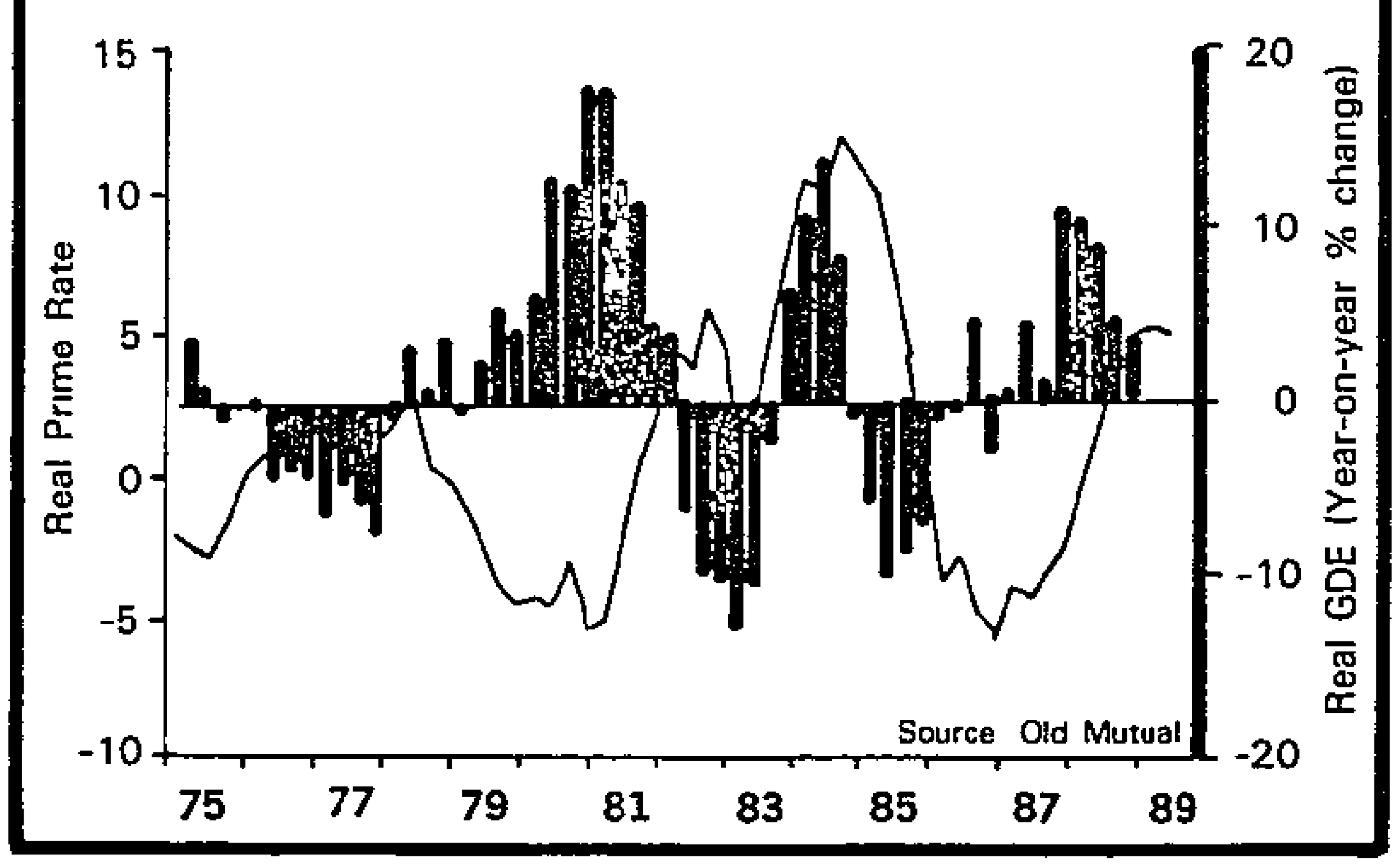
"On the whole, therefore, it appears that large fluctuations in real interest rates have a much greater bearing on economic growth than does the maintenance of positive real interest rates

"We believe the sharp fluctuations in interest levels in the last decade actually aggravated the already unstable trend of the macro-economic variables"

The Monitor says the consecutive big declines in interest rates in 1979-81 and again in 1985-88 invariably led to an excessive increase in credit-financed spending and the development of imbalances in the economy

The only way to correct the imbalances was to increase interest rates sharply, which resulted in severe recessionary conditions and a repetition of the whole process.

Economic growth and real interest rates



Inflation runs riot

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COST increases are occurring at a scale unknown in previous decades and the inflation outlook for SA is worrying, says Raymond Parsons, chief executive of Assocom

Opening the Consumer Electronics Trade Show of Southern Africa in Sandton he said inflation eroded profit margins and made pricing policies suspect

"This is the decade of the big squeeze on profit margins"

The consumer electronics industry, like many others, was finding its cost structure changed beyond its control.

AID FOR SMALL TRADER

Sowetan 8/8/84

153A

By JOSHUA RABOROKO

AN organisation which aims to improve the financial position of hundreds of small entrepreneurs in the townships is to be launched in Soweto today.

Organiser of the South African Small and Informal Businesses Association Mr Ntsiki Mbundu yesterday said the organisation would bring the informal sector under an umbrella that will protect their rights and shield them from harassment by local authorities.

He said the aim was to bring all spaza shops, street vendors, shoe repairers, panel beaters, dressmakers and other informal businessess under one wing.

Organisations such as the African Council of Hawkers and Informal Businesses, Get Ahead Foundation, Business Challenge, Small Business Development Corporation and chambers of commerce, have been invited to participate and give advice to the emerging black business.

He said "We want to assist in developing and stimulating a sound, efficient and balanced small business sector with the aim of maintaining it as one cornerstone of a free market economy and to assist in its growth."

The informal sector contributed millions of rands to the South African economy and it was vital that its presence should be appreciated by the formal business sector.

The association will help the informal sector acquire money.

(153) Fmail 11/8/89.

ACCOUNTANCY

World first for inflation

With SA's high inflation rate, reading the average balance sheet and income statement has become like piloting a Concorde with all instruments down Not adjusting for inflation inevitably boosts profits artificially and this filters through into earnings, yields and the counter's rating, if it's listed

Unless users (investors, creditors, analysts and bankers) make considerable mental adjustments to financial statements, they get anything but the truth

This is amazing in a financial market which prides itself on being disclosure-based There is no legal obligation on companies to disclose the impact of inflation on their accounts, though it could be argued that this is covered in the general stewardship concept of being a director or corporate officer

The problem may be on its way out In a world first, SA is set to have obligatory inflation accounting, within a year

The issue has been downgraded in the West, this decade, as inflation dropped and remained low But, with inflation now up to 8%-9% in the UK, it is resuming its deserved place "Standard setters in the UK," says Graham Terry of the SA Institute of CAs (Saica), "are scurrying around like a nest of ants invaded by an anteater "

The winds blow stronger here With CPI inflation of 16% (and rising), the effects become exponential in a few years Inflation accounting will revolutionise behaviour in boardrooms across commerce and industry.

The eyes of users of financial statements will be opened wider than by any other accounting standard And corporate raiders will have ready, accurate access to the failings of weak management Unproductive assets will be helplessly exposed as management buyouts become more common

Support for Exposure Draft (ED) 77 is strong Says the JSE's Tony Norton "If ED77 is adopted, it will probably be made compulsory for listed companies "

Inflation accounting will change the face of financial statements more significantly than any other advance in accounting standards For a host of reasons, it is imperative that ED77 is adopted and becomes law

ED77 has emerged from Saica's Accounting Practices Committee, under Rob Barrow of Coopers & Lybrand It is seen as the brainchild of Twins Pharmaceuticals' Bob Garnett Though ingenious, the ED's technical workings are anything but complicated It addresses three main areas

- Balance sheet All items must be revalued, using appropriate measures for current value,

Norton

- Income Statement. ED77 introduces the concept of comprehensive income, the "recognised change in equity during a period except for investments by owners and distributions to owners," and
- Maintenance of capital A deduction from comprehensive income, calculated by multiplying owners' equity by the CPI, is transferred to a capital maintenance reserve. (This ensures that the purchasing power of owners' equity is maintained and dividends are not paid out of capital)

The central mechanism in computing inflation accounts is present value (PV) Says the ED "Present value of an asset or liability is determined by discounting estimated future cash flows using (an appropriate) rate " The PV concept is already widely used in commerce, industry and banking

PV is ED77's preferred treatment for all balance sheet items Other methods of computing inflation accounts relate to market value, replacement cost, indexed historical cost and recent transaction value

The profession has been trying for years to produce a comprehensive, meaningful standard on inflation accounting Even today, little international guidance is available. Supplementary statements required by the US Securities & Exchange Commission, for example, steer clear of the big issues

SA's first attempt was made in 1978 with AC201, *Disclosure of Effects of Changing Prices* This was a complex and costly exercise In many cases, only the negative effects of inflation were shown "AC201's not dead, but it smells funny," says a wag

In 1986, ED66 on Current Value Accounting was issued Addressing only the balance sheet, it did not find much favour, and was seen as not going far enough Those involved in formulating ED77 — particularly Saica and the JSE — reckon they've come up with the goodies this time

Unfortunately, the biggest likely obstacle is management Directors and corporate officers are wary of learning new things ED77 will certainly need a learning process But it may become essential learning if SA goes into hyperinflation The International Accounting Standards Board's IAS 29, *Financial Reporting in Hyperinflationary Economies*, became effective last month

SA, a member of the board, should note that hyperinflation is defined as where "cu-

RESERVES: BRIGHTER IN DOLLARS

Publication this week of Reserve Bank end-July holdings of gold and foreign exchange confirms what the healthier rand has been signalling for a while the surplus on the current account has improved and capital outflows could be subsiding for the moment

The improvement is masked by the lower value of gold holdings — due mainly to a cut in valuation as the gold price dipped to R886,11/oz from R936,76 the previous month. While the value of gold holdings fell to R3,4bn from R3,6bn, physical holdings eased only marginally — to 3,8m oz from 3,9m oz in June.

The non-gold component, on the other hand, improved by R200m to R1,8bn

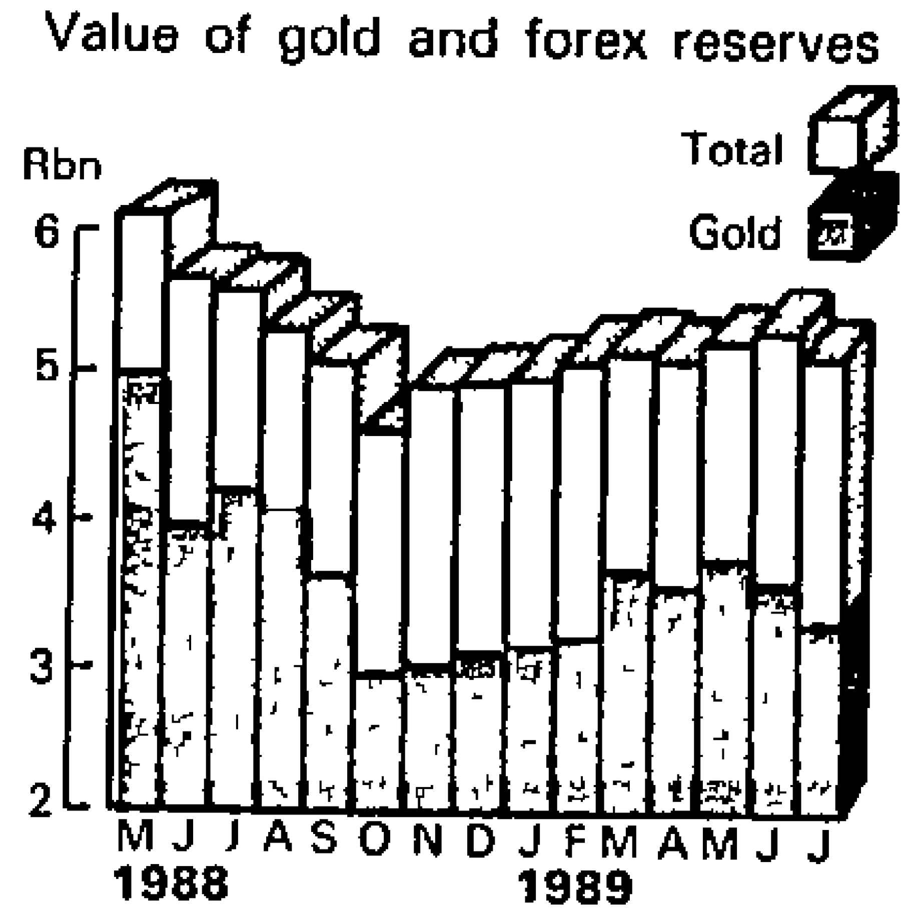
Total reserves declined to R5,1bn from R5,2bn. But, in a welcome change, conversion to dollars presents a more favourable picture

- Gold US$1,28bn ($1,29bn in June),
- Non-gold $679,1m ($573,9m), and
- Total $1,9bn ($1,8bn)

Even more important is an entry on the other side of the balance sheet — a fall in *other liabilities* to R7,7bn from R8,4bn in June These include the Bank's foreign liabilities. If the reduction is due to a drop in these, then the rise in net reserves (gross reserves minus foreign liabilities) in dollar terms is even more promising.

Up or down

Value of gold and forex reserves



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FINANCE

Outlook for inflation is worsening, says Investec

LIZ ROUSE

THE inflation rate will rise above 16% this year, but worse still, the exorbitant money growth over the past 15 months will keep inflation stubbornly high.

Investec Bank comments in its first monthly newsletter, Focus on the Economy, that the outlook for inflation has been deteriorating for many months, as evidenced by the unacceptably high growth of the money supply which has yet to show significant signs of decelerating

The weakness of the rand against all major currencies in 1988 also set the scene for unfavourable domestic repercussions arising from imported inflation.

The long bond market also acts as a leading indicator of inflationary trends and this market has been suggesting bad news on the inflation front for the last 18 months.

The rising trend in building costs, bond finance, fuel and imported consumer goods in recent months must be curbing the spending power of the average household

Investec comments that a major cause of concern for the SA economy remains the weak recovery of the current account of the BoP

A healthy current account balance is required for several reasons, the main being that SA has to make capital repayments of up to $1,6bn in 1989 and a further maximum payment of $4,5bn in 1990 and 1991

Over and above capital outflows (inside and outside the net) the gold and foreign exchange reserves are at an unacceptably low level A rising level of reserves would inject liquidity into the domestic economy, which would then provide an environment conducive to falling interest rates

Expenditure

"Nor will a low gold price aid the recovery in the level of reserves — a fall of $10 an ounce in the average price of gold received by the mining industry reduces SA's annual export receipts by about $200m This is a significant sum when placed in the context of possible debt repayment schedules"

The long-term outlook for the rand remains negative In the near term, should the current account of the BoP show a meaningful recovery, the bank would anticipate no more than a broad consolidation in the level of the rand against a basket of currencies.

"Unfortunately, the drain of capital leaving our shores has displayed a tendency to offset foreign exchange earned from SA's trading activities"

Consumer expenditure patterns appear to have peaked and the slowdown will be accelerated by the hikes in overdraft and bond rates, the more stringent hire purchase conditions and the blow to confidence dealt by the weakening gold price and rand-/dollar exchange

Further, the strong role of the corporate sector in the long-overdue resurgence in gross domestic fixed investment spending will weaken later this year as pipeline orders are not replaced.

However, Investec does not envisage a "crunch landing" for the economy of the magnitude seen in 1985/1986, for several reasons

Interest rate levels are not as penal now as they were in 1985, when the overdraft rate peaked at 25%

Corporate balance sheets are in better shape The average ratio of debt to shareholders' funds has fallen from more than 60% to below 35% in the past five years, and inventory control is much better

Finally, political upheaval and foreign withdrawal of access to capital in 1985/1986 led to a severe crisis of confidence and many instances of cutbacks in public and private sector projects

Investec expects the economy will still record growth of more than 2% this year

US ECONOMIC OUTLOOK

Intimations of success

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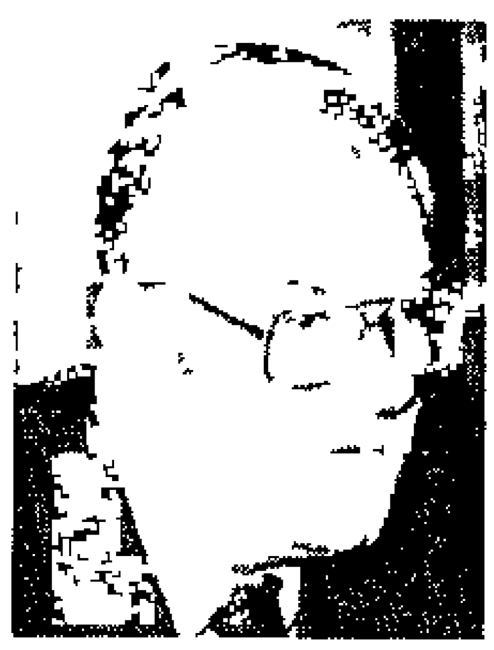
■ Overall, the prognosis is good — though the trade deficit remains worrying

In the first half of 1989, the US economy has turned out unexpectedly well for George Bush Excluding drought effects, real GNP growth has decelerated to a non-inflationary rate of under 2% The areas with the greatest strength have been business fixed investment (up about 7% since the first quarter of 1988) and exports (up more than 12%) Consumption has been quite weak, growing only at about 1,5% in real terms

For a country facing a large external deficit, this pattern is just what is needed For the rest of this year and into 1990 it is likely to continue, with overall GNP expanding at an average annual rate of 1,5%-2%

Inflation, instead of accelerating toward 6% or higher, as many expected, appears to have plateaued in midyear Wage rates grew at a little over 4% in the first half of the year and the rise in total employee wage compensation has settled at about 4,5%, a modest pace amid low unemployment Consumer prices, excluding food and energy, rose at an annual rate of about 5% in the first quarter and 4% in the second



De Vries

The outlook for overall consumer price inflation looks encouraging for the rest of the year It most likely will remain below 5%, helped by lower oil prices

The federal government budget deficit for the fiscal year is shaping up at about US$145bn, or $15bn below earlier projections It now appears that the Tax Reform Act of 1986 was less "revenue neutral" than intended The reduction or closing of many shelters and loopholes has led to much higher individual income tax revenues Lower marginal income tax rates also may have increased compliance and have reduced incentives to shelter income

The 1990 budget deficit will be kept within the Gramm-Rudman ceilings without significant new taxes, though there will be many small revenue enhancements The hope is that a multi-year budget reduction agreement may be reached for 1991 and beyond over the next six to nine months Of course, even if the Gramm-Rudman targets are met, there will continue to be fiscal shortfalls for some time to come, especially if the rising social security surplus is excluded from the unified budget calculations.

The US trade deficit has also come down somewhat more than expected. A year ago, there were widespread expectations that trade improvement would stall in 1989 as the lagged effects of the 1985-1987 dollar depreciation worked themselves out.

Other factors seen as inhibiting further trade improvement included the prospect of reduced grain prices, higher oil prices, and lower growth abroad. Instead, the trade deficit declined from an annual rate of $123bn in the first half of 1988 to about $110bn in the first five months of this year. Export growth has continued very strongly, partly because economic growth in Japan and Europe has been much more robust than expected, and imports have flattened out in line with subdued domestic final sales in the US.

Against this background, US interest rates have begun to decline at least six months earlier than many analysts had expected. Nonetheless, the dollar has remained surprisingly strong. While inflation pressures are moderating in the US, those in Europe and Japan are becoming stronger. The inflation differential, therefore, is narrowing. Even so, interest rate differentials still favour the US, as the Federal Reserve has eased cautiously, while the surplus countries have been slow to raise their rates.

And in the political arena, while the Bush administration is succeeding in developing a constructive bipartisan relationship with Congress, the governments of both Germany and Japan face difficult situations.

Amid this rather favourable assessment, there is one negative even under rather favourable conditions of high growth abroad and sluggish growth in the US, the trade deficit is likely to stall at around $100bn.

The economic and political gravity of a continued outsize trade deficit will intensify if US unemployment creeps up as economic growth stays below potential. Thus, as other financial issues — such as the Savings & Loan and Mexican debt crisis — are dealt with and fade into the political background, calls for further substantial trade improvement may become louder.

A sensible, minimum objective would be to halve the trade deficit to $50bn-$60bn by the end of the current presidential term. Such a reduction would be of the same order of magnitude as has already been made from 1987 through 1989. This would entail a switch of domestic resources into the external sector averaging some 0,3% of GNP annually in nominal terms, and probably 0,5% in real terms, given the dollar decline and consequent terms of trade losses that will probably have to be accepted on the way.

THE TRADE PICTURE

Balances by sector ($bn)

	1987	1989 Jan-May	Change
Total	−152	−112	40
Import-orientated sectors			
Petroleum	−38	−42	−4
Automobiles	−60	−60	0
Consumer goods	−71	−67	4
Export-orientated sectors			
Agriculture	−1	11	12
Raw materials, excluding oil	−6	2	8
Capital goods	2	5	3
Other goods*	23	41	18

* Merchandise not classified by end-use

It is important to remember how trade deficit reduction has come to pass so far. The sectors where the US has displayed little export capability but great import appetite have shown virtually no improvement in net trade. Deficits have stuck stubbornly around $60bn and $70bn, respectively, in autos and consumer goods.

Actual US trade gains so far have stemmed mainly from the export-orientated sectors long identified as holding comparative advantages in US and global markets: agriculture ($12bn improvement); raw materials ($8bn); capital and other goods not classified by end-use (up more than $20bn).

What is the appropriate strategy to maintain the momentum of trade deficit reduction? First, US products have to be competitive. This means above all that the rate of inflation has to be lowered. Even though US inflation may have peaked earlier than expected, it is still too high.

Competitiveness also requires that the dollar, on a real, effective basis, should move closer again to the level prevailing in 1980 and probably somewhat below the Louvre bands. At the end of July it was only 2% above that level if measured against industrial country currencies, but 7% above if assessed against the currencies of developing countries as well. The dollar is particularly overvalued against the smaller Asian countries.

The important point, however, is that another major depreciation of the dollar, as some analysts advocate, would not be a balanced strategy. It would produce more inflation and fail to address the crucial role of income factors and market access problems in perpetuating the trade deficit.

Second, if the trade deficit is reduced by $50bn-$60bn over three years, and the budget deficit by somewhat more over the same period, monetary policy should be eased to sustain moderate economic growth. This policy mix would allow a depreciation of the dollar and transfer domestic resources into the external sector without straining the economy.

Also, if the budget deficit is pruned at a faster rate than the trade and current account deficits, capital inflows are more likely to benefit private-sector investment and help strengthen the industrial base.

The third leg of US economic strategy should be to encourage the inflow of direct investment from abroad. This type of investment has been rising sharply in recent years. In 1988, it amounted to nearly $60bn, or about one third of gross private capital inflows into the US. The long-term trade benefits of foreign direct investment should eventually be quite substantial.

The fourth leg in the trade adjustment strategy is the contribution of foreign markets. One of the achievements of the international policy co-ordination effort of 1987 was to convince the large surplus countries to accelerate their domestic growth and agree, at least philosophically, to lower import barriers.

Growth in both Japan and Western Europe should stay close to the high rates of the last two years for some time to come. Political developments in Japan and Germany probably will argue for keeping growth high. In Germany, fiscal policy is becoming much more expensive as a result of both the last phase of the tax reform and the planned boost of government spending. In Japan, there is ample scope for investment in housing and infrastructure and for higher consumption to lift standards of living.

This macro policy trend needs to be reinforced by changes in trade policy and in the micro aspects of the economy. In the last year, academic research has shifted away from attributing the US trade deficit almost entirely to incorrect macro policy and increasingly emphasised impediments embedded in economic structure and corporate behaviour.

Reducing the US trade deficit will probably prove the tougher part of the twin deficit problem. It requires international co-operative action and involves changes in both macro and micro policies. In general, the burden to deliver macro policy changes will lie heaviest on the US — cutting the budget deficit and lowering inflation. But foreign countries will face equally difficult changes in micro aspects of their economies.

If either the US, foreign countries, or both, fail to deliver in these matters, the risk of intensified US import restrictions — possibly including some form of surcharge — will clearly climb.

FINE-TUNED SLOWDOWN

US trade and economic growth

	1987	1988-89	1990-92
Real GNP growth (% p a)	3,4	3,3	2 2
Contribution from net merchandise trade	0,3	0,7	0 5
Nominal GNP growth (% p a)	6,7	7,6	7,5
Contribution from net merchandise trade	−0,4	0,5	0,4
Trade balance ($bn)	−152	−107*	−55**
Real effective dollar (index against industrial and developing-country currencies) 1980 = 100	108	107***	97

* 1989 ** Target, 1992 *** End-July 1989

This article was written especially for the FM by Rimmer de Vries, chief economist at Morgan Guaranty Trust

INFLATION (153) Fmail

The banana league

Fortunately new Reserve Bank Governor Chris Stals has undertaken to give policy priority to inflation He told the SABC, in an interview last week, that lower inflation is a prerequisite for good growth Now he has to explain this to Finance Minister Barend du Plessis, who a few days earlier told a political meeting in Krugersdrop that 15% inflation is

(153) Fmail 18/8/89.

not "not too high for our own comfort"

The minister is incorrect on two scores.

The latest available figure (15,7% year-on-year increase in the CPI to June) is historic. Inflation is now generally considered to be running several percentage points higher and is likely to increase for a while still

Moreover, even 15% is unacceptable Du Plessis tried to compare this rate with those of "banana republics" and congratulate himself that SA does not see prices rising a few hundred percent each month.

However, a comparison with neighbouring countries places the matter in a different perspective. In the years 1985-1988, SA's inflation rate was 16,3%, 18,6%, 16,1% and 12,8% In the same period, weighted average inflation in all 40 African countries reporting to the IMF was only 11,9%, 12,1%, 12,6% and 18,6% Only in one of these years did SA do better than the average of its continental neighbours

Better performances were recorded in Asia, over the four years, with inflation of 7,3%, 5,7%, 7,3% and 11,8%, and in the major industrial countries 4%, 2,3%, 2,9% and 3,3%. With figures for the Middle East not yet compiled by the IMF, the only regions which have reported worse inflation than SA's are the developing economies of Europe (mainly Iron Curtain) and those of the Western hemisphere (Central and South America), which include astronomical inflation in war-torn Nicaragua ■

So you think you made a nice profit

Star 19/8/89

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DEREK TOMMEY

SINCE 1981 industrial share prices have risen 148 percent on the Johannesburg Stock Exchange But in spite of this huge rise, anybody with industrial shares who believe they have become any richer in this period are living in a cloud-cuckoo land

For while share prices have been rising so, too, has the consumer price index — by 188 percent since 1981 This means in real terms holders of industrial shares today are some 20 percent poorer than they were in 1988 in spite of the apparent strong gains they have achieved

This point is strongly brought home by Johannesburg stock broking firm, E W Balderson, which has calculated the "real" industrial share price index since 1960, by adjusting the monthly closing statistics provided by the JSE with the movements in the CPI.

The results are quite startling Not only do they show that in real terms the industrial share price index has shown hardly any growth at all in the last 30 years, but that anyone who bought shares at the height of the 1969 boom would still be showing a capital loss in real terms

However, for investors the problem goes much deeper than this In the long-term share prices are determined by the level of company earnings And if share prices have not grown in real terms it seems the same can be said about company earnings

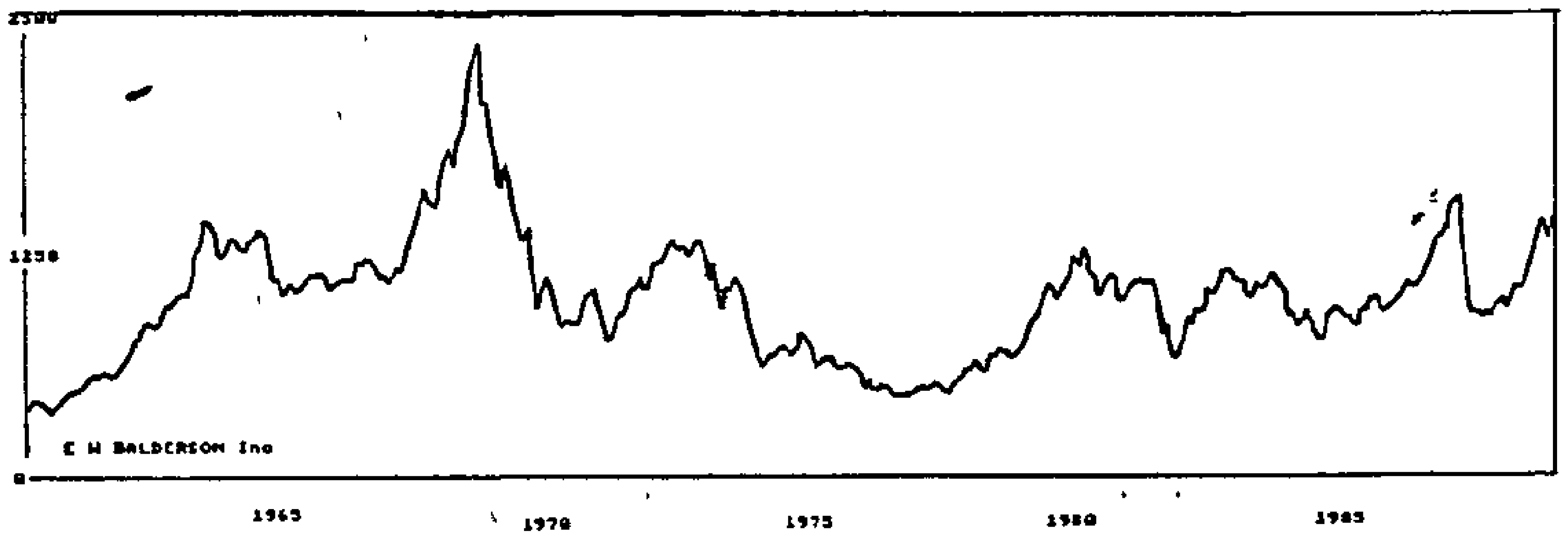
In fact, there is considerable concern in accounting circles and investment houses that because inflation falsely inflates profits some companies may have been paying taxes and dividends out of these "phantom" earnings — which means out they have been paying out their capital.

This has led to another move being made in South Africa to make companies adopt a form of inflation accounting. This was attempted some 10 years ago but for many reasons was not successful

Draft proposals are being circulated among the accounting profession and there are hopes that accounting for inflation could become law in the not too distant future

One of the world's leading exponents of inflation accounting, Mr Ahron Fass, a practicing chartered accountant in Israel and who is on the staff of the Tel-Aviv University spoke in Johannesburg this week about the need for inflation accounting, or as he prefers "accounting for changing prices".

Inflation accounting tries to measure the real profit — that is, after taking into account the effects of inflation on the purchasing power of the monetary unit.



The Industrial index is climbing, but look what has happened in real terms.

Mr Fass said that management was unlikely to implement inflation accounting as this usually meant they would have to report lower profits.

Speaking at a presentation by Kessel Feinstein, Mr Fass said that South Africa must not expect to be able to introduce a perfect form of inflationary accounting overnight.

"We are talking about a totally new approach to basic accounting, an approach which has not been used by accountants in the past, and they have to be educated and prepared for it which takes time.

He added that the exposure draft recently published in South Africa, whether it was implemented in one, two or three years, would need to be changed in time. "But you have to realise one thing Those changes cannot be worked out on a computer You cannot get a think-tank to say what the changes should be They have to be worked out by trial and error"

Some investors and accountants might query the need for inflation accounting for public companies Although investors in equities might not have become as wealthy as they imagined, they are still far better off than if they had invested in other mediums and, in the end, that is what really matters

But not having equity accounting is a form of self-deception. It prevents South Africans from being fully aware of the ravages of inflation — something which foreigners with investments here appreciate only too well — for inflation eventually shows up in a lower exchange rate.

South Africa badly needs foreign capital. But it will not get it unless investment in South Africa is commercial attractive, let alone politically attractive to foreigners

While South Africans may fool themselves that the smaller rands they receive are making them wealthy, foreigners know this is not so. German investors have lost 49 percent of their capital invested here in the past three-and-a-half years, British investors 33 percent and American investors 17 percent.

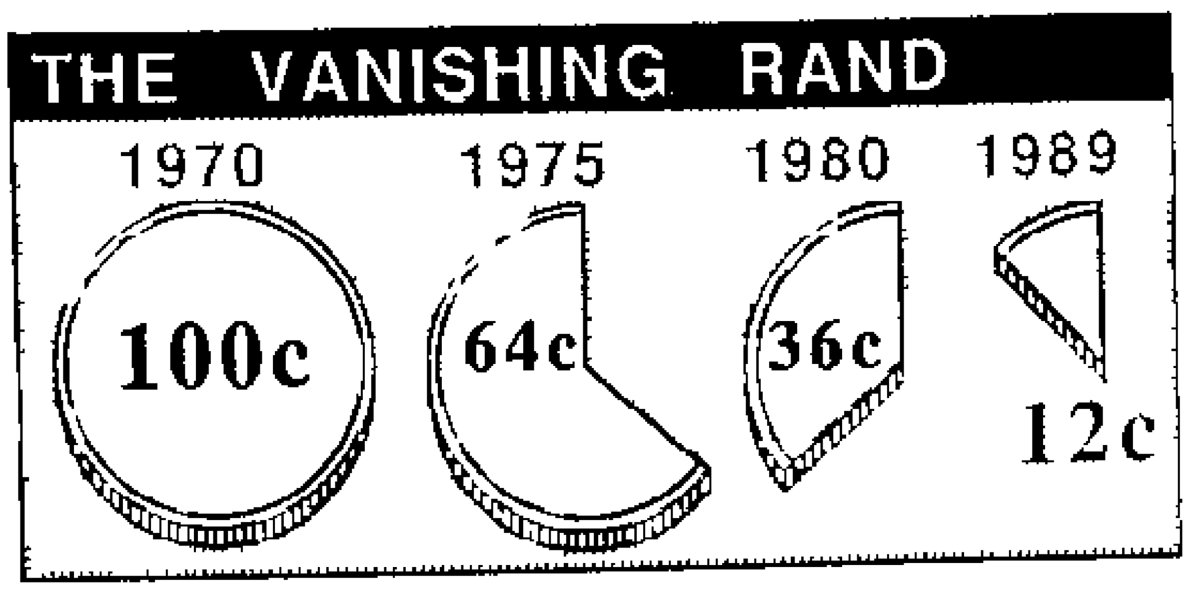
Under these conditions South Africa has little hope of getting more foreign investment.

No end in sight to inflation havoc

R1 note of 1970 now worth less than 12c

Star 22/8/89

By Michael Chester



The R1 note of 1970 is now worth less than 12c, thanks to inflation's ravages.

The remorseless stripping away of the buying power of the rand has been officially documented by Central Statistical Services.

Shopping expeditions now cost more than eight times what they did less than 20 years ago.

The CCS lays out the extent of the devastation in an annual exercise to spell out the track record of the rand back to the start of the century.

Going back that far — when R1 was a 10-bob note — it shows that the cash in pockets or purses is today worth 3 percent of its value in 1910

Into Mom and Dad's generation, compared with 1950, the rand has plunged in actual purchasing power to a mere 6c.

Blow softened

If the computers slip in up-dates to keep restoring the R1 back to a theoretical 100 cents from time to time, it may soften the blow a little.

The CCS did it to prop the rand back to where it stood at R1 again in 1970, for instance. And still its value by 1989 collapses to 12c

Even compared with 1980, its buying power by today drops down to 33c

Dr Azar Jammine, director of the Econometrix research unit, says there is no sign of an end to the havoc as inflation pounds away at the rand.

He forecasts that the consumer price index will accelerate to a yet worse average of 17,6 percent next year and stay wedged at around 16 percent a year, or worse, in 1991 . and 1992, too

US unease at Afghan's over-rebellious rebels

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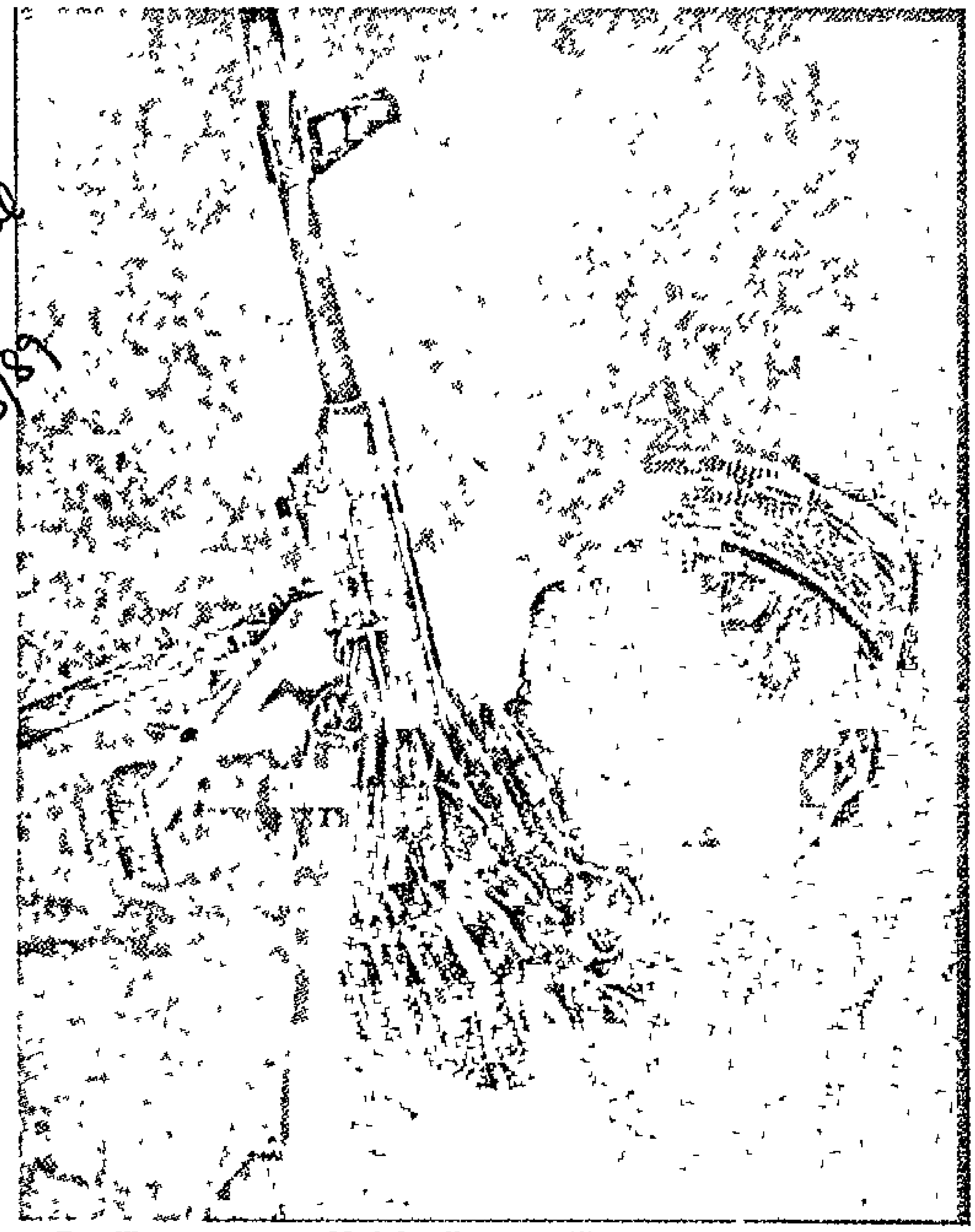
W.Weekly – July 8/89

With their goal of defeating the Soviet-backed government now in sight, the Afghan rebels — and one faction in particular — have turned to fighting each other. **STEVE COLL reports**

Afghan rebel leader Hekmatyar



Cradling a gun ... Mojahedin guerrillas face an uncertain war

THE Afghan rebel leader who has long received the largest share of United States weapons, is becoming an increasing embarrassment to Washington

US officials have said they intend to counter Soviet arms supplies to the government of Afghan President Najibullah by providing the rebels with Spanish 120-mm mortars and other sophisticated weapons that might help them break a continuing military deadlock around Afghanistan's cities

But the rebel faction best trained to use high-technology weapons has been lashing out publicly in recent days at rival rebel groups, and at the US and Iran, raising questions about whether it would be advisable to provide it with more firepower

Gulbuddin Hekmatyar, a fundamentalist Muslim revolutionary with anti-Western views, leads the Islamic Party (Hezb-i-Islami) which has been at the centre of increased infighting this summer among the main rebel groups based in Peshawar, Pakistan

Hekmatyar has accused a rival military commander, Ahmed Shah Massoud, of conspiring with Kabul's Soviet-backed government He has warned the government of Iran not to negotiate with the Soviet Union and threatened to leave the mujaheddin coalition. Hekmatyar also hinted that he might attempt to promote an independent coup in Kabul by working with certain officers of the government army.

For much of the 1980s, Hekmatyar's group received the largest share of weapons supplied to the Afghan rebels by the US and Pakistan

The former military leader of Pakistan, General Zia ul-Haq, favoured Hekmatyar for several reasons: his party is well organised and disciplined, it has ties to important political and religious groups in Pakistan, and Hekmatyar shared Zia's conservative views about the role of Islam in society.

The US decision to channel new and more sophisticated weapons to the rebels comes at a time when Hekmatyar faces growing political isolation within the mujaheddin resistance Rival leaders charge him with excessive ambition and ruthlessness, saying he has endorsed attacks on other mujaheddin groups, such as the massacre of 30 military leaders of the Islamic Society faction in northern Afghanistan last month.

The US government, too, is moving to isolate Hekmatyar — the Islamic Party has been told that Hekmatyar would not be welcomed on an official visit to the US this summer, say guerrilla leaders and diplomats.

Following Zia's death last August and the election of Prime Minister Benazir Bhutto, the US and Pakistan moved to diminish Hekmatyar's share of military and financial resources Washington hoped to channel arms and money through a unified Afghan "interim government" based in Pakistan that would distribute supplies more evenly among the seven main rebel groups

But the interim government has been plagued by squabbling and its defence ministry has yet to become a significant conduit for weapons.

Opinion is divided about whether it is possible for the mujaheddin to break the military stalemate soon by capturing a major city or negotiating massive defections by government troops But even some who believe such a victory is possible acknowledge that it will be more difficult if Hekmatyar's army-trained units are not supplied with the more complex weapons Still, the US is unlikely to reverse its move away from Hekmatyar, and some senior US officials believe a victory is possible even if Hekmatyar's group plays a relatively small role — The Washington Post

CPI (153) Fmail 25/8/89

Turn about

Contrary to expectations, the rate of inflation slowed in July The year-on-year increase in the consumer price index (CPI) was 15,5% (June. 15,7%), the seasonally adjusted monthly increase was 0,8% (1%).

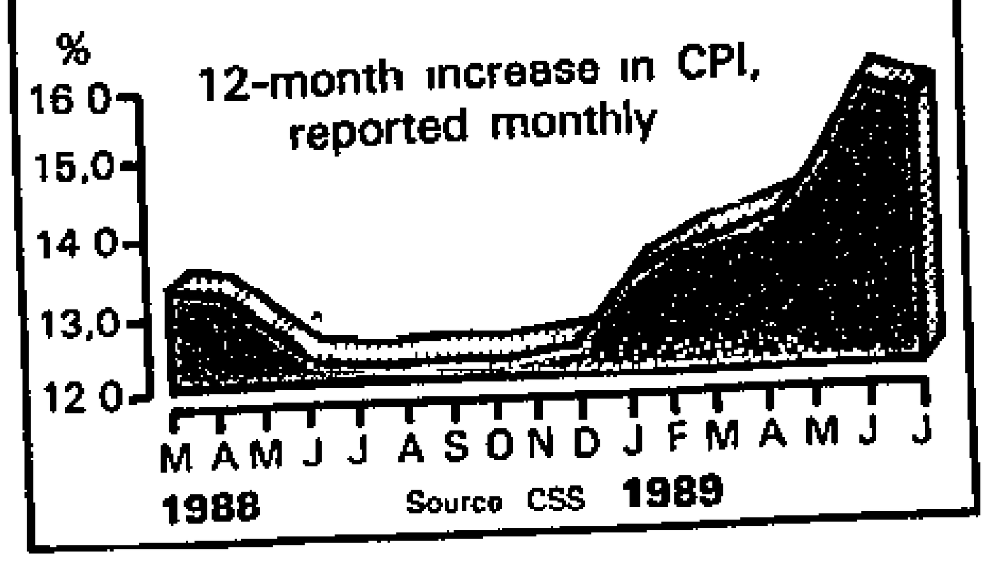
This is CPI's first deceleration since October In November it rose to 12,4% — from 12,3% in October — and continued to move up each month until June

Slower momentum came despite a steep unadjusted increase in the cost of housing (2,4% in the month, 15,1% year-on-year) after rises in municipal service levies It is due, says an official from Central Statistical Service, to a relatively small unadjusted increase in the price of food (0,2% in the month, 9,9% in the year)

Food has a 22,72 weighting in the index and housing 21,21.

(153) Fmail 25/8/89

Sudden pause



Source CSS

Most benefit was felt by the lower-income group, for whom prices in the year rose only 12,4% (June. 13,4%), and the middle-income group with 14,3% (14,7%) For the top income group, the increase was 17,3% (17,2%)

Largest annual increases were in the Pretoria-Verwoerdburg-Akasia area (16,5%) and the lowest in Kimberley (13,2%).

Projecting seasonally adjusted CPI in the past seven months gives an inflation rate of over 16% by December

However, growth in the next few months may be slower, because it will be off a very high base.

Says Old Mutual economist Rian le Roux: "Last August and September saw a rise of 1,4% each month So a rise in year-on-year growth in the next two months, higher than this month's 15,5%, will need monthly increases in excess of 1,4% each month.

"This is not impossible In the first seven months of this year, we had average monthly increases of 1,25% and increases of 1,6% in three — January, March and May True, these included petrol price hikes, GST increases and so on. But there is another petrol price hike in store next month."

He believes underlying pressures are still strong continued strong domestic demand, excessive money supply growth, the lagged effect of a depreciating rand, and secondary effects of past petrol price rises.

"The rate of inflation will continue to rise until sometime in the first half of 1990 " ■

RESERVE BANK POLICY

(153)

Fighting public enemy No 1

■ Chris Stals inherits "unfinished business" and an adverse political climate

The election campaign is proving a learning curve for politicians Where once they depended on traditional loyalties and strong sentiments about group identity to provide a safe passage to parliament, they now have to persuade voters they can come to terms with bread and butter issues

Says Reserve Bank Governor Chris Stals. "The electorate may get the message across much better than we can "

For a newly appointed governor who has stated several times he is making the fight against inflation a policy priority, this will be helpful But it will solve only part of the problem The remaining part is educating the electorate which largely misunderstands the processes of inflation

For instance, at a recent meeting of the South African Agricultural Union (to whom Stals later delivered a pre-dinner speech), it was noted there are two major problems facing agriculture. high inflation and high rates of interest But the relationship between the two was not clarified and many members remained under the impression that high interest rates create inflation

"Most people think this," comments Stals "And few think in terms of real interest rates, so they don't realise our 20% prime rate of interest is at this stage being eroded by the rising rate of inflation "

Because of misunderstandings about both cause and effects of inflation, Stals feels obliged to stress that making inflation a priority does not mean neglecting other issues "If you pay attention to inflation, you automatically address other issues, like the balance of payments and the low rate of savings " As to growth, which many would argue should be *the* priority in a time of political volatility, he says "It is not the Bank's major responsibility at this juncture. Many other people and organisations rightly think continuously about stimulating growth We, in the Bank, must worry about inflation and the value of the currency "

But he believes the two objectives are not in conflict — "Especially not in the longer term. It is important for the Bank to create a climate for growth — through financial stability, which brings us back to inflation and the currency "

He says the best way to fight inflation is to allow markets to allocate resources However, he adds the sort of rider ("but markets must be orderly and disciplined") that sometimes creates doubts about the course of his

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future actions. He concedes "I am not dogmatic about markets and this has led people to think I am not that much of a free market man "

However, though he describes himself as "pragmatic," often a codeword for interventionist, his understanding of the efficacy of market policies may prove reliable, because he acquired it while managing direct controls on bank lending during the Seventies "I know how difficult it is to apply direct controls and how inefficient they can be," he says

He points out, for the record, that in recent years pressure for control has come not so much from government as from the private sector "After we declared the debt standstill, there were a lot of supporters for more direct controls The late Dr De Kock and I had to work very hard at the time to resist the pressures And our support came from the minister of finance "

The authorities were rescued, on that occasion, by the success of the foreign debt negotiations and of exporters in finding new markets which improved the inflow on the trade account and relieved much of the anxiety about outflows on the capital account This defused some of the pressure for measures such as the introduction of a fixed exchange rate

However, the record of the authorities in the past 18 months in implementing monetary policy raises questions Governor Gerhard de Kock was respected for his understanding of economic issues and known for his faith in market policies But he was clearly not free to implement policy, something which continually raised the issue of the independence of the Central Bank

In much the same vein as his predecessor, Stals says that the autonomy of the Bank is important, the Bank should be free to make decisions on money supply, interest rates and the availability of bank credit, but, "The minister bears the ultimate responsibility for economic policy

"It's naive to think you can get autonomy through an Act of parliament It has to come through co-operation with the Cabinet because an Act is as good as the government wants it to be Sure it would help to have the Act behind you, but if the minister doesn't like the Act he can change it."

He does not agree there would be a political advantage for government in distancing itself completely from the Bank and any unpopular decisions it is obliged to take "In the end, the voters will say to government, it's your responsibility "

He defends the government's spending record in the past two years "Growth in current expenditure of the public sector has grown at a much slower rate than expenditure in the private sector — though, it has still grown too fast "

The major problems, he says, came in 1984/1985 when gross domestic expenditure declined while government expenditure continued to rise. "With growth in private-sector spending now declining again, it's important that the policy of letting government expenditure increase at a lower rate than total expenditure should be resolutely pursued "

Another important input into inflation in recent months has been the escalating bill on forward cover losses, which reached R15bn by the end of July The build-up has been the result of three different factors, all related to the appreciation of the dollar against other currencies

- Long-term contracts established three and four years ago are now coming to maturity "We no longer provide special facilities to public-sector institutions on long-term loans, but those granted in the past have to be met,"
- Big losses on short-term cover because of a 12% decline of the rand against the dollar in the first seven months of the year, and
- The appreciation of the dollar against third currencies which led to losses on third currency transactions

Stals says "These are recorded as losses but actually they are a subsidy to exporters and importers to encourage them to use credit from overseas It is proving an expensive subsidy "

So he is eager to resume the phased withdrawal from the markets started twice before — in 1983 until the debt standstill in 1985, and (abortively) in December last year "We will have to talk again to the dealers in the foreign exchange markets to see what we can do to develop a market outside the Bank " Deputy Governor Jan Lombard and gold and forex GM James Cross have already been working on this project It is, says Stals, "one of the unfinished tasks that Dr De Kock referred to several times in the weeks before his death "

Governor Stals . . . the politicians have to learn

Whatever the difficulties experienced in restraining credit creation, Stals is satisfied the economy is slowing "I am lucky to take over when we are already moving in the right direction But there is no question of any relaxation in monetary policy Dr De Kock always used to explain the situation at this point in the economic cycle by comparing it with an aeroplane landing The moment you start your descent you are still very high Though you are going down for a landing you can't open the door at that stage "

However, he is satisfied the slowing in demand is enough to ensure SA will meet its long-term obligations to foreign creditors in terms of the interim agreement on repayment of debt inside the net As chairman of the Debt Standstill Co-ordinating Committee since the original arrangements in 1986, he has lived closely with the problem for several years "The major problem," he says, "has not been meeting commitments in terms of the debt standstill It has been funding big outflows of short-term capital linked to trade transactions — the balancing item entered in the balance of payments as errors and omissions The other payments you know about years ahead and, whatever happens, you can find a way to meet them The short-term outflows — which are influenced by interest rate differentials, exchange rate expectations, the cost of forward cover and political developments — are unpredictable and uncontrollable and those often create more serious difficulties "

These he hopes will be more moderate in future, with the rand stabilising against other currencies "as the economy moves into a consolidation phase of the business cycle."

As to long-term commitments, Stals will retain his role as chief negotiator for the time being "I will be negotiating at least until we have made some progress with the technical committee of the foreign creditor banks — till we have reached some consensus "

His other role as chairman of the Taxation Standing Advisory Committee remains open for the moment

Stals is working on the report which the governor delivers to shareholders each August — it will be made on Tuesday (August 29) Thereafter, he will turn his attention to the International Monetary Fund meeting in September

This will be his first opportunity to test international reaction to latest developments within the country But he is not expecting an early softening of opinion among potential lenders "These are tough negotiators and even if things weren't so bad, they would use the situation to get better terms out of us. But they are under pressure not to lend to SA and they will not be under any less pressure now than in the past."

The pressures, he says, "arise mainly from political sources and therefore need a political solution "

As to the economy, however, Stals's role is crucial in both the short and long term His early pronouncements and actions will be awaited with great interest ■

Vital focus shifts from BoP

Bank chief declares war on inflation

(153)

Bday 30/8/89.

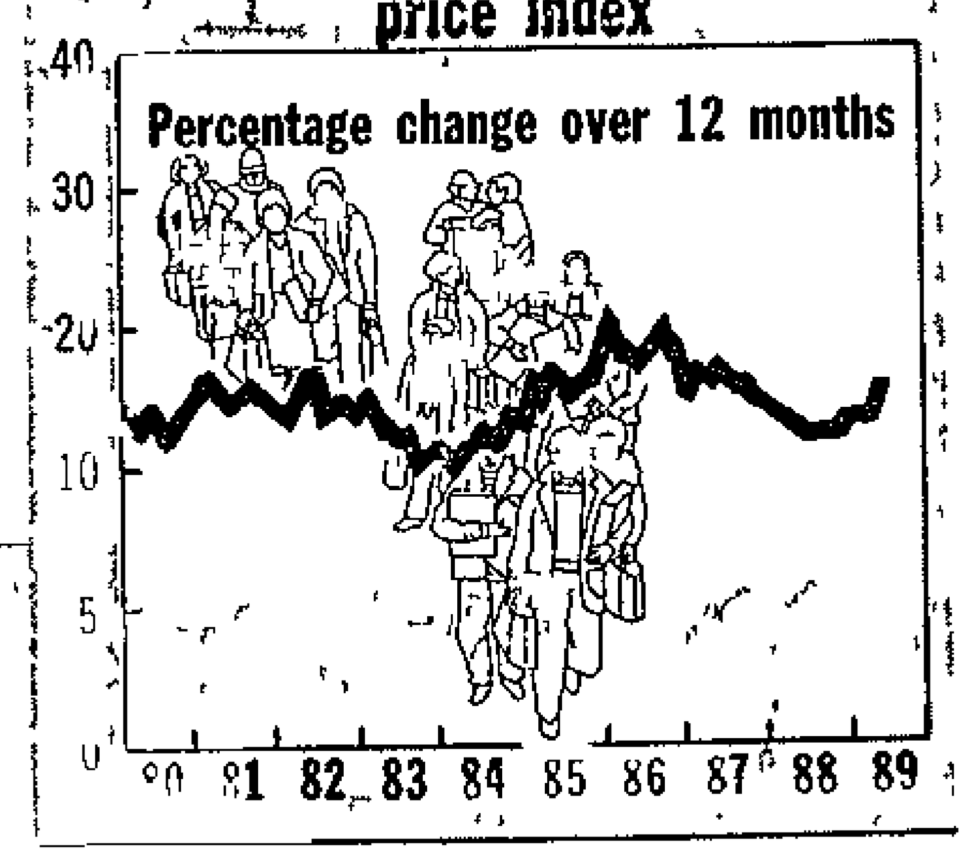
GRETA STEYN

RESERVE Bank Governor Chris Stals has declared war on inflation, saying it is now opportune to launch a serious attack, spearheaded by restrictive monetary and fiscal policies

In his first major policy statement since taking over at the helm of the Bank three weeks ago, Stals outlined a vital shift in emphasis. The focus of monetary policy, which had been on balance of payments adjustment and growth, now switched to the battle against inflation

Economists interpreted his address at the Bank's AGM yesterday as a signal that interest rates would remain at current levels at least until next year and possibly until mid-1990

Total consumer price index



He stressed the need for sustained financial discipline and the maintenance of positive real rates of interest The Bank would avoid abusing "the modern money printing presses" — the central bank's accommodation of the banks' credit needs

On interest rates, he said "We should aim to maintain rates at an appropriate margin above the current rate of inflation Positive real rates of interest are essential" Any pressure for interest rates to decline at this stage had to be resisted, because "the rising rate of inflation is now eroding the level of real rates of interest"

Stals said "An anti-inflationary monetary policy requires strict financial discipline, not only in times of expanding demand, but also in the recession phases of the business cycle There is an essential need for interest rates to be durably positive in real or inflation-adjusted terms"

The time was over when inflation could be accepted as a consequence of balance of payments adjustment, coupled with economic growth In the longer term, there was no sustainable trade-off between inflation and growth

It was no longer acceptable to accommodate price increases through large increases in Reserve Bank credit and the money supply.

"As far as monetary policy is concerned, it is imperative that increases in the money supply should as soon as possible be

☐ To Page 2

War on inflation

☐ From Page 1

brought within the declared target range of 14%-18%, positive real interest rates should be maintained, and the country's foreign reserves should be strengthened to afford the authorities more freedom of action in the management of the exchange rate of the rand"

On the fiscal policy side, increases in government spending had to be strictly controlled; the deficit before borrowing had to be cut, the role of the public sector in the economy had to be reduced and the efficiency of public sector expenditure should be improved through privatisation and deregulation

Another reason why fiscal and monetary policy had to remain tight was the "urgent need" to replenish SA's total gold and foreign exchange reserves

The economy was in a consolidation phase, and factors such as inflation, foreign reserves and money supply growth needed further consolidation before any relaxation in policy could be considered This phase, should continue "for the rest of 1989 and, if necessary, at least throughout the first half of 1990"

● Comment Page 10

Hawkers licensed

THREE hundred members of the National Hawkers Association received trading licenses from the Pretoria City Council yesterday Sowetan 24/8/89.

The licenses were presented to jubilant street vendors during a ceremony at the ~~Orient~~ cinema in Marabastad (153A)

A city councillor, Mr Justus van Zyl, told hawkers that he would try to get them and the council to establish a proper relationship

He lauded them for the important role they are playing in the economy of the country.

Miss Winnie Mapo-kane, NHA secretary, said the organisation was proud to have realised its dream to have members licensed to earn a living

She said of their 600 members, only 150 were still awaiting licenses to operate their businesses

Stals: Serious attack on inflation needed

Cape Times 30/8/89 (153)

Own Correspondent

JOHANNESBURG — Reserve Bank Governor Chris Stals has declared war on inflation, saying it is now opportune to launch a serious attack spearheaded by restrictive monetary and fiscal policies

In his first major policy statement since taking over the helm of the Bank three weeks ago, Stals outlined a vital shift in emphasis The focus of monetary policy, which had been on balance of payments adjustment and growth, now switched to the battle against inflation

Economists interpreted his address at the Bank's annual meeting yesterday as a signal that interest rates would remain at current levels at least until next year and possibly until mid-1990

He stressed the need for sustained financial discipline and the maintenance of positive real rates of interest The Bank would avoid abusing "the modern money printing presses" — the central bank's accomodation of the banks' credit needs

On interest rates, he said "We should aim to maintain rates at an appropriate margin above the current rate of inflation Positive real rates of interest are essential"

Any pressure for interest rates to decline at this stage had to be resisted, because "the rising rate of inflation is now eroding the level of real rates of interest in SA"

Stals said "An anti-inflationary monetary policy requires strict financial discipline, not only in times of expanding demand, but also in the recession phases of the business cycle There is an essential need for interest rates to be durably positive in real or inflation-adjusted terms"

Chris Stals

The time was over when inflation could be accepted as a consequence of balance of payments adjustment coupled with economic growth In the longer term, there was no sustainable trade-off between inflation and growth

It was no longer acceptable to accommodate price increases through large increases in Reserve Bank credit and the money supply

"As far as monetary policy is concerned, it is imperative that increases in the money supply should as soon as possible be brought within the declared target range of 14%-18%, positive real interest rates should be maintained, and the country's foreign reserves should be strengthened to afford the authorities more freedom of action in the management of the exchange rate of the rand"

On the fiscal policy side, increases in government spending had to be strictly controlled, the deficit before borrowing had to be cut, the role of the public sector in the economy had to be reduced and the efficiency of public sector expenditure should be improved through privatisation and deregulation

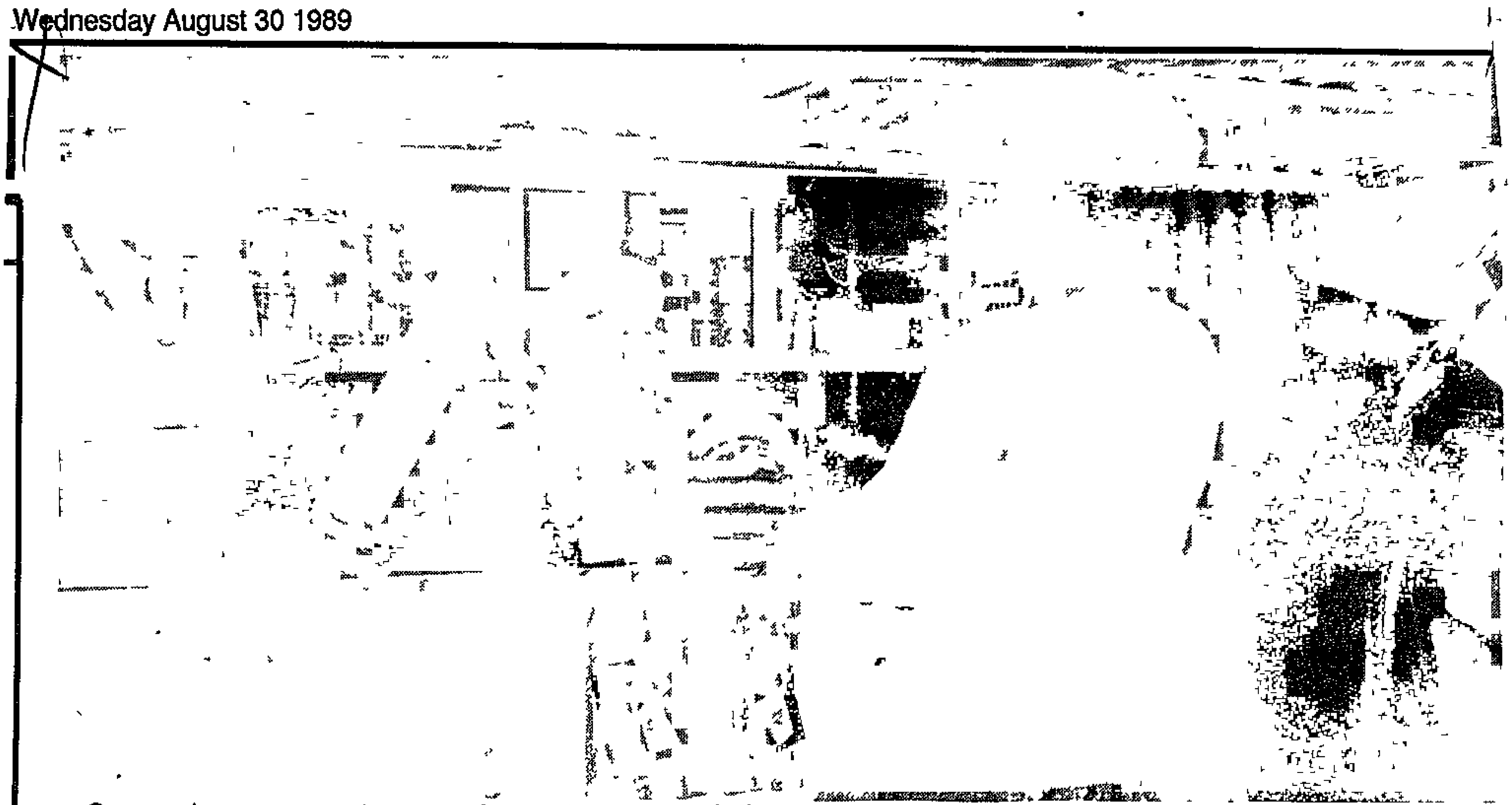
Another reason why fiscal and monetary policy had to remain tight was the "urgent need" to replenish SA's total gold and foreign exchange reserves

"The advantages to be gained from a higher level of foreign reserves are obvious It will make the management of the economy, and in particular of the foreign exchange rate, more effective These advantages make an investment in additional foreign reserves a logical option for the country at this stage"

The economy was in a consolidation phase, and factors such as inflation, foreign reserves and money supply growth needed further consolidation before any relaxation in policy could be considered

"The Reserve Bank is therefore of the opinion that the consolidation phase in the economy should continue for the rest of 1989 and, if necessary, at least throughout the first half of 1990"

Wednesday August 30 1989



Spaza shopowners cite unemployment as one of the reasons they turned to this way of generating an income.

Desperate businesses defy council's laws

Sowetan 30/8/89 153A

FOCUS

By JOSHUA RABOROKO

Petrus Nyai was desperate. The business he was running from his four-roomed home was growing very fast and he needed more space. But with parents, two sisters and two brothers sharing the house, he could not get any more

But there was open land near his Zamdela home in the Orange Free State. He decided to build a shack on the land 10m away from his home.

"In the structure I was able to put more goods. I decided to sell many other products which included toiletries, foodstuffs, cigarettes, groceries and bread," he said.

His turnover rose from R100 to R350 a day, shooting up to R600 during weekends and at the end of the month.

Another problem started when Lekoa Council inspectors raided his trading site and accused him of trading without a licence on the open land. His goods were confiscated. He paid fines on numerous occasions as admission of guilt.

"I defied the laws and continued to trade from my shack I was forced to make this decision because if I abandoned it I would not have a source of livelihood," he said.

He then joined the African Council of Hawkers and Informal Businesses (Achib) and obtained a hawkers licence from them. But, he said, the high hand of authority still held him in its grip.

The turning point in his business career came after he won a court case in the Sasolburg Magistrate's Court where he was charged for trading without a licence on the open space.

Victory

After that case the inspectors no longer raided his business apparently because of the outcome of the trial. "Many people who were at this court hearing regarded it as a major victory," he said.

Nyai says after he matriculated his parents could no longer afford to finance his education because of lack of money. He started selling peanuts, fruit and vegetables. As the business blossomed he had problems which forced him to build the shack he named Zamdela Mini Market.

"I have a dream that one day I will own a large supermarket out of the proceeds of the tin shack from where I am currently operating. The people who followed my example contribute much to the country's economic mainstream."

A large number of jobless people are now breaking the town council's laws by erecting corrugated trading shacks in nearly every available open space in the township.

Spaza shopowners in the township say they are prompted to build their new shopping centres - most of them are referred to as 'mini markets' - on the open land because of lack of capital and premises to start business.

They say that township planning has too few stores too far apart.

The spaza shop phenomenon is growing rapidly in the townships and authorities seem to be ignoring them after failing in efforts to stamp them out. Behind this growing spectacle there is an urge among black retailers to establish themselves.

This, however, is causing animosity with already-established businesses which fear the threat posed by the spaza shop rivals.

Established businessmen have bitterly complained about the mushrooming of spaza shops, but to no avail.

Council inspectors have raided, confiscated goods and prosecuted spaza shopowners for trading without licences, but the small businessmen and women are continuing to operate illegally.

The main motivation behind opening spaza shops is mainly the high rate of unemployment, part of which is a result of retrenchments.

Most people interviewed say they could not find work and saw spaza shops as a means of earning an honest living.

The shops also came about because of the increasing urbanisation of black consumers. A survey by Perry and Associates shows that spaza shops' combined buying power is in the region of R3-billion a year.

There are currently about 80 spaza shop-owners who have built shacks on open spaces, besides the 100 others who do their businesses in garages, a room in a house or a shack built of old corrugated iron and wooden planks in the yard of a house.

Nyai has organised them and they have all joined Achib, which helped them obtain hawkers licences.

Mrs Elizabeth Mofokeng, of Lerato Mini Market, says she started her trade after she was retrenched from a local firm. She sells a variety of items ranging from food, software, grocery and toiletries with a turnover of R160 a day.

Mrs Mabel Mokoena, who operates her business next to Mrs Elizabeth Mokoena, says she was forced to build on an open space near the local taxi rank because she could not get a business site.

"We are like a family and nobody is jealous. We look after each others' interests as well as our children while on business. We sell all sorts of foodstuffs, soft

● To Page 9

Councils defied

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drinks and vegetables," she said.

"As we do not have our own transport to take us where we can buy in bulk, we have to hire taxis and other vehicles to buy in town," the women said.

Nyai said prices at spaza shops might seem high, but the consumer was willing to pay for the convenience, rather than take a long hike to the formal stores in the trading districts in town.

A spokesman for a group of wholesalers in Sasolburg said the spaza shops had caused a heavy demand for canned food, cigarettes and cosmetics.

He said the major [illegible] facing the wholesaler in distributing to the spaza shops was to ensure an adequate supply of brand leaders when considering his promotional policies.

Most businessmen in Zamdela have expressed fears that the mushrooming of spaza shops could lead to the collapse of their businesses. "These people are trading illegally and it seems the authorities are ignoring them," one businessman who did not want to be named said.

The Mayor of Lekoa Council, Mr Samuel Kolisang, said the people have approached him to explain their plight. His council was intending to build more shopping complexes to accommodate them.

Barend backs Stals' war on inflation

CM - T/4(?) 3/8/89 (153)

FINANCE Minister Barend du Plessis has "fully endorsed" Reserve Bank Governor Chris Stals's war on inflation, and the tough monetary and fiscal policies to be used

Du Plessis said yesterday he would put the full weight of the Finance Department behind Stals, who said yesterday bringing down the inflation rate would be achieved "by taking as much money as possible out of the system, and putting as little as possible back"

Treasury's bank account, the Exchequer, has emerged as the primary weapon to synchronise monetary and fiscal policy Exchequer balances with the Bank now reflect a record R9bn-plus surplus, although about R3bn of this is in transit to allocated accounts

This has been amassed by substantial mopping-up operations since March 1 The draining of liquidity has exerted upward pressure on interest rates, and given Stals a great platform to start an all-out attack on inflation

"On the monetary front we will continue with a very restrictive policy," Stals said

Naming inflation as the No 1 economic problem in his maiden speech on Tuesday, Stals said it was not possible to spell out the details of the attack in fine print "There is no magic formula or equation to cut inflation rapidly But we are watching key economic indicators on an hourly basis The battle will be managed in a proactive, day-to-day manner"

'Very tough' fiscal policies

This "live" approach to curtail inflation would be accompanied by recommendations to Du Plessis to synchronise action by the Bank and the Finance Ministry

As Stals said, the causes of the high inflation rate are complicated But in a nutshell, aggregate demand for goods and services has outstripped the flow of goods and services produced in the economy Prices have been bid up by consumers, corporations and government

The situation has been aggravated by excess money creation, administered prices and the depreciating rand Stals has set a three-year timeframe to contain the inflation rate, now running at an average of three times the average Western industrial country

In order of priority, Stals said the key economic indicators to be watched would be money supply and bank credit creation

Other indicators included changes in gold and foreign exchange reserves, and trends in interest rates — implying a more managed approach to stabilising the value of the rand

By following the recommendations of the De Kock Commission, which stress working within the principles of a free economy, there will nevertheless be a preparedness to make adjustments

While Stals says the Bank will be pursuing a "very" restrictive monetary policy, this does not imply interest rates will necessarily increase further

Some private sector economists argue that with gross domestic expenditure running at a real 1%, added to other fundamentals, the scope for a cut in interest rates cannot be ruled out

On the fiscal front, the need to "take as much money out of the system as possible" has ruled out a cut in tax, or any other impost, for the meantime

The insistence on a restrictive policy, and the need to exercise military-type discipline, has not been lost on the Finance Department The significance is that Stals will be exerting further pressure on government to curtail spending

"We are aware of applications for additional expenditures since the start of the fiscal year Along with the Minister, we will be doing all we can to stem such flows of extra money into the economy"

This implies that government spending, which was spot on estimates on a pro rata basis for the first four months of the fiscal year, could be contained for the year as a whole — putting radical downward pressure on the inflation rate

Flirting with runaway inflation

W/ Argus 7/9/89 153

Business Staff

SOUTH Africa was flirting with hyperinflation, an economist warned leading Cape businessmen.

Mr R H Kaplan, chairman of the Cape Chamber of Industries economic committee, said inflation was at an unacceptable level and flirting with hyperinflation.

High inflation in South America, he said, had resulted in poor people losing their savings, rich people shifting money abroad and the destruction of the middle class. Investments shrank, misery impended, government revenues and political fortunes declined

To correct the situation, governments needed to take a firm hold over the money supply and match their expenditure with actual income Initially this would result in a significant increase in interest rates which would exacerbate unemployment but eventually inflation would come down with investment flowing back into the economy.

On the eve of the general election, the business community, represented by organised commerce and industry, should endeavour to obtain a commitment from political parties for a sound financial system that would reduce inflation, he said

GDP measured against the population increase had declined by 1,3 percent a year from 1980 to 1987 To stop this erosion, pointers were identified which if applied together would bring inflation under control These included

- Changing the economic culture of the country and impressing on the authorities that the status quo was continuing to erode and destroy the economic base and that a significant shift or change in thought was needed to understand the nature of the opportunity that would come from low inflation
- Zero inflation — inflation was a monetary phenomenon which had severe negative real consequences and had nothing to do with productivity.
- Real rate of interest — negative real interest rates discourge savings This implied a balance of trade problem as savings were discouraged thereby causing a decline in real investment, resulting in the country being unable to replace capital stock
- Money supply — the annual growth of the money supply should be less than 10 percent Countries with a low money supply growth enjoyed low inflation
- Unitary exchange rate — different exchange rates were open to abuse and manipulation with little evidence to show that they resulted in a flow of funds into South Africa The distortion created by the existence of two prices for the rand had already led to huge currency leaks.
- It was easy for a governmnent to debase the currency as inflation was an attractive form of indirect taxation, Governments tended to like inflation and have over the centuries debased the value of currencies to pay for their excesses.
- Do not regulate — government readily imposed controls but their administration was extremely costly, ineffective and inefficient and led to the build-up of an army of civil servants
- Confusion was caused by changing the rules under which the monetary and fiscal policy of the country operated
- The economic policy of the country did not promote efficiency as tax was imposed on productive resources through general sales tax on plant and equipment, while on the other hand subsidies were granted to farmers, exporters, decentralised industries, insurance companies, horse breeders, film producers, passenger transport and first-time home buyers

BER sees inflation rate at 17 percent by end of year

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Finance Staff

Inflation is beginning to lengthen its stride as the economy heads towards the last quarter with the Bureau for Economic Research (BER) of the University of Stellenbosch estimating a rate of 17 percent by year-end

The bureau notes that in July the inflation rate for the high-income group of the Consumer Price Index (CPI) was already above 17 percent. Thegroup is made up of people earning more than R20 000 a year

It says short-term interest rates are not likely to fall within the next six months, despite the improvement in the balance of payments, mainly because of the low level of foreign currency reserves

Reserve Bank governor Dr Chris Stals said at the annual meeting of the bank last week the UK, US and West Germany now had relatively high real rates of interest

South Africa would not be able to draw much needed foreign finance, or even retain existing credit facilities, should real rates of interest remain below those abroad

Dr Stals said that as it was, rising inflation was now eroding the level of real rates of interest in South Africa

"Thus any pressure for nominal rates to decline at this stage will therefore have to be resisted"

Philip Kilroe, money market manager at Personal Trust, said last week "We can only advise investors to keep funds short for the next month or so, to enable them to ride the rates up before fixing around the peak"

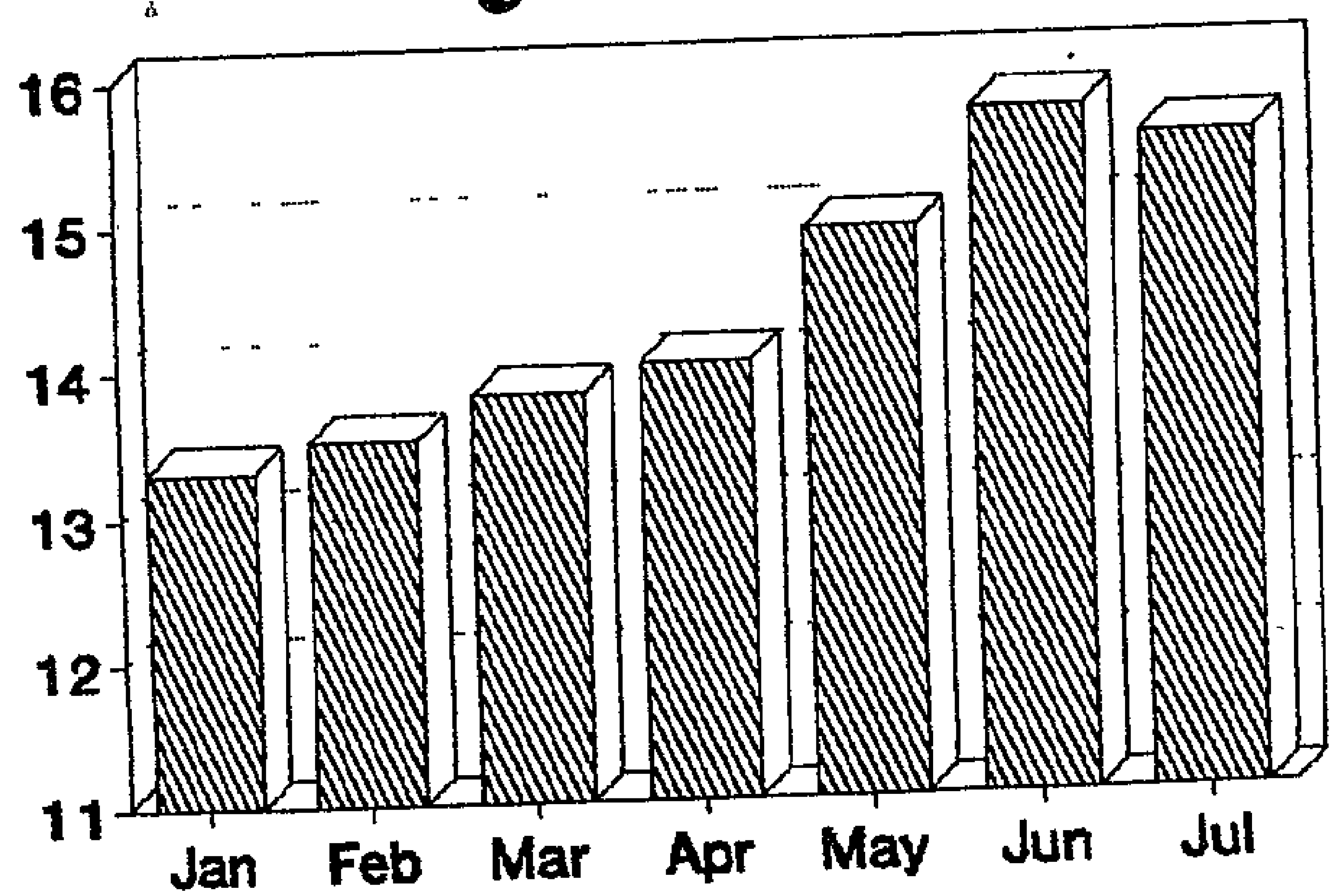
An alternative would be to invest in products linked to the prime rate, which would ensure that the investor's return did not lag behind the market

He said it was still prudent to place a percentage of funds into gilts to obtain a high running yield and possible capital gain in years to come

The Reserve Bank in its annual economic report said a two-way relationship existed between exchange rate movements and differences in inflation rates in South Africa and its principal international trading partners.

In 1988, the SA inflation rate, as measured by changes in the CPI, was still nearly four times as high as the weighted average inflation rate in SA's seven most important trading partners, after having been more than nine times as high in 1986

The Bank said the price of imported goods in the first half of this year had risen 16,7 percent as calculated on a yearly basis

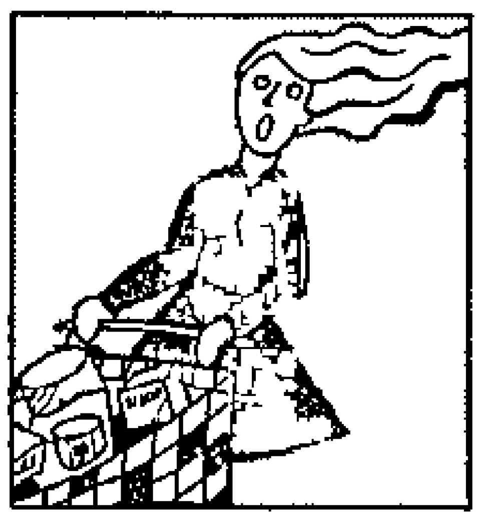


SA's inflation rate this year (percent)

INFLATION

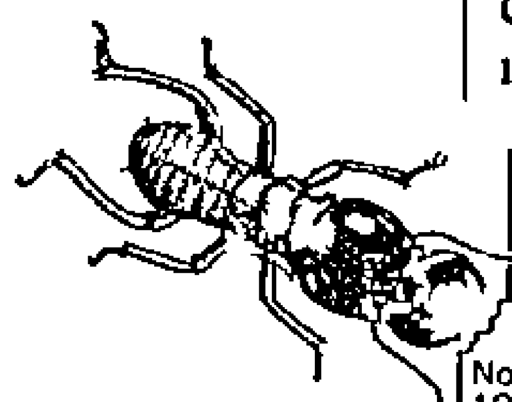
When will bread cost R50?

It could be closer than you think



The election campaign is behind us — but its legacy lives on. Despite official statistics, which show that the rate of inflation is several percentage points lower now than it was three years ago, economic policy — and inflation in particular — has been one of the central issues in the electoral debate. There can be no return to our former state of wilfully blissful ignorance, unless we are prepared to pay the price.

This new awareness comes none too soon. You have only to examine the options available after 15 years of double-digit inflation to see why.



There is very little that we as individuals can do about it. Indeed the best hedge against it may be to buy at current prices a lifetime's supply of groceries — or plough up the front garden and plant vegetables. (According to Central Statistical Service, the price of a basket of consumer goods has increased 300% in 12 years.)

Likewise, the businessman who operates in an inflation-ridden economy can do little else to protect his assets but keep on pushing up prices.

It's true that those with houses generally have an adequate hedge against rising prices — except in those recurring periods of civil unrest which regularly set off streams of emigration. The impact on the property market is dramatically illustrated in the graph.

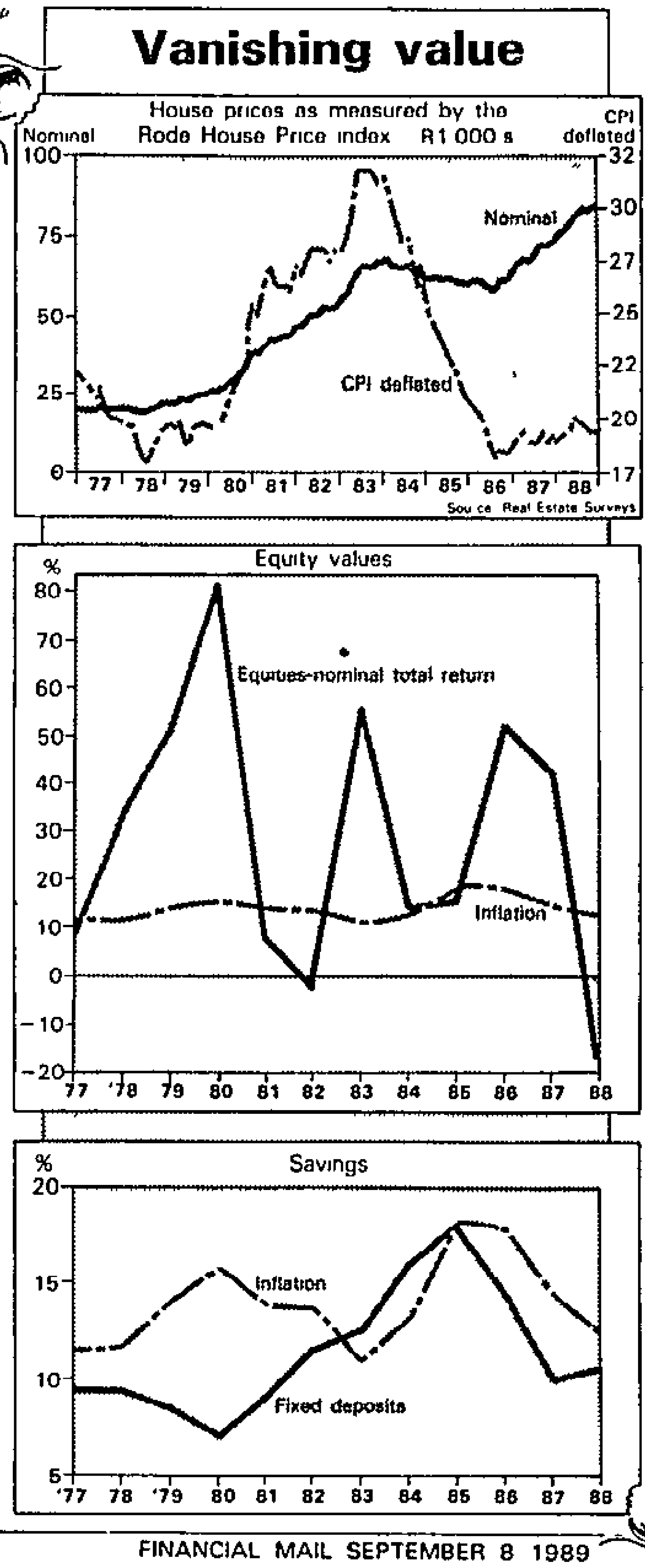
It's also true that those with surplus wealth can increase it in the equity market — except in those periods when markets experience unexpected upheavals. And there are all sorts of other hard assets that *may* keep abreast or ahead of inflation — except that the greater the returns the higher usually is the attached risk. Insurance policies are bound to bring positive returns — but only at maturity. Thereafter the proceeds are once again money in search of a safe haven.

So you may make a killing in good times and, carefully invested, you may stay abreast of inflation in the long term. But right now there is no reliable prophylactic and the economic effects of prolonged inflation simply compound the problem of its eradication the longer inflationary pressures persist.

Returns on savings accounts (or fixed-interest securities), even when adjusted for inflation, are usually negative even before tax, and have been for a long time. That means savers earn less than the prevailing rate of inflation and, in so doing, erode their own spending power.

Of course, there are beneficiaries of the process. Borrowers pay debts in devalued money and the State sees revenues rise as fiscal drag sucks more people into top marginal tax brackets. But this redistribution of wealth is not generally constructive. While the obvious victim is the retired person on a fixed income, damage is far more widespread.

When a currency loses its capacity to store value, the country in which it is circulated loses its yardstick of real economic growth. This leaves it vulnerable to a range of political and social pressures as continuously rising prices create uncertainty, insecurity and instability.



The longer inflation is left unchecked, the faster the currency starts to lose its role as a unit of exchange. And when it can no longer establish comparative values of goods and services to permit convenient exchange, economic distortions of inflation become the convulsions of hyper-inflation.

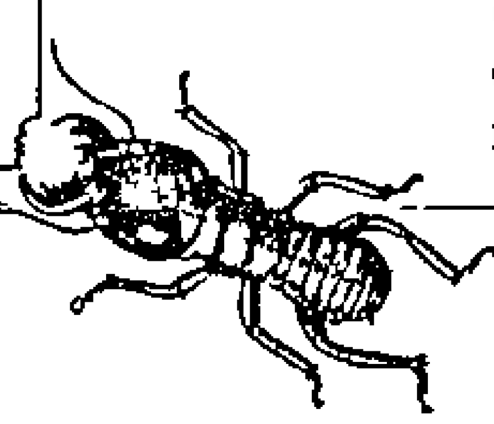
Best-known example, of course, is the expansion of money supply in Germany which (according to *Chamber's Encyclopaedia*) grew from about DM6bn in 1913 to about DM500 000 000 000 000 000 000 in 1923. The monetary problem was addressed at the end of that year by knocking 12 zeroes off the value of the mark. But the damage to Germany's social and political structures was more lasting — and its consequences for the rest of the world are well documented.

Ordinary folk know how devastating to their lives constantly rising prices can be. Most people are less clear, however, on what can be done about it. For not only are economists divided on how best (or whether) to contain it, there are also a variety of popular myths that obscure what needs to be done. This is because the ch...n of causation has no clear beginning — which allows most people to blame others for initiating the process and still appear to be sensible.

Economists accuse government of spending too much, government scolds consumers for borrowing too much, consumers claim business charges too much, business blames labour for demanding too much — and labour reproaches government for not legislating enough. (To be strictly accurate this is more common in Europe and North America where legislation would tend to favour rather than disadvantage the labour force because it has the vote.)

The fact is that only government creates inflation (or its converse which is shortages). So if any one group of South Africans is obliged to take the blame, it is those voters who for the most part have been either ignorant or inert — or simply wish to see tax revenues rising without the politically unpopular act of actually putting up taxes. Now a sliding gold price, a devalued currency and four years of credit sanctions and capital exports have compounded the problems and highlighted our economic crisis — which is that, even for the economically active, the economy is no longer able to grow fast enough to mitigate the impact of constantly rising prices. This has forced the electorate to make economic policy a political priority.

But voters are confused. Distinguishing cause from effect is not easy because often the direction of causation is



different in the short and long term For instance, higher interest rates feed into the CPI to send up year-on-year inflation statistics, and they encourage people to place money in banks, causing an immediate increase in the money supply But in the long term, if the interest rate increase is realistic (positive in real terms), it will prevent excessive creation of money or (depending on the economic interpretation) indicate that money supply growth is within reasonable parameters.

Equally confusing is that a depreciating rand pushes up prices as imports and imported inputs become more expensive, but in the long term, it is largely inflation differentials between trading partners which devalue the currency of countries with higher inflation rates

Confusion aside, however, there is another more serious problem. Voters don't like to be told that you can't have your cake and eat it Reared on periodic gold bonanzas and frenzied post-World War 2 booms, the average white South African (the only person with a meaningful vote) can't accept there is a price for everything — including economic policy While the question of which economic policy to follow is vital, more important still is recognising the various implications


Meijer

Says Jaap Meijer, head of the Reserve Bank economics department· "A once-popular view was that inflation is caused by cost-push which is divided into wage-push (as wage- and salary-earners demand more to compensate for inflation) and profit-push (which comes about when businesses charge more to compensate for inflation This theory is extended by claims that concentration of control allows monopolies, oligopolies and cartels to overcompensate for inflation)"

The remedy prescribed by proponents of this view is direct price and income control Such regimes have been, until recently, standard practice in eastern Europe They have also been tried in some of the major economies of the first world And they are now being tried in many developing countries They have never succeeded, except for a very short period

In SA, there are still those deluded enough to want to try them

"In the mainstream," says Meijer, "are two major schools — monetarists and discretionary aggregate demand managers If the latter are Keynesians, they would not necessarily attach much importance to the money supply as such, but may prefer management by fiscal means Monetarists, however, have to accept temporarily high interest rates as they set about curbing the money supply Aggregate demand managers may have to push up interest rates to curb aggregate demand. As they do so, growth of the money supply will eventually be contained

"But essentially, whichever end you start, whether higher interest rates are the tool or the outcome, they will price money in relation to demand and supply"

Each solution carries a cost

To a point, price and income controls allow official statistics to reflect satisfactory results — witness Zimbabwe's 7,4% for 1988 as reported to the IMF However, in the real world outside official statistics, the policy causes massive misallocation of resources, bottlenecks in supply and debilitating shortages Moreover, it is subverted in every market due to mankind's innate ability to spot the main chance and its tendency to take it

Says *The Economist* "Incomes policies, wherever they were tried and in all their various forms, soon collapsed in a burst of inflation Meanwhile, for as long as they operated, they did all sorts of damage to the micro-economic fabric of markets, distorting relative prices promoting ineffeciencies and thus reducing each economy's potential for long-term growth"

On the other hand, there is also a price for allowing interest rates to contain inflation

To do so they have to be strongly positive, ie exceed the inflation rate by about 2% Given high rates of inflation this means nominal interest rates must be still higher In the short term this may hold back economic growth and reduce employment opportunities In the politically volatile SA climate this is not a consideration to be lightly laid aside However, positive interest rates increase savings (investment funds) which in turn encourage continuous rather than sporadic capital investment And capital investment creates employment

So the trade-off between inflation and employment, in anything but the short term, is debatable Over a period it tends to disappear as stagflation sets in — and inflation and unemployment rise simultaneously According to *The Economist* "By early 1980 the average annual rate of inflation in the OECD countries had reached 14,5%, and the unemployment was nearly double its rate seven years before"

So we have to calculate carefully the consequences of relegating inflation as a policy priority

On the political level, the problem is to persuade voters that interest rates should price money appropriately Savers will work out the negative worth of a 16% return on a 12-month fixed deposit versus a 17% expected rate of inflation over the coming year But borrowers asked to pay 20% nominal interest on their mortgage bonds, for instance, which means a real 3%, will feel aggrieved In a community with more borrowers than savers (naturally, given the incentives) lobbying strength lies with the borrowers

The crucial question for SA now is how far are we along the path to hyper-inflation? Are we in danger of seeing the price of a loaf of bread spiral to R50?

With average inflation in 1988 of 12,8% we compare unfavourably with the 3,3% average inflation rate of the major industrial countries that year As they are *among* our main trading partners, this comparison is critical For it means the value of the rand will decline by the extent of the inflation differential

However, statistically, we still have some way to go before we reach hyper-inflation, variously defined as more than 20%, 25% or 50%

But "even" at 15% a year, the value of money erodes rapidly R1 in the first year is worth 85c the next in real terms, and 72c the year after that — and so on indefinitely In this way, capital is halved in five years The longer inflation remains at this level, the more difficult it is to alter inflationary expectations and get inflation down without severe pain That is, if hyper-inflation does not take hold

Hyper-inflation is the point at which inflation is out of control at ever-increasing rates Argentina, 90,1% in 1986, 131,3% in 1987, 343% in 1988, Brazil in the same period 145,2%, 229,7%, 682,3% Argentina has not yet reported for 1988, but Brazil's figure for January-to-January shows consumer prices rose more than 1 000%

Comparisons with these telephone figures mean little for SA, as we hardly trade with the economies concerned They are only of limited interest, enabling our politicians to point a finger at those who are more avaricious elsewhere We can draw no comfort from our relative restraint

The plain fact is that if voters allow politicians to continue creating inflation, most politicians will do exactly that, especially in a country where apartheid on its own creates social tensions Why aggravate them by the harsh measures necessary to stabilise prices?

The answer is simple If we don't do that, inflation will at a constantly rising cost bring about the adjustment between the economy's ability to supply and aggregate demand Price and income controls may delay the adjustment, but they will not eradicate it And the longer the adjustment between supply and demand is delayed, the higher the price of the adjustment becomes

But there is a further difficulty No government has yet shown itself capable of managing its inflation rate at what it might consider a livable level For inflation inevitably feeds upon itself and on public expectations of it rising That is why Finance Minister Barend du Plessis' observation that we seemed to be able to live with 15% inflation is at best astonishing

Over the past 20 years the Nats have got inflation at its highest point in living memory They have shown no inclination or ability to stabilise prices, especially not over the past *10* years If inflation runs at about 15%, the price of a loaf of bread which costs around R1 today will cost R50 in the year 2017 It will reach R50 by 2011 with inflation at 20% and by 2007 with inflation at 25% ■

INTEREST RATES (53)

Psychological war

How much can new Reserve Bank Governor Chris Stals reduce the double-digit annual price rise without pushing interest rates up further? So far, his attempts to cool inflation have been confined to announcing he will make the fight against inflation his first objective

But, as he himself has warned repeatedly, though economic growth is slowing, it may not be slowing enough. (Here he has in mind not only inflation, but the need to maintain a surplus on the current account of the balance of payments)

Will his firm verbal stand do much to slow it further?

There is a view that a large measure of core inflation is due to expectations "This means an important part of fighting inflation is convincing people you are," says Reserve Bank economics GM Jaap Meijer In support, he points out that, by the end of 1987 — after three years of low demand and about 15 months of currency appreciation, at a time when the price of fuel internationally was low — inflation stayed stubbornly high

Its low point was an annualised seasonally adjusted 9,2% in the first quarter of 1988, after peaking in the first quarter of 1986 at a seasonally adjusted annual 27,2%

Inflationary expectations, says Meijer, undoubtedly played a part in preventing the

PROVIDENT FUNDS

Taxing decision

Inland Revenue is expected to level the playing fields between provident funds administered by insurers and those run in-house by companies or institutions other than insurers At the moment, returns on funds administered by the former are taxed, those administered by others are exempt

The anomaly has always existed But, when provident funds underwritten by insurance companies had to invest 33% of their funds in prescribed assets while self-administered had to invest 53% in prescribed assets, this offset the tax advantage

With the abolition of prescribed asset requirements (see **P40**) and application of the same investment guidelines to all, insurer-administered funds will be disadvantaged

Life companies have made representations to Inland Revenue to rectify the anomaly Commissioner Hannes Hattingh says the matter is under consideration and an announcement will be made soon

Says Southern Life GM Tony Davey "There is a strong argument for untaxed provident funds as, like pensions and retirement annuities, they provide for retirement" He adds that there is also a political argument "There has been a move by trade unions to go the provident fund route because they get a lump sum on exit, instead of an annuity So people could start saying provident funds are being discriminated against if they remain taxed while pension funds are not"

Revenue stands to lose if funds administered by insurance companies are exempted from tax But the loss would probably be incurred anyway if they remain at a tax disadvantage With the removal of the prescribed asset advantage, policyholders could switch to privately administered funds ■

Rampant inflation will keep interest rates high

Star 12/9/89 (153)

By Magnus Heystek
Finance Editor

South Africans can brace themselves for a period of high interest rates — particularly real interest rates — until inflation shows signs of cooling off.

This was the message from economists, businessmen and central bankers at a seminar on financial markets hosted by stockbrokers Frankel, Kruger, Vinderine at Sabi Sabi over the weekend

Economist Mike Brown of the sponsoring firm underlined the need for real interest rates to be maintained

Citing World Bank studies, he said real interest rates — positive after allowing for inflation — were conducive to lower inflation and more stable economic growth.

Agreeing with Dr Chris Stals and Dr Japie Jacobs, respectively Governor and senior Deputy-Governor of the Reserve Bank, who were speakers at the conference, Mr Brown stressed the need for real interest rates levels in the downswing phase

He said overseas studies showed a strong correlation between real interest rates and high economic growth rates

Using a policy of real interest rates, coupled with strict monetary and fiscal discipline, the downswing period represented an excellent chance to wage an anti-inflation campaign, he said

According to a prominent businessman, who declined to be identified, there could no longer be a trade-off between economic growth and a high inflation

"The dismal performance of the economy in this decade is a testimony to the fact," he said

But good news for investors and businessmen who feared an abrupt slowdown in growth was that all indicators pointed to a relatively "soft landing" next year

Mr Brown said this contrasted with the propensity of the economy over the last two decades to overheat in times of upturn, necessitating harsh measures to cool it down again

"Somewhat surprisingly, present trends point to a relatively smooth slowdown in the economy.

"The 'train smash' nature of previous downswings may now be superseded by a bumpy ride as the 'train negotiates the points', but forward progress in real growth will continue to be made," he said

Among the reasons for the gradual cooling down, Mr Brown listed

- Retail sales and total consumer expenditure were levelling off, rather than showing the sharp reversals of the past The influence of the informal sector could be one of the reasons.

Another was that employment was holding up far better in a slowing economy than in the past

- The decision by the authorities to use a number of fiscal and monetary measures to slow down the economy
- A good agricultural season was boosting growth during a period of consolidation

Mr Brown, in what he called the 3-2-1 growth scenario, said the economy would record a two percent growth rate this year after growing at more than three percent in 1988 In 1990, the economy would slow down — brought on by the need to make further debt repayments in July — but would still record a positive growth rate of around one percent for the year as a whole

Mr Brown and other speakers, including Dr Stals, underlined the need for SA to achieve a massive surplus on the current account on the balance of payments next year in order to meet foreign debt repayments

Monetary and fiscal policy would be geared towards achieving a surplus of at least R6 billion on the current account because a similar amount of foreign debt fell due next year

With the outlook still bleak for the possible inflow of capital, SA could not afford a deficit on the current account

Any shortfall would have to be financed from foreign exchange reserves —— already at very low levels —— and it would also cause undue downward pressure on the foreign value of the rand

Central to Mr Brown's forecast was that the gold price would start recovering to levels of $400, due to what he called increased central bank purchasing and the removal of forward sales, a factor that had depressed the price last year and for the most of this year

This factor, together with the persistent under-supply in the gold market, would " push up the gold price as current holders of gold will require higher gold prices in order to be persuaded to sell into the market and balance the supply/demand equation

UK rates will remain high

LONDON — Prime Minister Margaret Thatcher said yesterday British interest rates would stay high until the government had beaten the "cancer" of inflation "Until we have got inflation down, interest rates will have to be high We have to look at the lesser of two evils and inflation would be the worse of those two evils," Mrs Thatcher said.

Chancellor of the Exchequer Nigel Lawson has almost doubled British interest rates to 14 percent in the past 16 months in a bid to curb inflation The inflation rate has shot up from around three percent early last year and is now one of the highest among industrialised countries. — Sapa-Reuter.

Unless inflation is checked interest rates will go higher

Star 16/9/89

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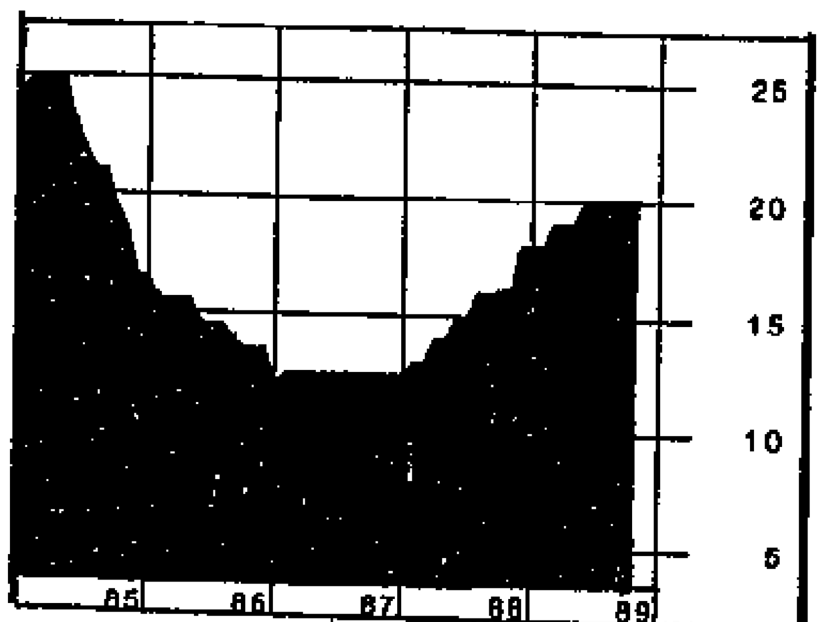
HIGHER interest rates may soon become necessary to check the depreciation of the rand, states the United in its latest Economic Perspective

The group says that from an economic point of view a relaxation of monetary policy would be possible - either through keeping interest rates constant as real interest rates are being eroded, or even through a decrease through the bank rate

However, the United states "As far as the exchange rate is concerned, a relaxed monetary policy stance would not be prudent as it would cause further forward cover losses for the authorities and it would cause short-term capital outflows

"Therefore, should inflation not be curbed soon, or international interest rates not decline, higher domestic interest rates might be inevitable to check the depreciation of the rand".



HARD TIMES — Interest rates getting out of hand.

The Economic Perspective states that unless there are policy changes the rand/dollar exchage rate could be at R3,10 by the end of the year.

It says the rand will appreciate against most currencies in the medium term

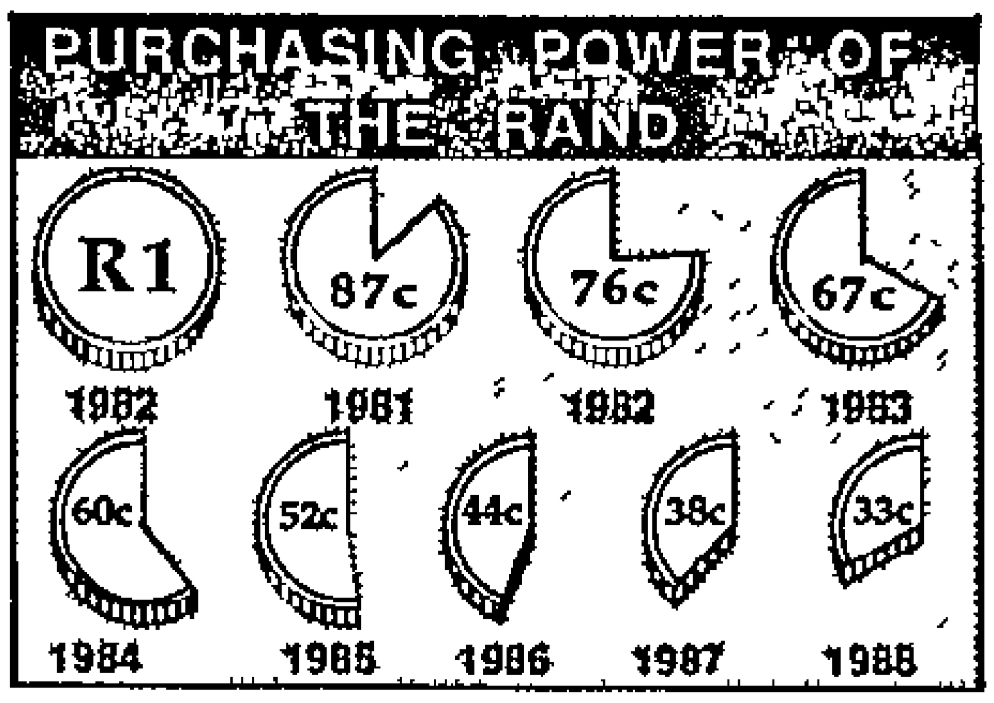
It added. "First, South Africa's inflation differential with the US seems to be set to increase as US inflation is being curbed while South Africa's inflation seems to be testing the 1987 levels of over 15 percent again

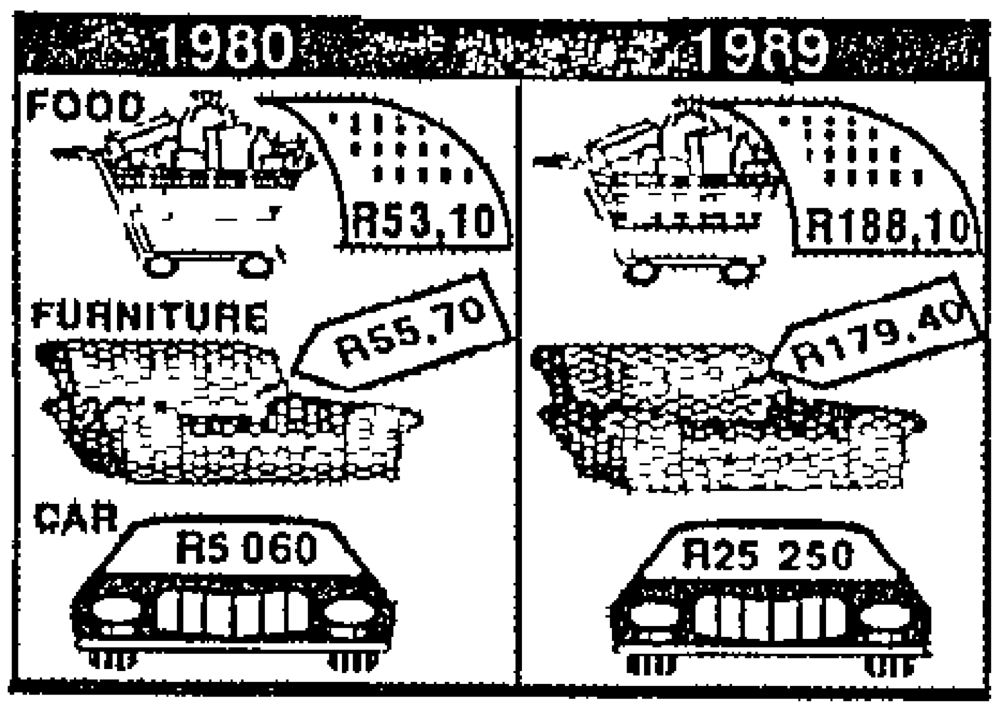
"Secondly, the US economy is slowing down (growth in the second quarter was the lowest since 1986 at 2,8 percent) resulting in reduced demand for SA produced goods

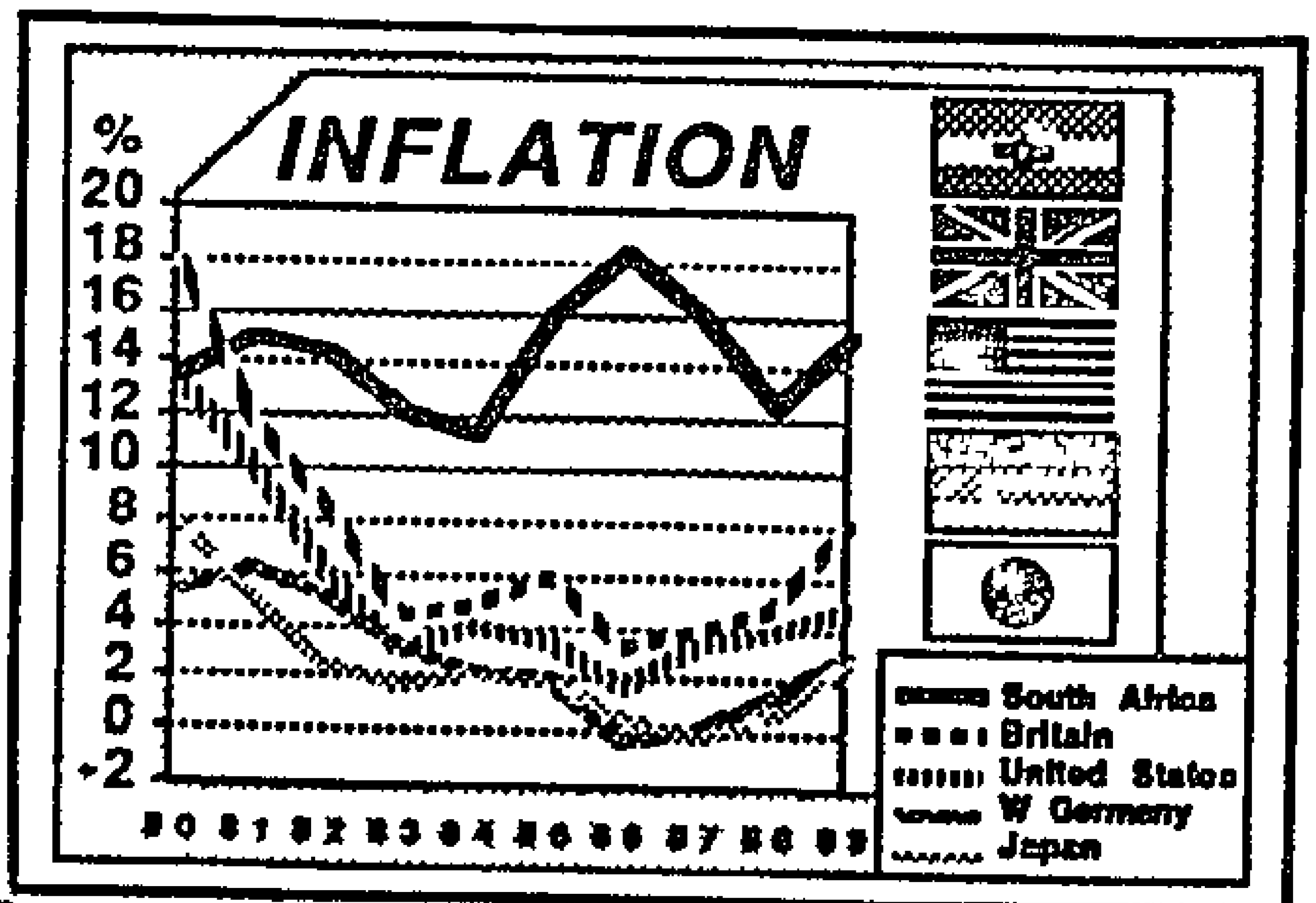
"Export proceeds should also be hampered by sanctions and the low gold price and the only positive factor is a slow down in imports.

"Thirdly short-term capital outflows can be expected to increase rather than decrease - a R0,5 billion ouflow is expected in 1989 and 1990 and debt repayment of R2 billion per annum still has to be reckoned with."

United concludes that in the current situation the Reserve Bank is not in a position to withdraw from the foreign exchange market as the resultant increase in forward cover rates will necessitate much higher interest rates. Therefore should policy not be tightened, taxpayers will have to continue bearing forward cover losses — Sapa







Shopping list shows how prices have risen

Star 20/9/89 (153)

Few shoppers have followed the dismal saga of inflation as closely as Mrs Sheila Lord, vice-president of the Housewives' League, who heads a team of sleuths keeping a running record of price movements

In a recent exercise to tabulate the havoc, she found that the average bill for 26 items at the top of many weekend shopping lists — toothpaste and toilet soap to margarine and cake flour — had more than trebled compared with 10 years ago

That was the average size of the prices spiral.

A few random items, selected as the cheapest on offer, make the gloom even deeper

- Super grade fillet beef (1 kg) that it was possible to buy at R4,90 in 1980 now costs between R15,99 and R22,99, depending on the butcher — and luck
- Pork chops (1 kg) to be found at R3 in 1980 are now from R7,49 to R15,69.
- Lamb chops, top of the pops at many braais, have rocketed from a low of R3,60 to a high of R16,99/kg
- Frozen chicken (1 kg) has zoomed from about R1,40 to between R3,49 and R4,39.
- Fresh milk by the litre has gone up from 40 cents to between R1,19 and R1,25
- Cheddar cheese (1 kg), rarely as much as R3 back in 1980, can now cost R9,69.
- Cornflakes (500 g) have jumped from 44c or so to between R2,15 and R3,25.

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MONEY

Don't just shrink there — do something

The rich are getting richer and the poor . . . Well, Minister of Finance Mr Barend du Plessis has promised to do all in his power to stop you getting poorer. But look what he's up against . . .

No matter which way you measure it, inflation hurts And it is going to hurt even more tomorrow

Ten years ago the official "inflation rate" was measured at 13,5 percent Today it is said to be only a percentage point more

Yet you remember the 1980 inflation problem as a mosquito bite — while today you're being chased by a monetary mamba

Why the difference?

Ten years ago the rand was surfing on a wave of gold, and anything seemed possible The inflation rate was measured on a smaller base — and in any case it hardly mattered You could fly to Hong Kong on a shopping spree (well, some could) or buy breakfast in Manhattan for the same price you paid in Johannesburg

Today the buying power of the rand abroad reduces rich men to jelly, and at home it has shrunk by more than two-thirds Taxes, direct and indirect, seem almost beyond comparison with 1980

Inflation in South Africa already averages three times that of most industrial countries, and threatens to go even higher (no matter which way you measure it) in 1990

The Econometrix research unit estimates that average living standards will drop by at least another 3 percent over the next year as income tax takes bigger and bigger bites out of wages and salaries as inflation pushes them into higher marginal tax brackets — the penalty of fiscal drag

To add to problems, families are wrestling with repayments on their debts and home loans at a moment when interest rates have risen to 20 percent or worse

Reserve Bank figures show that the amount advanced to private sector borrowers by commercial banks rocketed from R5,3 billion in 1980 to R45,5 billion last year

What can you do about it?

You can bombard the Cabinet with letters You can use every available civic device to stop the Government printing more paper money and spending it almost as fast as it prints it

Dr Chris Stals, the new Governor of the SA Reserve Bank, has within weeks of taking office, listed inflation as Economic Enemy No 1

Everyone needs constant reminding of it

(153) Fmail 22/9/89.

GROWTH (153) Fmail

No two ways

22/9/89

Inflation is likely to accelerate strongly throughout this year, says Nedbank's latest *Guide to the Economy* "If a consistently real interest rate differential of 5% is to be sustained — to maintain parity with Western industrialised nations — prime would have to be increased to about 22% "

However, the *Guide* argues, "with the economy showing indications of cooling, and the gold price unlikely to decline significantly, it would be very hard to justify such a move " It adds "Systematic revisions of prime in terms of the rate of inflation would not increase saving but produce recession "

This reflects a philosophical division among economists. On the one hand, there are those who believe real positive interest rates generate savings and, consequently, funds for investment which, in turn, creates employment. On the other, there are those who believe real positive interest rates (which are also high nominal interest rates) will reduce prospective yield and, as a result, incentive to invest, thereby reducing employment

The *Guide* outlines the case for positive interest rates "being advocated by both local commentators and the IMF Either implicitly or explicity, it is held that the amount of saving generated dictates the level of investment undertaken (Further) it is argued that, in the presence of inflationary forces, what determines the level of saving is not the nominal rate, since this understates the return offered to savers in terms of future command over resources . Accordingly, the promotion and maintenance of a positive real interest rate structure should be adopted as an explicit long-term policy goal "

The *Guide*, however, rejects this argument and says "Saving and investment are disparate acts undertaken by different economic agents for different motives " It therefore questions whether "divergences in planned saving and investment will be sufficiently sensitive to changes in the rate of interest " If they are not, "the conclusion (that) there is a direct causal relationship running from savings to investment is insupportable "

It argues a rise in interest rates could reduce savings

"Aggregate saving is governed by investment and a rise in the rate of interest will diminish investment — hence a rise in the rate of interest must have the effect of reducing incomes to a level at which savings are decreased in the same measure as investment Since incomes decline when the rate of interest rises, the rate of consumption will decrease But this does not mean saving will increase On the contrary, saving and spending could both decrease "

The *Guide* also deals with the savings-investment aspect of the debate on positive interest rates There is, however, another aspect — the inflationary impact of low or negative real interest rates The *FM* would argue that positive interest rates create a more predictable environment — which stimulates investment and, thus, employment Policymakers must maintain a fine balance between recession and inflation and the best way is an appropriate price for credit ■

Vigorous economy that won't lie down

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S/Times 24/9/87

BECAUSE of balance of payments constraints and inflationary tendencies, the authorities have signalled for some months that they want the economy to slow down.

Cees Bruggemans finds that strong growth abroad, abundant confidence and liquidity among consumers and the corporate sector mean still harder brakes are required to restrain the South African economy.

THE threat of recession hangs heavily in the air

It won't happen immediately, but in 1990 — if not voluntarily, then by inducement The intensity, duration and spread of the coming downturn in domestic activity are likely to be less severe than the total onslaught of 1984-1986 It will probably be different from the recession of 1982 It could mainly be a consumer recession, which would be unusual

Of course, few businesses will be entirely unaffected by such a downturn Most companies will notice it Opinion may differ as to whether the policy foundation for an eventual recession, defined as two or more successive quarters of decline in economic activity, has already been put in place

According to a preponderant view, one cannot expect to drastically raise interest rates, tighten regulations covering financial transactions and increase the tax burden without there being a major negative impact on the economy somewhere along the way

DRAG

Such textbook predictability might be expected when the policy action is thoroughgoing, attacking all types of spending and all industrial sectors

Alternatively, the economy has acquired distinct structural weaknesses that cause widespread failure and contraction once the expansion has been stopped At first glance, the policy action of the past 18 months appears impressive

It has indeed already been termed by some as "overkill" Prime overdraft up 7,5 percentage points to 20%, strangulation of hire purchase and leasing transactions by greatly increasing required deposits and shortening repayment periods, and the tax burden increased by way of fuel levy, import surcharge, GST, direct fiscal drag and corporate loan levy

But the strength of the authorities' firepower must be measured against the vigour of the economy An economy whose strength has been undermined through a build-up of imbalances does not require heavy braking to be stalled

In contrast, a fairly well-balanced situation free of major flaws may require fairly harsh braking before policy action has the desired effect

It is easy to be concerned about the economy's inherent weaknesses The consumer can be fragile and inclined to stop spending at the mere threat of uncertainty and hard times

Similarly, businesses can be sensitive in their fixed investment decisions, pulling back at the first hint of adversity out of fear of involuntary stock building and slack capacities However, not every economic recovery ends on such a timid note

Indeed, the international economy has been expected to go into recession for five consecutive springs and has not done so Such durability in economic expansion is attributable to the absence of major problems, such as a rapid inflation build-up (indicative of excessive overheating) or large unsold stocks whose sudden correction can be highly destabilising

ROBUST

The quality of sentiment among consumers, businesses and foreign trade partners is arguably as important If their confidence levels are robust, for whatever reason, it will take a torpedo to stop an expansion as the past eight years are bearing out internationally

The economic growth cycle then tends to turn into a relay race, different sectors and participants at times carrying the baton, but their interplay prolonging it far beyond what the statistical averages would call a normal business cycle

Something like this may also apply to our current economic expansion We all got so thoroughly cleaned out in the maxi-recession of 1984-86 that whatever excesses existed were removed

The subsequent three-year recovery, although anaemic (or because of it), never developed excessive consumer buying, business fixed investment in unneeded capacity or unwanted stock levels

Instead, it all remained moderate and healthy and had to be cut short only because of an inadequate foreign cash flow and a newfound willingness to tackle inflation Indeed, it may take brute force to slow the economy to the degree required

VIVIDLY

What possibly distinguishes analysts most from businesses and consumers is that they remember the depth of the 1984-1986 downturn most vividly

They therefore remain sensitive to any action expected to lead to a repeat of that experience Although consumer memories are not short, time takes its toll, as do embedded inflationary expectations and shifting fortunes

Growing employment levels and real wage increases make winners and spenders of groups who do not bear the full brunt of tax and interest-rate changes If the business sector is also optimistic about the future, resistance to economic braking becomes considerable

Most analysts say recent fixed investment spending has been mainly for replacement and it will be easily frightened into drying up Such fashionable opinion is not borne out when one questions businesses directly They claim that more than 50% of their fixed investment has been geared to new capacity creation not replacement

The phenomenon is not reflected by the national accounts, perhaps because the replacement cost of capacity has obliged fixed investment spending to take on the nature of debottlenecking and prolonging plant life rather than wholesale replacement Modernisation can be achieved along many different routes

But that does not explain lingering willingness to continue increasing real fixed investment outlays in spite of looming recession

So is it really going to end shortly, or is there a combination of strategic and political reassessment, helped along by still good cash flows and stock exchange fundamentals, leading to investment-led growth?

EXPORTERS

All this does not imply that fixed investment has lost its cyclicality, but merely that it may be less sensitive for solid, positive reasons for the time being That would make continuous winners out of the capital goods suppliers for as long as it lasts

But sectorally, they are unlikely to be alone because there are the exporters and the farmers as well It is only an opinion, but our economy is not as inherently weak as in the past three recessions If there is a weak party, it is the overtaxed and financially overburdened salaried individual

But perhaps contrary to expectations, that does not include all of us The focus of any economic adjustment may therefore be narrower than generally expected, and also less effective

However, with a financial agenda inclined to call for more adjustment than achieved so far, the policy action to date may not be enough to deliver a recession all by itself

If it is recession that is desired, it may have to be induced, either through sharply reduced Government deficit financing or higher interest rates

Pegging the rand to commodities basket would cut inflation

B/Day 27/9/89 **LAWRENCE HAAR** 153

about SA's inflation rate Indeed, the new Reserve Bank Governor Chris Stals has declared it to be unacceptable, and fighting it a first priority.

Often the focus has been on measuring changes in the price level, with less attention being given to how the current conditions have originated At times the rate has been defended as a necessary trade-off in terms of unemployment In this article, I will explore some reasons why persistent price instability is peculiar to the SA economic setting

Although irresponsible monetary and fiscal policy is the mechanism of persistent inflation, certain technical factors encourage it In SA, we are well acquainted with the social and political pressures behind price instability In addition to these broad pressures, certain structural features make inflation difficult to beat. Our concern is twofold firstly, the commodity nature of the economy; and second, how the banking system is regulated, and how these forces have created an inflationary bias

South Africa earns more than 40% of its foreign exchange income through the sale of gold bullion Include the platinum group and base metals, and the figure is close to 60% Last year exports accounted for 28% of GDP Clearly, the price of internationally traded commodities is critical to SA's terms of trade But what is the economic implication of this fact?

We all intuitively appreciate that a stronger gold and commodity price is good for the exchange rate But is it merely through the mechanism of reserves and surpluses, or is it fundamental to a gold or commodity standard? I believe that SA, by virtue of its economic makeup, is effectively a gold or at least commodity standard country, and the sooner this fact is acknowledged the sooner the structures and benefits of a commodity reserve currency will transpire

Under a gold or commodity standard, the central bank supports the nominal price of a reserve commodity. The absolute price level is determined through the relative price of the reserve commodity Although changes in the ratio of money to its commodity backing or shifts in velocity can influence the price, the overall system possesses a "nominal anchor" in the fixed price of the reserve commodity

In contrast, the price level and inflation under non-commodity backed money, better known as fiat money, is a function of the quantity of such currency Through the equation of exchange, the value of money in terms of goods and services is determined.

Under a commodity standard, the price level and inflation are not subject to the whims of government policy Some further implications of a commodity standard are worth noting For one, changes in conditions of gold production (e g new gold discoveries, new mining technology) lead to changes in the price level Increased gold production will lead to an increase in the price level Holding the technology of gold production fixed (and therefore supply), with an increased national income will, under a commodity standard, actually force the price level down. (In fact, this deflationary tendency is often raised as an objection to a gold standard) Another implication of a gold standard is that when its price increases, the general price level will increase proportionately. And with a stronger gold price, we will with a stronger currency be able to afford greater imports

What do these observations imply for SA? For one thing, a monetary/-fiscal policy for a country such as SA, which ignores the international value of a commodity, is bound to cause complications In SA, we have the unique problem of rising mining costs and lacklustre international commodity prices Under these conditions, the rand per kilogram price has been forced to adjust in order to keep all but the most marginal mines viable This accounting trick has come about through devaluation of the currency The correct policy would have been to let the rand per kilogram price reflect the commodity's recent downward trends The impact on the economy has been inflation, as a monetary phenomenon through imports and via cost-push forces, such as unions It promotes severe economic distortions

We know from trade theory that the real marginal product of a given factor is the same across national boundaries. Moreover, under relative conditions of free trade, the price of input factors (in terms of output) is the same in every country. Given SA's endowments and capital/labour trade-offs, one would expect us to export labour intensive and raw material intensive commodities as we do, but trying to obtain even greater exports by devaluing (through inflation) the rand, will ultimately have a cost In particular, it distorts resource allocation away from the country's secondary and tertiary sectors.

This is occurring at a time when, in fact, these areas have been acknowledged as critical for the future By exporting less but at a more efficient scale, we may in fact be able to afford greater imports Using the currency as an accounting device, in order to subsidise the unprofitable aspects of the mining sector, results in inflation as well as inefficiencies to the entire system.

Given the nature of our economy, the rand should be pegged to a basket of commodities, weighted according to our exports Inflation would be stopped dead in its tracks, and resource allocation distortions would in time be corrected If the net result is, perhaps, a 20% reduction in gold exports .. well, so be it. There is no such thing as a free lunch, anyway.

In addition to the primary sector leading to an inflationary bias, we also have unusual conditions in the financial sector, in particular with how the banks are regulated Under the SA Reserve Bank system, a variety of assets qualify as liquid assets, all of which may be used to satisfy reserve requirements. These include.

- ☐ Cash;
- ☐ Treasury bills,
- ☐ BAs of other financial institutions, and
- ☐ Public sector debt instruments — (up to three years in length)

The reserve requirements for these assets vary but for cash it is 8% and will soon be reduced to 5% For shorter terms debt instruments it is 20% For the total asset pool of a given bank, 8% must be kept in cash

The implications of such a system, compared to one in which only cash or near monies may be used as assets to expand liabilities, are quite serious BAs, actually created by financial institutions, can be used to expand the monetary base and the supply of credit. If two banks create BAs and discount them to each other, the monetary base can expand

Finally, the discount window at the Reserve Bank provides ready access to financial institutions in need of funds to satisfy such requirements The net result is that the main tool of monetary policy — open market operations — is ineffectual The analogy would be if the Reserve Bank attempted open market operations by having all the banks turn in their R10 notes, to be replaced with half as many R20 notes

It should be noted that SA reserve requirements are low by the standard of industrial countries This means that a little money goes a long way in creating credit, making the monetary base quite unstable

To reform our system, only cash reserves and treasury bills should be allowed to expand liabilities and create credit Under the current system, monetary policy must be unwavering and steadfast in its credit creation rules Attempting, for example, short period adjustment processes to mop up excess liquidity or create a short burst of easy-money for counter-cyclic purposes is very difficult

Correcting these inflationary biases would go a long way to stabilising the price level Indeed, monetary policy would be more effective, as well as realistic

☐ **Lawrence Haar is senior manager, research and development, at the Treasury, First National Bank. The article reflects his personal views.**

Inflation jolt as Reserve Bank sums up

30/9/89 By DEREK TOMMEY 153
Weekend Argus Correspondent

JOHANNESBURG — The Reserve Bank has confirmed what housewives have said all along the inflation rate is higher than the figure given officially

The support for disgruntled housewives might be unexpected but it is weighty.

The Reserve Bank has expressed dissatisfaction with an acceleration in government spending and warns that it might have to impose further restrictions on the economy if spending is not curtailed.

In a survey of the economy, released yesterday, the bank said inflation had accelerated "markedly and disturbingly" in the first two quarters of this year from its already high levels in the last two quarters of 1988

"The extent of this acceleration tends to be concealed by the generally more widespread practice of quoting percentage increases in the various price indices only on a 12-month or year-on-year basis"

Some people might be shocked by the rate of price increases reported by the bank, but they are much in line with what housewives have found in supermarkets

Domestic products

The bank says the price of imported goods increased by 30,7 percent — calculated for an annual rate — in the second quarter of this year. This followed a 10,3 percent increase in the first quarter

The bank blames the sharp increase in imported prices in the June quarter on the fall in the rand's exchange rate and on the import surcharges imposed last year

The prices of domestically produced goods did not rise so fast but the increases were still significant.

These prices, calculated at an annual rate, rose 11,5 percent in the fourth quarter of last year, 18,9 percent in the first and 17,2 percent in the second

The consumer price index also showed a sharp acceleration On an annual basis, this increased by 9,2 percent in the first quarter of last year, 13,9 percent in the third quarter, 14,3 percent in the first quarter of this year and 18,4 percent in the second

'Wages keep up with inflation'

STAR (153) Labour Reporter 4/10/89

Wages increased by an average 16,7 percent during the third quarter of this year, slightly ahead of the inflation rate, according to the Institute for Industrial Relations (IRR)

This was less than last year when pay rises were more firmly ahead of inflation, the IRR said, adding that tougher management attitudes and trade union restraint could be responsible

Leading the field were the paper, printing and wood industries, where third-quarter pay rises averaged 19,3 percent. Next came commerce (18,9 percent), services (18 percent) and clothing and textiles (18 percent). Minimum wage increases averaged 19.2 percent.

B|Day 5/10/89

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Union wage settlements run ahead of inflation

ALAN FINE

UNION-negotiated wage settlements for the first nine months of the year are running ahead of inflation, but the level of real increases has declined appreciably compared with the previous two years.

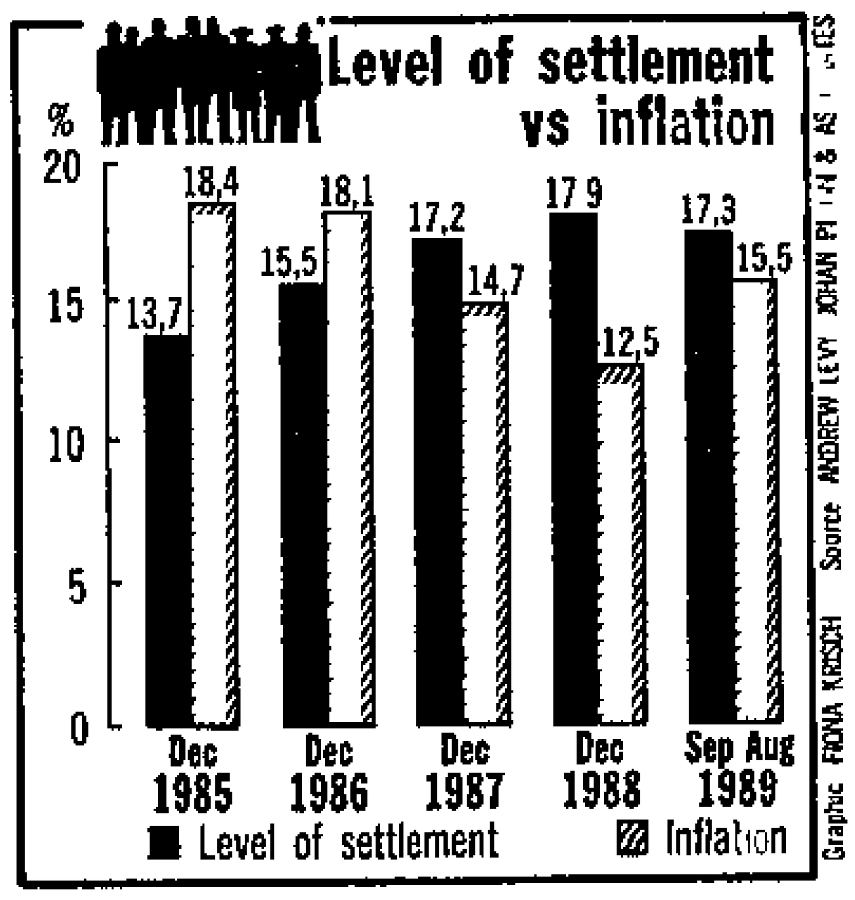
This was one of the findings of two surveys released yesterday by the Institute for Industrial Relations (IIR) and consultants Andrew Levy, Johan Piron and Associates respectively

With the annual inflation rate — as measured by the CPI — running at 15,5% in August, Levy found this year's settlements averaged a 17,3% increase on payrolls, while the IIR put the figure at 16,7%

The 1,2 (IIR) or 1,8 (Levy) percentage point differential between wage increases and inflation — the real increase — compares to 5,4% last year and 2,5% in 1987 (see graph)

But, IIR senior professional officer Adrian Hersch pointed out, workers in the lowest-paid job categories won increases averaging 19,2% — still firmly above the inflation rate

In some instances, he said, workers



above the lower grades had attained, or were in sight of attaining — "some form of moderately respectable standard of living for themselves and their families"

The pressure emanating from them for higher increases was therefore not as great as it was in respect of their counterparts at lower levels, and this had contributed to the lower average increases

While wage rates had increased sharply in the post-Wiehahn era, much pressure remained for fairly large increases to be made in the lower job categories, Hersch said

Levy's survey found that the unions achieving the highest increases were Cosatu's Commercial, Catering and Allied Workers' Union and Nactu's Building, Construction and Allied Workers' Union Both unions, which operate in traditionally low-wage sectors, won increases averaging 19,3%

At the other end of the scale, the Food and Allied Workers' Union achieved 15,9% increases

The IIR survey, which measured increases by sector rather than union, noted the highest increases in the paper/printing/wood sector (19,3%) and commerce (18,9%).

Of the sectors surveyed, which excluded agriculture, lowest increases were paid in the financial (15%) and food (15,2%) sectors

The IIR found that the motor and pharmaceutical sectors paid the highest average minimum monthly wages of R1 021 and R1 018 respectively The mining industry, at R417, and construction (R535) paid the lowest

Shoprite ups earnings in spite of inflation

8 | Day 6/10/89

SYLVIA DU PLESSIS

PEPKOR-controlled supermarket chain Shoprite Holdings has upped earnings by 35% to 12,5c (9,3c) a share in the six months to August against the backdrop of climbing inflation and higher interest rates

Turnover for the retail and wholesale-listed group, which markets food and non-food products to the broad lower to middle income group, increased 32% to R209m (R158m)

This was in line with the increase in operating profit, which rose to R5,8m from the R4,4m recorded in the same period last year

Following a marginal drop in interest paid to R47 000, pre-tax profit was 33% up at R5,8m (R4,3m) After tax of R2,1m, this translated into a 35% rise in taxed profit to R3,7m (R2,7m)

(153)

Dividends of 4,5c (3,75c) a share, covered 2,8 (2,5) times, have been declared

A strong balance sheet reflects a hike in total group assets to R100m — far off 1988's R77,5m

MD Wellwood Basson described the results as satisfactory and was confident of maintaining healthy growth

He added that the group continued to increase market share, while maintaining profitability, in spite of highly competitive trading

Four new branches were opened in the half-year and all had performed above expectations, while two additional branches would be opened soon

Inflation psyche dominating SA business

Cit 7/10/81

By AUDREY D'ANGELO
Financial Editor

SA society is so dominated by "the inflation psyche" that both management and workers think putting up the price of their product is one of the best ways to increase profit, surveys carried out by Project Free Enterprise have shown

Describing this as "horrendous", the research team say in their report "Management, its workforce and the consumer have grown so used to the reality of inflation in the national economy that by far the easiest route to guaranteeing further wealth is perceived to be increasing the price of products and services

"The implications of this mindset and its impact on the economy are horrendous It requires the most urgent attention from policymakers in both the public and private sectors

"This disease must be eradicated from the system if the economy is to survive with any semblance of real growth"

Project Free Enterprise, backed by more than 80 of SA's leading companies, was started in 1984 Its statement of intent says that it identifies itself "with the creation of a South African society in which stability, wealth creation and economic freedom are realised for all its citizens"

It has carried out three surveys since 1984 Its latest report, on Strategies for Economic Freedom and Growth in the '90s, says that there is now more common ground between management and workers than many people suppose

It finds the labour force better informed than in 1984 — when a majority of unskilled workers believed that managers' salaries were the main expense of running a business

But it believes there is a need for business education for everyone, to increase understanding of how labour and management are interdependent and how the economy works

It stresses the importance of participative management and of share option and profit sharing schemes in helping the workforce to see the advantages of a free market economy and the need for increased productivity

And it discloses that there is a need for business education in lower and middle management, where surveys have revealed surprising ignorance

Its latest survey this year has shown big changes in perceptions In 1984, most semiskilled and unskilled workers saw raw materials as fourth on the list of a company's operating expenses, employees' wages fifth and machinery and plant sixth

They considered management salaries the biggest expense, followed by taxes and the repayment of loans

This year, they saw raw materials as the biggest expense Tax remained the second but wages had moved up to third place, with managers' salaries fourth followed by machinery and plant in fifth place and repaying loans sixth

In the 1984 survey, their first suggestion for improving a firm's income was to "pay whites less" Improved sales and output came fourth on the list

This year "pay whites less" had moved down to fifth and last place, with improved sales and output at the top But "increase price of product" had moved up to second from third place, in line with the perceptions of management

Discussing the need for business education, the report says "At national level, a concerted attempt should be made to upgrade the knowledge and capabilities of the entire population.

"In this sense business education is a vital support to the deregulation drive and the extension of business opportunities"

It points out that Venezuela made major economic progress by way of a national educational advancement programme using radio and TV "Similar success has been achieved in such Pacific Rim countries as Taiwan and Singapore

"There is no reason to believe that the same results cannot be achieved in SA But our policy makers need to recognise that business education is a matter for coordinated national action"

City Press 22/10/89

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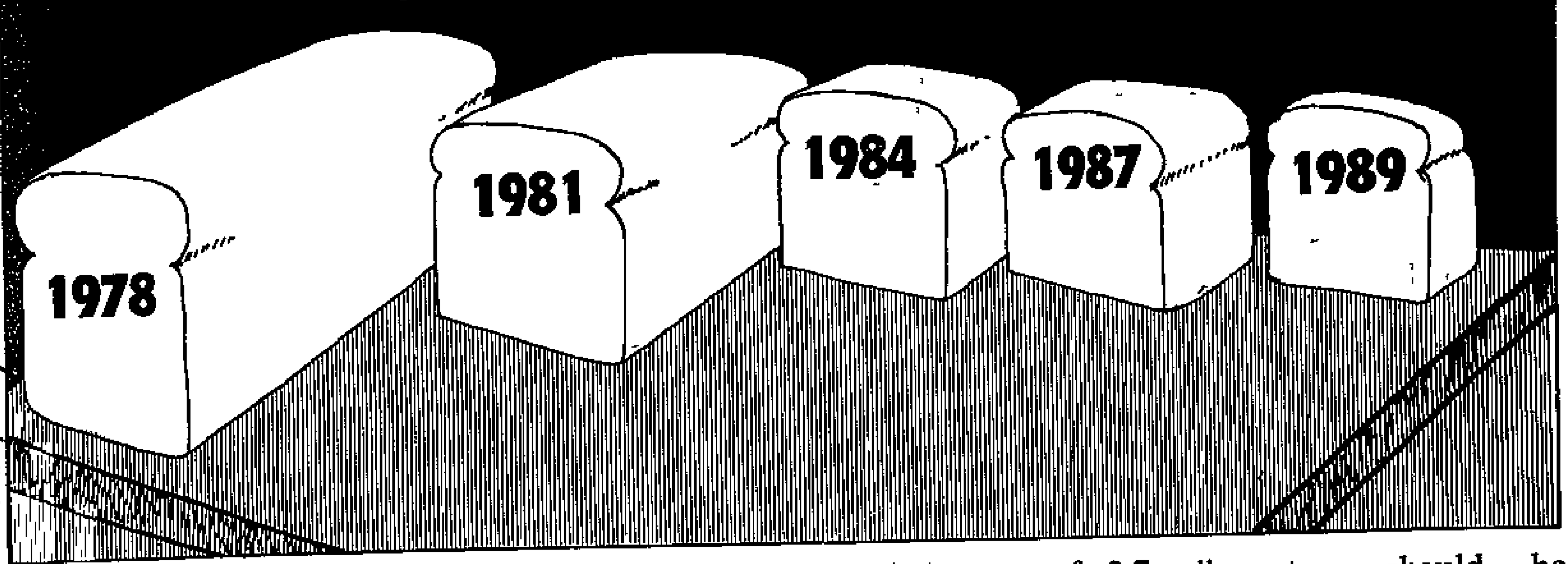
Your disappearing loaf of bread as the Rand buys less



THE price of bread will increase by between 10c and 12c a loaf from November 1, according to radio reports

The increase is expected to be announced on Friday

This will be the second increase in the price of bread this year: in April, white bread went up 5c to 90c and brown bread 7c to 76c

The final decision should be taken by the Cabinet on Wednesday

The increase has been prompted by a higher wheat price, more expensive input costs for bakers and millers, a request by retailers for a greater margin of profit and gradual phasing out of the government bread subsidy

The increase is in step with the government's policy of reducing overheads

The bread subsidy cost about R17-million per annum

Meanwhile, the Wheat Board has confirmed that the drought which caused widespread damage in the western Free State is likely to result in the expected harvest of 2,7-million tons not being realised.

A crop of between 2,3-million tons and 2,5-million tons should be reaped

This may mean that some wheat may have to be imported – Sapa.

Small investors wary after latest crash

22/10/89

City Press

CP Correspondent

THE small investor is not usually seen at the Johannesburg Stock Exchange and the latest crash in share values could make him even more wary.

The tumble on Wall Street echoed throughout the Johannesburg Stock Exchange this week as panic selling of shares by small investors pushed the JSE overall index down 10,6 percent to close at 2,388 points

JSE dealers said small investors appeared to be yielding to the maxim "if there is to be panic, be the first to panic".

"But who can blame people for behaving like that?," asked finance broker Willie Ramoshaba of WR Consultants in an interview with *City Press*

Ramoshaba said patriotism must have played a big part when government, economists and some analysts congratulated each other on the "excellent economic development" of the country in 1988

He said they had overlooked·

■ The 20 percent increase in national debt, combined with dangerously high growth in money supply,

■ The sharp rise in interest on credit, which looks likely to climb in 1989; and

■ The long-term downward trend in the gold price due to an oversupply on world markets

"The development of the country is overshadowed by many economic and political uncertainties," said Ramoshaba

"On the other hand, home loan foreclosures by lending institutions are 200 percent higher than they were this time last year, reflecting the squeeze of higher interest rates and living costs"

The Perm's senior finance and accounting general manager, Peter Hibbit, believes the increased foreclosure rate indicates a replay of recessionary conditions in 1984 and 1985

"The squeeze will accelerate structural re-adjustments in the home loans market as institutions relate individual lending to individual risks"

Now JSE dealers hope the Iscor offer, which gives the public the opportunity to apply for 150 million shares at R2 each, will infuse fresh blood into the market – in the form of the small investor

This positive move could be offset, however, by the threat of higher interest rates

Inflation rate shows first signs of easing

By Sven Lünsche

The fight against inflation by Reserve Bank Governor Dr Chris Stals is beginning to have some effect.

M3 money supply figures released at the weekend showed a surprising plunge in annual growth rates from 24,6 percent in August to 21,97 percent last month.

Yesterday Central Statistical Services (CSS) said the inflation rate had fallen to 14,9 percent in September from 15,5 percent in August.

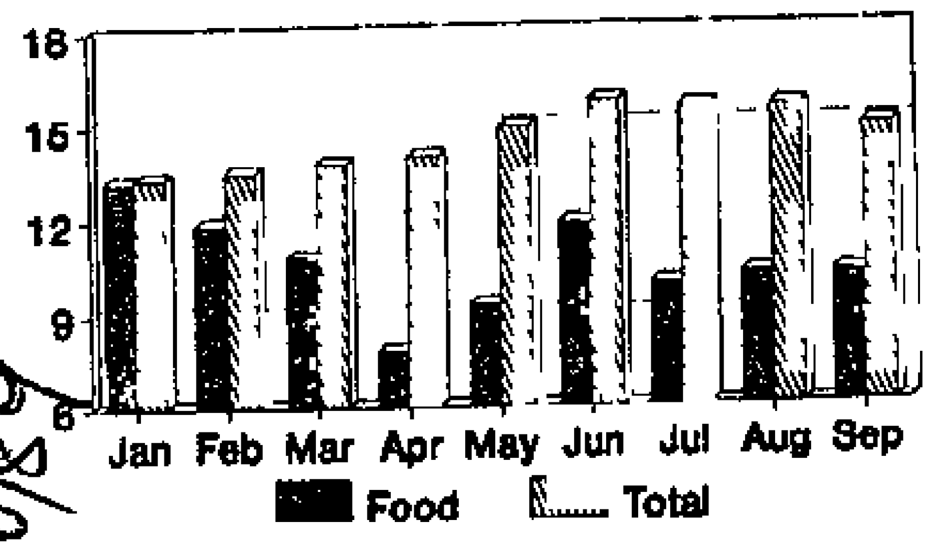
Economists are reluctant to see the declines as proof of a marked slowdown in economic growth.

"We have not seen enough evidence of a slowdown and a more stable situation on the balance of payments to drop our guard," says Old Mutual's Dave Mohr.

But signs are emerging that the economy, in particular credit expenditure, which has been the main driving force behind the recent boom, is stabilising.

The latest money supply figures were also evident of this slower trend in credit extension, but it will take some time before this works down to substantially decreased demand for consumer goods.

Economist expect the inflation rate to start rising towards the end of the year and early next year, to be followed by a downturn in mid-1990.



Monthly changes in the CPI.

27/10/89

Says economist Adam Jacobs of Volkskas "Inflation will still average about 15 percent this year, up from 12,9 percent last year, but this could decline to just over 14 percent in 1990."

Sanlam echoes the sentiment in its latest *Economic Survey*.

"At this stage, we envisage that the average rate of increase in the total consumer price index (CPI) will be slightly lower than 15 percent for this year and that it could drop a bit in 1990 if food prices do not rise unusually sharply and the Reserve Bank Governor's proposed intensified action against inflation is carried out."

Mr Mohr is more pessimistic. He expects a rate of about 16 percent by year-end and only a slight decline in 1990.

The head of the CSS, Dr Treurnicht du Toit, says the latest fall in the inflation rate was achieved off a statistically high base at the same time last year.

"Last year's monthly increase from August to September was a high 1,4 percent and a similar monthly rise in September this year would have kept inflation at August's level of 15,5 percent.

"Instead, the monthly rise was only 0,9 percent and the annual rate naturally had to decline," he says.

Another slight decline could therefore occur in October if the monthly increase does not equal or exceed last year's 1,1 percent rise in consumer prices from September to October.

But he advances a more fundamental reason for the decline: price increases on most categories of goods have been limited, with food prices, in particular, showing more modest rises.

The more stable rand exchange rate is also beginning to filter through to the consumer level through lower increases in the price of imported products.

But the full effect will probably only be felt next year.

Benefits of the steps to cool down the economy will also only show results once the latest rise in interest rates fully impact on the economy in mid-1990.

In the meantime however, higher mortgage bond rates, the spate of recent petrol price increases and this months' hikes in the cost of some basic consumer goods will push the inflation rate up over the next few months.

Money Matters

MAGNUS HEYSTEK

Inflation? The official figure is vindicated by many tests

PERHAPS like so many other people you also don't believe that South Africa's current inflation rate is only about 15 percent, but in fact much more.

Also, like Professor Karl Posel, professor in mathematics at the University of Durban-Westville, you would like to think that the inflation rate is higher than 30 percent, as Professor Posel has claimed in many controversial articles

Well, the good news (or is it bad?) is that the current method of compiling the average increases in the cost of living using the Consumer Price Index (CPI) is fairly accurate and is accepted by most economists as being generally representative of the true cost of living increases

Professor Posel has in recent months attacked the Central Statistical Services in Pretoria as being "unscientific" and trying to mislead the public. In reality, Professor Posel's claims can be dismissed as a bit of windmill-chasing and lack any real substance.

Quite often I hear people complaining about the fact that "the price of tinned sardines has jumped by 40 percent in one year" or the "price of going to the theatre has more than doubled in two years". From these individual experiences one tends to extrapolate and dismiss the CPI figures, currently around 15 percent, as being wrong and misleading

Much as I would like to sympathise, this is unscientific. Perfect the CSS's system might not be, but in the absence of anything better one has to accept these figures as being fairly accurate. Insurance giant Old Mutual tested the validity of the CPI figures about two years ago and concluded that this measurement is generally accurate. Other economists agreed.

A great deal of confusion exists over the CPI figures and how they are calculated. Based on countrywide expenditure patterns in 1985 the CSS has calculated the various "weights" of spending categories in the overall spending pattern

Different 'weightings'

According to the 1985 figures housing has an average weighting of 22,5 percent in the average South African household, transport 5,9 percent, food 23,2 percent, furniture and equipment 4,7 percent, clothing and footwear 6 percent, vehicles 5,5 percent, other transport 5,9 percent, beverages and tobacco 2,2 percent and other assorted items 11,1 percent.

Recognising that people from different walks of life have different spending patterns, the CPI divides people into four categories, namely upper income, middle income, lower income and pensioners.

It stands to reason that someone in the so-called upper income class is bound to have a different spending pattern than someone in the lower income class. People in the higher income group experienced a higher rate of inflation in recent years than other classes due to their exposure to goods affected by the sharp decline in the rand exchange rate.

A recent innovation by the CSS has been to calculate an inflation rate for pensioners. Retired people on average would spend more of their total income on medicine, for example, and less on transport and motor vehicles. And in many instances, retired people have paid off their mortgage bonds, leaving them free from the vagaries of volatile interest rates

The CPI figures are often criticised on the basis of individual experiences. For example, in June the inflation rate for housing rose by only 1,5 percent on an annualised basis. But at the same time — and this is what many people fail to understand — mortgage rates had risen by 46 percent over the preceding 12 months.

To many people this means that housing rose by 46 percent. That might perhaps be true for the some 700 000 people with mortgage bonds, but there are many people who either have no bonds, or who rent their homes, and to expediently remove them from the calculation would be erroneous.

So while you might think that the inflation rate is, in fact, much higher than the official one, this is not true. It might just be that your spending pattern needs downward adjustment

(153) Finmail 3/11/89

INFLATION (153)

Hedging bets

While the economy has been crippled by inflation, the equity market has benefited. At the *FM* Investment Conference last week, stockbroker Ivor Jones noted that the higher the rate of inflation, the higher the concentration of investment in equities.

"Price performance (has been) driven by earnings and dividend growth which more than kept pace with inflation," he said. This is because, to an important extent, profits flow from price increases.

For this reason, Jones points out, growth in terms of volume has not necessarily been as impressive as revenue increases. He suggests that "it would be useful if more companies would publish volume growth." Those which grow in real terms, will prove better investments than those which rely on price increases to produce profit growth.

Companies which have benefited most from inflation are those in the industrial sector which pass on cost increases to consumers. Gold mining, which is a price taker and not a price maker, has lagged. Gold mines have relied heavily on depreciation of the rand to produce profits. Now that the gold price in rand terms has flattened, "some bold and imaginative tax reform" could revitalise the industry.

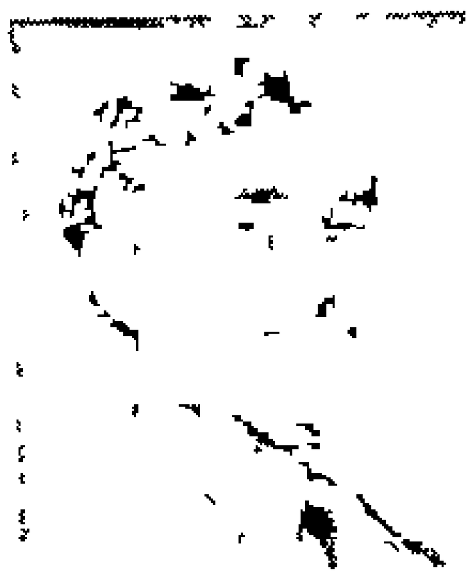
A victim of rampant inflation has been the bond market. In 1972 terms, says Jones, Reserve Bank stock is today worth about 8c, compared with 132c that year.

Replacement of prescribed asset requirements for pension funds and life offices with prudential investment guidelines could be an acknowledgment by the authorities of the damage inflation has inflicted on savers. Now these organisations, which attract the bulk of savings, no longer have to invest so much in cash and government stock.

He suggests the odds favour inflation falling, which could hold some hope for improvement in bond prices. ■

Accounting for inflation

153 Fmail



Peter Wilmot is a partner at Pim Goldby

The accounting profession has unwittingly contributed to inflation by failing to report, in unequivocable terms, the impact this disease has had on the financial health of corporate SA

In times of high inflation, historic cost financial statements are, at best, misleading Profits reported are more illusory than real This is because revenues are reported at current values whereas expenses, arising from the utilisation of fixed assets and the cost of goods sold, are reflected at historic costs which may or may not bear any relationship to current costs.

Furthermore, the balance sheet, often described as a graveyard of deferred costs, reflects an aggregation of net assets acquired over many years at varying costs which bear little relationship to current values Despite these agreed shortcomings, the accounting profession and academics have been unable to devise an acceptable system which accounts for these distortions in the presentation of financial information

In 1980, an attempt was made in the UK to introduce a mandatory system of current cost accounting for all significant entities This accounting standard evoked considerable condemnation from preparers of financial statements and the profession and led to its withdrawal in June 1985. Reasons for the failure of this standard included

- ☐ Complexity of calculations (accountants have a failing for being precisely wrong rather than approximately right),
- ☐ Subjectivity of information on which calculations were based,
- ☐ Assumption that all fixed assets would be replaced at current costs,
- ☐ Concern whether the information produced was meaningful to users, and
- ☐ Lack of demand from users for this type of information

Withdrawal of this standard also coincided with a significant reduction in the inflation rate and the whole problem assumed a much lower significance In SA, unfortunately, the option of being able to sweep the inflation bogy under the carpet is not available

So the decision by the profession to issue a proposed statement of generally accepted accounting practice (GAAP), Exposure Draft 77, on the disclosure of current value information must be applauded as a bold and decisive step The additional statement attempts to show, through supplementary disclosure, the impact inflation has on the operations of an entity through

- ☐ A current value income statement allowing for current cost of sales and depreciation, recognised holding gains on non-monetary assets and recognised changes in value of monetary assets and liabilities, and
- ☐ A current value balance sheet

This information — with suitable disclosure as to the basis on which current values have been estimated — should enable an investor to satisfy his two fundamental objectives, whether the real value of the investment is being maintained and whether the real return is acceptable

The proposals are unique — in particular those relating to the comprehensive income approach, which requires that all value changes, realised or not, should be recognised

It would be naive and foolish to believe this standard will be accepted with open arms Financial analysts will undoubtedly argue that it is their task to assess the current values of an entity and not the purpose or function of the financial statements themselves

Preparers will argue that the subjectivity of the exercise destroys its credibility and that it is not justified on a cost/benefit basis Equally, they have a genuine concern that the use of replacement costs for fixed assets is unrealistic because major items of plant are not usually replaced but refurbished

This prejudices current shareholders in favour of future shareholders because of higher-than-necessary depreciation charges, worsened by the use of unrealistically short asset lives, often based on periods acceptable to Inland Revenue rather than the genuine working life of the plant concerned

These issues need to be addressed but, ironically, were Revenue to agree that tax be levied on inflation adjusted profits, the resistance to disclosing inflation adjusted financials would evaporate overnight

Meanwhile, the proposed phasing out of various tax allowances will cause the average rate of tax paid by companies to rise substantially from the current level, which is still considerably lower than the statutory rate

This could generate support for a fresh approach to Revenue to accept inflation-adjusted profits as the basis of taxation

However, for this to succeed, inflation-adjusted financials must become the accepted way of presenting information to shareholders

Whatever the perceived shortcomings of the proposals, we need a system of accounting which recognises the realities of inflation

Critics must make suggestions for an alternative on how to tackle the problem rather than reject this initiative out of hand

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BUSINESS

Same numbers, same sums, but not the same answers

3-9/11/89

Two different economists examine the foreign exchange drain and come to very different conclusions. HILARY JOFFE reports

TWO economists who this week highlighted South Africa's losses on forward cover for foreign trade transactions have drawn some different policy conclusions from the figures.

Both Volkskas Bank's Adam Jacobs and the United Building Society's Hans Falkena highlighted the foreign exchange drain the country was experiencing as a result of losses on the forward cover (insurance) the Reserve Bank provides importers and exporters

In Volkskas' latest Economic Spotlight, Jacobs estimates losses on forward cover, a result of the deterioration of the rand, amounted to more than R15-billion by the end of June Falkena gives the same figure in a special United report on forex cover

Falkena concludes from this that interest rates must go higher — he suggests a prime overdraft of 24 percent over the next 12 months (compared to the current 21 percent) would be needed to prevent South Africa losing about R400-million a year on import cover Losses in the current year could be R1-billion. He also argues the Reserve Bank should stop providing the cheap foreign cover it has offered until now

But Jacobs suggests caution — the Reserve Bank could not withdraw from the forward foreign exchange market without the serious consequences resulting from a sharp hike in interest rates and a further deterioration of the rand. He stresses instead that the financial authorities must implement more change in the domestic economy in order to protect the balance of payments, rather than relying on the depreciation of the rand In particular, he focuses on the need to cut government spending

Both their studies dovetail to some extent with Reserve Bank governor Chris Stals recent decision to raise interest rates in response primarily to interest rate rises overseas, in order to prevent capital outflows

The Reserve Bank provides cheap forward cover primarily to encourage businesses to borrow trade credit overseas Importers, for example, can buy cover from the Bank which will insure them against the possibility of the rand falling against the dollar between the date they agree to purchase foreign goods (priced in dollars) and the date they actually have to pay for them

The Reserve Bank takes losses on the forward cover if the rand falls — since it has to make up the original dollar price — but it is the Treasury which actually foots the bill. And that can mean an outflow of capital reflected in the balance of payments

Normally traders would borrow money in any country which was most payable, depending on relative interest rates in real terms (taking inflation into account). But through its forward cover system the Reserve Bank encourages importers to borrow overseas, even when real interest rates are higher there This delays capital outflows because the importers borrow in foreign currencies, and only have to use South Africa's foreign exchange resources to repay their loans later on

As Falkena explains. "The Reserve Bank often encourages importers to obtain trade credits from foreign banks as local borrowing would imply immediate pressure on the foreign exchange reserves, which are often at a critically low level

"To make such foreign borrowing attractive, the cost of foreign funds (the United States BA rate plus South Africa's forward cover cost) has to be lower than the domestic credit cost (South Africa's BA rate) For the greater part of the 1980s this has in fact been the case "

Inflation rate, % change

	1988	1989	1990
USA	4,2	5,0	5,25
Japan	0,0	2,0	2,75
West Germany	1,3	3,0	2,75
France	2,7	3,5	2,75
Italy	5,0	5,75	5,0
United Kingdom	5,0	5,75	5,25
Canada	3,4	4,25	4,25
Total (OECD)	3,4	4,5	4,5

Table. VOLKSKAS BANK

In effect the Reserve Bank quotes future (forward) exchange rates which are lower than market rates. And if the rand declines, it incurs losses.

"The reasons for the accrued forward cover losses are thus quite simply a combination of too low forward cover rates (resulting from too low domestic interest rates) and a recurrent large and rapid depreciation in the value of the rand "

Falkena notes for example that since the beginning of 1988 the dollar has appreciated by an average two percent a month while the average monthly cost of forward cover has been only 0,4 percent over the period.

Capital flight, legal and illegal, means there is virtually no room left to finance forward cover losses through the budget, Falkena says "Under these circumstances a domestic real interest rate level below that of our major trading partners simply implies inflationary financing, a weak currency, more capital flight and an unavoidably lower long-term potential GDP growth rate "

It would be cheaper for the Treasury to subsidise particular borrowers — such as farmers — than to hand out the "blanket" subsidy to importers offered by cheap forward cover.

Jacobs makes a similar point the forward cover the Reserve Bank provides in effect subsidises the price of imports Normally the depreciating rand should have a protection effect, making imports more expensive. But the forward cover subsidy partly neutralises this, Jacobs notes.

"The costs (the losses suffered by the Reserve Bank for which the Treasury accepts liability) will eventually be passed on to the taxpayer."

But Jacobs emphasises that adjustments will have to be made to the domestic economy A major problem is inflation "If one takes the accelerating inflation rate in South Africa into account and weighs this up against that of the seven major industrial countries in the West (ours is over three times higher than the average of these countries), inflation as a problem rates very high on the priority list which will have to be addressed in the management of the economy "

Jacobs also argues in favour of positive real interest rates But monetary policy is not enough — fiscal discipline is also required

He points to the fact that government expenditure as a percentage of gross domestic product has increased from 25,1 percent in 1978/79 to 27,3 percent in 1988/89

South Africa can no longer afford the government's practice of dissaving — using borrowing to finance current expenditure — given the scarcity of capital The government has absorbed an increasing proportion of the country's scarce savings, says Jacobs — its deficit before borrowing as a percentage of private saving increased from 37,1 percent in the 1970s to 46,3 percent in the 1980s and 78,1 percent in 1988

Wage rises barely ahead of inflation

Weekly Mail Reporter

WAGE increases were slightly ahead of inflation in the first three quarters of this year, with increases in minimum wages well above average, according to the Institute for Industrial Relations' latest Information Sheet.

The IIR found average wage increases to the end of the third quarter were 16,7 percent, moderately ahead of the 15,5 percent inflation rate for the period. This is a change from last year, when average wage increases were significantly ahead of inflation.

But average minimum wage increases were 19,2 percent, according to the IIR, "firmly above the rate of inflation".

Highest minimum wage increases were in paper, printing, wood (24,1 percent), services (22,3 percent) and commerce (21,9 percent) Sectors in which average wage increases were highest — across the wage grades — included paper, printing, wood (19,3 percent), commerce (18,9 percent) and clothing/textiles (18 percent).

Some observers have attributed unions' achievement of lower average increases this year than last to tougher management attitudes which have brought about "union restraint"

But, writes IIR senior professional officer Adrian Hersch, "workers above the lower grades have in some instances attained, and many are at least within sight of attaining, some form of moderately respectable standard of living for themselves and their families.

"Thus the pressure emanating from these union members for relatively large percentage increases is not as great as it is in respect of their counterparts at the lower levels"

Weekly Mail 3-9/11/89.

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Inflation bites council entertainment budget

(153) BD 6/11/89

DANIEL SIMON

INFLATION, with all its attendant ills, has caught up with the Johannesburg City Council's entertainment budget.

Soaring costs now had to be taken into account when the mayor was asked to offer hospitality, city council officials said last week.

Civic entertainment has been hit particularly by the inflation rate.

Council officials have complained that since last year, the rising inflation rate — from 12,9% in 1987 and 1988 to 15,6% at present — was the biggest factor in pushing up the cost of official entertainment and making it an expensive exercise.

They said a cocktail party for 40 or more guests, which cost R28 a head a year ago, now cost more than R35 per person.

"Lunches, dinners, buffets and braais then costing R35 a head are now close to R40 a head. This also includes banquets."

Figures also showed that the cost of popular cheese and wine parties, which worked out at R23 a head last year, had shot up to more than R34 a head.

He said by cutting out alcoholic drinks at mayoral tea parties, they managed to keep the cost to R16,50 a head.

"Drinks and mixers are estimated to account for R8 a head at these civic functions, while a further R4 per person is spent on flowers, the printing and posting of invitations, transport to parties not held at the Civic Centre, taxis to take staff home and overtime payments."

There are ways in which SA can beat inflation problems

BDay 17/11/89

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MIKE DALY

THERE appears to be a renewed commitment at the Reserve Bank, and indeed at Cabinet level, to bring SA's inflation rate down to below 10%, and possibly even to the level of our major trading partners over the next few years. The key policy instrument in this regard will remain the "orthodox" one of maintaining a tight monetary policy, involving a high real level of Bank rate and resultant money supply growth within an appropriate target range.

This approach has been followed in the 1980s with considerable success in the US and Western Europe. The common experience, at least in the early stages of this orthodox anti-inflationary policy, was for these countries to suffer sharp falls in real output and rising unemployment, with the consequent scaling down of wage demands and, in fact, a severe weakening of the trade union movement generally.

In the US, workers had by 1982, ie three years after the start of the Federal Reserve's "monetarist experiment", been effectively scared out of seeking wage increases anywhere near the then 9% inflation rate.

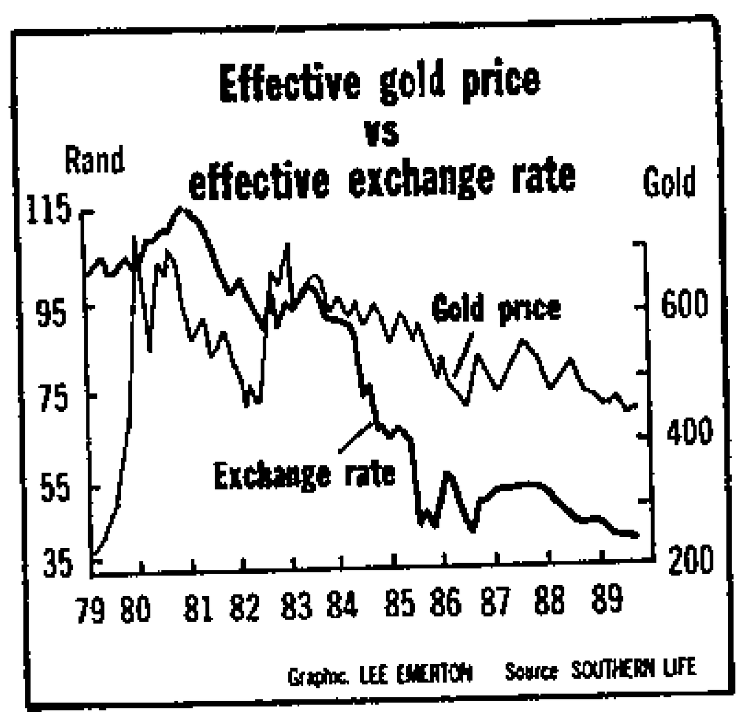
As seen in some of the airline companies, workers and management agreed to postpone wage increases to protect the viability of foundering concerns.

This did not prevent massive job destruction in general, however. By 1983 the unemployment rate had risen by 67% from four years earlier.

In effect, protracted unemployment led to the forcing down of nominal wage increases without controls, ie official incomes policies. It appears that the real costs of disinflation achieved by monetary policy are inevitably high, in spite of monetary targets being pre-announced by a central authority enjoying more initial credibility than our own.

The question arises whether the South African authorities will maintain a tight monetary policy stance until inflation is beaten, in a situation of falling output and job destruction that could well prevail a year or two from now.

The black population is going through a stage of rapidly rising expectations which would be frustrated by a steep economic downswing. Social unrest could result, just when the government wishes to lift the state of emergency to get the negotiation process off the ground.



A largely different approach to that outlined above has been used in the mid-1980s by countries with admittedly very severe inflation problems, namely Israel, Argentina and Brazil.

This is the so-called "heterodox" stabilisation programme, a central aim of which was to achieve a new low inflation equilibrium through significant budget cuts and a co-ordinated movement of the exchange rate and wages to new equilibrium levels, while minimising the adverse affects on output and employment.

The key aspects of the programme, as implemented in these countries, have included:

□ Cuts in the budget deficit. Deficits were usually high and rising and financed largely by bank credit for a number of years preceding the acceleration in inflation.

□ A suspension of wage contracts, which had been linked to the current inflation rate to protect real wage levels.

□ A once-off devaluation of the generally overvalued currency, followed by the targeting of the exchange rate to a stable external numeraire, the dollar. From then on the rate of depreciation of the currency was resisted as far as possible.

To date only Israel has enjoyed significant success from its efforts, with the inflation rate falling from a peak of more than 400% a year in 1984 to between 1% and 2% a month as little as a year later.

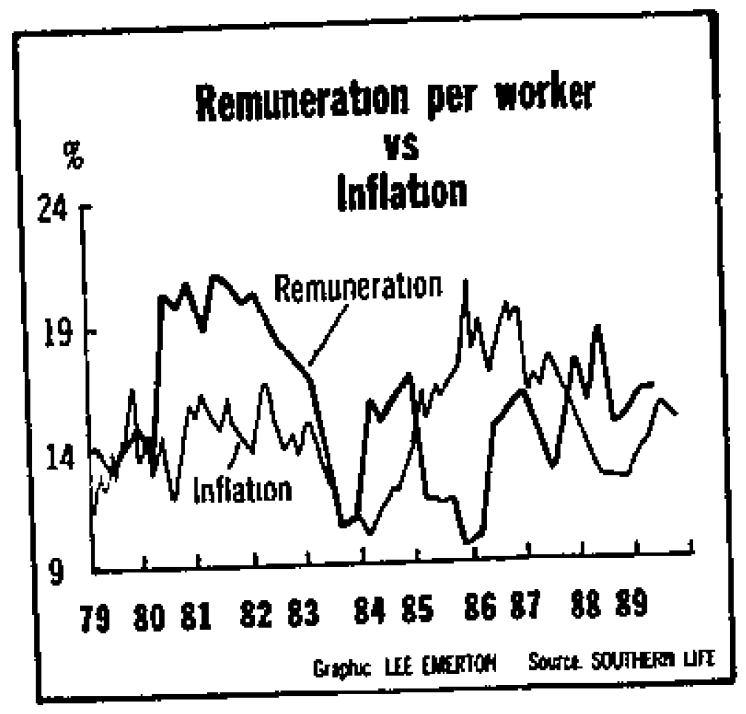
Nevertheless there could be some pointers for SA in its renewed anti-inflation drive, in spite of some important differences with these countries, not least of which is our comparatively lower initial inflation rate.

Firstly, SA has not experienced significant budget deficits relative to GDP over an extended period, nor relied on bank credit for its financing to any unhealthy degree.

Mercifully we are spared the political nightmare of aggressive budget deficit reduction, which nearly derailed the anti-flationary programmes in Israel and Latin America.

Secondly, calls for wage restraint or a formal incomes policy are generally unpopular in SA, the largely unsuccessful experience in the 1970s in Britain and other developed countries being the main motivation.

This is in spite of the fact that government, because it sets remuneration rates for the 1,7-million strong public sector every year, is willy-nilly engaged in an incomes policy all the time. There should be no *a priori* objection to an extension of this to the economy as a whole.



It is true that salary and wage increases in the 1980s in SA have usually been well in excess of the official inflation rate, and few would argue that the country is not on a remuneration system *de facto* linked to the current or expected inflation rate, whichever is higher.

Except in times of great economic stress, for example 1985 and 1986, the wage-inflation graph suggests that remuneration per worker has been "excessive" compared to the CPI inflation rate, and observation of the labour scene suggests that increases below the inflation rate are unlikely to be tolerated. This is not an environment conducive to significant progress against inflation.

While an explicit agreement between the public and private sectors may be indispensable to lowering the inflation rate in SA without a catastrophic rise in unemployment, it is probable that only acute inflation and a general acceptance that it must urgently be addressed, as in Israel in the mid-1980s, can make a wage restraint policy stick in a situation of rising prices. The absence of this condition makes any incomes policy in this country a probable non-starter for the forseeable future.

The final plank in the heterodox programme, and the most relevant in SA's case, is the stabilisation of the effective exchange rate of the rand. The exchange rate graph shows that the effective or trade-weighted rand has remained very steady after the lows reached in late 1985.

The question is, does significant appreciation or deterioration lie ahead? One way to protect the rand's foreign exchange value would be to deploy our gold and foreign exchange reserves in the foreign exchange market. The problem is, we do not have the reserves.

Another way, which depends on windfall rather than on policy action, is if the "effective" gold price, ie denominated in terms of a weighted basket of major currencies, were to rise strongly. The effective exchange rate would be pulled up along with gold, and given SA's openness to international trade and prices, our inflation rate would fall.

Without a rise in the "effective" gold price, and facing a year with paper-thin foreign exchange reserves, a massive foreign debt repayment obligation and great political uncertainty, the exchange rate may be far from stable in 1990 and make significant progress against inflation impossible.

The problem for the monetary authorities is that the exchange rate could quite conceivably fall in spite of even higher real interest rates than at present if the gold price does not co-operate. After all, the effective value of the rand fell by nearly a third during 1984, a bad year for gold, in spite of the prime rate reaching 25%.

A tight monetary policy, given an unconducive external environment, may not succeed against inflation and would be abandoned before the economic pain level reached that of 1985-86.

Reserve Bank Governor Chris Stals and his team are going to need all the luck they can get.

□ **Daly is chief economist with Southern Life**

LETTERS

Inflation causes high crime rate, Sergio

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Sowetan 17/11/89

By MZIKAYISE EDOM

INFLATION is caused by all South Africans and there is no use pointing fingers or trying to attach the blame on any one specific body or person

This was said yesterday by Checkers acting group managing director Mr Sergio Martinengo at the Checkers consumer award seminar held in Johannesburg

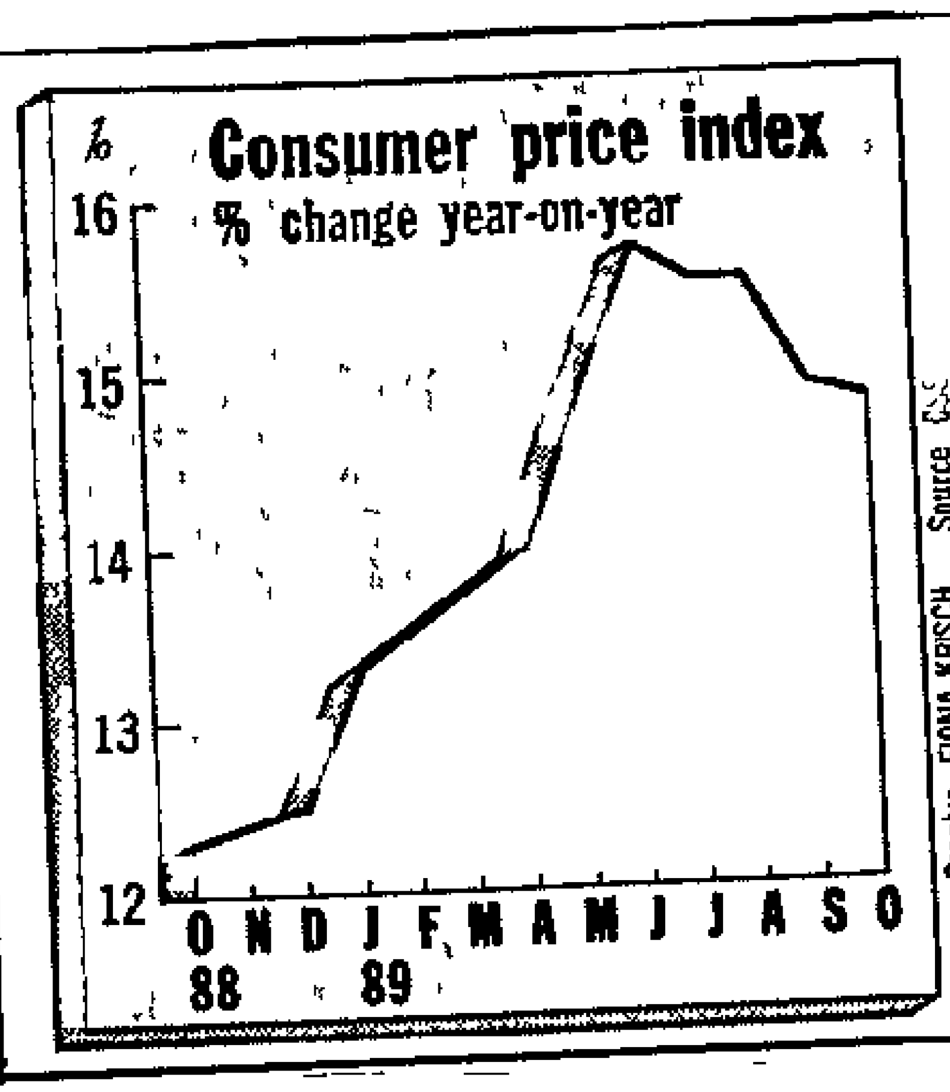
Delivering a paper titled "Food Inflation" Martinengo said,

"Inflation affects every one of us and we must nevertheless realise that the South African economy is in a very sorry state and that, as a country, we must do something about it "

He said the high rate of crime was also caused by inflation "The more we steal from the Government by not collecting and paying over general sales tax and the more that is stolen from retailers and stores, the more we fuel inflation," he said

Plans by the Government, he said, to introduce deregulation and privatisation will not necessarily reduce inflation in the short term "In fact, privatisation may well cause prices to increase initially but if allowed to develop, it will certainly bring price benefits in the longer term "

Martinengo added that if the Government does not receive its full revenue from taxes and finds that it is unable to curb expenditure, all that happens is that tax rates are increased and the inflation rate goes up



Inflation shrinks a further 0,01%

GRETA STEYN

INFLATION, as measured by the rate of increase over a year in the consumer price index (CPI), dropped 0,1 percentage point in October to 14,8%

This second successive monthly decline after a peak of 15,5% in August surprised economists. While they see it as an encouraging sign that inflation might not surge as high as initially feared, they warn a downtrend is not yet in place

The CPI now stands at 185,1 (1988 161,3) — this means it now costs R185,10 to buy a basket of consumer goods which cost R161,30 a year ago and R100,00 in 1985

Old Mutual's David Mohr notes the decline in the annual rate of increase in the CPI can be seen as technical Last year's sharp increase in housing costs (2,2%) between September and October far exceeded this year's (0,4%)

"But this item in the basket is sure to rise in future months because of the last increase in mortgage rates"

Volkskas economist Adam Jacobs says the sharp rise in medical costs, a possible acceleration in food price increases and high growth in the money supply indicated the rate of increase would rise again

Standard Bank's Nico Czypionka is encouraged that SA will see a lower peak in the inflation rate than in previous cycles.

RAND-HEDGE SHARES

A little less momentum

■ A firmer rand suggests caution — but inflation remains a persistent factor

Rand-hedge shares have long been favourites on the JSE They were in demand — and proved highly rewarding — during the market doldrums of 1988 and remained popular during much of this year

A strong dollar, SA's relatively high inflation rate and a soggy gold price meant that for much of that period the rand depreciated sharply The result was that companies with substantial assets abroad, or which are major exporters, gained high ratings on the exchange.

But the rand has halted its slide Now gold is looking more buoyant, the dollar is weakening and political sentiment on SA appears to have brightened In June the rand reached a low of about US34,8c but in recent weeks has been valued at around 38c

As the graph shows, the rand has essentially been in a weak trend for more than five years — but it doesn't depreciate in a straight line Like the dollar gold price, the currency fell fairly steadily during 1983 and 1984 but consolidation came in 1985 and bullion's recovery from mid-1986 saw a firmer trend for the rand through most of 1987

When gold retreated from nearly US$500/oz at the end of 1987, the rand weakened too Right now, as underlined by last week's bull run in gold shares, there is widespread optimism that gold will move higher — or at least remain above previous levels of around $360/oz That raises the question of how the rand will behave now and what the implications are for rand-sensitive stocks

Part of the reason why a recovery in gold tends to lift the rand lies in the resulting favourable effect on the balance of payments And gold is not the only factor that has changed this outlook A slowing economy should mean diminished demand for imports during next year and that, too, should benefit the current account

Another influence on the rand is foreign sentiment towards SA There are signs the gloom of the P W Botha era has eased and that should result — at least for a while — in less downward pressure on the commercial rand, and probably also a firmer financial rand with a narrower discount If so, that will influence prices of internationally traded stocks such as De Beers

Of course, previous trends are not necessarily repeated Investors are now watching to see how closely the rand will retain its correlation with gold But currency-sensitive stocks cannot now be bought simply on the assumption that they will do well because a weaker rand is expected It should be assumed that the rand will remain roughly stable, or move a little firmer, and each share should be assessed on its merits

Though fundamentals are still not encouraging, gold shares have responded vigorously

24/11/89. 153 Fmail

to a more bullish bullion market The seemingly buoyant prospects for precious metals have helped underpin one of the JSE's prime rand-hedge sectors, mining houses and mining financials Anglo American, at R106, is close to its high of R108,50, GFSA, which gains some 80% of its income from gold, trades at R93 compared with the high of R95; and Gencor, which is less exposed to gold but is expanding elsewhere, has slipped to 975c from 1 125c

In the diamond sector, De Beers officially derived only 18% of last year's after-tax profits (excluding the share of retained profits of associated companies) from SA, with 5% from Namibia Apart from the firmer rand, the share could be adversely affected by a stronger financial rand as well as recent market developments — which apparently include consumer resistance to the better-quality gem diamonds The group should increase earnings again next year but the share has weakened to 5 750c from 6 760c on June 26

Many of the recognised rand hedge shares are exporters, particularly of commodities Apart from precious metals and coal, the dollar prices of most of those commodities have softened (*Leaders* November 10) Ferrochrome and vanadium are sharply lower, copper is off its peak and so is tin At best, the companies in these sectors have generally gone ex-growth

The recovery of the coal sector may not yet have run its course Amcoal last week reported attributable earnings for the six months to end-March of R129,4m (R75m), and is forecasting similar earnings in the second half on the strength of maintained US$ export prices According to Allen Cook, deputy chairman of Rand Mines' coal division, overseas buyers have been displaying greater interest in SA coal, some analysts think both export prices and volumes will improve further over the next six months

Consolidated Metallurgical Industries, a specialist ferrochrome producer, is directly exposed to ferrochrome markets and its share is trading around 1 400c compared with the high of 2 200c in March

Samancor is another ferrochrome producer but also gains a sizeable portion of its profits from ferromanganese, manganese ore and ferrosilicon, whose prices have so far remained relatively firm. However, the share, which is seen as a prime rand hedge, trades at 1 865c, some 25% below the high of 2 500c on September 8

Vansa, with interests in platinum — through a 24% stake in the new Barplats mine — vanadium and chrome ore, has slumped from 910c in April to 510c Prices of vanadium pentoxide have tumbled and increased supplies in international markets could presage further price falls next year, but the company is forecasting improved profits from vanadium as a result of higher production and more cost-effective operations.

Highveld Steel, the major producer of vanadium pentoxide, recently announced it had cut production at its Vantra works and is apparently using the softer market to carry out essential maintenance If present prices persist the group's profits must retreat from the recent high base Like most other commodity exporters, however, the stock was not pushed to excessively high earnings multiples At 1 485c, down from the August peak of 2 230c, the historical p e is only 4,4 and the dividend yield 4,8%, so probably the price is not particularly brittle

Palabora, primarily a copper producer, has seen its share slip from 6 675c in August to 6 150c The copper price has shown moderate weakness and looks set to drop further, though a few weeks ago there were concerns that a copper shortage could develop

Among industrials, pulp and paper producer Sappi has reported that dollar prices of certain of its major export products have topped out However, CE Eugene van As noted recently that its export markets were diversified and it trades in other leading currencies such as the pound, mark and yen The share has dropped to 4 100c from 5 150c in early October

Barlow Rand's Middelburg Steel & Alloys has had a tremendous run over the past two years and become an important contributor to Barlows' earnings Thanks partly to Middelburg, but also to a general effort to expand exports and invest abroad, well over 30% of Barlows' attributable earnings are gained from exports or earned in foreign currencies by offshore subsidiaries

In the 1990 year, Middelburg cannot come close to maintaining its growth pace of 1989, though profits may be cushioned by a lower tax rate The slowdown there will happen at the same time that interest rates of 20%-plus exert a tighter clamp on the domestic economy However, recovery in areas such as coal will help ensure that Barlows will maintain real growth in 1990 The share slipped from 4 625c on September 30 to 4 150c

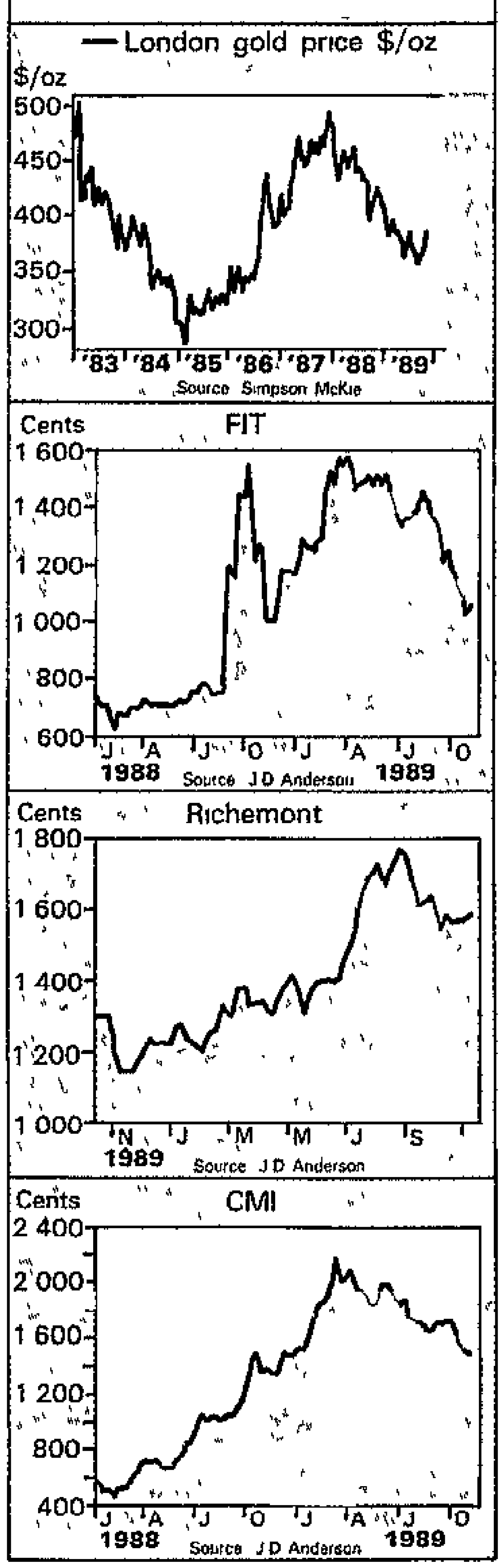
With interests such as Highveld Steel, Boart and Mondi providing a large chunk of the earnings, Amic is even more rand-sensitive than Barlows The share trades at 8 725c, down from R110 on August 29

Sasol's profits are linked to the rand parity of international prices of oil and petroleum products Thanks largely to its chemical operations, the group's earnings rose this year by more than 30% — but uncertainty about the outlook for the synfuel business saw the share slip from 1 370c in August to 1 120c this week If, as is expected, a more favourable form of "protection" is announced for local synfuel production later this year, that should help bolster the stock

Prices of the two big "pure" rand hedges, First International Trust (FIT) and Richemont, whose assets are held wholly offshore, have cracked sharply FIT trades at 1 050c against 1 650c in March, while Richemont stands at 1 600c, down from 1 785c during September

Even now FIT offers a demanding p·e of 47,7 times — but with its three large property developments around London still to come on stream — and the first of these, Thurrock Lakeside, to open in 1990 — some analysts believe FIT will become more interesting. Richemont on the other hand has been buoyed by expectations of its deal with Rothmans, announced on November 9 Richemont's long-term attractions have been enhanced but the share may not do much in the short term

New direction



While the recent weakness of many rand-hedge share prices suggests that the market has been quick to react, it is of course true that the industrial sector as a whole has retreated The JSE Actuaries Industrial index fell last month to 2 306 and stands at 2 560, nearly 10% below the all-time high of 2 838 reached on August 25

But shares such as Richemont, Sasol, Sappi, Barlow, Amic, Safren and Remgro — all currency-sensitive with large market capitalisations — together comprise a large part of the index The rand thus influences the index and, while a firmer currency may reflect a healthier economy, it may also help restrain any upward movement in the Industrial index

At this stage, analysts are generally suggesting that rand-hedge holdings be lightened rather than sold out

As long as SA's inflation rate remains substantially higher than inflation in leading Western economies, there seems little reason to alter the view that the rand will remain a relatively weak currency over the longer term

Andrew McNulty

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CPI 153 Final 1/12/89.

Feeding inflation

Does the further decline in the inflation rate, experienced in October, signal the beginning of a drift? That month's rise of only 14,8%, as measured by CPI, again surprised economists — after increases of 15,5% in July and August and 14,9% in September Growth in seasonally adjusted October CPI was 1%

Economists polled by the *FM* see the deceleration as a temporary respite and expect inflation to re-accelerate in the coming months But they believe it won't reach the levels they had predicted earlier in the year Most now see the top at 16%

Predictions when the rate may fall, fundamentally range from early 1990 — Standard Bank chief economist Nico Czypionka — to end-1990 or some time in 1991 — Econometrix chief economist Azar Jammine.

Jammine attributes the comparatively low rise in CPI in recent months to "modest increases in food prices as a lagged consequence of the ending of the drought Meat prices have risen only 6% in the past year and vegetable prices only 7%."

As the weighted average of food is 22,72% of CPI, it is crucial to overall inflation which, Jammine points out, stayed stubbornly high in 1986-1987 "despite very low monetary growth, as it was distorted by food price inflation — which hit a peak of 27% in the first half of 1987 Similarly, in the first half of 1989, when food fell to a low of around 8%, CPI increases were surprisingly low"

The downward trend in food price inflation seems to have ended Non-adjusted, the monthly change in CPI was 0,9% and largest contribution — just over a third — came from food It rose 1,7% meat by 0,7%, fish 2,8%, milk, cheese and eggs 1,3%, fruit and nuts 6,2%, vegetables 2,9%, coffee and tea 2,1%, other food products 3,7%

Says Jammine "Food CPI rose 10% year-on-year in October and this could accelerate to 14% or 15% by mid-1990" With the previously moderating effect of food eliminated, Jammine predicts monetary growth will drive inflation

"We have not seen the end of the preceding upward trend because the effect of the high rate of monetary growth over the past two years has not finished filtering through"

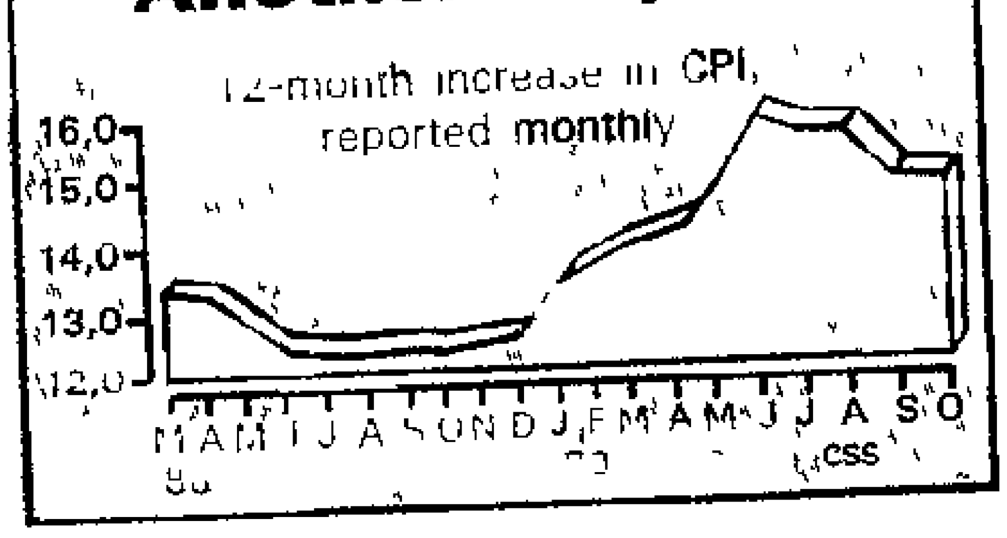
Old Mutual economist Rian le Roux expects the improving rand to offset, to some extent, future rises in food prices "There may be a small rebound in the rate but it is unlikely to exceed by much the July peak of 15,7%" But he thinks there will be no marked or sustained decline for some time — "perhaps the second quarter of next year"

Most optimistic forecast comes from Trust Bank economist Jacques du Toit, who sees "a slight upturn until the end of this year to around 15,5% for a 1989 average of 14,7% It will fall during 1990 to an average of 14,5% or lower, ending the year around 13%"

The index for the lower income group shot up by an unadjusted 1,4% in the month to 184,3 (13% year-on-year) Czypionka says this group is likely to experience an even sharper rise in coming months because of the higher bread price, which affects low income earners most Food has a 35,27% weighting in the lower income group, against 26,87% in the middle and 16,26% in the higher

The higher income group at 185,8 in October 1989 rose 0,7% monthly and 15,8% year-on-year Higher transport costs and mortgage rates are likely to hit inflation for them ■

Another surprise



Business community will need strong nerves next year

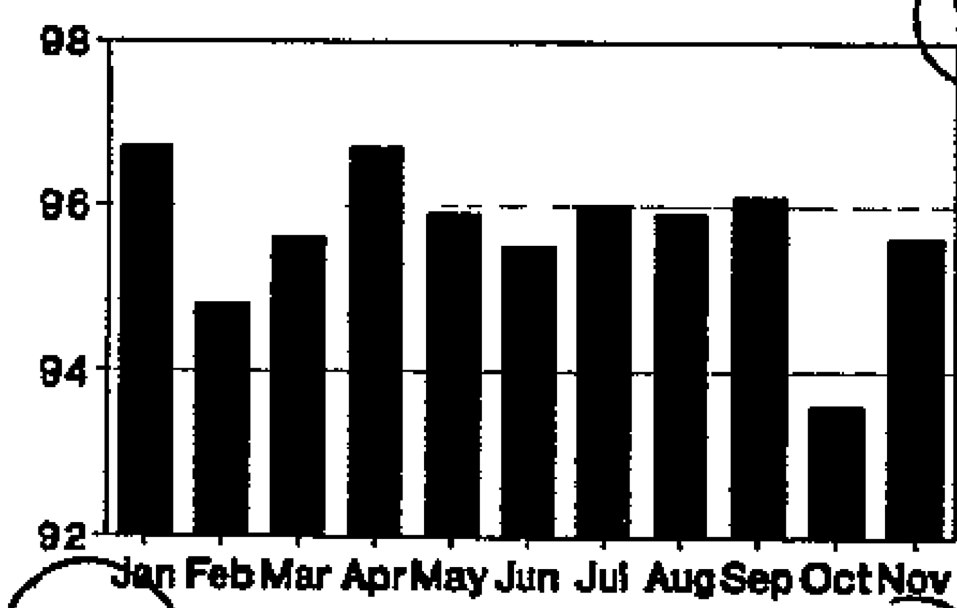
By Jabulani Sikhakhane

Favourable business perceptions of recent political initiatives by State President FW de Klerk helped lift business confidence in November although short-term economic prospects are dim.

After a sharp decline in October to 93,6 points, Assocom's business confidence index has recovered to 95,6.

Assocom says the improvement in the business mood in November in the face of largely cheerless short-term economic prospects illustrates the significant role political developments and the gold price play in shaping business mood.

However, it warns that the underlying trend is likely to be one in which business mood continues to adjust to changing economic realities



Assocom's BCI (1983 — 100)

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The present business mood is best described as one of growing uncertainty about prospects in the 1990s.

The balance of payments and the need to reduce inflation will determine business prospects for 1990

Assocom says the current economic policy stance is unlikely to be reviewed until the Budget in March 1990 and thus wasxhaving a negative impact on consumer demand, especially for durable goods

Stev 11/12/89

New private fixed investment is likely to level off in response to tougher economic circumstances. Insolvencies may also rise further, but many companies should be entering the current business downswing in a sounder financial position than in 1984-5.

Summarising, Assocom says 1990 will be a year of much lower growth, slightly lower inflation and a larger surplus on the current account of the balance of payments. "It will be a year of strong nerves for the business community."

Among positive factors that influenced the November BCI were a sharp advance in the JSE overall index, on the back of the firmer gold price, the strong recovery in merchandise imports and exports and a recovery in the volume of manufacturing production.

Inflation was also down from 14,9 percent in October to 14,8 percent, while the increase in the number of cars sold in November and a recovery in real retail sales were other positive factors

Negative influences included the October increase in the prime rate to 21 percent and further rises in three months bankers' acceptances rate Insolvencies were still up and building plans passed showed a decline in value.

ICS call to help beat inflation

BDay 5/12/89

SYLVIA DU PLESSIS

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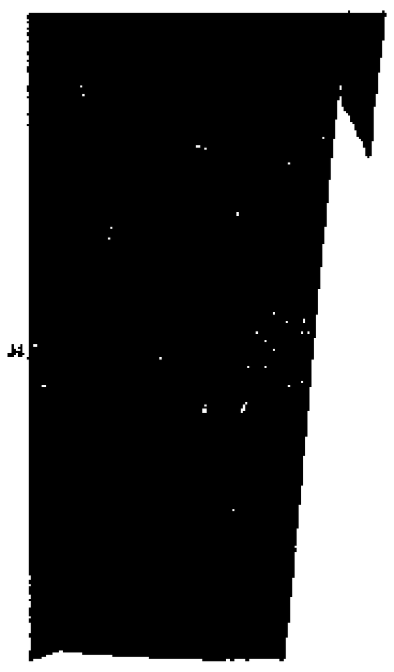
THE food industry can help lower inflation by increasing productivity and eliminating waste throughout the food chain, Imperial Cold Storage (ICS) chairman Robbie Williams says

In the meat, poultry and dairy producers' latest annual report, he says the availability of foodstuffs at affordable prices is "critical" to stability

"Primary producers, processors, distributors and retailers must strive to improve efficiencies in the food industry," he says "Effective privatisation and deregulation will reduce government expenditure, provide new challenges and create opportunities for entrepreneurs"

Williams says the role of control boards in a more market-orientated free enterprise economy will have to be carefully planned, bearing in mind the long-term viability of agricultural producers and health and quality standards.

ICS, an investment holding whose subsidiaries and associates produce and distribute perishable foods on a national basis, delivered a 20% increase in total dividends of 48c to shareholders in the year to September. This was despite slower growth reflected in a 14% rise in sales to R1,9bn and a 5% increase in earnings to 147,4c (140,9c) a share, after the conversion of 5,4-million cumulative convertible preference shares



Corporate world at odds over inflation accounting

There seems little doubt that any attempt to deal with the impact that inflation has on the real operating performance and financial strength of a company will be met by much dissension in the corporate world.

Among the groups reporting for September year-end there are obvious signs of disagreement on this front.

In his chief excutive's statement, Tiger Oats' Clive Wolpert says the group does not publish inflation-adjusted financial statements.

"The effect of inflation on cash flows is monitored through the examination of operating results, budgets and plans in real terms and business objective are focused on the creation of wealth through the generation of cash profits."

From a minority shareholder's point of view this can hardly be described as the sort of rigorous treatment that could be justified, given SA's chronic inflationary environment.

Significantly, Adcock-Ingram, the health care subsidiary in the Tiger Oats group, takes a much more vigorous approach.

Adcock management has responded promptly to ED 77 published in September by the SA Institute of Chartered Accountants on "Disclosure of current value information in financial statements."

It has taken the trouble to provide (in line with the ED 77 requirements) a supplementary income statement and balance sheet, which attempt to take cognisance of the effects of changing prices from one accounting period to another.

However, the information provided in these supplementary financial statements differs radically from that provided in the historic statements and so may cause some confusion among shareholders.

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The Nampak group takes a much more critical approach to ED 77: "If accurate current value information is to be published by the group, it will be necessary at the outset, and at intervals of say, five years, to obtain professional valuations of the group's fixed assets, with chnages in the interim years being calculated by using relevant indices.

"A preliminary assessment of the cost of such a valuation indicates an amount of approximately R1 million, which cost will, of course, effectively be borne by the shareholders."

Nampak publishes a bar chart showing the effects of inflation on reported operating profit.

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Weighing up inflation

Brian Kantor is professor of economics at the University of Cape Town

Many have suggested that changes in the CPI do not provide an accurate measure of inflation

The index has all the strengths and weaknesses of any statistical average There is no such thing as the average consumer Our own basket of goods, whose prices we are so aware of, is not the basket reflected in the weights attached to the different items that go to make up the index

Changing the weights, making some items more or less important than they are, would create a different index and so a different inflation rate

A standard criticism of all such CPIs is that the weights are adapted too rarely and changes in consumers' spending patterns in response to changes in relative prices are not reflected For example, a switch in consumption to chicken from red meat, because chicken has become cheaper, is only accounted for many years after the event

There is another way of measuring changes in prices and that is via the so-called national income deflators A deflator is simply the ratio between current prices of goods or services consumed and produced and the prices of the same goods, in some base year

Weights atttached to goods in these deflators have nothing to do with the average consumer They simply reflect actual spending on different goods at a point in time for example, weights for the consumption goods deflator are taken from the actual proportions of spending on non-durable goods and services, semi-durables and durables

These weights change automatically as spending patterns change (see **figure 1**) Clearly, the weights are not constant because spending patterns change in response to changes in tastes and relative prices

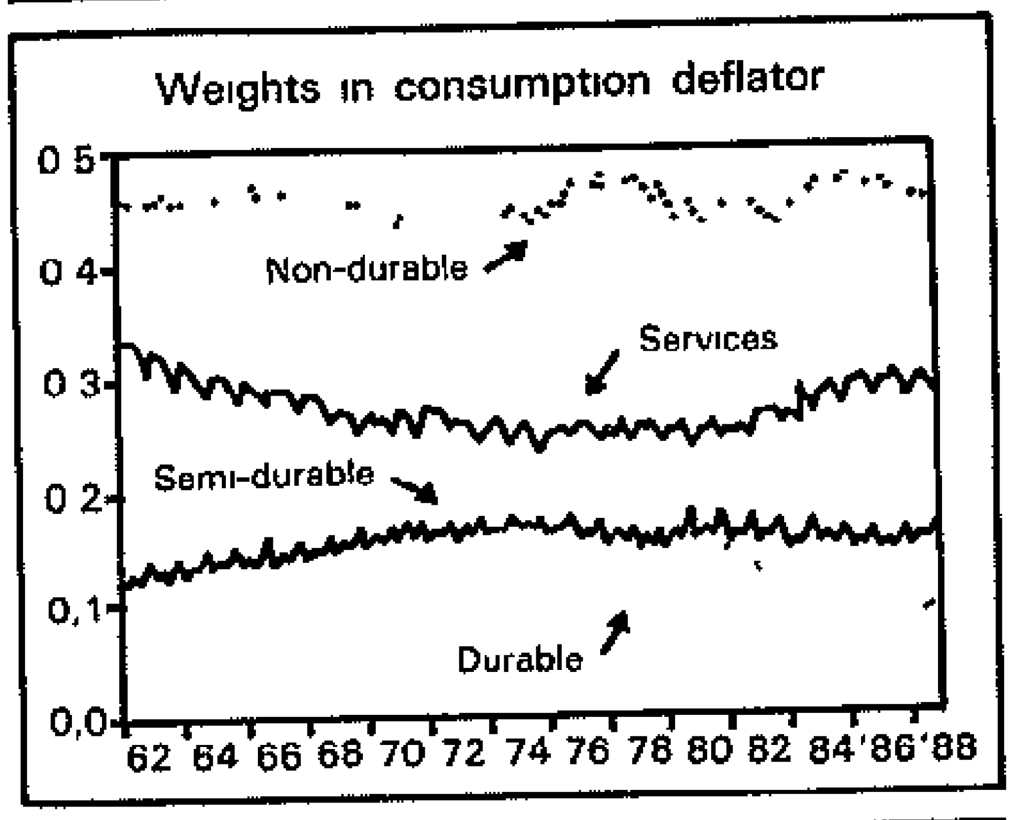
However, when one extracts the inflation rate from the consumption deflator, little difference is observed between this and the inflation rate taken from CPI (**see figure 2**)

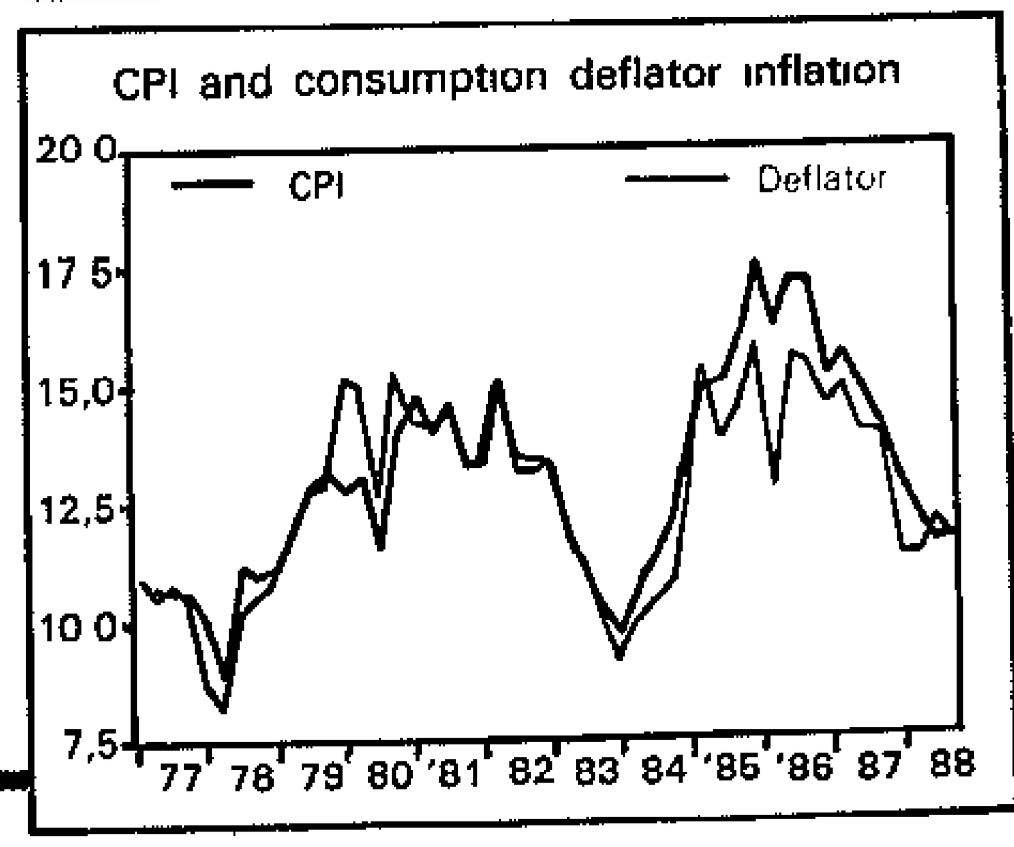
In other words, changing the weights does not change the measure of inflation significantly One would, therefore, conclude that CPI provides a perfectly adequate basis for measuring inflation

The main differences in the inflation rates derived from the consumption deflator and the CPI could be attributed to the fact that interest rates, when they affect mortgage rates, directly influence CPI but do not influence the consumption deflator

Thus the onus remains very much on critics of the official inflation rate to come up with a better measure than that provided by either CPI or the consumption deflator

In good measure





Inflation battle will be won — at a price

(153) Star 16/12/89

FINANCE STAFF

THE new political and monetary leadership in South Africa has laid the groundwork for a reduction in inflation to about five percent by 1995.

However, the likely consequent deterioration in the economy in the next two years will generate more unemployment and, very probably, a renewed cycle of unrest and civil violence, says Trust Bank chief economist Nick Barnardt.

Writing in the bank's *Econovision* report for November and December, he urges the Government to implement measures, such as job-creation programmes, to limit the adverse socio-political effects of the relatively austere monetary measures it has imposed.

He says too that the business sector would be well advised to limit wage, salary and price rises as far as possible to ease the inevitable pressure on their cash flows while the inflation bogey is being tackled.

"Judging by recent pronouncements, it would appear that the authorities thoroughly appreciate the dangers of loosening monetary policy too soon and realise that interest rates will have to be kept high for a considerable period if a meaningful and lasting reduction in inflation is to be achieved in the 1990's," says Mr Barnardt.

He warns of the "real possibility" of the prime overdraft rate being raised to 22 percent in the new year and staying at that level until mid-year.

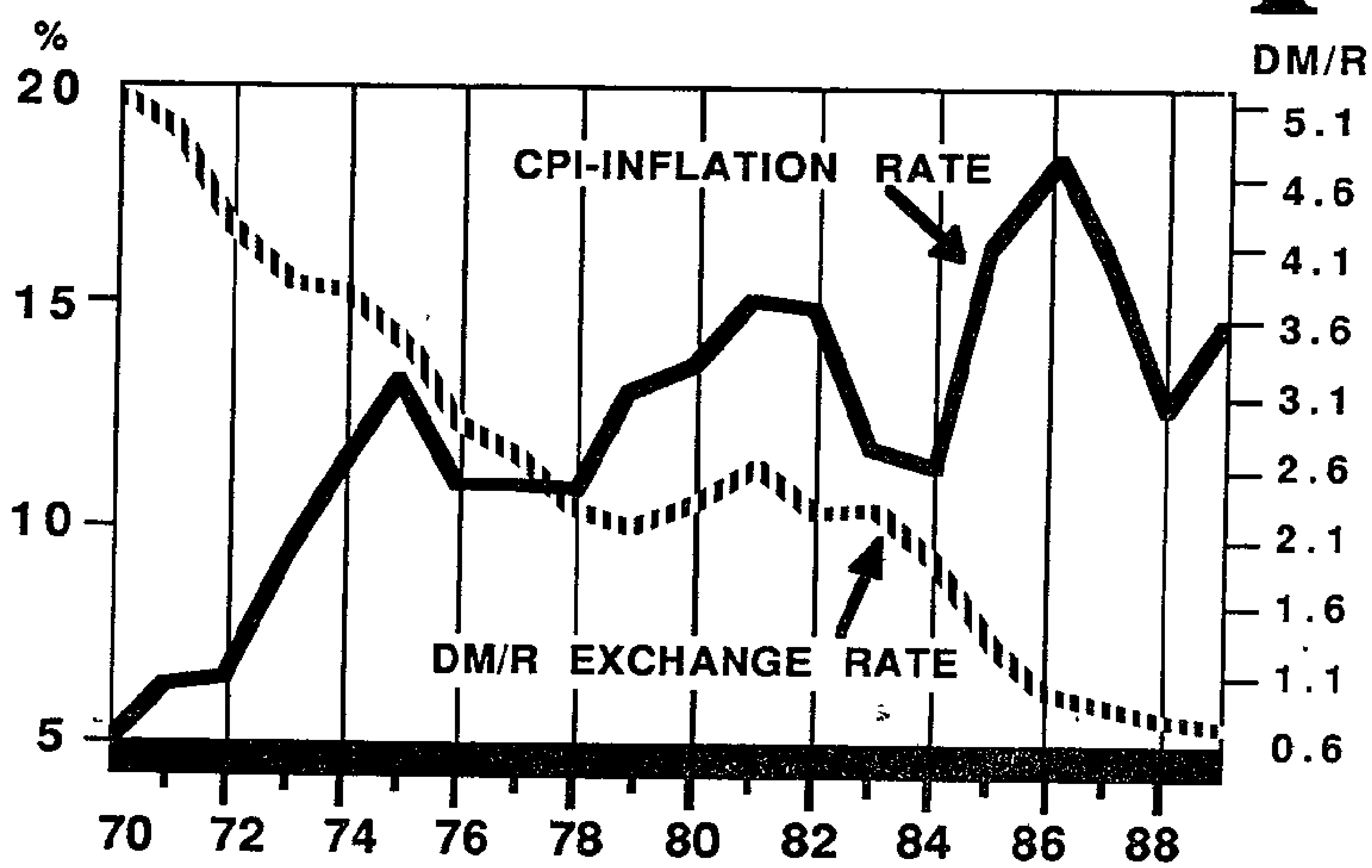
Thereafter it would be likely to fall "slowly and moderately" until the latter part of 1991.

The TrustBank economist says lower inflation is a prerequisite for sustained growth in the 1990's and beyond.

Fifteen years of double-digit inflation have undermined the local economy and knocked South Africa's ability to compete as an exporter.

Mr Barnardt illustrates the connection between low inflation and high economic growth — and the converse — with gross domestic product averages for the last three decades. Inflation averaged 2,7 percent in the Sixties and GDP grew at a real rate of 5,7 percent.

In the next decade, inflation picked up to 10,7 percent while growth slipped to an average of 3,4 percent a year.



ECONOMIC WOE: The inflation spiral (annual figures).

In the decade drawing to a close, the economy grew at an average of only 1,5 percent annually while inflation averaged 14,7 percent.

"The spiral of inflation, inflationary expectations, high wage demands, overspending, money-creation and currency depreciation must be decisively broken.

"It is indeed promising that the country's new political and monetary leaders have declared the battle against inflation to be a major priority."

Mr Barnardt predicts that the harsher fiscal and monetary measures taken this year will reduce inflation to 13,5 percent by the end of next year, with a likely further decline to 11,5 percent in 1991 and to 10 percent the year after that.

The expectation of price increases continuously exceeding the cost of credit and the return on savings is being reversed by the high level of interest rates.

With it has come a firming of the rand, which contains the prospect of prices of cars and other consumer durable items with a fairly high imported content rising no more than 12 percent in 1990.

Mr Barnardt cautions that the whole programme could fall down if different sectors do not play their part. Discipline will be required from the Government to keep its own spending in check and to maintain real interest rates.

At the same time, the private sector must resist the temptation to give excessive wage and salary awards.

"The anti-inflation campaign would also require a considerable improvement in foreign and domestic political relations, as well as a reversal of the thinking that accepts double-digit inflation as normal and inevitable."

Extension granted on accounting plan

B/Day 21/12/89

CHARLOTTE MATHEWS

AT THE request of several large companies a two-month extension for responses to the SA Institute of Chartered Accountants' proposal that financial statements should adequately reflect the impact of inflation has been granted, the institute announced yesterday

A statement said many submissions had already been received.

Several large companies had asked for more time to reply and the Accounting Practices Committee had decided to extend the original return date to invite further comment from its members and the financial community.

Saica technical director Graham Terry said it was premature to say whether there was sufficient support for the proposals to warrant the issue of a statement requiring disclosure of inflation adjusted information in financial statements

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"However, the replies received so far have been encouraging," he added.

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Timing takes economists by surprise

CHARLOTTE MATHEWS

THE timing of Sats's 13% across-the-board tariff increase announced on Tuesday was its most surprising feature, economists said yesterday, but they did not expect the rise itself to have a significant impact on the inflation rate in 1990.

"This is not earth-shattering news and it is not out of line with increases elsewhere, but it is surprising that they have chosen the time that they have," Standard Bank economist Nico Czypionka said. "Why they announce it in December is difficult to say It may be because they believe they are launching that kind of thing when nobody reads the newspapers."

"I think it will only affect the rate of inflation insofar as it has happened three months earlier than expected," Rand Merchant Bank economist Rudolf Gouws said. "The rise will have some impact but I don't think this is sufficient to make me change my view that inflation will be on a downward trend"

Conservative

Gouws said in the past administered prices and tariffs had been kept artificially low and then had had to jump, which gave an impetus to further price rises. "So I don't think it would be clever of the authorities to hold specific prices back in the hope of fighting inflation.

"They should stick to a conservative monetary and fiscal policy but should not keep prices artificially low."

Trust Bank economist Jacques du Toit said they were forecasting an inflation rate of around 14,5% early next year, which could be slightly higher after the Sats increase but was unlikely to exceed 14,7%. This compared with an average inflation rate of 14,8% in 1989

He expected inflation to decline in the course of 1990 to around 13,5% by the end of the year.

"The rise in Sats costs and the resulting tariff increases is part of the whole inflationary spiral," UBS economist Christo Luuts said. "Ideally at some stage one should try to break it but imposing price and income controls will lead to all sorts of distortions."

"This move is in apparent conflict with government policy of keeping down inflation," Nedbank economist Edward Osborn said.

"But there is another policy which says all enterprises should be run on a profitable basis and should not involve state subsidy."

Inflation set to rise early next year

C.T. 22/12/89 (153)

By AUDREY D'ANGELO
Financial Editor

SA's inflation rate will rise from the 14,9% reported by the Central Statistical Service (CSS) yesterday to 15% or 16% in the first few months of next year, economists warn.

But after that they expect it to fall, if the Government continues with its present fiscal and monetary policies, to reach 13% by the end of next year

The inflation rate for the year to November, as measured by the consumer price index (CPI), rose to 14,9% — only 0,1% higher than the 14,8% reported for October But the month-on-month rate of increase was a fairly sharp 1,1%

Food price increases were the main reason for the rise. The price of grain products soared by 5,6% and fruit and nuts by 6,1%. Fish and other seafood went up by 2,1% and fats and oils by 2,5%

There were also large monthly increases in the prices of non-alcoholic beverages (1,8%), cigarettes, cigars and tobacco (4,1%), the cost of running a home (1,5%), and transport (1,3%)

Volkskas economist Adam Jacob said the higher CPI was "roughly in line with what we expected

"There are a number of factors pushing the consumer price index (CPI) up in the short term, including the sharp increase in money supply figures

"And for some time food prices increased at a low rate, holding back the CPI. Now food prices are increasing more sharply in the short term

"The Government is expected to abolish subsidies in the short term, which will push up prices So will the tariff increases announced by SA Transport Services (Sats)

"I think the CPI will rise above 15% in the short term, but the underlying trend is downwards So although we shall have some hiccups in the short term, I believe we shall see 13% by the end of next year

"If the Government continues with sound fiscal and monetary policies we shall see the real benefits in 1991."

Standard Bank economist Nico Czypionka said."We have projected a re-acceleration in inflation which will continue into next year.

"We expect it to reach higher levels still — probably just under 16% — in the first few months of next year, before coming down"

Glenn Moore of Personal Trust pointed out that at the beginning of this year many people expected the inflation rate to be 16% by now.

"It is much lower than most of us thought it would be, but I think it will rise again to the 15% level in January or February

"But there are a lot of positive factors which will bring it down again. The money supply figures have slowed significantly Growth in the money supply has slowed to 21% compared with 27% at the beginning of the year.

"The rate of depreciation of the rand has also slowed significantly It is now relatively stable against the currencies of our major trading partners"

Moore said he thought SA could look forward to "significantly lower inflation two years down the line"

He thought it interesting that the JSE "has started to down-rate some of the rand hedge shares that did so well

"That may be an indication that some big investors consider Stals' policies aimed at bringing down inflation have a fighting chance"

STAR 22/12/89 153

Money supply growth bodes ill for inflation

By Sven Lunsche

In a dramatic reversal of recent trends, money supply, as measured by growth in the broad measure, M3, surged by an annual 24,5 percent in the year to November

The soaring figures could seriously thwart the intensified efforts by the financial authorities to bring inflation under control in the years ahead.

Reserve Bank figures released yesterday show that M3 rose by a provisionally estimated 24,55 percent to R143,68 billion

This follows on increases of 24,7 percent in October, 22,87 percent in September and 25,55 percent in August

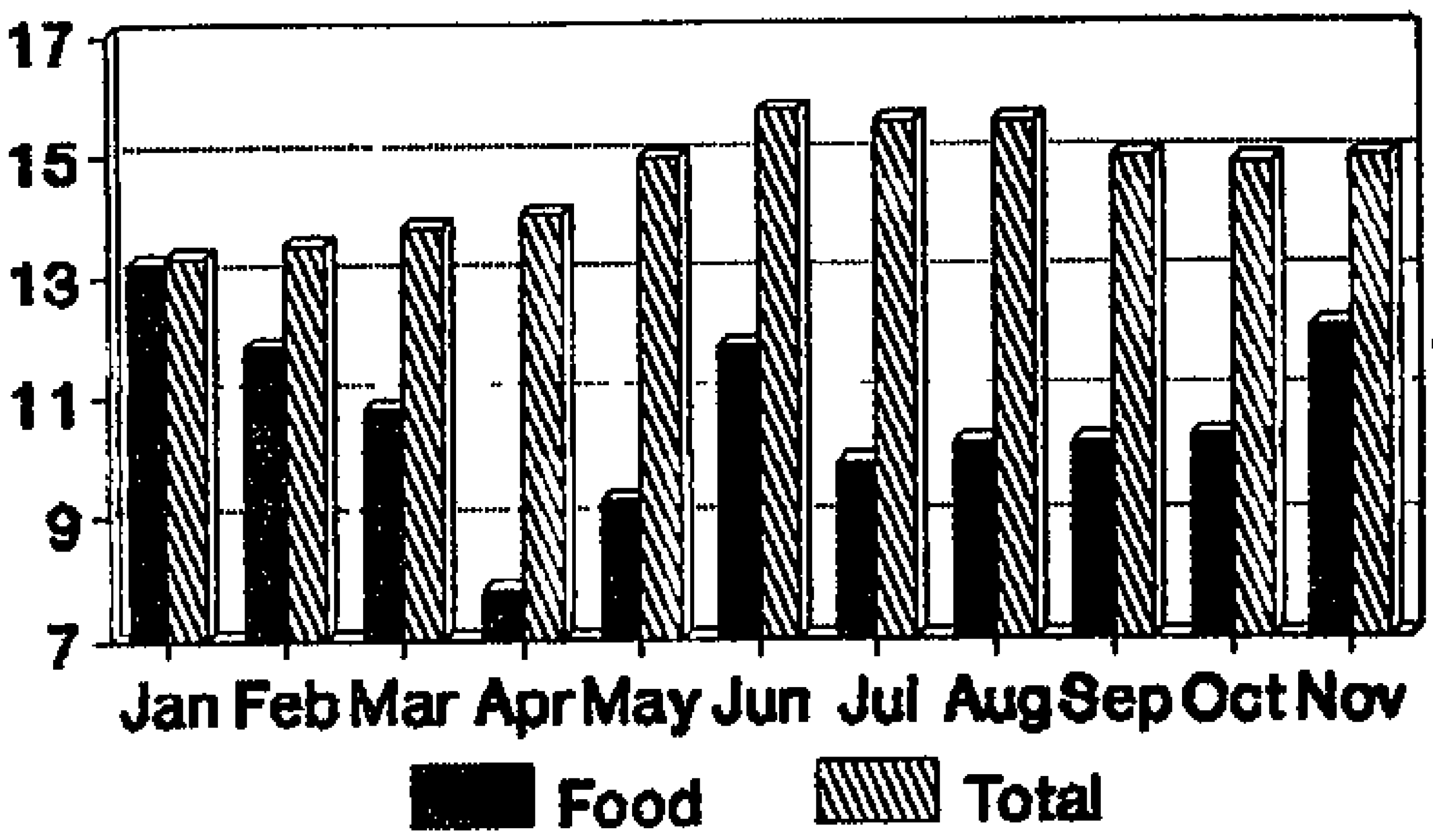
Significantly, the October M3 figure was revised from the initial estimate of R138 billion to R142,07 billion — further evidence that credit extension by financial institutions is still proceeding at a high rate.

Further setback

In what could prove a further setback to the anti-inflation campaign, consumer price index (CPI) figures released yesterday indicate that food prices are once again escalating

However, the lagged effect in the high growth rate of money supply is generally regarded as the most serious impediment to a lower inflation rate

The extent to which money supply is running out of control is seen by the fact that the November M3 figure is 5,5 percent higher than the target set by the Reserve Bank for the month



Annual percentage rises in the overall CPI and the CPI for food.

It already exceeds the December 1989 R137,7 billion value of the upper boundary of the target range

The main factor underpinning the rise is credit spending

Reserve Bank figures show total domestic credit extension rose from R137,19 billion in September to R140,1 billion in October, with both HP and leasing finance increasing moderately

Other loans and advances by banks rose from R73,97 billion to R77 billion in October

Latest BA9 returns by commercial banks show that credit extension on their balance sheets rose by nine percent from March to September, with Standard and Bankorp showing credit growth of over 15 percent

While economists doubt that the continued surge in money supply will lead to a tighter monetary policy in the form of higher interest rates, they say it could rule out any easing of monetary measures in the months ahead

The Reserve Bank also announced that M2 money supply in October increased 30,56 percent to R114,215 billion, while the narrowly defined M1 increased 18,15 percent to R47,24 billion. These compared with revised increases for September of 27,44 percent in M2 and 12,84 percent in M1.

A further, albeit less significant trend, which could undermine efforts to bring inflation under control has been the recent rise in food prices

Central Statistical Services figures released yesterday show that inflation in November was running at 14,9 percent, slightly up on October's 14,8 percent

But food prices once again increased at a steeper rate than in previous months

After rising by an annual level of around 10 percent in each of the previous six months, the year-on-year increase in the CPI for food climbed to 12,1 percent in November

On a monthly basis, food prices increased by 1,7 percent from October to November, contributing 40 percent to the overall one percent monthly rise of the CPI

Over the four-month period from August to November, food prices rose by an annualised 17,5 percent — well ahead of increases in other sectors.

Food prices rose over a wide spectrum, led by the price of grain products, which soared by 5,6 percent in the month.

Meat prices rose by one percent, but indications are that they will not increase sharply over the festive season.

While food prices could slow down the intensified efforts by the authorities to curb inflation, economists are still optimistic that price increases will be lower next year

Stricter policies

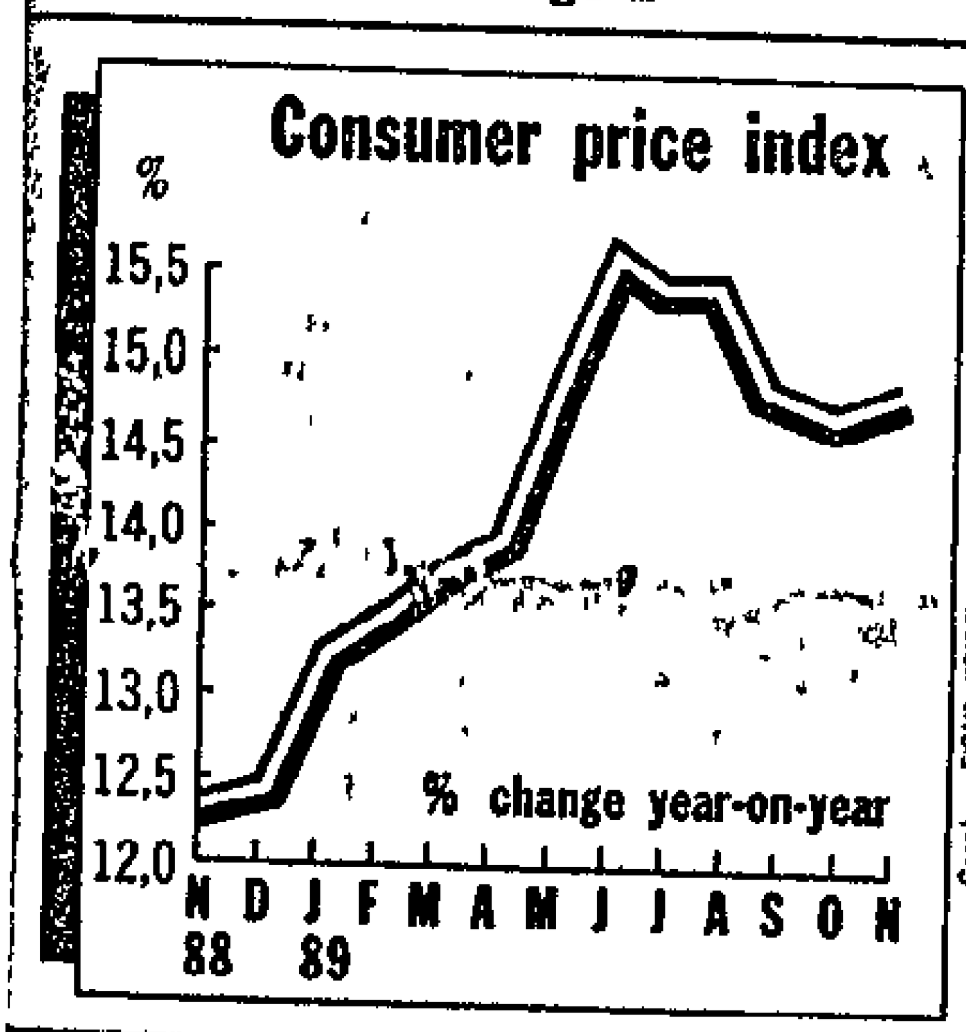
Against the background of a declining growth rate and stricter fiscal policies, Volkskas' Adam Jacobs expects inflation could decline from 15 percent early 1990 to about 13,5 percent by the end of the year

Sanlam's Johan Louw concurs with this forecast, arguing that the recent strengthening of the rand will eventually lower producer price inflation for imported goods, which hit a peak of about 20 percent in June, but has tended appreciably lower since then

☐ To Page 2

... the sharp upward adjustment in October He indicated that most

deposit are held inside or outside the banking system.



Inflation shows slight increase

NEIL YORKE SMITH

THE annual rate of increase in inflation, as measured by the consumer price index (CPI), was 14,9% in November, 0,1 percentage points higher than October's 14,8%.

Figures released by Central Statistical Services (CSS) yesterday showed the index rose 1% from 184,9 points in October to 186,5 points in November.

The annual rate of increase in the indices for low, middle and high income groups for November, as compared with November 1988, were 14,1%, 14,3% and 15,5% respectively B Day 22\12\89

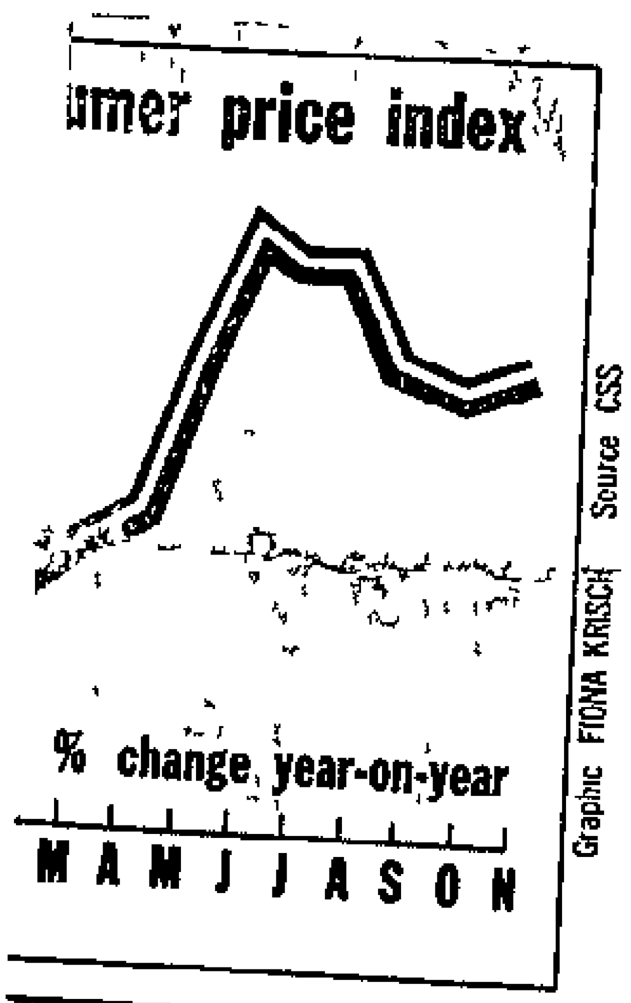
The food sector made the largest contribution to the monthly increase, with significant increases recorded by grain products (5,6%), fruit and nuts (6,1%), fats and oils (2,5%) and fish and other sea food, (2,1%) (153)

Prices of milk, cheese and eggs recorded a decrease of 0,2%.

Other large price increases included non-alcoholic beverages (1,8%) and cigarettes, cigars and tobacco (4,1%)

The Durban Pinetown area recorded both the largest annual increase (16,5%) and the largest monthly increase (2,2%).

The lowest monthly increase was recorded by the Pretoria, Verwoedburg, Akasia area.



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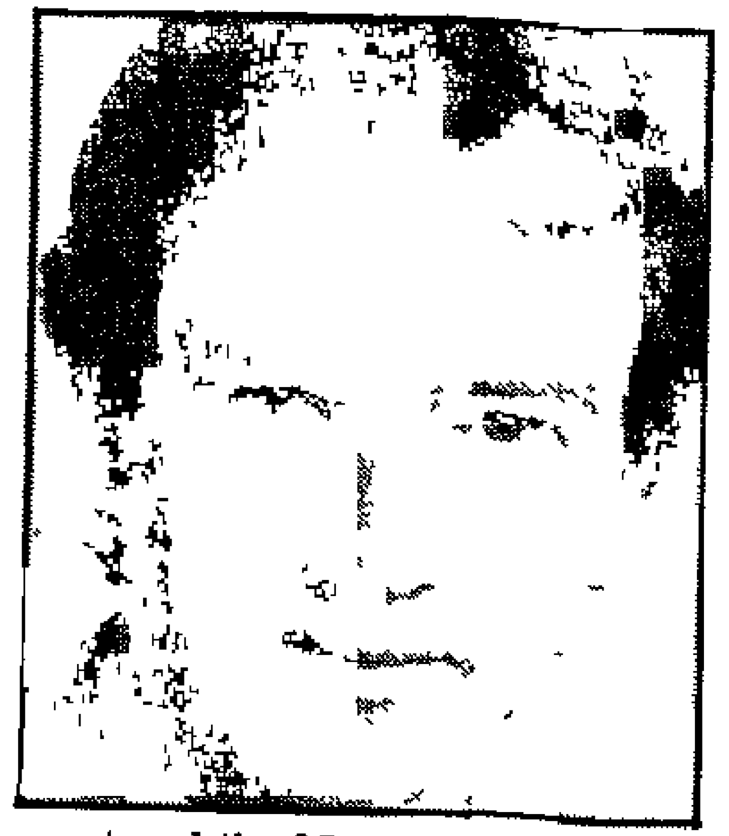
Government finances in the new fiscal year

OUTLOOK 90

Star 29/12/89

153

By Mike Daly, economist, Southern Life



As the last quarter of the fiscal year is reached, private sector pencils are being sharpened in the annual exercise of trying to second guess the government's major statement on economic management and tax policy in the forthcoming Budget

At this early stage not much is known about government's specific intentions, frustrating as this is for some sections of the community who will, inevitably, gain or loss after Budget day

All that can be attempted is to outline the major issues that concern the fiscal planners as they try to frame a budget they judge to be appropriate for the economy at this juncture

The issues could be arranged in the following stylised way

Firstly, how large a rise in overall, expenditure should be aimed for?

With the ongoing private sector's concern (and increasingly the Cabinet's) with the high absolute level of government expenditure and the need to keep it from growing in real, inflation-adjusted terms, the past few Budgets have proposed a spending increase in line with the expected inflation rate

The forthcoming Budget will be no exception. Inflation will be estimated at around 13,5 percent and the Minister's proposed spending increase will be no higher, with assurances that this time even more strenuous efforts will be made to keep spending from growing at above that rate

This would put budgeted expenditure at some R74 500 m after this year's expected R65 000 m In practice however, spending inevitably grows at more than the rate of inflation, as the accompanying graph indicates.

This year, spending will have grown at some 17 percent, above both the budgeted 15 percent and the expected inflation rate of the same amount

Of concern is the fact that the budgeted increase could be restricted only by allowing a minimal rise in capital expenditure, implying a sizeable real decline, which involves a running down of the public sector capital stock

Secondly, the size of the deficit before borrowing must be decided upon. Official policy has for some years been to bring it down to 3 percent of gross domestic product (GDP), the last time it was that low being 1982-83

The current fiscal year should see significant progress in this regard, the deficit falling to around 3,2 percent of GDP compared with the previous year's 4,4 percent, due to a massive revenue overrun

Next year's deficit will probably be pitched at the 3 percent level, or in money terms some R8 300 million, with the need for austerity in a year of heavy foreign capital outflows being cited

Thirdly, assuming the budgeted spending increase is 13,5 percent, it follows that revenue must be R66 200 million, which is 15 percent up on this year's probable outturn The issue then becomes what tax cuts are possible or tax increases necessary to achieve this total revenue growth?

Many socio-political considerations come in at this point. In this regard the Minister's comment in the last Budget that the tax burden on the individual is already too high, and but for economic stabilisation considerations he would have granted tax relief, is important.

The graph shows that in inflation-adjusted terms the burden on individual taxpayers has risen inexorably this decade. The exception was fiscal 1985-86 when recessionary conditions hammered personal income growth and therefore the income tax take.

The Minister is almost certain to adjust the tax tables to offset at least some of the effect of fiscal drag Without this, the increase in direct tax on individuals would be in the order of 30 percent — another exorbitant increase and one not necessary for the required 15 percent total revenue growth.

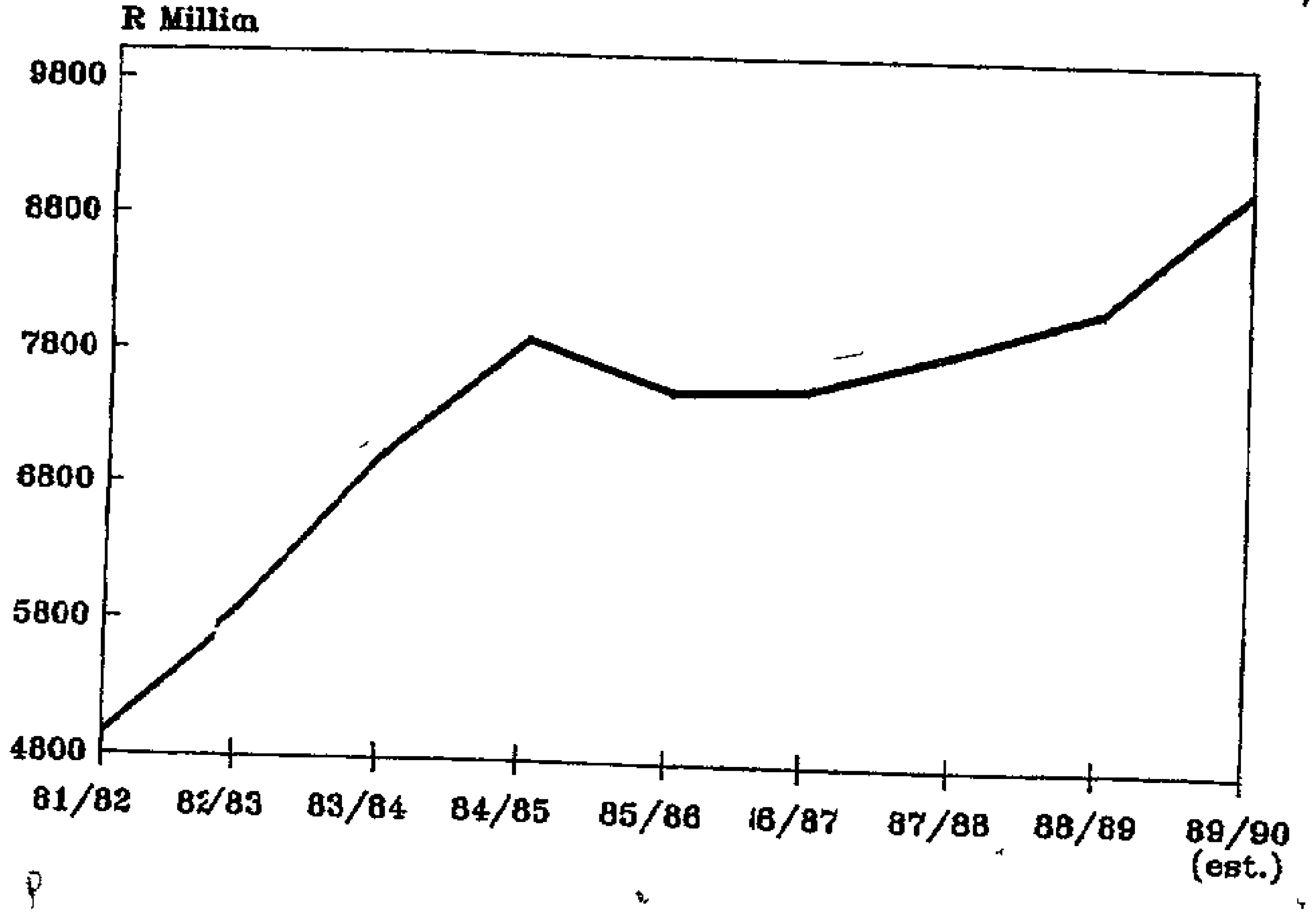
However, there will be little room for other tax cuts. The important surcharge, which has been responsible for most of the revenue overrun this year, will bring in less next year as import volumes decline and a partial lifting of the surcharge occurs

GST, now as large a contributor to total revenue as direct individual tax, will increase only at around the inflation rate, given that consumer expenditure will show minimal real growth

In addition company tax (non-mining) will not match the 17,3 percent estimated this year, due to the business cycle downturn.

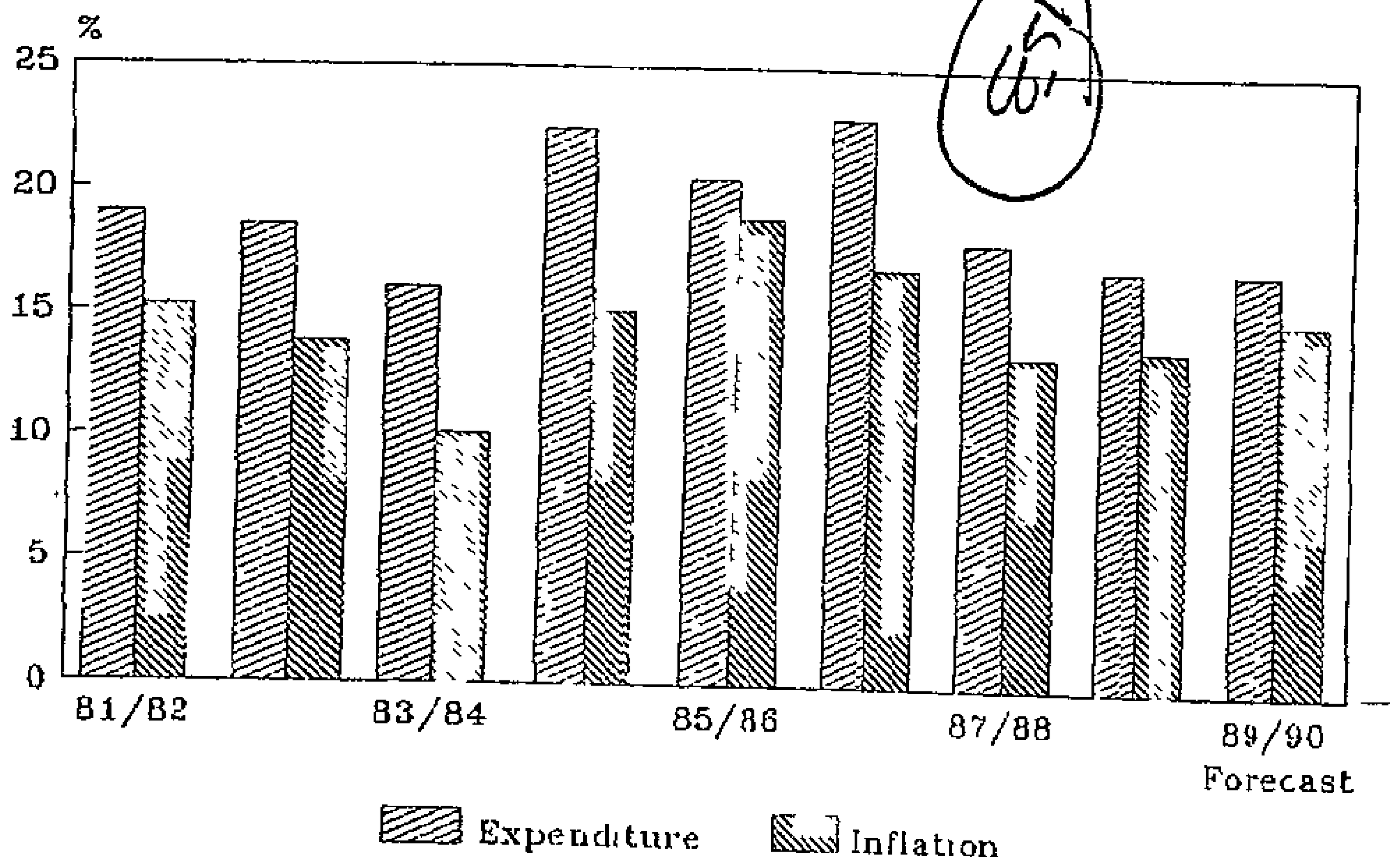
Only the historic achievement of a real fall in spending growth will allow tax cuts of any significance to be announced.

DIRECT TAX ON INDIVIDUALS (deflated CPI: 1985=100)



GOVERNMENT SPENDING VS INFLATION

157



How your rand has shrunk

Star 30/12/89

153

1960	-	R1																												
1961	1,6	98	R1																											
1962	1,5	97	98	R1																										
1963	1,5	96	97	99	R1																									
1964	3,0	93	94	96	97	R1																								
1965	3,5	90	91	92	94	97	R1																							
1966	4,5	86	87	88	90	92	96	R1																						
1967	1,7	84	86	87	88	91	94	98	R1																					
1968	2,7	82	83	85	86	88	92	96	97	R1																				
1969	3,5	79	81	82	83	85	88	92	94	97	R1																			
1970	5,2	75	77	78	79	81	84	88	89	92	95	R1																		
1971	6,8	70	71	73	74	76	79	82	84	86	89	94	R1																	
1972	7,0	66	67	68	69	71	74	77	78	80	83	88	93	R1																
1973	10,2	60	61	62	63	65	67	70	71	73	76	79	85	91	R1															
1974	13,6	53	54	54	55	57	59	62	63	64	67	70	75	80	88	R1														
1975	12,3	47	48	48	49	51	52	55	56	57	59	62	67	71	78	89	R1													
1976	10,4	43	43	44	45	46	47	50	50	52	54	56	60	64	71	81	90	R1												
1977	11,3	38	38	39	40	41	43	45	45	47	48	51	54	58	64	73	81	89	R1											
1978	11,5	34	35	35	36	37	38	40	41	42	43	45	50	52	57	65	73	80	90	R1										
1979	14,2	30	30	31	31	32	33	35	36	37	38	40	42	45	50	57	64	70	78	89	R1									
1980	14,9	26	27	27	27	28	29	30	30	31	33	35	37	40	44	49	56	61	68	76	87	R1								
1981	14,4	23	23	23	24	24	25	26	27	27	28	30	32	34	38	43	48	53	59	66	75	86	R1							
1982	14,3	20	20	20	21	21	22	23	23	24	25	26	28	30	33	37	42	46	52	58	66	75	87	R1						
1983	10,5	17	18	18	18	19	19	20	20	21	22	23	24	26	29	33	37	41	45	50	58	66	77	87	R1					
1984	13,3	15	16	16	16	16	17	18	18	19	19	20	22	23	25	29	32	36	40	45	51	58	68	77	88	R1				
1985	16,9	13	13	13	14	14	15	15	15	16	16	17	18	20	22	25	28	31	34	38	43	50	58	66	76	86	R1			
1986	19,2	11	11	11	11	12	12	13	13	13	14	14	15	17	18	21	23	26	29	32	37	42	49	55	63	72	84	R1		
1987	15,0	10	10	10	10	10	11	11	11	12	12	13	13	14	16	18	20	22	25	28	32	36	42	48	55	62	73	87	R1	
1988	13,2	08	09	09	09	09	09	10	10	10	11	11	12	13	14	16	18	20	22	25	28	32	37	43	49	55	64	77	88	R1
1989	14,9	07	07	08	08	08	08	09	09	09	09	10	10	11	12	14	16	17	19	21	24	28	32	37	42	48	56	67	77	87

DAVID CANNING

IF you were prudent enough to have invested a "nest egg" of R100 in 1960 (which then was enough to buy a new double bedroom suite of furniture), you would have to stretch your inflation-eroded capital to buy just the bed linen today.

As the accompanying table illustrates, R100 in 1960 will buy only R7 worth of goods today.

A June 1960 newspaper shows several bedroom suites advertised for less than R100, or R50, a man's shirt for R1,99 and a pair of shorts for R1.

This reflects the inroads which inflation has made on living standards — fuelling wage demands and devastating the wealth of those who have had to live off dividends from capital in fixed interest investments

The greatest impact has been felt since 1973 when South Africa reached double-digit inflation — a situation which has prevailed ever since The 1973 rand is today "worth" a mere 12c

The table shows, in cents, the degree to which the buying power of the rand was reduced by inflation each year since 1960

Each vertical column traces the reduced buying power of R1 in subsequent years. For example, the buying power of the 1960 rand can be read off from the bottom of the first column — its buying power was just 7c in 1989.

Consumer price indices (all groups) for November were used in the calculations. Inflation was 14,9 percent in the 12 months to November 1989.

INFLATION — 1990

JANUARY — JUNE

Man in the street's earnings should be four times higher today than in 1980 153

(128) Star 2/1/90.

Salary packets are under siege

By Michael Chester

Pay packets in 1990 need to be nearly four times higher than a decade ago to stay abreast of the lowest estimates of inflation and avert a fall in living standards, say new studies.

A report by PE Corporate Services says that the take-home salary of R1 000 a month in 1980 now needs to be at least R3 950 to counterbalance inflation cuts

Miss Naomi Brehm, head of remuneration services finds that average pay packets have lost out in the battle with price increases

On official counts the consumer price index bounded upwards between July 1979 and July 1989 by 295 percent

But average wages and salaries lagged behind with increases of 293 percent

Miss Brehm believes the real picture might be much worse

"The official rate of inflation is regarded with great suspicion she said

It is presently given at between 14 and 15 percent but this is often challenged and the real rate is believed in certain circles to be between 25 and 30 percent

"In real terms therefore, overall salaries in the 1980s lagged behind quite substantially

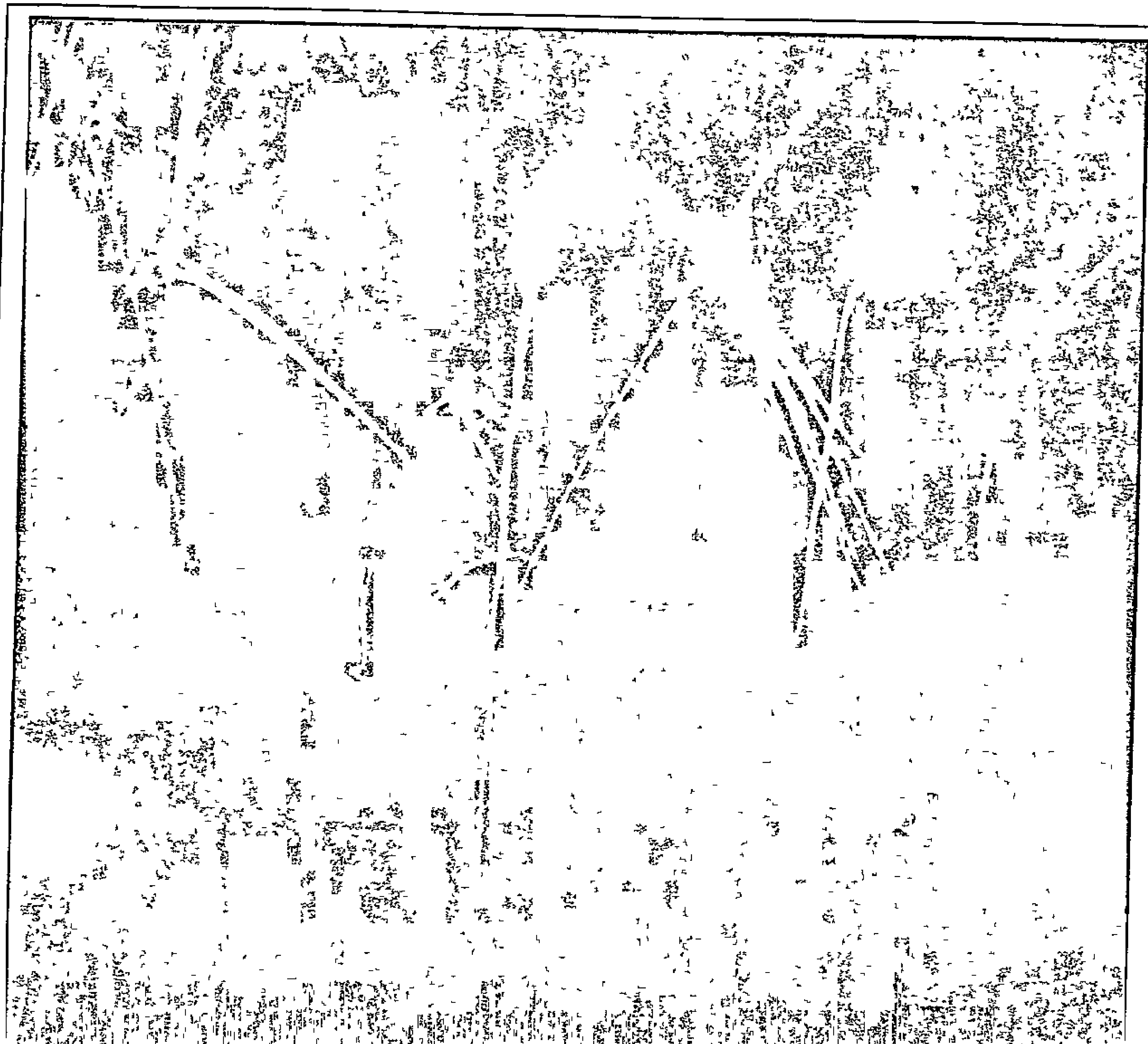
If one assumes the true rate of inflation over the past decade to be only two percentage points higher than the official figure the cost of living has soared by 369 percent

"This means that the employee who started in 1980 with R1 000 should now be earning R4 690 to match inflation, and he isn t

In fact, the rise in basic pay should have been much steeper than that if account is taken of the heavier income tax burden generated by fiscal drag caused by inflation

Pay for performance

But Miss Brehm cautions that employees should not expect pay in-



Stop the rot in black schools, say educators

By Janet Heard and Sue Valentine

Educationists have called for extraordinary measures to be taken to resolve the crisis in black education amid anger over the poor black matric results and fears they may lead to greater gangsterism in the townships Star 2/1/90.

Educationist Dr Franz Auerbach said it was time all those in black education got together to help alleviate the crisis He said the shortcomings in black schools should be identified and detailed proposals to improve the situation both in the short term and middle-term should be made

This required a joint effort by the Department of Education and Training (DET) which faced a credibility crisis and political groupings such as the National Education Co ordinating Committee (NECC) nd the restricted SA National Students Congress

He suggested the NECC initiate such a proposal

In a front page report today headed 'Stop the Rot , the editor of *Sowetan*, Mr Aggrey Klaaste said the bitter truth was that South Africa was fiddling while its house was on fire

He said the matric results should be seen in the context of the total socio-politico-economic factors that would impact on the country s present and future

"It has become common wisdom that every country s success is dependent on a fairly high educated population

BE PRAGMATIC

In a New Year s Eve statement the NECC called on the Government and the community to accept that 'extraordinary measures of pragmatism and flexibility to resolve the crisis were needed

It called on all parties with an interest in education to address the situation and said parents, teachers and members of the community should be allowed to contribute meaningfully to finding solutions

Mrs Sheila Sisulu, education officer at the SA Council of Churches, said she was "horrified' that only

Salary pacl

(128)

By Michael Chester

Pay packets in 1990 need to be nearly four times higher than a decade ago to stay abreast of the lowest estimates of inflation and avert a fall in living standards, say new studies.

A report by PE Corporate Services says that the take-home salary of R1 000 a month in 1980 now needs to be at least R3 950 to counterbalance inflation cuts

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The official rate of inflation is regarded with great suspicion,' she said.

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In real terms, therefore, overall salaries in the 1980s lagged behind quite substantially '

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'This means that the employee who started in 1980 with R1 000 should now be earning R4 690 to match inflation, and he isn't "

In fact, the rise in basic pay should have been much steeper than that if account is taken of the heavier income tax burden generated by fiscal drag caused by inflation

Pay for performance

But Miss Brehm cautions that employees should not expect pay increases to move higher in the 1990s unless earned from incentives linked tightly to better performance and productivity

'Pay-for-performance is likely to be the catch phrase of the 1990s,' she said

Companies have come to realise they cannot afford continual increases in wage bills without a commensurate increase in productivity and profitability, says Miss Brehm

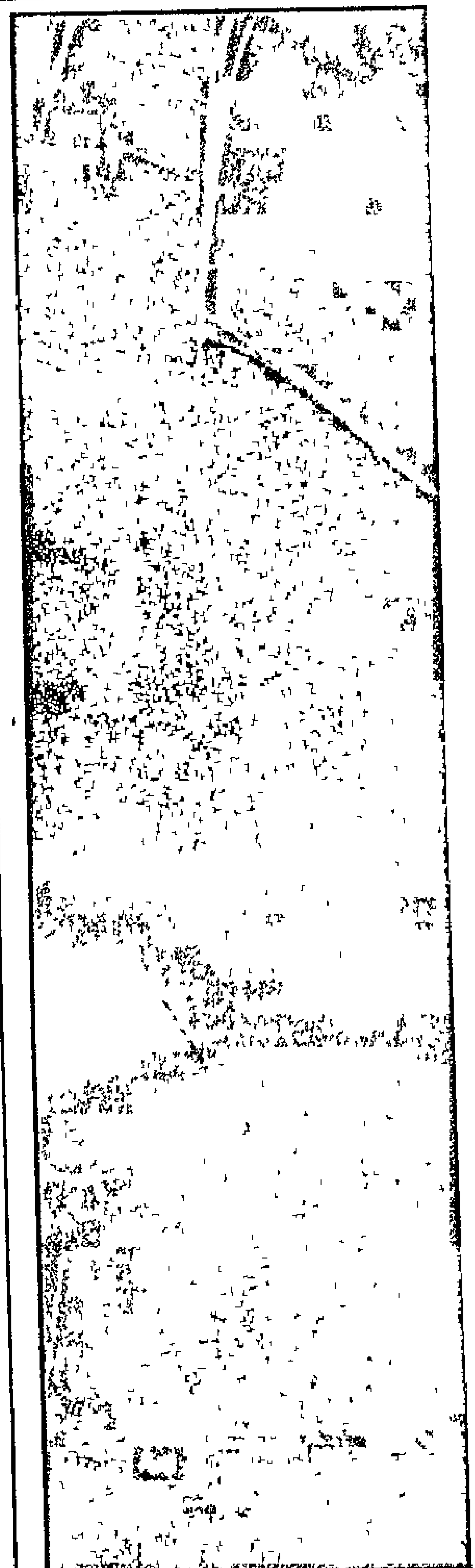
The economic downturn also threatened a number of retrenchments as companies were forced to re-examine their manpower structures

Recent surveys found 14 percent of companies foresaw the likelihood of retrenchments on the horizon They feared the total could rise if the economic situation worsened over the next year

Because of the chronic shortage of skilled manpower, the status and pay rates of skilled labour would stay at a premium

In general, however, emphasis in the 1990s would be on remuneration strategies that placed more stress on incentives as rewards for performance

"Aspects such as productivity and



profitability took a back seat during the 1980s," says Miss Brehm "The accent was on keeping wages and salaries in line with the inflation rate, even though companies were not always successful in periods of recession

Fringe benefits were also used to the full as a tool to allow employees to structure their packages in a tax-effective way

Into the 1990s, however, while the consumer price index will still be an important factor, the main accent will be on pay for-performance, linked with incentive schemes

There will also be a lot more stress on the encouragement of the acquisition of skills to close the skilled manpower shortage, and recognition by labour of skill, and performance "

Consumer spending heads for 'soft landing'

8¼ 6/1/90

OUTLOOK 90

153

EXPECTATIONS for retailing at the beginning of 1989 were bleak. Spiralling interest and inflation rates threatened to depress discretionary income and forecasts for the rise in private consumption expenditure averaged between nil and one percent.

Despite the increase in bond rates during the year and real interest rates rising from 4,7 percent to an estimated 6,5 percent by the end of the year, retail sales at the end of November had risen by 3,2 percent in constant terms over the comparable 11 months of the previous year

Private consumption expenditure declined from a growth rate of 4,9 percent for 1988 to an average of 3,6 percent for the first three quarters of 1989 This was well ahead of expectations

Although Christmas sales figures have still to be issued, the general impression appears to be that sales rose on average between 16 and 20 percent compared with Christmas 1988.

It was noted that consumers tended to buy goods which offered value, with more expensive items moving more slowly than in previous years.

The strongest growth area was in semi-durables, expecially in clothing, footwear and textiles. (Statistics are available only for the first nine months to September)

In real terms, footwear sales rose by a staggering 10 percent, with women's and babies' clothing and textiles showing similar increases.

Private consumption expenditure on non-durables is relatively non-cyclical.

Food sales, the largest component, rose by three percent for the nine months to end-September. [illegible] her HP rates and the

MARTINE HICKMAN
Industrial analyst,
Max Pollak & Freemantle

sales of appliances and audio equipment, showing a decline in real terms.

In the latter half of the Eighties, retailing became highly specialised. Those stores which became more focused in their approach benefited.

A few years ago price ranked as the main criterion when considering where to shop With more women working (more than 40 percent in PWV area), time has become more of a constraint.

In addition, factors such as convenience, extended shopping hours, service, variety, health and environment have increased in importance for people choosing where to shop.

Chain stores are changing their image, concentrating on a "shop-within-a shop" format, whereby shopping becomes an "outing" or an "experience."

To help retailers maintain a highly specialised approach, good systems have become essential. In the Eighties more and more retailers invested money in this area.

Retail technology is not as widely implemented in South Africa as in the United States, but local retailers have the advantage of using systems which have been tried and tested in stores overseas

Among the many systems now being implemented by retailers are scanning, the computerisation of in-[illegible] functions such as receiving

Looking to the 1990s, we believe South Africa will have real interest rates for some time and that until there is a decline the nominal rate of inflation will remain above 20 percent.

This is likely to dampen growth in spending Our view is that private consumption expenditure is headed for a "soft landing" as opposed to a recession in 1990

This is supported by three factors.

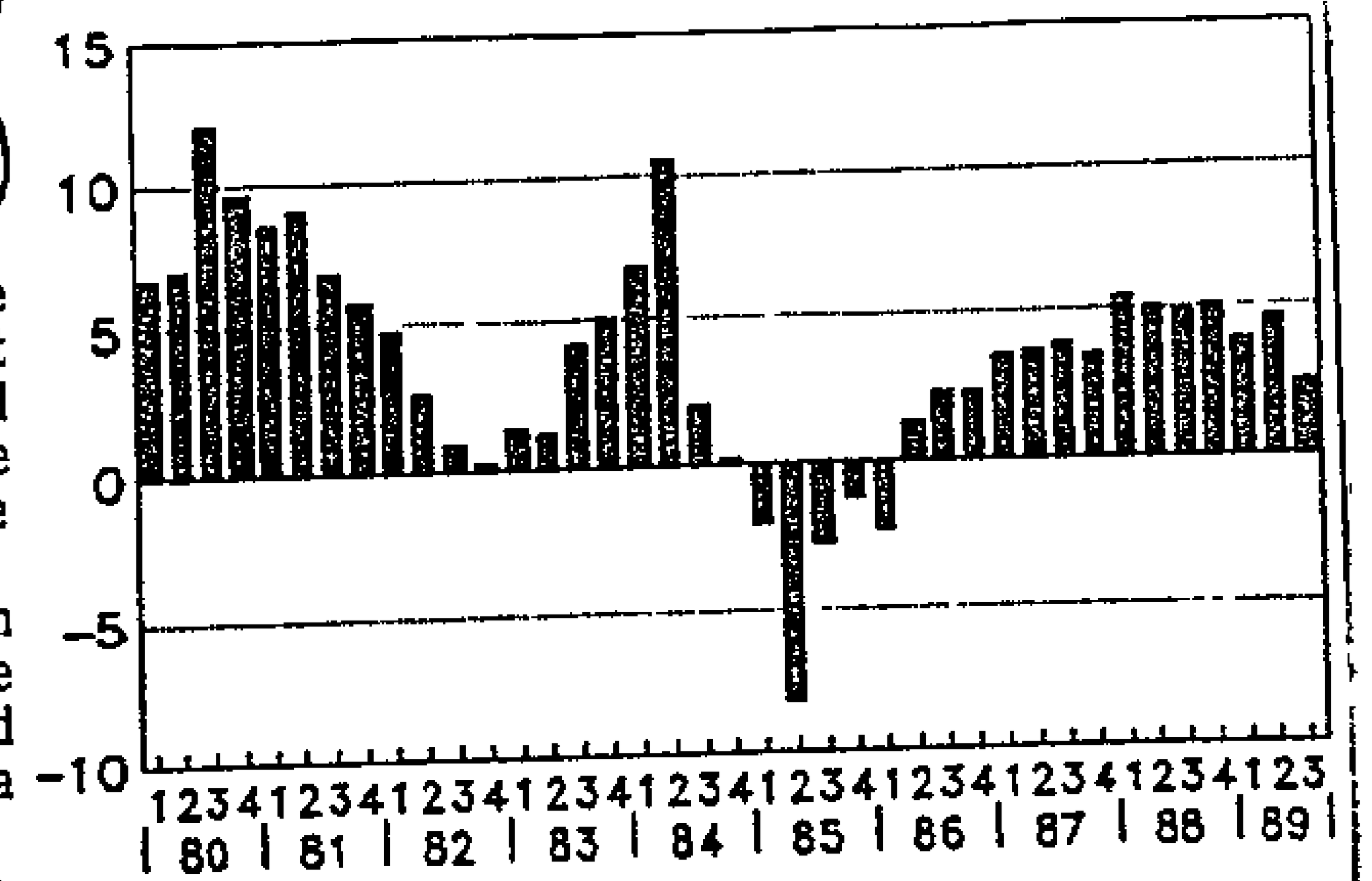
Firstly, levels of consumer confidence are now higher than they were before the recession of 1984-85 This is to some extent a result of the reformists nature of the De Klerk government, which could lead to a softening of approach towards South Africa by the international community

Secondly, the economic clout of the informal sector continues to grow Although estimates of its size vary, latest studies suggest it contributes as much as 30 percent towards GNP

Lastly, unionisation appears to be still gaining momentum, with the rise in wages in the past year averaging 17,4 percent.

Earnings a worker have been increasing in real terms since the fourth quarter of 1987 and are expected to continue to improve.

Based on these factors, we forecast real growth of 2,5 percent in private consumption expenditure for 1989, dropping to 0,3 percent in 1990.



SPENDING: Private consumption spending (annual percentage change).

De Klerk orders probe into prices, inflation

CAPE TOWN — President F W de Klerk has asked the President's Council to find ways to ensure active co-operation from the consumer to curb price exploitation and contain inflation (153)

He has also asked the council to make recommendations on systems to promote consensus and resolve disputes

In a statement from the council secretariat yesterday, the committee for economic affairs said it had been asked to investigate ways to address sharp increases in the price of goods and services

The committee for constitutional affairs will investigate and make recommendations on "decision-making and conflict resolution mechanisms" — Sapa

B Day 9/1/90

Inflation drives investors 'to JSE'

153

ACHMED KARIEM

INFLATION was driving more private investors to the JSE, Stock Market Investors College MD Paul Still said in a statement yesterday. B/Day 11/1/90

Still said people realised they were "doomed to steady impoverishment" unless they established some protection against inflation.

However, they should not invest on the JSE unless they understood how it functioned.

Still said the advantage of shares was that their value appreciated and only two-thirds of dividends were taxed.

He said Robert McGregor claimed in his book Privatisation in SA that there were 157 state-owned companies, 310 hospitals, 16 municipal markets and 450 local authorities available for privatisation.

Government could reduce its debt by selling off more state assets such as Eskom — Iscor had made a profit after tax of R811,7m this year, after suffering heavy losses in the 1980s, he said.

Downturn gathering momentum — OM

Star 11\1\90

(153)

By Derek Tommey

South Africa's self-induced economic downturn is gathering momentum, says David Mohr, chief economist at Old Mutual.

He expects the process to continue this year, probably at an accelerating rate.

But unpleasant though Mr Mohr's forecast may be, be believes the situation has resulted in some lessening in inflationary pressure and that it could lead to a drop in long-term interest rates.

Mr Mohr

Mr Mohr reports a sharp contraction in the value of goods and services, other than farm goods, produced between the second and third quarters.

Manufacturing, in particular, felt the cold wind of recession.

Output in the third quarter dropped at an annual rate of 8,5 percent.

On the other side of the coin, South Africans have been cutting down sharply on spending.

They spent 7,3 percent (annualised) less in the third quarter than in the second quarter of 1989. Spending on items such as cars, fridges, radios and TV sets dropped throughout the year.

Although spending on clothing and footwear rose slightly in the first half, it fell sharply in the third quarter.

Mr Mohr says this reduced spending is characteristic of the onset of a downturn and, in this instance, is the result of a tight-money policy, high inflation and smaller wage increases and salary adjustments.

This is necessary if South Africa is to be a position to repay all its debts that fall due this year.

In the next 12 months South Africa will probably have to repay foreign debts amounting to $2,0 billion to $2,4 billion (R5,2 billion to R6,3 billion at current exchange rates).

In order to pay to its foreign creditors these huge sums South Africa will need to earn from overseas 2,5 billion more than it spends there.

This will require a special effort as in 1989 South Africa had a balance of payments surplus of $1,6 billion.

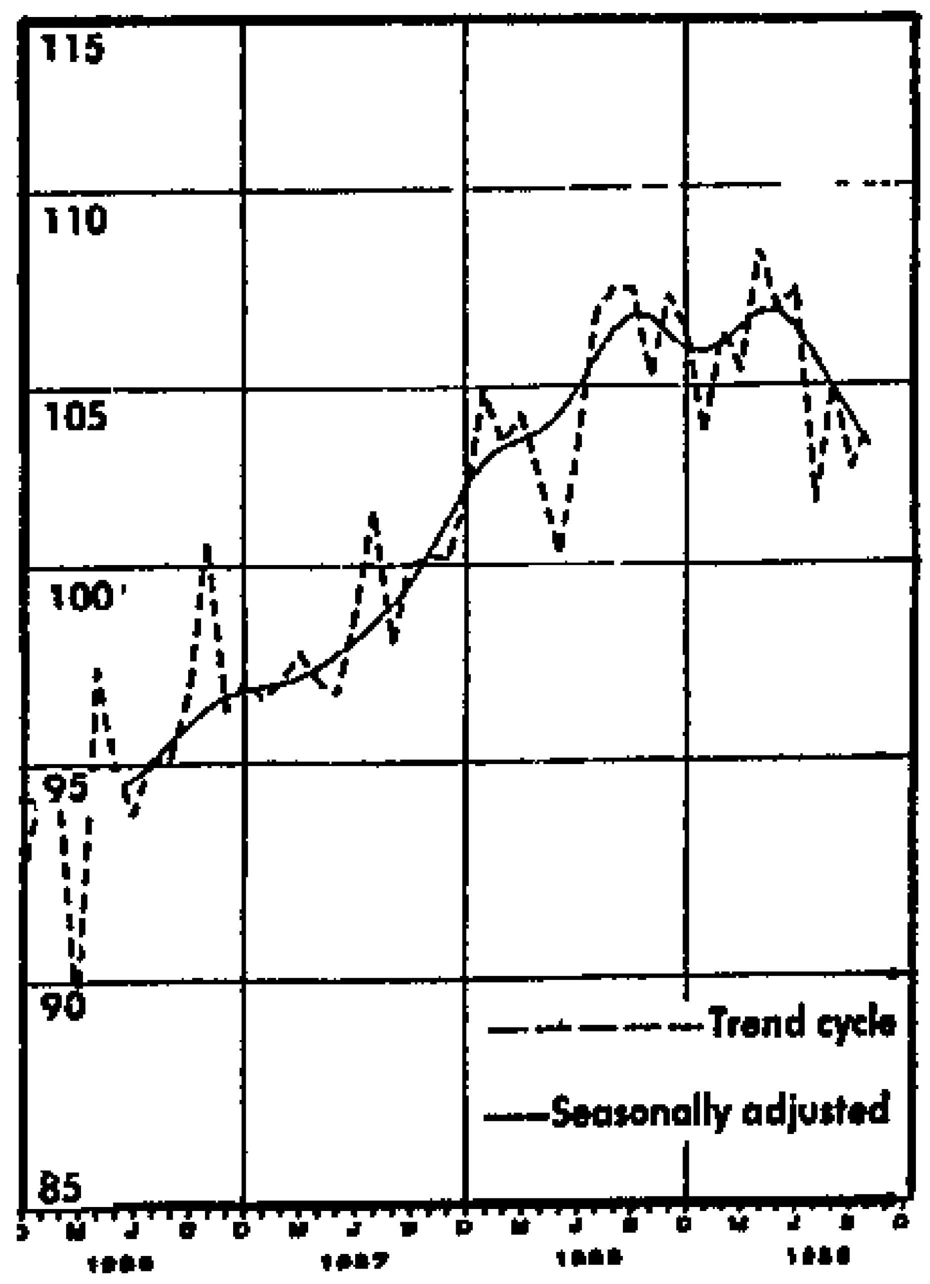
If South Africa is to achieve this $2,5 billion surplus, domestic spending has to be held down so as to limit imports and the amount of money being spent overseas.

However, year-on-year inflation as measured by the consumer price index moved downwards in the third quarter of 1989 after reaching a high of 15,7 percent in June. By November, the year-on-year rate had fallen to 14,9 percent.

Mr Mohr says this is partly the result of a slower rate of increase in food and housing costs. But other items in the consumer price index are showing reduced price increases.

However, there is a danger that food prices could accelerate in the first half of 1990, he warns. This could limit the downward trend in the inflation rate or even reverse it.

As the economy might require further cooling, and as little progress has been made in replenishing foreign exchange reserves, Mr Mohr says that montary policy is likely to remain stringent for some time.



Total manufacturing index, base 1980: 100

He does not expect a significant decline in the prime overdraft rate before the second half of 1990.

The long-term interest rate has droped from around 17 percent to below 16 percent. This is the result of optimism in the capital markets arising from the rise in the gold price in the fourth quarter, clear signs that the real economy is cooling, the levelling off of the inflation rate, smaller government borrowing requirements and signs that government spending will be restricted.

Mr Mohr believes interest rates willd decline further this year as the underlying bottlenecks in the economy — the current account, foreign exchange reserves and inflation — ease more.

FW calls on the public to help curb inflation

Sowetan 12/1/90

153

STATE President F W de Klerk has asked the President's Council to find ways to get active co-operation from the consumer public to curb price exploitation and contain inflation.

In a statement from the council's secretariat this week, the Committee for Economic Affairs said it has been asked to investigate and make recommendations on suitable strategy, goals, and policy with regard to inflation.

The Committee for Constitutional Affairs will investigate and make recommendations about "decision-making and conflict resolution mechanisms and techniques in constitutional systems, including mechanisms and techniques for the furtherance of consensus and the resolution of disputes."

Those wishing to submit memoranda should do so before February 28 to PO Box 3601, Cape Town, 8000.

Mr J P Rossouw can be contacted at (021) 45.5541 in connection with the consumer inquiry and Mr J F Marx at the same number in connection with the constitutional inquiry.

Consumers 'paying for Govt's folly'

Star 16/2/90

The Government has been accused of trying to pass the buck after calling on hard-pressed consumers to fight rocketing prices and inflation with selective spending, reports political reporter FRANS ESTERHUYSE.

(153)

As South African consumers are being swamped by a new wave of price increases, the Government's advice to them is simply Resist buying at excessively high prices.

The director-general of finance, Mr Gerhard Croeser, said last week that in addition to measures taken by the State against inflation, the public, too, had an important contribution to make Consumers should refuse to buy at excessively high prices and buy selectively

"It does not matter whether it is a cool-drink or a motor-car It is not necessary always to have the shiniest car or the best of everything"

Consumers were still not sufficiently cautious in spending their money The result was that the "vicious circle" of inflation continued There should be more resistance to higher prices If this could result in smaller turnovers, manufacturers would be encouraged to look again at their prices

30 percent

Inflation — according to the latest figures available from the Central Statistical Services in Pretoria — was running at 14,9 percent in November, but it was alleged last year that the CSS figures were grossly inaccurate and that the real inflation rate could be 30 percent

And it was disclosed this week that major manufacturers of food and consumer goods were demanding an average of 15 percent more for their products while householders face increased electricity charges following a 14 percent Eskom hike and parents will have to pay 20 percent more for their childrens' school uniforms.

Some time this year there will be another petrol price increase which will affect a wide range of commodities, and travel

At the end of last year, SAA increased domestic air fares by 13 percent

Food prices have soared to double their 1985 levels, outstripping the consumer price index by 13 points, according to the CSS

Support for Mr Croeser's resistance call came from the director of the National Consumer Council, Mr Jan Cronje, who had this message for consumers "You won't die if you were to abstain for a week from eating butter, margarine or meat that is priced too high Yet if enough people take such action it can bring prices down"

Inflation had conditioned people into anticipating and accepting price increases, no matter how high these were The only way of breaking out of this psychosis was to refuse to buy goods if prices were excessive or quality poor, he said

Their advice has stirred a hornets' nest, drawing accusations from some consumer bodies, politicians and also economists that the Government was trying to pass the buck after failing to curb inflation

The sharpest criticism came from Mrs Lyn Morris, president of the Housewives League, who said Mr Croeser's "don't-buy" proposal was impossible

"I wonder if he has ever taken a shopping list into a supermarket Does he really know what it means to the housewife who finds prices all round are too high? How can he expect consumers not to buy when basic foods like bread, mealie meal, sugar, coffee, tea and essential protein foods like cheese are too high?

"Many consumers do shore up prices of different brands, but they have very little choice in a lot of things The key to the whole problem is that the Government must bring down inflation It must bring down its own spending, and yet every year it increases its spending"

Every time the Government increased fuel prices and transport costs this inevitably resulted in higher costs for farmers and a spate of price hikes for foodstuffs and other commodities

The Democratic Party's finance spokesman, Mr Harry Schwarz, agreed with Mr Croeser that there should be consumer resistence to excessively high prices, but expressed amazement that such a call should come from a Government spokesman

He did not want to attack Mr Croeser because he liked him and thought him able But he should "keep out of politics and leave it to his Minister to make provocative political statements"

"Here we have a Government which is a party to price increases, yet it is telling consumers to resist high prices Should there be consumer resistance to increased rail and air tariffs and to higher prices resulting from the Government's privatisation activities?

"Money supply figures don't indicate to me that enough is being done to fight inflation The real test will be when the budget is presented We need to deal with major cut-backs in state expenditure, and these need to be applied according to the correct priorities," he said

"We can do away with the whole machinery of the Group Areas Act and with duplication in separate 'own affairs' administrations, for example"

Public sector

Professor Brian Kantor of the school of economics at the University of Cape Town said appeals to consumers not to spend were useless Consumers were hard-pressed and did not easily waste their money

One of the key steps Mr Croeser himself could take was to encourage the Government to take a tough stand against public sector salary increases. This would provide an opportunity for direct income tax relief on a significant scale Salary increases should be limited to 10 percent, combined with income tax relief at 5 percent all the way through the scale

Stellenbosch economist Professor Sampie Terreblanche said only drastic political and constitutional reforms would improve the economy These actions would create confidence, attract foreign capital, create growth, and bring down inflation

Govt inflation advice 'stupid' — economist

CAPE TIMES 16/1/90 (153)

Labour Reporter

IT was stupid of a senior government official to advise consumers to avoid buying highly-priced goods, because people were doing this "in any case", Cosatu economist Mr Alec Erwin said yesterday.

Mr Erwin was asked to comment on remarks by director-general of Finance Mr Gerhard Croeser that consumers should help combat inflation by avoiding highly-priced goods and buying selectively.

"If that is the advice from the government on how to deal with inflation ... we need a new government. It is quite stupid advice."

Inflation, estimated at 14,9% in November last year by the Central Statistical Services (CSS), stood at 12,4% the previous year, 14,2% in 1979 and 3,6% in 1969, according to CSS figures.

Cash-strapped consumers are set to reel under a renewed barrage of New Year price increases, ranging from a proposed 15% hike in food and consumer good prices to a 14% lurch in Eskom power costs and a threatened petrol price rise.

Problems faced by the government included capital-outflow, the high cost of establishing industry and the "paradox" of the high costs of production against "very low" wage levels.

This was fuelling inflation by selling highly-priced products to a small market.

"Voters overseas would change the government, but the majority of South Africans cannot vote against central government's economic policies," Mr Erwin said.

BUSINESS

Small business is losing out

Sowetan 18/1/90

153A

BLACK entrepreneurs manufacturing school uniforms from industrial parks or in the backyards of their homes in the townships are on the brink of collapse because of competition from white and Indian manufacturers.

According to several black uniform manufacturers white and Indian operators have entered into agreements with black schools, sometimes with the tacit approval of officials They supply uniforms to these schools and the school officials get donations for their schools or personal presents.

The Department of Education and Training said it did not have any policy on the purchasing of school uniforms by pupils Mr Richard Chemis, public relations officer, said "this is entirely a matter for individual schools "

He said if proof could be produced that any official accepted bribes the matter should be reported to the police Departmental action would be taken once the courts had found the culprits guilty

The plight of backyard manufacturers has been worsened by the fact that

Mrs Ester Mhlambi.

major fabric wholesalers seem to be in league with the major operators for these backyard factories are being denied good quality material which parents insist on

Also, these wholesalers first sell the small manufacturer sufficient good quality material for the first batch of say 50 uniforms When the manufacturer, because of demand from the pupils at the particular school, places the second and bigger order, poor quality material is then delivered with the excuse that the first type was no longer available

One of the victims is Mrs Ester Mhlambi (52), of Kwa-Thema near Springs, who operates from the Kwa Thema Industrial Park After several meetings with parents and the teachers at two schools in the township it was agreed that she manufacture uniforms for the two schools This involved sewing uniforms for about 1 500 pupils It was a big boost for her fledgling business and her staff of eight

The first batch was produced and parents were excited with the uniforms and the prices charged She then placed an additional order and after being pushed around, material of an inferior quality was sent Parents returned the uniforms as they were not what they wanted or expected She has now reduced her staff to one person and her reputation is in tatters Remarkably, a trader from outside Kwa Thema is now selling the uniforms in the required quality, the cloth Mhlambi used to make the first batch of uniforms

Another operator, Mrs Sana Dladla, who manufactures tunics and track suits from a garage in Kwa-Thema, says she lost out on a contract to sew uniforms for a local school On investigating she found that traders from town had given the teachers donations and they now had the rights to make and sell the uniforms

She maintains that it is unfair for town operators to monopolise the uniform business and push the township manufacturer out, instead these town operations should getting into contracts with blacks who would then sew some of their products

Mrs Elizabeth Nkabinde, of Residensia in the Vaal Triangle, says her 12 year-old school uniform manufacturing business was ailing because she was not getting support from local schools She puts the blame on school authorities

"When I started my business in 1978 I was optimistic and advertised myself at various schools, but gave up hope when teachers refused to support my venture," she said

Mr G Cachalia, manager of Snapper Uniform Manufacturing Company, one of the biggest school uniform manufacturers in the PWV area, , said his company had been in operation for the past 30 years and was supported by schools in black areas

"But, he also added, "while we are prepared to plough part of the money we make back into the townships, we will not stoop as low as to bribe people to buy our products "

The managing director of Sales House, Mr Donald Etheridge, who also spoke on behalf of the Edgars Group, said they were prepared to contract small business people to manufacture school uniforms for them, but added, "on condition that they produced the high quality our customers want "

Retirement — How much will you need?

Money Matters
153
MAGNUS HEYSTEK

PEOPLE who make investment plans for the future, especially for their retirement, have particular difficulty in grasping what inflation will do to the future value of their savings.

Few realise that if inflation continues at 15 percent for the next 25 years everything will costs 32 times more than it does today.

Just think of it: a loaf of bread at R32, a carton of cigarettes R1 152 and the smallest motor car R640 000!

The problem with these telephone-number figures is that it makes it very difficult for the ordinary man to calculate approximately how much he needs to save on a regular basis to enable him to maintain his standard of living when he retires.

It is obvious that a very large sum of money will be necessary to live in comfort. The big question is: How much?

To answer that question one needs to look at current expenditure on living and express that in future rands by using the following table.

Annual income adjusted for inflation

EXPECTED RATE OF INFLATION

Years to Retiremente	12%	14%	16%
10	R 3,11	R 3,71	R 4,41
15	R 5,47	R 7,14	R 9,27
20	R 9,65	R13,74	R19,27
25	R17,00	R24,46	R40,87
30	R29,86	R50,95	R85,85
35	R98,10	180,31	R52,80

(Figures courtesy of Sage-Life)

To determine how much is needed on retirement calculate the amount needed each year now, select the inflation rate that will be appropriate over the period to retirement and multiply it by the figure in the column. The answer is the yearly income required.

EXAMPLE: A person who is 30 now and spends R30 000 a year to live, wants to retire at age 55. If inflation averages 12 percent over the next 25 years, his income on retirement to match his present standard of living is calculated as follows:

Run your eye down the 12 percent inflation column until you come to the 25 year line. The figure is R17,00. Multiply that by the R30 000 a year spent on living costs now and the answer is R510 000 That is the potential yearly income needed 25 years from now.

The factor for a 14 percent inflation rate is R24,46 and the total jumps to R733 800 a year to equal the R30 000 needed now. (No allowance is make for tax).

These figures certainly sound like something out of a telephone directory but there is a solution.

The following table shows how to calculate the amount of money to be invested to return the sum required.

AMOUNT TO BE INVESTED TO RETURN R1 000 A YEAR

Rate of return	8%	10%	12%	14%	16%
Amount to Invest	R12 500	R10 000	R8 300	R7 150	R6 250

It is now a simple matter of estimating the amount of return, and multiplying the amount in that column by the annual amount required. This gives the amount to be invested to achieve the target. If inflation stays at 12 percent, with a reasonable rate of return of 16 percent on the R510 000, it is clear that R3 187 500 (6,25 x 510 000) will be needed by retirement age.

To accummulate such a sum is not as impossible as it sounds. The next table shows how much is needed to be invested every year at a given rate of return to grow to the stated amount in a set time

Amount to be Invested Every Year to Return R100 000 at Retirement

YEARS TO RETIREMENT

Compound Rate	40	30	25	20	10
10%	R205	R553	R924	R1 587	R5 704
12%	R116	R370	R670	R1 239	R5 088
14%	R 65	R246	R482	R 964	R4 536
16%	R 37	R163	R346	R 747	R4 043
18%	R 20	R107	R247	R 578	R3 603
20%	R 11	R 71	R177	R 466	R3 210

Now's go back to the problem of trying to acquire R3 187 500 in 25 years time. The quickest way is by investing in growth-linked investments like retirement annuities, unit trusts, endowment policies or income producing properties.

Assume a rate of growth of 16 percent which is currently well within the reason for the average retirement annuity fund, endowment policy or unit trust fund. The table shows that R346 needs to be invested every year at 16 percent for each R100 000 required in 25 years time. Thus one way of achieving the objective would be to put R11 028,75 (31,875 x R346) every year into the investment area of your choice.

This works out at under R920 per month. If this seems very high, bear in mind that the average person earning R2 500 a month (R30 000 a year) is paying approximately R625 a month off his bond, which forms part of his investment requirement. This leaves less than R200 amonth to be found in additional savings.

In the case of retirement annuities the taxman will be paying up to 45 percent of the contributions, making the goal all the more attainable.

While the figures required no doubt seem unattainable, remember the old saying: even an ant can eat an elephant, it just takes a long time.

Inflation hits maize farms

(153)

GERALD REILLY

PRETORIA — Farmers have completed the planting of what has become the costliest maize crop on record, says the National Maize Producers' Organisation (Nampo)

It says inflation played havoc with costs

Last season, the estimated total cost of planting and growing a hectare of maize was R603. With an escalation conservatively estimated at between 12% and 15%, this figure could now rise to between R650 and R700/ha, says Nampo.

B/Day 19/1/90

The total area of maize planted decreased as a result of farmers switching to production of sunflower and wheat crops.

Nampo estimates that producers will have spent about R370m on fertilisers, R210m on repairs and spare parts, R112m on pesticides and herbicides, R160m on labour and R180m on fuel this year

PPC highlights impact of inflation

Star 19/1/90

153

It might not be enough to benefit the share price, but indications from Pretoria Portland Cement (PPC) that demand in the first three months of financial 1990 has been slightly better than expected should provide some comfort for shareholders who had braced themselves for a tough year or two

Diagonal Street

ANN CROTTY

But financial director Chris Wrogemann says that at this stage the general tone of the annual report still holds, namely that "at best a flat year for both cement and lime is forecast"

For shareholders perhaps the more important factor is that "every effort will be made to increase dividends, at least in line with inflation."

Assuming an inflation rate of 15 percent, this suggests a dividend of around 150c And assuming a two-times dividend cover, which Mr Wrogemann says is appropriate for the industry, this suggests that earnings of around 300c are on the cards.

At its current level of R23,50, this puts the share on a prospective P/E ratio of 7,8 times and a prospective dividend yield of 6,3 percent The historic P/E is 9,3 times and the historic dividend yield 5,5 percent.

However, if the earnings figure is adjusted for inflation, the P/E rating would be closer to 24 times.

In its 1989 annual report PPC devoted a section to the impact of inflation on group business. Using 1982 as a base and applying the mid-year annual increase in the consumer price index, the group's earnings per share, instead of increasing from 124c to 253c (as it did in nominal terms between 1982 and 1989) actually fell from 124c to 68c in 1986 and from there increased in real terms to just 98c in 1989

Applying the same exercise to the dividend stream over that period, the nominal figures show an increase from 32c in 1982 to 130c in 1989.

The adjusted (real) figures take a much more erratic path, starting at 32c, dropping to 27c in 1986 and recovering to 50c in 1989. The important fact is that every year dividends are covered by real earnings

In addition, the adjusted figures show the group's real operating cash flow is comfortably able to match a need to replace fixed assets.

The exercise shows the considerable impact that inflation has on shareholders' real wealth.

But the PPC finance team does not go quite so far as the Adcock-Ingram team which, in its excellent 1989 annual report, included a supplementary consolidated current value income statement and balance sheet based on the ED 77 proposals.

This showed current value earnings per share at 69c — a sharp drop from the EPS of 143c reported in the "traditional" historic-cost income statement.

It also showed comprehensive income per share of 279c and current value income per share of 70c.

All of which highlights the fact that shareholders should treat figures based on historic-cost accounts with considerable caution.

Year	CPI %	Earnings per share (cents) Actual	Earnings per share (cents) Adjusted	Dividends per share (cents) Actual	Dividends per share (cents) Adjusted	Operating cash flow (R million) Actual	Operating cash flow (R million) Adjusted
1989	13,8	253	98	130	50	220	85
1988	13,4	202	89	100	44	185	82
1987	16,8	138	69	60	30	136	68
1986	18,9	116	68	47	27	118	69
1985	15,1	155	108	43	29	119	83
1984	10,2	160	128	43	34	137	111
1983	13,6	132	117	35	31	106	93
1982	15,4	124	124	32	32	101	101

Effect of inflation on earnings, dividends and cash flow

High hopes and rising inflation

153

By Ian Smith

21/1/90 S/Times

THE chief executives of the Top 100 industrial companies expect higher inflation and slower growth this year.

But the annual survey of leading company executives by Unisa's Bureau of Market Research — it produced remarkably accurate forecasts for 1989 — shows a marked improvement in confidence on the political front

The number of executives expecting sanctions and disinvestment pressure to increase has fallen to 42% from the 95% predicting more difficult days this time last year

The number of businessmen optimistic about the political outlook jumped from 13% to 53%

The survey forecast inflation at 15,3% for 1989 and the latest figure from the Reserve Bank is 15,1%. It predicted real economic growth of 2,3% and the final figure is about 2%

The survey forecast a dollar-rand exchange rate of R2,75 for last year and the average was about R2,62.

Okkie Lucas, who compiled the report, says. "We are pleased that our respondents' predictions proved so accurate last year. The survey has gathered considerable authority in the five years we have run it"

Professor Lucas says the new predictions indicate an uncertain climate.

"Businessmen forecast a decline in economic growth in 1990, but they are less pessimistic about social and political events"

The survey predicts inflation this year of 16,1% and that real economic growth will slip to 1,8% There is also more downside for the rand, businessmen expecting a median rate of R2,74 to the dollar this year

The executives are cautious about the gold price, giving an average of $400 an ounce this year. Individual predictions ranged from $387 to $415

They foresee prime overdraft rate down to 18% next December from the current 21%.

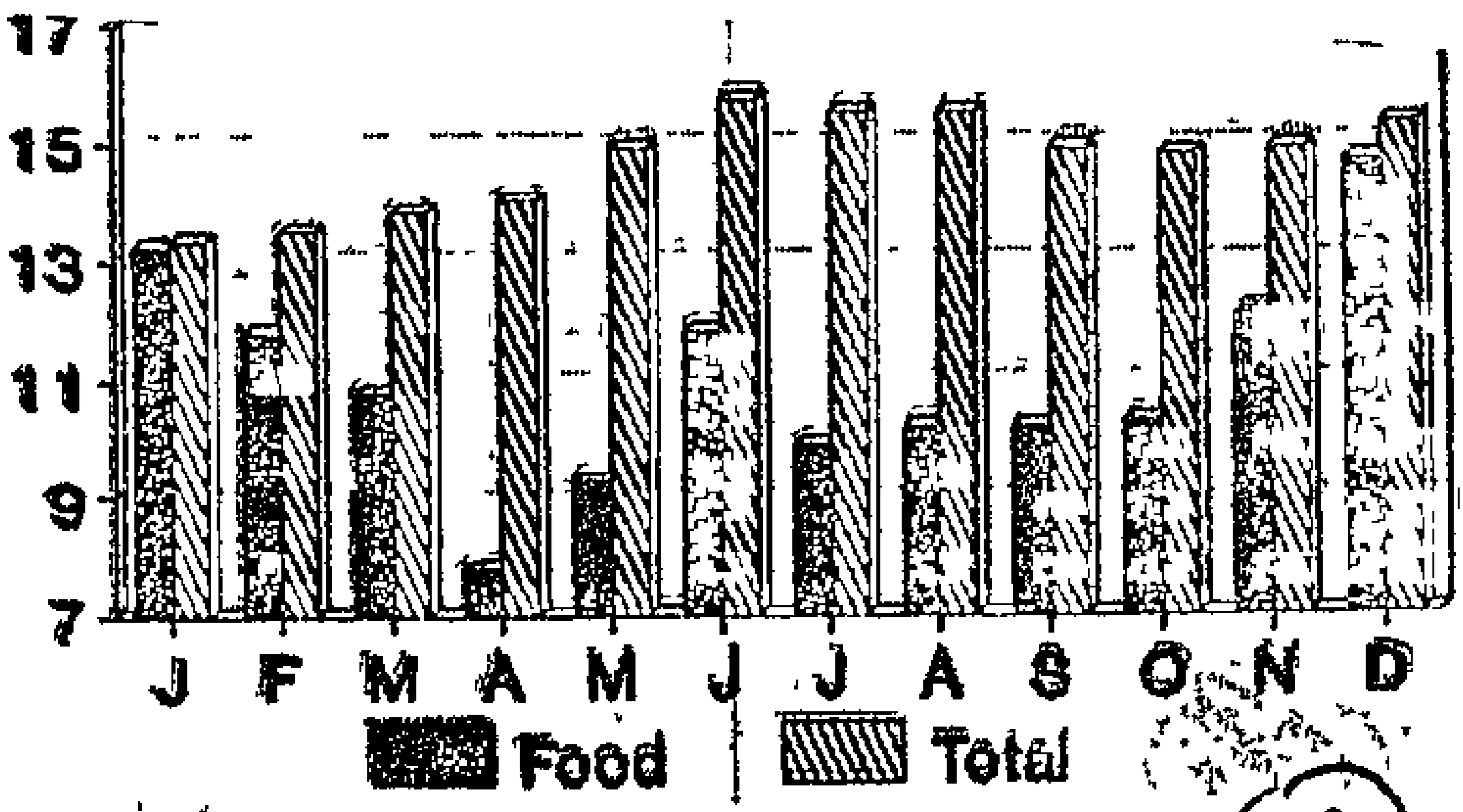
Nearly three-quarters of the respondents expect rising unemployment. More than half believe labour unrest will increase

The number of businessmen who foresee shortages of business resources, including capital and materials, has increased from 27% to 48%

Most executives say consumer groups will intensify pressure on manufacturers, the Government and the media to be more responsive to their problems

A total of 78% expects greater pressure on companies to assume increased social responsibility

The report on the survey is available from the Bureau for Market Research, Unisa, Box 392, Pretoria 0001



Annual percentage rises in overall CPI and food price CPI

153

Food prices weigh heavy on pocket

Star 23/1/90

By Sven Lünsche

Inflation is likely to drop to the 14 percent level this year, despite surging food prices.

Figures released by the Central Statistical Services (CSS) yesterday show that the Consumer Price Index (CPI) for food products rose by an annual rate of 14,7 percent in December (12,1 percent in November).

It contributed to an 0,4 percentage point rise in the overall CPI from a year-on-year level of 14,9 percent in November to 15,3 percent in December.

However, economists said yesterday that while the soaring cost of food would make it more difficult to lower inflation, the rate was likely to decline to an average of 14 percent this year.

According to CSS, inflation last year averaged 14,7 percent (12,9 percent in 1988 and 16,1 percent in 1987)

Rand Merchant Bank economist Rudolf Gouws forecasts a decline this year as economic growth declines and the firmer rand exchange rate reduces the cost of imports

The stronger rand has already contributed to a lower Producer Price Index (PPI), with imported price increases falling from a high of 19 percent last June to below 15 percent at year-end.

Slower growth is beginning to impact on the money supply figures, which were released yesterday.

Reserve Bank statistics show that the rate of increase in the broadly defined M3 money supply in December 1989 rose by 21,84 percent to R144,30 billion, compared with December 1988.

This was well below the rise recorded in November, when M3 surged by 23,35 percent to R142,30 billion.

M2 money supply in November reflected a year-on-year increase of 23,42 percent, while the narrowly defined M1 rose by 18,03 percent to R47,09 billion

The drop in M3 in December shows that the rate of increase is moving towards the targeted 14 to 18 percent level for the year.

UBS economists comment on this trend in the group's latest *Economic Monitor*. "Money supply growth rates exceeding 20 percent are likely to remain the major source of inflationary pressure

"However, the current policy of positive real interest rates will be beneficial in two respects — it will check the 'free' fall in the rand and encourage savings rather than expenditure.

"As long as South Africa's real interest rate is roughly in line with that of our trading partners, inflationary pressures will decline in the foreseeable future," the UBS says.

However, the brighter outlook holds little comfort for consumers, whose expenditure on food products makes up a large portion of overall outlays.

According to CSS figures, food prices between November and December rose 2,6 percent after a two percent rise from October to November.

Vegetables rose by a monthly 8,2 percent, fruit and nuts 4,8 percent, meat 1,7 percent and grain products 1,6 percent

Govt cutbacks augur well for lower inflation

Star 23/1/90.

153

By Derek Tommey

The large cuts in military spending announced at the weekend are expected to have a major impact on inflation

Coming at a time when other developments are leading to more stable prices, the outlook for lower inflation seems brighter than it has been for many years

Although the year-on-year inflation rate rose from 14,9 percent in November last year to 15,3 percent in December, the increase is seen as the result of seasonal factors and should now start to fall

The latest rise in inflation, in fact, is blamed mainly on the lack of rain in the Transvaal in the past two months, resulting in a sharp rise in food prices

"With a little bit of luck the inflation rate could fall to single figures by the end of the year," says Dr G Jan Hupkes, professor of Management Economics at Unisa

He cites the more stable rand, real rates of interest, the huge cuts being made in government expenditure, the stage reached in the inventory cycle and the increased opportunities arising from military cutbacks

The 29 percent decline in the exchange rate of the rand from R2,03 to the dollar in November 1987 to R2,80 last June resulted in a sharp rise in inflation.

Balance of payments

Since then, however, the rand has recovered to R2,54 With the balance of payments in surplus, it seems more likely to firm than to weaken

Real exchange rates have resulted in order cutbacks and the running down of inventories. This has reduced demand, both for local and imported goods.

However, the large reductions in military spending are also expected to produce a sharp reduction in inflationary pressures.

The surge in military spending, which began in the 1970s, was highly inflationary It reduced the flow of goods to the private sector, while the Government, for political reasons, was unwilling equally to curb the money supply.

The result was that South Africa began to experience the classic situation of "too much money chasing too few goods".

However, increased military spending also had a more direct effect on prices

As far as the military is concerned, the price of an item is of less importance than its availability, quality and reliability

For example, no army caterer is going to tell the troops that they are on short rations because the price of beef has jumped

This reduced concern about prices applies not only to food It applies to virtually everything the Defence Force needs. guns, ships, planes, construction materials, clothing — an endless list.

However, the good news is that reduced military spending should reverse inflationary pressures

More goods should become available for ordinary consumers, thereby lessening inflationary pressures

What will be particularly interesting in the months ahead is the behaviour of food prices

With the Army halving its manpower, its food requirements should also be halved. This should lead to a fall in prices

Price-conscious

Admittedly, people still have to eat whether they are in the Army or Civvy Street — but they are far more price-conscious in Civvy Street.

With the military cutting spending, one ought to expect a general reduction in pressure on prices

But the size of the reduction could depend on the Government's tax policy in the March Budget.

Before Christmas there was talk of the Government utilising some of the money saved on defence to cut taxes

Were this to happen, the reduction in money supply — and the downward pressure on prices — would be limited.

However, there is a school of thought, believed to be led by the new Governor of the Reserve Bank, Dr Chris Stals, that South Africa has been given an outstanding and possibly its only chance of crushing inflation and it would be a pity to waste it by reducing taxes.

Instead, the money saved by spending cuts should be taken out of circulation to reduce money supply This could lead to a marked fall in business activity and even to dramatic price declines.

However, were the Government to do this, it would risk causing a serious recession

In the early 1980s, British Prime Minister Margaret Thatcher's fight against inflation put three million on the dole.

Can South Africa afford a similar price for a sharply lower inflation rate? We will have to wait for the answer in the Budget.

Defence cost cuts expected to pull down inflation

ARGUS 23/1/90 153

From DEREK TOMMEY

JOHANNESBURG — The large cuts in military spending announced at the weekend are expected to have a major impact on inflation.

Coming at a time when other developments are leading to more stable prices, the outlook for lower inflation seems brighter than it has been for many years

Although the year-on-year inflation rate rose from 14,9 percent in November last year to 15,3 percent in December, the increase is seen as the result of seasonal factors and should now start to fall

The latest rise in inflation, in fact, is blamed mainly on the lack of rain in the Transvaal in the past two months, resulting in a sharp rise in food prices

"With a little luck the inflation rate could fall to single figures by the end of the year," said Dr G Jan Hupkes, professor of Management Economics at Unisa

He cites the more stable rand, real rates of interest, the huge cuts being made in government expenditure, the stage reached in the inventory cycle and the increased opportunities arising from military cutbacks

The 29 percent decline in the exchange rate of the rand from R2,03 to the US dollar in November 1987 to R2,80 last June resulted in a sharp rise in inflation.

But since then the rand has recovered to R2,54 With the balance of payments in surplus, it seems more likely to firm than to weaken

Real exchange rates have resulted in order cutbacks and the running down of inventories This has reduced demand for local and imported goods

The big cuts in military spending are also expected to produce a sharp reduction in inflationary pressures

The surge in military spending from the 1970s was highly inflationary It reduced the flow of goods to the private sector, while the Government, for political reasons, was unwilling equally to curb the money supply

The result was that South Africa began to experience the classic situation of too much money chasing too few goods

Increased military spending also had a more direct effect on prices The military view is that the price of an item is of less importance than its availability, quality and reliability

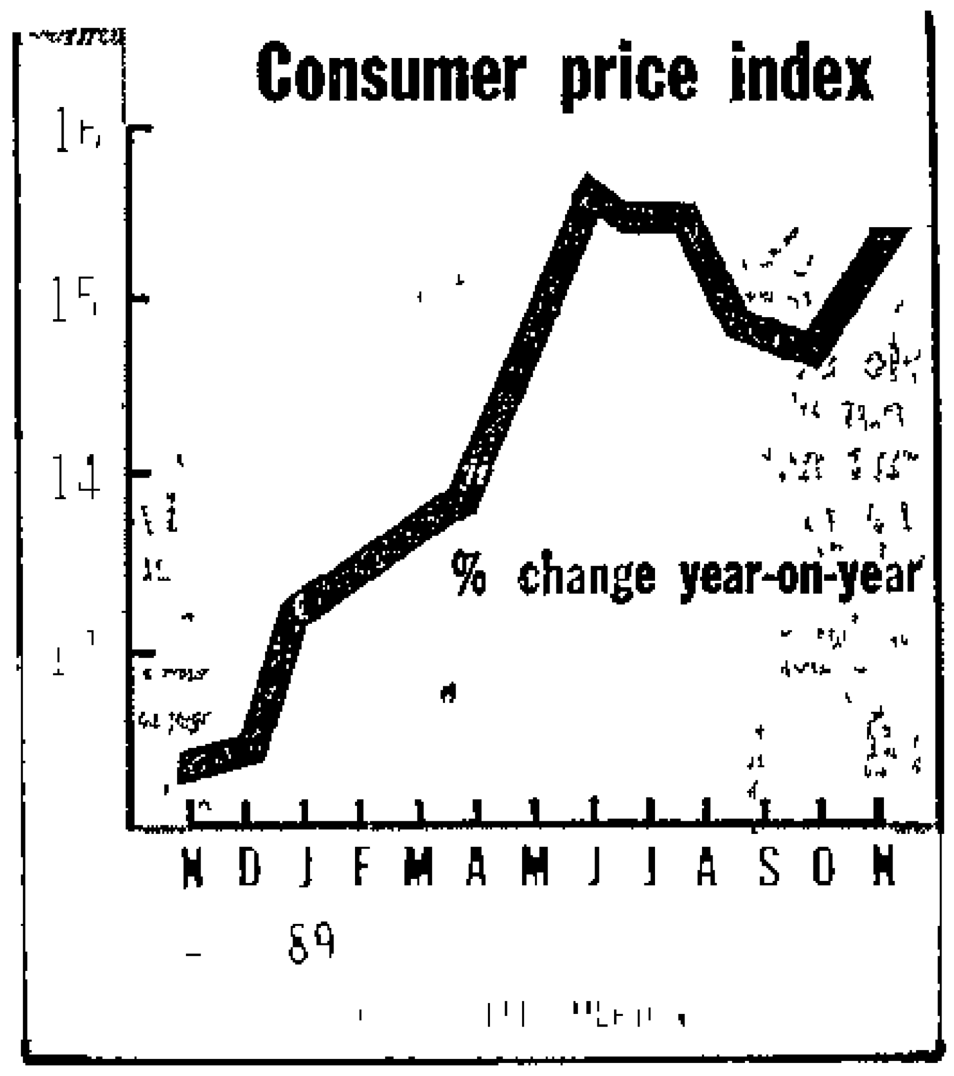
No army caterer is going to tell the troops they are on short rations because the price of beef has jumped

This attitude about prices applies not only to food, but to virtually everything the Defence Force needs

Reduced military spending should reverse inflationary pressures More goods should become available for ordinary consumers, thereby lessening inflationary pressures With the Army halving its manpower, its food requirements should also be halved This should lead to a fall in prices

But the extent of the fall could depend on the government's tax policy in the March Budget Before Christmas there was talk of the government utilising some of the money saved on defence to cut taxes

However there is a school of thought, believed to be led by the new Governor of the Reserve Bank, Dr Chris Stals, that South Africa has been given an outstanding and possibly its only chance of crushing inflation and it would be a pity to waste it by reducing taxes



Rate of inflation boosted by food

BDay 23/1/90

NEIL YORKE SMITH

THE annual rate of inflation, as measured by the consumer price index (CPI), was 15,3% for December, 0,4 percentage points higher than November's 14,9%.

Central Statistical Service (CSS) figures released yesterday show the seasonally adjusted monthly rate of increase was 1,9%.

The annual rates of increase for the lower, middle and higher income groups were 15,0%, 14,9% and 15,7% respectively.

A significant contribution to the increase was made by food.

The seasonally adjusted CPI for food rose 2,6% in December, maintaining November's sharp 2% increase.

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□ To Page 2

Inflation

BDay 23/1/90

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□ From Page 1

Large monthly increases occurred in the prices of vegetables (8,2%), fruit and nuts (4,8%), and coffee and cocoa (3,6%)

Other relativley large increases were recorded in the cost of personal care, (2,2%), furniture and equipment (2,0%), housing (1,5%) and clothing and footwear (1,4%)

At 17,2%, the Durban/Pinetown area recorded the largest annual increase

The lowest annual increase (14,0%) was experienced by the Cape Peninsula and Bloemfontein areas

The CPI for pensioners recorded a year-on-year percentage change of 13,3%

The average inflation rate for 1989 was 14,7% compared with 12,9% for 1988, 16,1% for 1987 and 18,6% for 1986.

INFLATION (153)

Feeding the surge

December's unseasonal weather sent food prices soaring And that meant a large jump in the CPI, which rose from 14,9% in November to 15,3% last month

Food contributed nearly 50% to a 1,3% month-on-month increase. From November to December, vegetable prices rose 8,2%, fruit and nuts rose 4,8%, coffee and cocoa 3,6%, fats and oils 2%, meat 1,7%, and grain products 1,6% For the full year, vegetable prices leaped by 34,2%, followed by fruit and nuts, which increased by 22,9%

Old Mutual economist Rian le Roux says that during the first seven months of last year, food prices rose at an annualised 9,3%, but by 21,1% over the last five months

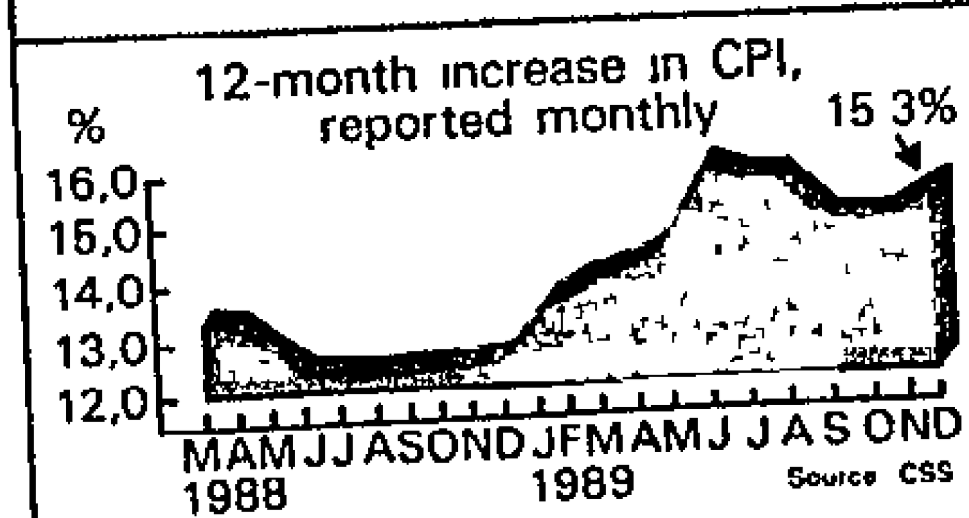
The increased price of vegetables resulted from unseasonal weather in the Transvaal and OFS, say produce market observers This reduced the supply of some vegetables and raised prices FM 26/1/90

Provisional Department of Agriculture figures suggest that food prices may be rising faster than the index shows Last month, the average price for vegetables at SA's 14 markets was R571,04/t, compared with December 1988's R370,23 Fruit was R908,29/t, against R690,79 a year earlier

Nevertheless, the outlook for lower inflation may be brighter "After a 14,7% average in 1989, inflation should follow a slow, jagged, downward trend I expect an average of 13,5% for 1990," says Rand Merchant

FM 26/1/90 (153)

Nudged up by food



Bank economist Rudolf Gouws. "Interest rates will remain high for the rest of the year, so consumer demand will weaken, the rate of increase of wages and salaries will slow The expected stability of the rand will help to slow the rate of increase in the prices of imported goods even further"

Adds Le Roux. "The underlying rate of inflation (excluding food prices) has come off, probably reflecting some strength in the rand. As the economy slows one would expect underlying inflation to slow, but now food prices could rise further"

Le Roux expects average inflation for this year as a whole to be between 14%-14,5%

Econometrix economist Tony Twine says "The food index was held down by cheaper red meat. We believe this was caused by oversupply as farmers reduced herds because of rising interest rates and retail prices dropped When no longer cushioned by low red-meat prices, the food index jumped"

He adds. "We believe the inflation rate will rise again in the short term and think the 16,1% expected by a recent survey of top 100 companies' views is reasonable"

The PPI for November, announced last

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FM 26/1/90

week, benefited from the firmer rand It was 14,6%, down from October's 15,3%. The November index used a new base year, 1985 ■

How to cut high rates — economist

(153)

B/Day 26/1/90

LESLEY LAMBERT

CAPE TOWN — Short-term interest rates and inflation would decline in the second half of the year, provided excessive growth in credit and the money supply was addressed, Southern Life economist Mike Daly said yesterday.

Daly, who projected in October last year that a lower dollar value would relieve the balance of payments (BoP), boost the value of the rand and reduce interest rates, confirmed the trend in his latest monthly Economic Comment.

Changes

He said that if the international value of the dollar remained low and the gold price maintained its current strength, the net gold and foreign reserves would begin to fill up again

This and a number of other vital economic changes like a slower rate of growth in the money supply and a lower inflation rate would all place downward pressure on short-term interest rates

If excessive growth in credit extended and the money supply were addressed during the first half of the year, it was possible that prime could shed two percentage points to 19% before the end of the year, he said

Daly projected an average year-on-year consumer price inflation rate of 13,3% this year, down from around 14,7% last year

Inflation rates recorded over the past few months had left earlier forecasts looking too pessimistic, he said While inflation could still peak in this quarter, it would do so at 15% rather than the expected 16% to 17% range, as the recent strength of the rand exchange rate took effect

However, he cautioned that the real economy would begin to feel the cumulative effect of a tough monetary and fiscal policy as the year unfolded.

"The fact that private expenditure on durable consumer goods declined during the course of 1989 at an accelerating pace, reaching a fall of 9,5% in the third quarter, indicates that pressure on the consumer is starting to be felt," Daly believed

He said real gross domestic expenditure was likely to show a small negative growth in 1990, after a small positive growth last year

Only a further strong improvement in net exports in 1990 would keep real gross domestic product growing by a possible 1%

BRIAN KANTOR

Surprise, we're growing

(153)

Brian Kantor is professor of economics at the University of Cape Town.

FM 26/1/90

If money supply is anything to go by, the economic slowdown is over and the economy has entered another phase of accelerating growth

December was a very big trading month Money supply, as shown by notes issued by the Reserve Bank, grew strongly enough to reverse the declining trend in economic growth If this continues, corporate earnings will begin growing even more rapidly because note issues consistently and reliably predicts corporate earnings (see graph)

This development has not gone unnoticed by Finance Minister Barend du Plessis and he is right to hold the Reserve Bank accountable Earlier this month he said "There is indeed a danger that the Bank will, through liberal assistance to the (money) market, facilitate further excessive increases in money supply, this will certainly not be in line with government's economic policy "

On the other hand, Du Plessis is unwise to admonish private bankers for doing what comes naturally to them — to lend more money when it's profitable He is wrong to believe that excess demand for bank credit can be eliminated without higher interest rates Neither moral suasion nor direct controls have anything to recommend themselves as options

The fundamental problem for Du Plessis and the Bank is simply that government's economic strategy is being undermined by its political success Political developments have clearly been boosts to confidence and, therefore, to spending The strategy, however, is aimed at restricting domestic spending to generate greater trade surpluses, which are assumed to be necessary to pay foreign debt and rebuild foreign exchange reserves

The trade balance has recovered well and inflation has moderated but an earlier-than-expected recovery for the economy, presaged by the spurt in money supply, might reverse these developments

Foreigners have begun to share this confidence Not only are they more willing to buy SA equities, they are also willing to hold more SA debt This greater availability of foreign capital means that government policies were designed for an economy in a very different state than it is now

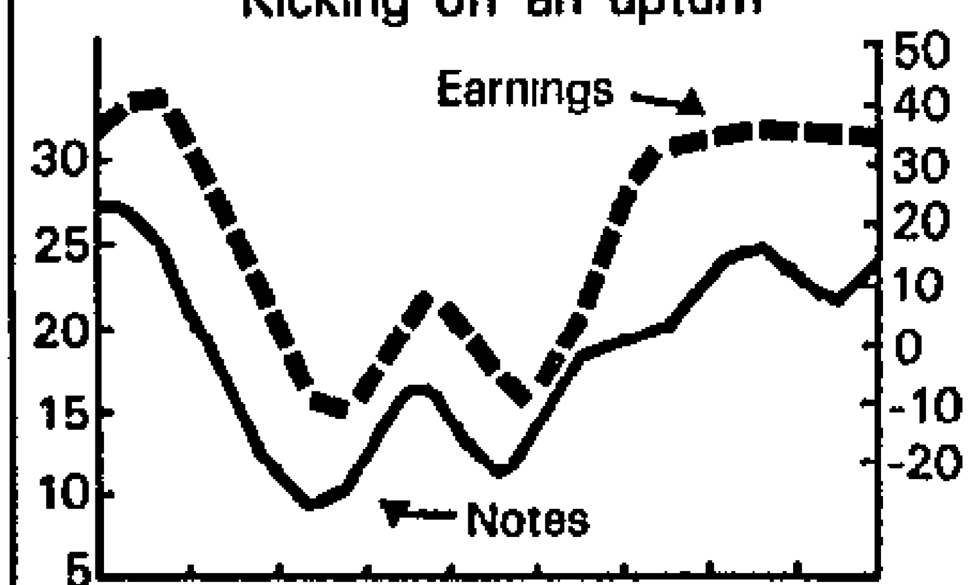
What can be done to inhibit inflation? Higher interest rates may do little to dampen the greater enthusiasm of households and businesses to invest And to offer foreigners higher returns, when they seem determined to drive down returns with their growing demand, also does not seem appropriate

So it would be naive to hope for too much from money supply in these circumstances But faster money-supply growth represents a longer-term, rather than an immediate, threat of higher inflation More important to inflation in the short run is the price of imports, which is influenced by the exchange rate and import duties The capital inflows, or a declining rate of outflow, resulting from more confidence in the economy, can be very good for the rand A stronger rand helps to reduce inflation and is also consistent with higher interest rates

Strong government revenues present another opportunity to cut inflation and defuse inflationary expectations, which is essential if inflation is to be reduced with minimum pain Higher revenues can also mean immediate direct tax relief if government spending is restrained Critical here will be public-sector pay increases Holding these to no more than 10% this year opens a huge window of anti-inflationary opportunity by cuts in direct tax rates So, if inflation is to be tamed, it's up to the authorities to act

Notes and earnings

Kicking off an upturn



The trend in corporate earnings follows the trend in notes issued by the Reserve Bank, so the recent growth in notes issued may mean the economy has bottomed out and a new growth phase has begun.

Source University of Cape Town School of Economics

Brighter outlook for inflation rate

Star 26/1/90 153

By Sven Lünsche

The government's tight monetary and fiscal policy will continue over the next few months and interest rates are only likely to decline by between one and two percent towards the second half of this year.

However, a major positive result of the restrictive policy will be a lower rate of inflation — in the region of 13 percent by year-end — say two leading economists.

Tougher times

Southern Life's Mike Daly and Dr Hans Falkena of the UBS argue in their group's respective publications that the restrictive government policy of the last two years will not be eased appreciably over the next few months.

However, the adjustment process in the economy will be easier this time around and they expect some easing in policy towards the end of the year.

"The real economy has yet to feel any pain as we enter 1990," Mr Daly writes in Southern's latest *Economic Comment*. "However, the cumulative effect of tight monetary and fiscal policy over the past 18 months will result in tougher times as the year unfolds."

He forecasts a small decline in real gross domestic expenditure this year, while only a further improvement in exports will keep GDP growing at about one percent.

"The policy of high real short-term interest rates will be maintained until the second quarter, during which the first official cut in the Bank rate from its current level of 18 percent can be expected."

However, the tight monetary policy is sending signals about the authorities' determination to reduce inflation, which Mr Daly estimates could average 13,3 percent this year compared with 14,7 percent in 1989.

"Inflation may peak at the 15 percent level in the first quarter, but consumer price increases will drop to below the 13 percent level by the end of this year.

"It is also possible that the bottom of the inflation cycle, which will be within a year or two, will be below the previous bottom, reached at the 12,3 percent level in late 1988," Mr Daly comments.

Tax outlook

UBS economist Dr Hans Falkena largely echoes Southern's sentiments.

"Provided the lid is kept firmly on government expenditure, no additional tax increases seem necessary, and interest rates ought to start decreasing gently from the middle of the year. By the end of this year, the Bank rate should be back to the 17 percent level.

"Another positive influence of restrictive policy will be a lower rate of inflation, maybe around 13 percent at year-end, which will also serve to stabilise the exchange rate," Dr Falkena states.

He adds, however, that much more emphasis will be placed on the government's fiscal policy in order to achieve these goals.

Budget deficit

Providing a conservative estimate of the current fiscal year's budget deficit, Dr Falkena says that the significant revenue windfall received could result in a deficit of R7,7 billion for the 1989/90 year (3,2 percent of GDP), well below the budgeted R9,95 billion (4,1 percent of GDP).

"An improvement of such magnitude is unlikely to be achieved again in the 1990/91 fiscal year although the deficit will still fall as a percentage of GDP.

"With a 16 percent growth in revenue, and a 15 percent growth in expenditure, the budget deficit is likely to be in the region of R8 billion, or around 2,9 percent of GDP."

Ideally, Dr Falkena notes, the budget deficit should be much lower, preferably around 2 percent of GDP.

"Still, with monetary and fiscal policy stances simultaneously restrictive, the policy mix in South Africa will be in a far better shape than during 1988 and 1989."

Planning to beat inflation

Star 27/1/90 (153)

Money Matters

MAGNUS HEYSTEK

MANY people don't see inflation as a major problem until the day they find themselves removed from the "inflation treadmill".

They might complain about the increases in the price of food or clothing but continue merrily spending as if there was no tomorrow.

Latest figures on remuneration published by the Reserve Bank show that most people, especially skilled or semi-skilled, are fairly well-insulated from most of the effects of inflation.

Due to the high demand for their labour, salaries have on average risen by much faster than the inflation rate.

This is also particularly true in the case of unskilled workers who, due to the aggressive wage-demands made by the trade unions, have seen average wages also rise at a much faster rates than inflation.

But inflation really starts hurting once one goes on pension. This effectively removes one from the "inflation treadmill".

Let's see how inflation can affect a typical retired person who leaves work with what appears to be a large sum of money. Bill leaves work at 60 with R200 000 which he invests in debentures or on fixed-deposit at 15 percent. The return is R30 000 a year of which tax takes R6 072 (which includes the primary rebate of R1 220 for persons over 60 as well as the first R1 000 in the form of interest which is tax-free), leaving just under R24 000 available to live on.

If inflation is running at 16 percent then, after four and a half years, the purchasing power of the capital is down to R100 000 and the purchasing power of the annual income is down to around R12 000.

After another four and a half years the capital is worth only R50 000 and the income will buy about R6 000 worth of goods and services.

Certainly the face value of the debentures or any fixed-interest investment instrument will be still worth a nominal R200 000 but money is worth only what it can buy. In Bill's case his purchasing power has been slashed by 75 percent in only nine years.

Contrast the position of Jim who retired at the same age and used the R200 000 to buy income-producing property. The return of 10 percent after all costs meant that Jim's income was only R20 000 a year before tax, but due to inflation, grew year by year. After nine years the property was worth R800 000 and the income had risen to R80 000 a year.

Jim maintained his standard of living while on the other hand, Bill was reduced to living on a decreasing (in real terms) income.

The lesson in all this is obvious: until such a time that inflation is brought under control and/or investors earn after tax-returns higher than inflation, pensioners will have to resort to inflation-beating techniques in order to maintain their standard of living.

High inflation, tax make them go it alone

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By David Carte

HIGH inflation and taxation, together with increasing workloads, are making salaried employment unattractive.

At the same time, the breakdown of the extended family system among urban blacks has made the consequences of unemployment harsher than ever

These are two reasons why the number of entrepreneurs seeking an existence in the informal sector is rising, say two experts at the Centre for Developing Business at Wits Business School

[redacted]

In a paper titled Megatrends in Small Business in SA, Ian Clark and Eric Louw analyse the supply and demand for entrepreneurs

An improving environment has increased the ranks of those prepared to go it alone They say "Media attention, exposure to success stories and a growing awareness of the failure of communism are all contributing to a broader acceptance of free enterprise and self-employment"

Mr Louw and Mr Clark report that opportunities for gaining business skills are proliferating and a wider range of support services has become available

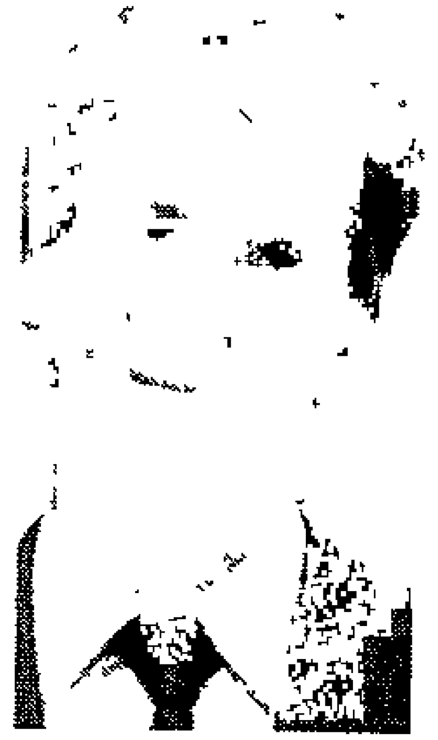
The availability of capital for new ventures is improving. The authors report that more and more women are starting their own businesses — and succeeding.

On the demand side, Mr Clark and Mr Louw find that small businesses are well suited to rapidly changing environments

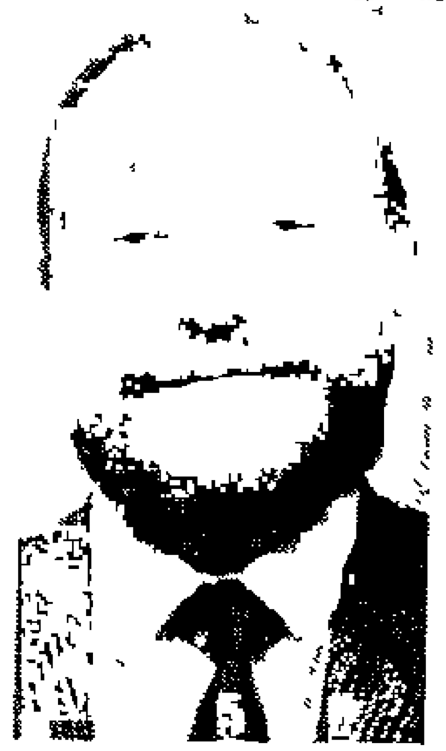
"The growing wealth of the black community, a function of political reform, urbanisation and upward mobility, has also influenced demand More people spend more money on transport, housing, entertainment and food However, because of political factors, big business has difficulty in gaining access to this market

"The massive growth in housing means the need for a host of other services and products accessible to township residents — carpeting, furniture, and electricians, for example Entertainment, sport, private education, the preparation and distribution of food and the provision of health care are other areas which have grown

THE SPURS TO SMALL BUSINESSES



Eric Louw success stories encourage newcomers



Ian Clark costs must also be taken into account

"We may expect to see a rapid rate of both entry and exit at the lower (smaller) end of the spectrum Moonlighting will become an area of massive growth as people attempt to supplement their incomes

"While retail will remain the largest small-business sector, services will experience the greatest growth The middle to upper end of the spectrum will have the greatest proportion of very profitable firms, although entry and exit will be rapid Finally, at the top end, firms will become increasingly sophisticated and assertive

"More competition is likely to push down profits and the rate of entries and failures will increase Cottage industries are likely to continue to proliferate.

"Many Western countries have displayed a progressive transition through four different dominant economic cultures

"The first is an agricultural norm. This is replaced by a civil service orientation, which then matures into a culture dominated by large corporations The final stage seems to be a strong entrepreneurial culture.

[redacted]

"This is where SA appears to be moving, but it still has a long way to go. And it may never get there if a reasonable rate of economic growth cannot be sustained, or if a relatively free-market-driven economy is replaced by a centrally controlled socialist one"

In another paper, Small Business Policy Stepping Down from the Side of the Angels, Mr Clark and co-author Gillian Godsell highlight the need for a considered small-business policy.

They say there are negatives to the small-business equation and warn against seeing small business as a panacea. They argue that the costs as well as the benefits must be measured

"We have devoted our energies towards abolishing laws and regulations and postponed the more difficult issue of producing creative enabling legislation, or non-legislative means of encouraging an enterprise-friendly climate

"In education we have focused on transferring skills rather than shaping values We have measured our progress in terms of rands spent rather than wealth created, we have counted jobs created and maintained, and have shied away from the consideration of the intangibles such as wellbeing, job satisfaction and independence.

"At the moment what we have from the State is a benevolent aura and degree of goodwill This is no substitute for policy

"While small businesses require less capital, are subject to low entry barriers and often employ the unskilled what is happening is that agricultural subsistence, for which there is no space, is being replaced by pavement subsistence for which there is space (of sorts) and a market (of sorts)

"If we are to move from a nation of employees to a nation of entrepreneurs, the social costs as well as the economic benefits are likely to be high

"We will move away from the group safety nets provided by medical aid, provident and pension funds We will then have to come to terms with either an increased State provision of facilities.. or the idea that no one is to take responsibility for those outside the modern sector's structured provisions"

[redacted]

A danger is highlighted "Small business may be seen, most particularly by blacks, as a dead-end street reserved especially for blacks, while endless corporate or professional vistas are open to whites

"By lifting as many restrictions as possible, are we going to turn black consumers and employees who cannot move out of the townships into a sort of second-class consumer or employee, not deserving the same sort of protection as consumers and employees elsewhere?"

Inflation spectre lifts as strong muti works

S/Times 28/1/90 (153)

Business Times Reporter

MIKE DALY . . . pessimistic forecasts revised

THE inflation clouds which have darkened South Africa's economic horizons for so long are lifting.

Economists are taking a more optimistic view because of the stronger rand and the authorities' commitment to reducing the State's role in the economy and the maintenance of strict monetary policy

Two financial institutions forecast an inflation rate by the end this year of about 13% — last year's was 14,7%

Sanlam chief economist Johan Louw says the new financial order will have a "pronounced positive effect" on inflation

"At this stage we envisage that the year-on-year rise in the consumer-price index will taper off to about 13% by December The figure for the year as a whole should be about 14%"

Southern Life economist Mike Daly projects an average year-on-year consumer price inflation rate of 13,3%

He says inflation in recent months made earlier forecasts too pessimistic Although inflation could still peak in this quarter it would do so at 15% and not the expected 16% or 17%

The Standard Bank Review also sees light on the inflation front. It argues that the economy seems to have broken out of the cycle which was marked by successively higher inflation peaks in recent years

Technical

Inflation peaked at 15,7% in June last year, and has declined since then to below 15%.

"Although this decline was partly technical and a slight rise in the inflation rate could occur in the months ahead, it is significant that inflation will have peaked at a level substantially lower than its previous peak of 20,7% in January 1986

"A feature of inflation in SA since the 1970s has been for it to 'ratchet up' over time, with successive inflation peaks each being higher than the previous peak

"It is encouraging that this progressive upward movement appears to have been broken, especially in the light of the authorities' renewed determination to bring inflation down to more acceptable levels"

Sanlam Economic Survey says several factors could hamper efforts to curb inflation Higher salaries and wages could lead to reasonably strong increases in unit labour costs, and continued sharp rises in medical and educational costs will increase upward pressure

The effects of the 14% rise in electricity tariffs and rail tariff increases ranging from 13% to 20% have still to filter through They will probably be followed by firmer rises in the administered prices of other goods and services

The survey is also bullish about gold The price should be firm this year on the back of falling interest rates in leading industrial countries and strong industrial demand for gold, says Mr Louw

Other positive indicators for gold are high investment demand in the Far East, political uncertainty in Eastern Europe, nervousness on stock exchanges, a decline in the importance of so-called gold loans, lower real interest rates and a weaker US dollar

Breather

"It is nevertheless debatable how permanent the higher gold price will be in view of expectations that inflation — an important determining factor in investment demand for gold — will maintain fairly low levels in the world economy"

In line with general expectations, Mr Louw says, SA's slowdown in economic activity will intensify this year

The higher gold price has given the authorities breathing space, but it is unlikely that restrictive Government policy will be eased appreciably in the next few months — "foreign reserves are still too low for that"

Essential

The average South African will have to be satisfied with a salary and wage adjustment this year which will probably barely keep pace with inflation

"Moreover, there is little chance of significant tax relief This is the price that will have to be paid to make essential adjustments to the economy to lay the foundation for a better future for all"

Sanlam foresees a year of shifts in the gold price

Star 29/11/90

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CAPE TOWN — It would seem that 1990 will be a phase of consolidation for the world economy, with sustained low inflation, considerable fluctuations in the gold price and unstable stock exchanges

This is the conclusion Sanlam's chief economist, Johan Louw, arrives at in the first economic survey of his company for the year.

Interest rates in the leading industrial countries will probably show a falling trend this year and the gold price should perform firmly, inter alia because of strong industrial demand for the metal

Other positive features for the gold price are the considerable investment demand for the metal in the Far East, political uncertainty in Eastern Europe, nervousness on stock exchanges, a decline in the importance of so-called gold loans — advance sales of gold — lower real interest rates and a weaker dollar

"It is nevertheless debatable how permanent the higher gold price will be in view of expectations that inflation — an important determining factor of the investment demand for gold — will maintain fairly low levels in the world economy"

As regards the South African economy, Mr Louw says there are indications that the slowdown in general economic activity experienced in the past 12 months will not only continue this year, but intensify.

Although the higher gold price has given the authorities a breathing space, it seems unlikely that the restrictive government policy will be eased appreciably in the next few months

South Africa's foreign reserves are still far too low for that.

"John Citizen will have to be satisfied with a salary and wage adjustment this year which will probably barely keep pace with the inflation rate

"Moreover, there is little chance of significant tax relief. This is the price that will have to be paid to make essential adjustments to the economy and so lay the foundation for a better future for all," says Mr Louw

An average inflation rate of about 14 percent may be expected for 1990, compared with 14,7 percent in 1989

As far as the balance of payments is concerned, the favourable trend in South Africa's net foreign trade position continues, he says — Sapa

Long-term prospects 'promising'

MDay 3/1/90

NEIL YORKE SMITH

INFLATION was unlikely to fall significantly in the short term, but longer-term prospects were promising, economists said yesterday.

TrustBank's Nick Barnardt said positive factors would outweigh the negatives and result in significant inflation reductions by year-end

"The positive exchange rate in recent months is a great plus and is always an important leading indicator of overall inflation," he said

This would help offset strong food-price inflation which would result from a poor agricultural climate and reduced supply, he added

Barnardt said interest rates were unlikely to rise further and would probably decline later in the year

"Also, factors like expectations of import surcharge reductions in the next Budget, and lower wage cost increases, indicate an inflation slowdown," he added

"We expect an annual inflation average of 13,8%, with 12,5% achieved at year-end and further declines next year"

Nedbank's Edward Osborne said a year-on-year inflation rate increase was unlikely in the short term but a downturn was expected in the second half of the year

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Stabilised

He said first-half increases would result from upward trends in food prices which were likely to increase in coming months

However, the stabilised rand in the second half of 1989 would bear fruit in the second half of this year

"The trend towards lower average salaries and wages, combined with an overall slowdown in the economy will improve the inflation outlook," Osborne said

Econometrix economist Azar Jammine said people were overly optimistic in predicting dramatic inflation declines this year

"Far too much money has been printed This means inflation will not fall as much as anticipated," he said

The positive currency situation should not be over-emphasised

"The rand has touched new lows against the Deutschemark and other European currencies in recent weeks This is hardly an anti-inflationary environment," Jamine said

Producer price inflation usually leads consumer price inflation by three to four months The rate of increase for the November Producer Price Index (PPI) was 14,6%, 0,7 percentage points lower than the corresponding rate for October (15,3%)

However, economists said the lower rate of increase should not be seen as a strong indication that the economy was cooling or that inflation was slowing

Reserve Bank to curb money supply growth

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By Sven Lünsche

In line with its efforts to reduce inflation, the Reserve Bank is to set lower targets for growth in the money supply this year

Reserve Bank Governor Dr Chris Stals says monetary policy will remain tight for some time and that the targets for growth in the broad measure of money supply, M3, are likely to reflect this policy

"Given our efforts to bring inflation under control, it is reasonable to assume that the targets will be lower than last year's 14 to 18 percent level," Dr Stals said yesterday

"Dr Stals has kept interest rates high and liquidity in the market tight, despite the improvement in the balance of payments," TrustBank economist Nick Barnardt said yesterday

"However, persistent growth in bank credit and money stock are forcing him to maintain a tight policy and I expect a target of 11 to 15 percent for 1990," he said

Another bank economist predicted an even lower range of 10 to 14 percent, 'as combating inflation involves breaking inflationary expectations, which a lower target would do"

However, a lower target in itself creates numerous problems, not least the task of overcoming them

Over the last few years growth in M3 has substantially exceeded targeted figures

Upper limit

Star 31/1/90

From the fourth quarter of 1988 to last years fourth quarter M3 rose by 25 percent to R143,1 billion, against a targeted upper limit of R135,13 billion

The Reserve Bank will release its target figures by the end of February, when the commercial banks have submitted their BA9 figures

But Dr Stals said the target was reached with flexibility and that there was no acceptance of a rigid and overriding "money rule"

"If we do not achieve the targets it is a good indication to us and the general public that we are still growing too strongly, as was the case last year

'However, we are receiving evidence that the economy is headed for a soft landing if the current level of interest rates is maintained for a while and no futher adjustment in rates is necessary,' Dr Stals said

The target usually comprises the Bank s forecast for inflation plus economic growth as measured by gross domestic product (GDP)

While it is generally expected that GDP growth will not exceed 1,5 percent this year, the difficulty arises when predicting the inflation rate for the year

Dr Stals said "Monetary and fiscal policy are making their contributions to lower price increases and will continue to do so, but whether inflation will fall further in the year ahead will depend largely on the level of wage increases

"If wage increases fall in line with stricter monetary policy, the major impact of lower economic demand will be on prices

"But if wages continue to rise at the high levels experienced over recent years, then not only will inflation decelerate at a much slower pace, but unemployment will increase," he said

Many economists agree with him that economic demand is already slowing down credit demand, and hence money supply.

While corporate demand for credit is taking longer to taper off than consumer demand, the growth in money supply should fall well within an 11 to 15 percent target range by the second half of this year," Mr Barnardt said

Nedfin MD Ron Rundle said "Corporate credit demand held up exceptionally well last year, but should decline as interest rates for corporate customers remain high and have even been raised over the last few weeks"

Fight against inflation to focus on labour next

8|Dcy 2/2/90

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GRETA STEYN

THE labour market will become the next focus in the fight against inflation because of unemployment and the inflationary effects of high pay rises.

Until now, the emphasis has been on tight monetary and fiscal policies. But Reserve Bank Governor Chris Stals sees the labour market as an essential third element in the anti-inflation drive.

In economics, there is no such a thing as a free lunch Crushing inflation in a vice-grip of monetary and fiscal policy will lead to some unemployment

Adherents of some forms of the "rational expectations" theory would argue that unemployment flowing from tight money policies is necessary to illustrate seriousness about fighting inflation.

People will adjust to the new environment and accept lower wages — unemployment will be a temporary phenomenon. In due course, wage rates will decline to a level where the supply of labour will equal the demand.

In other words, the slower the rise in pay, the less the unemployment flowing from an anti-inflation drive. The "real world" implication of the theory is that restraint in pay rises would cut down on the casualties of a war against inflation.

It can also be argued that restraint helps in the actual battle against inflation, as wage increases in excess of productivity increases have a cost-push effect on the inflation rate.

Labour productivity is a factor in the inflation equation that sometimes goes unnoticed, while money supply, budget deficits and exchange rates get all the attention But higher unit labour costs have a ripple effect throughout the economy.

Real unit labour costs declined from 1985-1987, according to the Reserve Bank's Quarterly Bulletin, but rose 0,3% in 1988 and at a year-on-year rate of 0,5% in the first quarter of 1989.

"Because of broadly similar rates of increase in labour productivity and in the real wage per worker in the second quarter of 1989, real unit labour costs subsequently showed little further change during that period," the bulletin said.

But maintaining pay rises in line with growth in productivity will be difficult in a period of economic slow-down and still-high inflation.

Built in to demands for pay rises is an informal "indexation" principle, whereby wage rises are linked to increases in the Consumer Price Index

While productivity could decline in a slow-down, wage increases linked to the inflation rate will simply help perpetuate inflation.

SA's economic policy makers have not ignored labour market implications for the battle against inflation

Stals cannot be accused of having a narrow Friedmanite "money supply is all" view of inflation But as a central banker, he naturally emphasises the monetary aspects of the inflation problem

"Restrictive monetary and fiscal policy remain the two most important elements in the anti-inflation drive. But the success of these policies will depend on the third element — the labour market," says Stals.

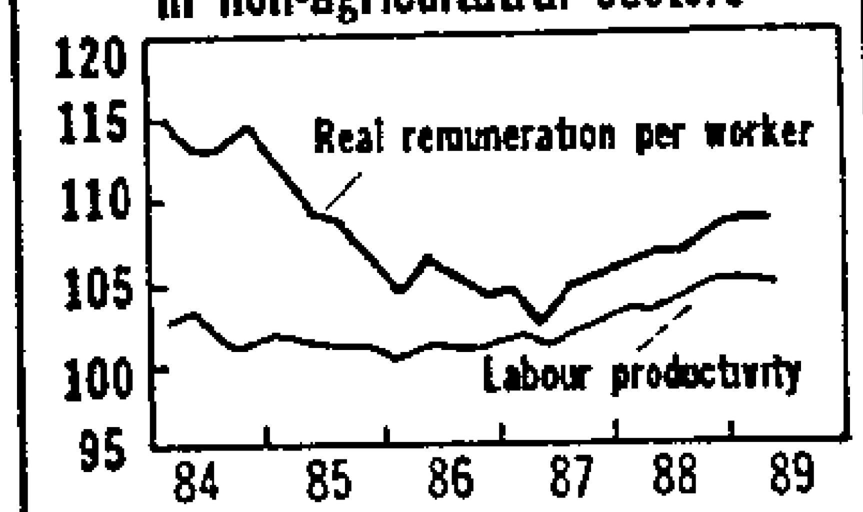
"We can achieve much with really strict financial discipline, but rising labour costs in the current economic environment will put pressure on firms' profitability The result will be higher unemployment levels"

If labour costs could be contained, unemployment flowing from anti-inflation policies could be kept to a minimum, he believes

Stals has been reading about the Chilean inflation experience, and how reducing wages in nominal terms helped that country.

With a chuckle, he says "Of course, they do have a military dictatorship It helps when you want to introduce pay cuts"

Labour productivity in non-agricultutral sectors



Seasonally adjusted indices 1980=100

Graph: LEE EMERTON Source: RESERVE BANK

REVIEW

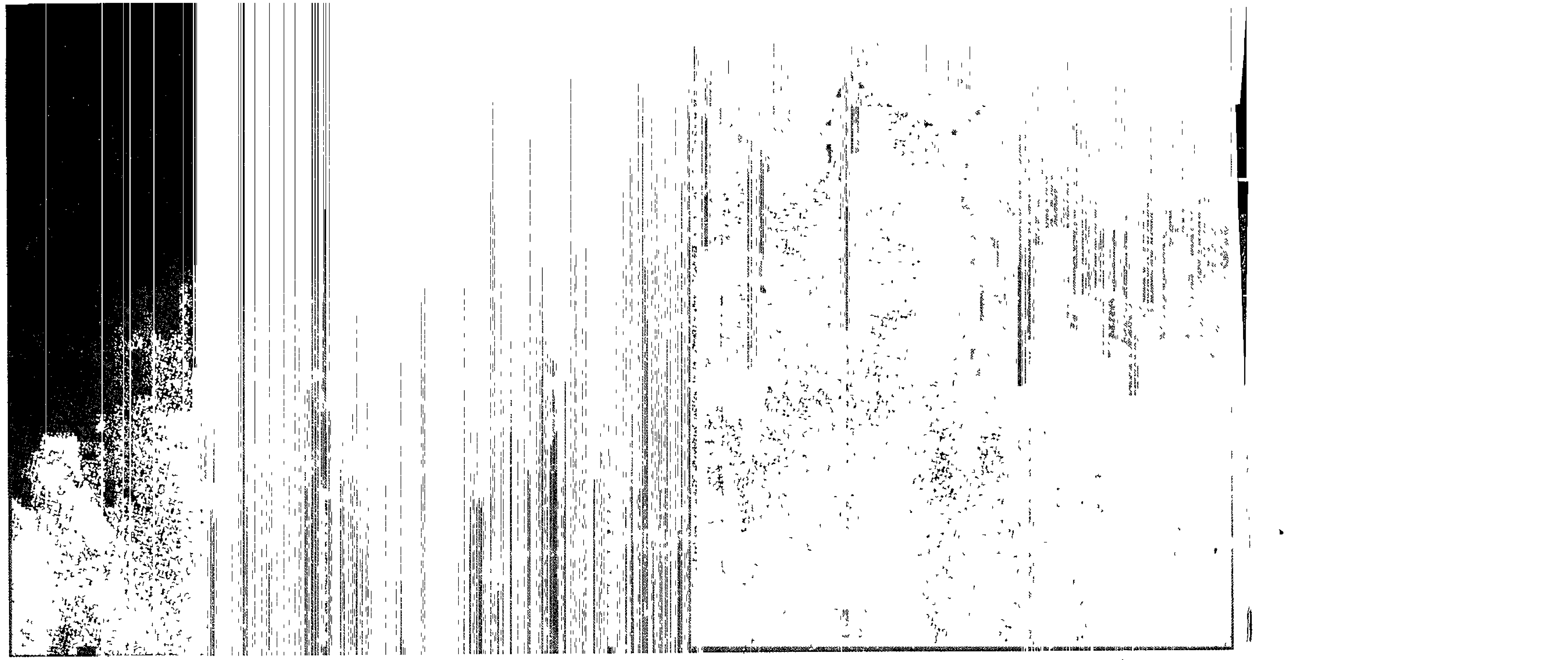
The ghost of perestroika knocks upon Arab doors

w/Mail 2/2 - 8/2/90

157

The earthquakes of Eastern Europe sent quivers down through the Orient The Middle East has ceased to be strategically useful to the superpowers, which can no longer be relied upon to prop up wobbly despots

By DAVID HIRST



The Muslim Brotherhood won seats in Jordan's first elections in 22 years, encouraging liberal fears that fundamentalists will take advantage of moves towards democracy

IT was at 7 30pm on Wednesday December 27 that President Hafez Assad of Syria called for an impromptu meeting of the National Front, the coalition of officially authorised parties through which he and his Ba'athists seek to lend an air of pluralism and consultation to their all-powerful, "vanguard" rule

By one o'clock the acolytes had dutifully assembled to hear him explain a decision which he had already taken, and already instructed his media to divulge to the world

By any standards it was a remarkable decision For 12 years, he had been championing the only course — uncompromising opposition — that Syria, "citadel of Arabism", could supposedly take towards Camp David and the late President Sadat's infamous "separate peace" with Israel But here he was, suddenly restoring diplomatic relations with an unrepentant Egypt

But the really menacing shadow under which the National Front met was that cast by events in the Soviet Union and Eastern Europe, by the spectacle on television a few hours before, of the last, bloodiest and most demented of Stalinist despots and his wife slumped, in bullet-ridden ignominy, on a barrackroom floor

Not only was the official subject of discussion a direct result of these events, they furnished the unofficial context too

According to the transcript of the meeting which has come into outside hands, it was the Arab world's veteran communist leader, Khalid Bagdash, who raised a contentious issue He pointed out that, while everyone had absolute confidence in Assad's leadership, the rapprochement with Egypt was bound to sow confusion among the masses, especially as none of the Ba'ath party's allies had any legal publications in which they could at least attempt to justify such an astonishing volte-face And he complained that some of his followers were still in prison

Whereupon the president retorted that, with the National Front and other institutions, the people had all the representation they needed Any talk of democracy was out of the question, democracy could be "expanded" Nor could there be any question of *perestroika*, or "re-construction", only more "construction". As for the release of political prisoners, it was untimely and liable to be misinterpreted as a sign of weakness

The earthquakes of the Eastern bloc are very much on Middle Eastern minds The rulers would never dream of publicly acknowledging it

Thus, for the Iranian Mullahs, it comes as posthumous vindication for Ayatollah Khomeini's famous letter to a "repentant" President Mikhail Gorbachev, in which he told him that communism belonged to the museum of history, and that salvation lay, not in Western capitalism, but in Islam

Muammar Gadaffi of Lybia congratulated the Romanians on grasping the message of his Green Book

The Arab Ceausescus — of which there are many examples — have outdone their mentor in their ability to dress up their dictatorial rule in patriotic slogans, to strangle their peoples' spirit and character and then glorify their submission and silence, to perpetuate massacres and make sure the lesson is not lost on anyone who dares resist the process of mass brainwashing, to purge any figure who looks like rising to prominence, by accident or design

From the Atlantic to the Gulf hardly one of 20-odd Arab regimes can remain indifferent to Eastern Europe But it is the self-styled republics rather than the traditionalist monarchies and sheikhdoms which can least afford to For, typically, they owe their origins to the persuasive power of an exalted ideology The ideology may have been very different from Eastern Europe's, an often experimental marriage of Western, secular, nationalist, frequently Marxist ideas with the indigenous traditions but, as in Eastern Europe, it was with revolutionary violence that they imposed it

No sooner had they done so than they deliberately curtailed or suppressed those elements of Western tradition, conventional bourgeois notions of freedom and democracy, which inconvenienced them

They contended that this was the price that had to be paid for pressing ahead with the higher tasks of the Arab "nation" — the consolidation of independence, the development of economies and the creating of more efficient and equitable societies

Every region has its special circumstances and, in the Arab world, it is impossible to dissociate that one great pan-Arab obsession, the loss of Palestine, from the domestic "revolutions" which it so powerfully helped to precipitate

It might seem unfair to single out Assad as the prime example of a discredited, one-time "revolutionary" order, for of all those Arab regimes, in Iraq, Egypt, the two Yemens, Libya, Algeria, which can be called revolutionary in origin, at least one, President Saddam Hussain's, is closer in spirit to Ceausescu than his

Hussain's regime has a grotesque extravagance in its personality cult, a barbarity in its repression, a narrowness in its family, clan and sectarian power base, and — though this is contestable — a scale of corruption and widening disparities of wealth, which put it in that class

Nonetheless, Assad is the most appropriate example, both because Syria has always occupied such a pivotal position in Arab affairs and because, of all such regimes, his is now the most obviously imperilled

For the point has been reached where only Assad's most abject apologist could deny that, by his own criteria, his "revolution" has sunk into an abyss of historic failure so deep that it can never climb out of it

Syrian President Hafez Assad

His wager on an Iranian victory in the Gulf war came to naught and Hussain is bent on exacting revenge The *intifada* has all but destroyed his influence over the Palestine Liberation Organisation An upstart Christian general mocks and insults him in his Lebanese backyard

And now, the Soviet Union no longer needs him as a cold war surrogate, and explicitly refuses to underpin his ambition of achieving "strategic parity" with Israel

So it is Assad whom *perestroika*, or rather its offspring, global detente, has hit hardest It is that above all which has set him knocking, contrite, at Cairo's door

He can see what others in the region also see that in this new, dramatically changing, multi-polar world, the Arabs will be forced more and more upon their own resources They too, and more than ever, need to establish their own regional power bloc, to rediscover that cohesion and solidarity which was one of the original objectives of the "revolutionaries"

But can the Arabs adapt to the foreign policy consequences of *perestroika* without emulating the reforms that were its original impulse? Assad is one who seems to think they can

The ruled believe otherwise A columnist in the London-based newspaper, *al-Hayat*, argues that without the spread of democracy, the Arabs will remain at loggerheads, at the very least, the most undemocratic regimes, like Iraq, must catch up with the less undemocratic ones, such as Egypt

The problem is all the graver, he argues, in that the Arab world in which Syria and Egypt are attempting to come together is one in which the external perils are much greater than they were when they split asunder

For "the region has become increasingly incapable of defending its national security and building its political future, with economic, social and political problems mushrooming and becoming more intertwined in all the Arab countries without exception

So why don't the Arabs emulate the people's power that has brought down the corrupt and the despotic from Latin America to the Far East?

The Arabs have been stirring in ways which the Eastern European example cannot but intensify and accelerate In almost every Arab country, the thinking classes, both separately and collectively, have long been coming to the same conclusion that if one thing, above all, is responsible for the low estate into which the Arabs have fallen, it is the absence of democracy

And recent events show that such thoughts are no longer the preserve of the intelligentsia Palestine is once again central the *intifada* is not only a struggle against Israeli occupation, it is an expression of exasperation with Arab regimes from which every Arab people, with discontents of their own, can and do draw the inspiration to do likewise

No Arab regime has yet lost the will to govern Even less has any of them relinquished its exclusive, or even dominant position like the reeling communists of Eastern Europe

But the contrary portents are also there, and they are to be found in both the ex-"revolutionary" as well as the traditionalist camps

In the former, Algeria's President Chadli Ben Jadid has shown the way After the October 1988 riots — bloodily suppressed symptom of his people's deep discontent with the ossified, one-party monolith, the National Liberation Front, which had foisted as incompetent. East European-style socialism on them since independence in 1962 — he inaugurated a process of far-reaching political and economic reforms

In theory, if not yet in irreversibly convincing practice, a new constitution permits the formation of independent political parties among an array of standard democratic freedoms Some of the advisers of Egypt's Hosni Mubarak now increasingly urge greater democratisation More surprisingly, the People's Democratic Republic of South Yemen, the only avowedly Marxist-Leninist of the "revolutionary" order, seems to be groping for an exit from its uniquely sterile form of tribal totalitarianism

Hussein is showing the way for the traditionalists After last summer's East Bank "*intifada*", he permitted the kingdom's first parliamentary elections for 22 years

Restricted though they may have been, they have unleashed a quite remarkable spate of reforms, actual or promised, which bite deep into the legal and political edifice of repression

They have led to the exhilaratingly unfamiliar spectacle of an Arab prime minister fighting off vigorous parliamentary assaults on his alleged involvement in high-level corruptions and the excesses of the intelligence service he once headed If he lets it go on, Hussein will have set a precedent which could have the most contagious of impacts on those key neighbouring states, Syria and Iraq, which stand in far greater need of such reforms than his

For there the barrier of fear that is being eroded elsewhere remains firmly in place, there the people have every reason to believe themselves at the mercy of two Ceausescus who will get crazier still" before they go.

One of them prevails by what has been aptly dubbed "Hama rules" When, in 1982, Muslim Brothers staged a rebellion in the city of Hama, Assad's "Securitate" — drawn largely from his own, Alawite minority — killed up to 20 000 people in that conservative stronghold of the country's Sunni Muslim majority. As for the other, "have no doubt," forecast an Iraqi, "that Saddam would be ready to gas his people just as he gassed the Kurds"

So there are still some Arabs who believe, in this era of all-conquering people's power, that the Arabs are doomed to be the exception that proves the rule

But, after Eastern Europe, it is a safe bet that they are now greatly outnumbered by those who believe that the Arabs' turn is finally at hand

It could be relatively bloodless where Arab Husaks or Honeckers agree to go quietly.

But it is almost certain to be very bloody indeed where the unregenerate Ceausescus await their Arab Timisoara — The Guardian, London

Labour a key to slaying inflation dragon

S/Times 4/2/90

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FIGHTING inflation is a painful business.

Americans did not know what had hit them at the beginning of the 1980s when the Federal Reserve brutally set out to change general economic behaviour by allowing US interest rates to rise to unprecedented highs It worked Inflation fell from double-digit levels to the 4,5% of recent years

Our policymakers appear to be equally determined Inflation will be licked, come what may

From a high of 21% in 1986, the consumer-price index inflation rate fell to 12,5% before rising to a cyclical high of 15,7% in June last year From there it has fallen once again, and by the middle of this year it should at most be about 13%.

That will be the relatively easy part because the oil price, interest rate and weak rand effects of a year ago will drop out of the inflation's measuring base

However, the process of lowering inflation is not supposed to stop there Further progress is to be made in the second half of this year, and luck permitting, we could even reach 10% next year It would be a decisive new cyclical low

Curiously, the authorities do not give the impression that they are taking the nation by the scruff of its neck and wringing it hard to induce behavioural changes.

A prime overdraft interest rate of 21% and consumer interest charges of up to 30% are, of course, far from easy living.

But we are being treated quite gently compared with the US economy in the early 1980s. In a flexible economy, reduced spending and production lead to more competition — among companies and in the labour force

[redacted]

When such a domestic recession is aggravated by intense competition with foreign companies and their workforces, a change of habit becomes inescapable Instead of forever trying to live beyond one's means, and passing on the bill to others through demands for higher wages and hidden tricks, such as repaying debt with devalued money, life becomes a matter of giving more than one receives for the chance of retaining one's livelihood

It is remarkable what such competitive pressures can do to attitudes Instead

REX

Cees Bruggemans reviews the local and world scene

of belonging to a labour union and daily insisting on more, one tends to become thankful for having a paying job at all.

Life becomes a struggle to retain a job, rather than to turn it into a device which will allow leverage over all and sundry The British experience under Mrs Thatcher in the early 1980s, and for that matter the French one under President Mitterrand in the mid-1980s, was no different

It seems that SA commerce, industry and the workforce need not fear such a harrowing experience This in turn throws doubt on the progress we are going to make in getting inflation well below 10% and keeping it there

It will be difficult to get South Africans to believe that a single-digit inflation rate is for real.

The problem facing us is one of structural rigidity: large powerful groupings by force of their market positions have the ability to duck any disciplinary burden by passing it on

The policymakers have a case for quietly demurring by pointing out that their main policy attempt is aimed at changing the structure of the economy In the process, less inflationary tendencies should evolve eventually

This long-term anti-inflation strategy can be said to have four legs

First, improving the soundness of fiscal policy by containing deficit financing of government spending.

Second, initiatives, such as deregulation and privatisation, aimed at improving the operating efficiency of the economy by encouraging greater competition.

Linked to this are the efforts of the Competition Board to constrain anti-competition efforts of the business sector; the efforts of the Board of Trade to prevent uneconomic import substitution, and indeed welcoming healthy import competition where it is beneficial, and not least the efforts of our many various education authorities whose job it is to improve the quality of the labour force

[redacted]

Third, all these efforts are to be supported by a monetary policy which is to maintain high real interest rates, ensuring a judicious use of scarce capital and a better use of our abundant labour resource

Fourth, the public sector as the country's largest employer can set a wage norm which private-sector employers are likely to emulate whenever it is in their interest to do so

This is not merely a theoretical policy framework that is bound to fail because of some fatal flaw If it is to fail, as policy has for the past decade, it will be due to a fatal failing of spirit in not carrying out the the intentions

In the 1980s there was no end to defence needs There was a peculiar belief in decentralisation, economically and politically, by throwing money at it, there was a very old belief in protecting one's own kind and empire building, ensuring a 20% increase in public-sector employment, an inflation-proof existence and pension enhancement for those so engaged.

There was also a belief in bread and circuses for all through too-low interest rates which made financial speculation rewarding and encouraged investments that were not necessarily in the country's long-term interest.

That this was humbug is now coming out in the wash. With the total onslaught having changed in character, so goes defence With separate development reversing, so go regional incentives and "development" subsidies And interest rates are going to remain real

Although the intentions are real and beneficial, the dividend of a much lower inflation rate may require more action, and for much longer than perhaps envisaged

For one, the entrenched nature of corporate concentration will remain For another, the country lacks social harmony as old income disparities are addressed through growing union action

The true inflation linchpin may be the labour force, where the British experience is instructive

[redacted]

After excessive union power was dismantled, overmanning reduced and surplus labour reabsorbed, what remained was an inadequate education system and a strangling shortage of specific labour skills In a growing economy, especially an open and competitive one, that is the structural Achilles' heel which entrenches inflationary forces and a weak currency

Good intentions, even honourable ones, will not be enough If we are really going to whip inflation by the turn of the century, labour may be the key.

Sunday Times

BUSINESS TIMES

PERSONA

(810) (153)

That elusive real return on money

S/Times 4/2/90

THE best things in life are real — according to the dairy advertisements.

A real return on investment should bring cheesey smiles to savers' faces. What exactly does real mean?

Real is a much-bandied term to signify a return on investment higher than the rate at which the cost of living climbs

Real rates of interest imply a higher rate of interest paid than the rate of inflation

The intention of Government and the Reserve Bank is that real interest rates must prevail With inflation for the year to December at 15,4%, one needs to earn 15,5% or more to get into the real bracket Or is it?

Taxable

In the hands of most taxpayers, such return is but nominally real. Interest is regarded as fully taxable income by the Receiver of Revenue Assuming that he demands a maximum of 45% of interest earned, fixed-deposit savers are worse off than ever.

What does the inflation rate signal? Economists have many chicken-and-egg theories, but the outcome is that what cost R100 this time last year now costs R115,40. If you could afford it last year, but have not achieved a real return on investment, you cannot afford it this year Your standard of living falls, your capital is eroded, and is used merely to exist, not to earn income

This is the crux of the matter facing all South Africans.

Fortunately, there are many investment opportunities But only a few can claim to have outpaced inflation

Security

Beating inflation through safe, institutional investments is no cakewalk

Fixed deposits, such as those offered by banks, building societies and the Post Office, guarantee maximum security But they are risky in the long term in that your money becomes worth less It will depreciate in real terms

Consider for a moment what the borrower — the bank, for example — does with the money it borrows from you It lends it to others and takes a margin of profit for itself.

Emergency

Do not be misled by advertisements guaranteeing a fixed rate of return offered by a no-name brand institution A guarantee is only as good as the institution behind it If someone offers a return of 25% when banks pay 15%, a high risk is being taken with your money

Once you start to question the other party's objectives, you will make fewer investment mistakes

So much for fixed deposits They are okay for a short spell as a sort of parking place or emergency coffer, but in the long run, they are a no-no

Happily, the JSE has provided real returns to investors Those rich and informed enough to have their own portfolio of shares have only their own fortunes to consider

For more than 500 000 South Africans, investing in shares through unit trusts has been extremely rewarding In the past 12 years, the rate of inflation has averaged 14,32% annually, but the worst return from a general equity unit trust has exceeded 25% compound growth The best funds topped 30%

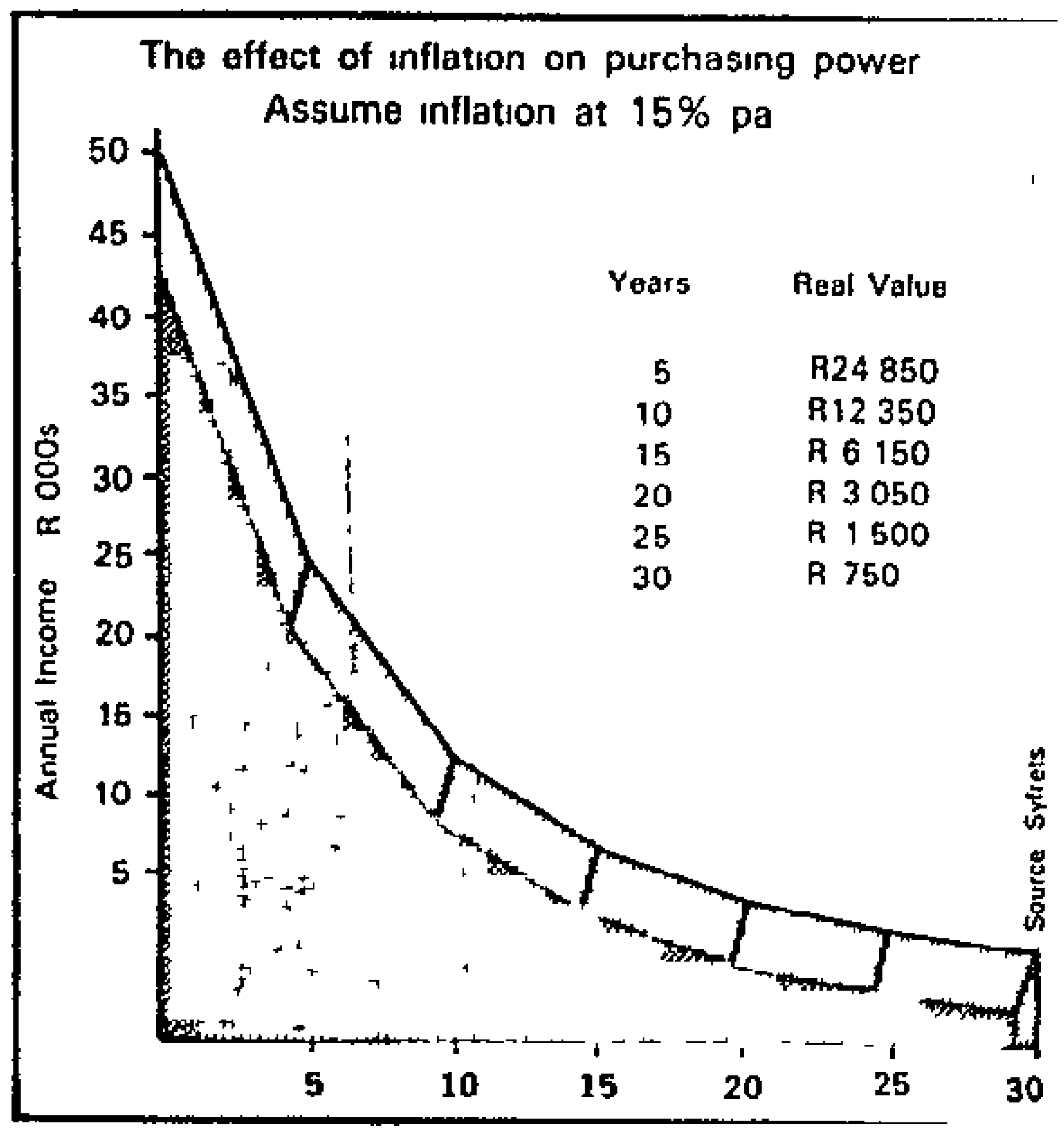
Impartial

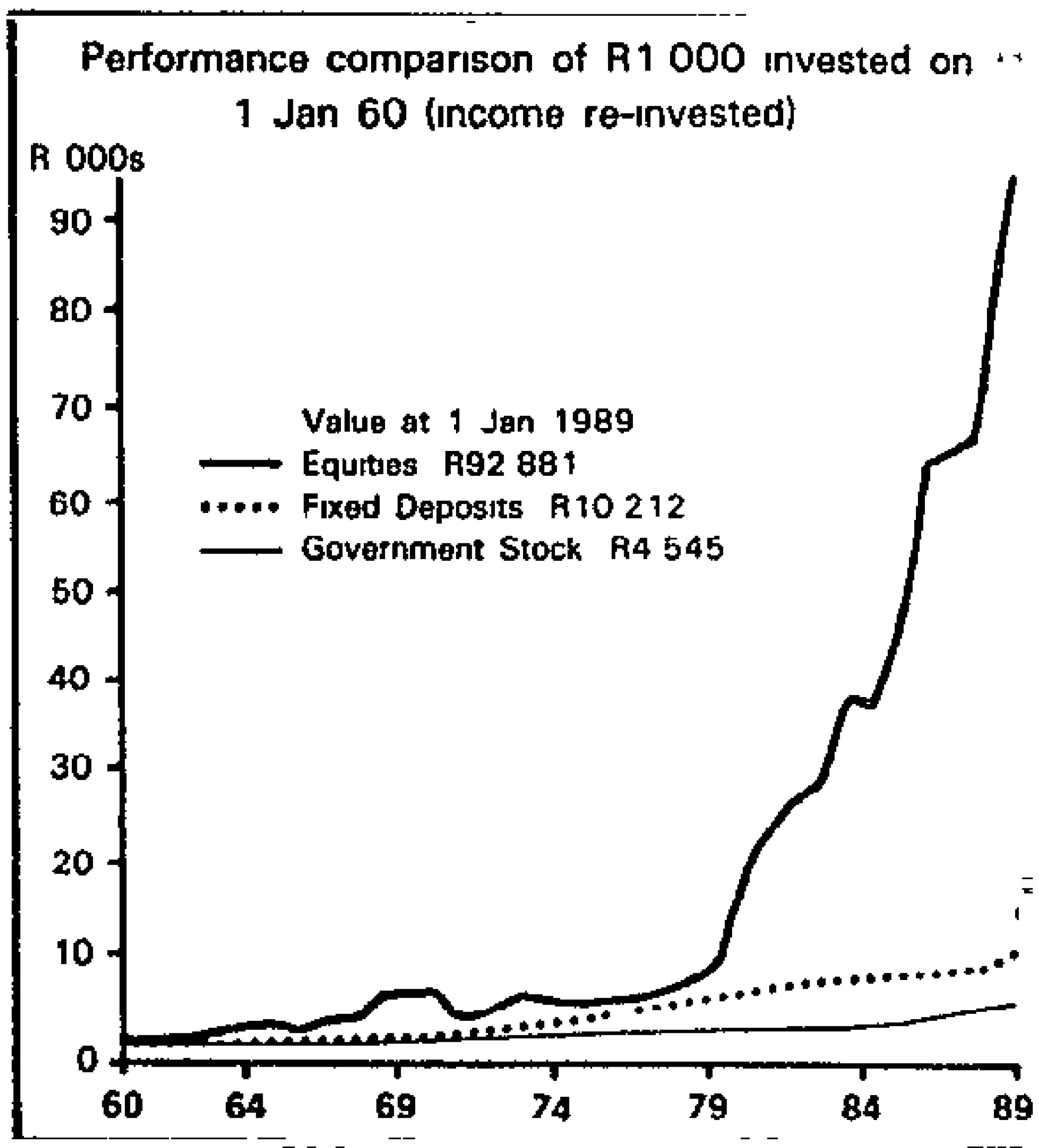
A spread of investments is the best policy. How one's personal investment portfolio should look depends on dozens of factors — needs, objectives, means, taxation and age

For these reasons tailored professional advice is vital Many people worry that they will not be given impartial advice if they go to a recognised financial institution

They should better remember that they will not be given bad advice, that they are under no obligation to follow it, and that they can shop around if they so desire, and can spread their investments across several institutions

Sound and professional advice is better than none.





Inflation tops pay rises

S/Times 4/2/90

(153)

SALARY increases have not only failed to keep pace with inflation, but have fallen markedly in certain white-collar sectors for the first time in four years.

The Kelly Personnel Salary Survey published this week says the cause is a cooling of the economy which affected commercial sectors in the latter part of last year

Although the salaries of white-collar workers declined on average, there were increases in some areas But they were nominal in real terms

The Kelly survey says front-office staff, such as receptionists-telephonists, received small pay increases and bookkeepers fared better than most

"Companies are paying more and more attention to their receptionist staff to ensure that the company image is projected in the most professional manner possible

"This demand for higher skills and standards has contributed to the upswing in salaries being paid to receptionists-telephonists throughout the country"

Taking a knock for the first time in many years are personal assistants (PAs) in Johannesburg These high-flyers received average increases higher than the rate of inflation in the past

The survey covers executive secretary-PA, secretary, Girl Friday, typist, receptionist-switchboard operator, bookkeeper to trial balance and accounts clerk

It says salaries remain higher in the Witwatersrand area than in the coastal cities

It shows that starting salaries for executive secretaries are 12,5% lower in Cape Town, 28,5% lower in Port Elizabeth and 19% lower in Durban than in Johannesburg.

Starting salaries for bookkeepers are 32% lower in Cape Town and 35,5% lower in Durban than in Johannesburg

Fight against inflation paying off, says Stals

(153) STAR 12/2/90

By Sven Lunsche

The Reserve Bank's intensified efforts to bring inflation under control are beginning to show positive results, says its Governor, Dr Chris Stals

He said on Friday, however, that it was premature to relax restrictive monetary policy until foreign exchange reserves had been built up to an adequate level

Excessive bank lending needed further curbing, he said

He told a seminar hosted by the EP Building Society in Port Elisabeth that the authorities were encouraged by recent statistics in their efforts to reduce inflationary pressures.

"Monetary policy on its own can eliminate inflation completely, but without the support of other macro-economic policies, especially fiscal policy, the social cost in terms of reduced output and lower employment will be too high.

"It is therefore essential that a serious anti-inflaton drive should emanate from the Government itself. Perhaps the most encouraging feature of the drive against inflation is that the Government stands behind it," Dr Stals said.

He expected that government expenditure in the current fiscal year would be more or less in line with the Budget prediction, while revenue could exceed the estimates by a substantial margin

"The deficit before borrowing will accordingly be much smaller than the R9,9 billion provided for in the Budget, and may indeed by very close to the magical three percent of GDP," Dr Stals said

This assessment was supported by the Director General of Finance, Gerhard Croeser, who in a seperate speech at the conference said that containment of the deficit would take precedence over tax cuts in thisyear's Budget.

"The Government's resolve to control spending will limit the scope for tax cuts," he said.

Mr Croeser said that expenditure would run pretty close to the budgeted figure of R65 billion in the current fiscal year, while the deficit before borrowing would be lower than three percent of GDP

In the coming fiscal year the authorities would try and retain the deficit at these levels.

Other developments confirming progress in the fight against inflation, according to Dr Stals, included a substantial decline in the growth of gross domestic expenditure, which in 1988 rose by 7,5 percent, and a slowdown in the annual rate of increase of bank lending to the private sector to 20,8 percent in November last year to 30,8 percent at the end of 1988

However, Dr Stals warned that despite these developments and the recent strengthening in foreign exchange reserves, particularly since the speech to Parliament by State President FW de Klerk, "it would be premature to relax monetary policy at this stage"

Taking account of the Bank's responsibility for the protection of the rand, Dr Stals said any relaxation of the policy could only be considered if a number of economic criteria were met.

- The balance of payments position should be consolidated and gold and foreign exchange reserves be built up to a much higher level
- The excessive increase in bank lending and in the money supply should be curtailed further
- The rate of inflation should decline further

STAR 14/2/90 (153)

Competition from informal sector unfair, says building chief

Commerce and industry is suffering from the unfair competition of the informal sector and the sooner the recommendations of the Margo Commission of Inquiry on Taxation are fully implemented the better.

This was the message to the building industry from Mr Phil Watters when he stepped down as president of the Master Builders Association (Witwatersrand)

Mr Watters told the annual meeting: "Notwithstanding statements by the State President that 'all will be equal before the law' we find a daily stimulation by the government of the informal sector to the detriment of the formal sector.

"This category of business does not have to comply with rules, regulations and laws which puts them in a very strong bargaining position especially under circumstances where the government has not, as yet, defined the 'informal sector'."

Mr Watters urged the implementation of the Margo findings so as to achieve a more balanced taxation base for the formal and informal sectors.

Praising his association for its excellent service in the industrial relations field, the outgoing

Property & Construction

FRANK JEANS

president said discussions were taking place with some black trade unions on conditions of employment and on the future structure and co-operation on collective bargaining for the industry as a whole.

"We have one black trade union which is a party to the Industrial Council but with the non-participation of the two other black unions in the council bargaining system we face a representation problem which might lead to the Minister not publishing our agreement so far as the general worker category is concerned

"It would be a tragedy if due to the trade unions' refusal to participate in the system thousands of employees would lose their social fringe benefits established through the Industrial Council

"It is impossible for trade unions to negotiate these benefits with individual employers and therefore, they stand to lose more than anybody," said Mr Watters."

Call for wage restraint to fight inflation

CM Times • 21/2/90

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Own Correspondent

JOHANNESBURG — Reserve Bank Governor Chris Stals and Finance Minister Barend du Plessis yesterday called for wage restraint to help fight inflation.

Speaking at the Frankel Kruger Vinderine investment conference in Johannesburg, they emphasised the fight against inflation now needed the support of a restrictive policy on wages and salaries.

Stals said: "We need the support of employers and employees to ensure that excessive wage increases will not jeopardise the present well co-ordinated programme against inflation."

He noted monetary policy was beginning to show effect, fiscal policy was making a major contribution and domestic demand was not exerting any undue pressures on prices.

"One major further action is now required, and that is for wage and salary adjustments also to come in line."

Stals described as "disturbing" an increase of 17,9% in the average level of nominal wages per worker in the first three-quarters of 1989 compared with the same period in 1988.

While it could not be expected of wages and salaries to remain stable in an environment of inflation, and it was reasonable for workers to be compensated for the decline in the purchasing power of money, Stals said the only justification for increases in nominal wages above the current inflation rate must be higher productivity.

"The available information on labour productivity for 1989, however, does not justify any important increases in real wages.

"The aforementioned increases at rates well above the current rate of inflation can only fuel inflation."

Stals said the total environment, both in terms of financial conditions and as far as as macro-economic trends were concerned, was now extremely conducive to an important reduction in inflation.

"It will be a great pity if this opportunity should now be missed because of unreasonable demands for wage and salary increases."

But monetary policy still had to spearhead the fight against inflation.

Du Plessis said "We do not support a policy of freezing or limiting to a certain maximum percentage the rise in wages and salaries. Employers and organised labour should, however, take note of the adverse long-term effects which excessive wages and salaries exert on SA's rate of inflation..."

Another spin-off was the use of capital intensive production techniques, while the growth rate and export competitiveness also suffered.

The danger also existed that substantial increases in real terms in wages and salaries might make it easier for workers to get credit from banks to finance consumer spending.

He told businesses that control over costs was essential during a consolidation phase — implying that wages and salaries should rise at a lower rate in the year ahead.

He told trade unions they had a vested interest in a sound and growing economy. "Unmotivated strikes and intimidation do not serve the long-term interests of the economy and reduce labour productivity," he said.

Govt urges curb on inflationary wage rises

Star 21/2/90 (153)

By Derek Tommey

The Government is urging the private sector not to grant inflationary pay rises

Conditions are conducive to an important reduction in inflation, the Governor of the Reserve Bank, Dr Chris Stals, said yesterday

"It will be a great pity if unreasonable demands for wage and salary increases prevent this from happening," he said.

Both the Minister of Finance, Barend du Plessis, and Dr Stals used the Frankel Kruger Vinderine investment conference in Johannesburg yesterday to appeal to employers to keep wage and salary increases in line with the inflation rate.

Dr Stals said monetary and fiscal policy were making a major contribution to the fight against inflation.

"One further major action is now required, and that is for salary and wage adjustments to come into line," he said.

Wage increases in the first nine months of last year were 17,9 percent ahead of those of 1988.

Dr Stals said that workers could expect to be compensated for the decline in the buying power of the rand

But pay increases greater than the inflation rate were themselves inflationary unless justified by higher productivity, which was not the case last year

Inflation

Noting that the 17,9 percent increase in wages last year was on the high side, Mr du Plessis warned employers and organised labour about the adverse effects excessive wage and salary increases had on the rate of inflation, on economic growth and on the use of capital, instead of labour and export competitiveness

Dr Stals said that although the consumer price index (CPI) in December was 15,3 percent higher than a year earlier, indications were that inflationary pressures had eased in recent months.

"This was not entirely owing to anti-inflationary measures — in this game you also need a little bit of luck," Dr Stals admitted.

Among the indications of lower inflation were the 4,2 percent appreciation in the weighted average of the rand in the past seven months and the fall in the growth of money supply.

Other important indicators were the estimated 0,5 percent decline last year in real gross domestic spending after it had increased by 7,5 percent in 1988, the drop in the annualised growth rate of the CPI from 18,4 percent in the second quarter of last year to 13,3 percent in the fourth quarter, and the drop in the growth rate of the producer price index (PPI) from an annualised 20,2 percent in the second quarter to 8,7 percent in the fourth quarter

Dr Stals said it was policy to hold the rand at its present levels to help exporters maintain the markets they had developed.

"We do not mind if the rand is undervalued in terms of the foreign exchange rate," he said.

Reserve Bank

But for Reserve Bank intervention, the exchange rate would have been much higher

It was also policy to keep the exchange rate stable, he said.

The Reserve Bank did not want the rand to appreciate and then depreciate again.

So far there had been no sign of any long-term investment by foreigners so the present upward pressure on the currency might only be temporary.

Dr Stals said the Reserve Bank had held the exchange rate by selling rands for dollars Because the banks had used these rands to reduce their indebtedness with the Reserve Bank, there had been some increase in money supply.

To mop up these extra rands the Reserve Bank had from yesterday morning been offering the banks dollars in exchange for rands on condition that the dollars are invested abroad.

Bankers expect this to tighten conditions in the local money market where the shortage has fallen from R5,5 billion to around R2,4 billion in recent weeks.

BDay 22/2/90. (153)

Inflation inhibits role of life offices — Stals

LESLEY LAMBERT

CAPE TOWN — Reserve Bank governor Chris Stals reaffirmed government's drive to eliminate inflation yesterday, saying that high inflation inhibited the role of life offices in mobilising and investing savings which were vital to economic development

In his seconder's address at Sanlam's AGM, Stals said savings made a vital contribution to the financing of the net outflow of funds overseas and expansion of production capacity which created more job opportunities

Life offices played an important role in ensuring that the total savings pool was as large as possible and that available funds were invested in a way that enhanced long-term economic growth.

But none of these objectives were attainable in an environment of high and increasing inflation, he said

The elimination of inflation was also one of the best ways of removing economic distortions which upset the competitive environment of financial institutions and lead to uneven playing fields, Stals argued. He said it would lead to more equal and unprejudiced application of the tax system and liquidity requirements.

"Those who have the responsibility of encouraging the public to save even more, and who then also have to mobilise and invest those savings, can do so in the best interest of future economic development only in an environment of stable monetary values

"In this way alone will we eventually be able to persuade those who doubt the benefits of the market economy that this system, where realistic prices and realistic interest rates reflect the underlying conditions of supply and demand, will ultimately provide us with the greatest possible prosperity," he said

Little chance of lower rates . . .

CNN Times 23/2/90 153

Inflation rate drops by 0,2%

By ARI JACOBSON

LATEST consumer price index (CPI) and money supply (MS) figures released by the Central Statistical Services (CSS) yesterday, indicate little chance of an early drop in interest rates as the government battles to smother inflation

SA's inflation rate for January as measured by the CPI dropped by 0,2% from December, to 15,1%

The Cape — helped by the influx of holidaymakers over this period — boasted the highest monthly increase of 1,6% compared to the Witwatersrand at 1,5%

The largest contributors to the monthly non-seasonally adjusted increase of 1,4%, on a weighted average, were food at 0,4%, medical care and health expenses 0,3% and fuel and power 0,2%

The monthly rate of increase in the seasonally adjusted CPI is 0,8%

SA's broadly defined M3 growth on a year-on-year basis slowed to 21,9% in January against December's revised annualised figure of 22,7%

This was significantly lower than the percentage change over 12 months to January 1989 of 27,1%

Gad Ariovich, market strategist at Fergusson Bros, Hall, Stewart & Co said although inflation was high it would start tending down as lower economic activity dampened price rises

Ariovich attributed the unremarkable drop in inflation to cost-push factors

"The scrapping of food subsidies boosted product costs which producers passed on to consumers"

"Salaries and wages, based on companies' previous year's performance and with added impetus from trade unions, are expected to increase by 14% in the coming year"

He warned that the MS was still too excessive to reduce interest rates, especially as demand pull inflation generated from high monetary aggregates lagged the economy by between nine and 20 months

"Tighter controls are the treatments required to realise the ultimate objective of improved living standards"

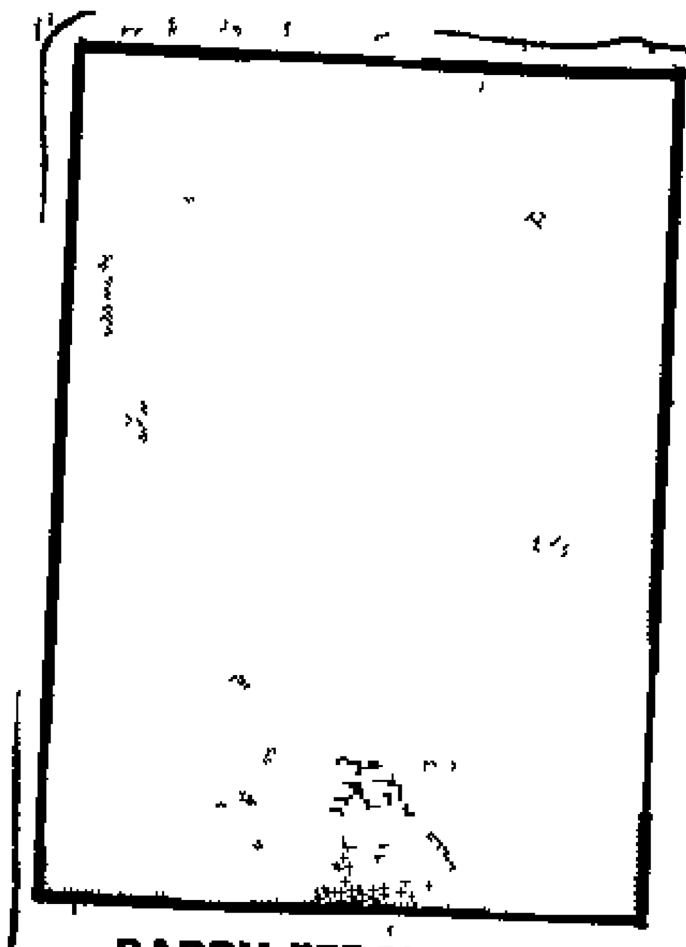
Ariovich emphasised the importance of maintaining high real interest rates in line with developed countries

"At present SA's real rate of about six percent matches the US and is roughly a percentage point behind Germany"

First National's economist Cees Bruggemans said he expected inflation to decline in the second half of the year to about 13%.

"To achieve this goal monetary curbs must remain in force," he said

Bruggemans added that in line with this policy a tighter Budget and little tax relief could be expected


BARRY FERGUSON

Keeping ahead of double-digit inflation rate

BDay 23/3/90

88

THE best hedge against inflation is provided by participation mortgage bonds, says property finance and investment specialist Owen Wiggins Trust (OWT)

Demand for commercial and industrial properties, into which part bond investors place their funds, has increased sharply, notes OWT marketing manager Barry Ferguson

"Similarly, part bonds as a form of investment are growing in popularity and the market has grown dramatically."

He says figures released recently (see chart) show higher rentals are available for a dwindling supply of suitable properties.

"When assessing the range of investments available to counter the effects of double-digit inflation, serious consideration should be given to part bonds," Ferguson says

Originally devised as an investment vehicle for "widows and orphans" because of the inherent high levels of security and better-than-average returns, investors have placed about R2bn worth of trust in part bond managers

The basis of the scheme is that the managing company acts as a central pool for investors and then lends the money to stringently evaluated commercial and industrial borrowers

Interest to them, currently below the prime rate, is at a slightly higher rate than that paid to investors

A managing company acts as a conduit allowing the smaller investor the opportunity to enjoy the rewards of large-scale investment in the commercial property field.

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Yardstick

As a yardstick of the current performance of part bonds, OWT — one of the oldest part bond managers, with more than 21 years experience in the market — claims to offer one of the top investment rates.

"This is currently 19,25% with a guaranteed floor rate to protect the investor against dramatic falls in the interest rates," says Ferguson.

He says over the last five years, when the prime rate has been as low as 12%, OWT's part bond scheme has averaged 17,46% Interest is paid monthly in advance

Inflation rate decreases slightly in January

NEIL YORKE SMITH

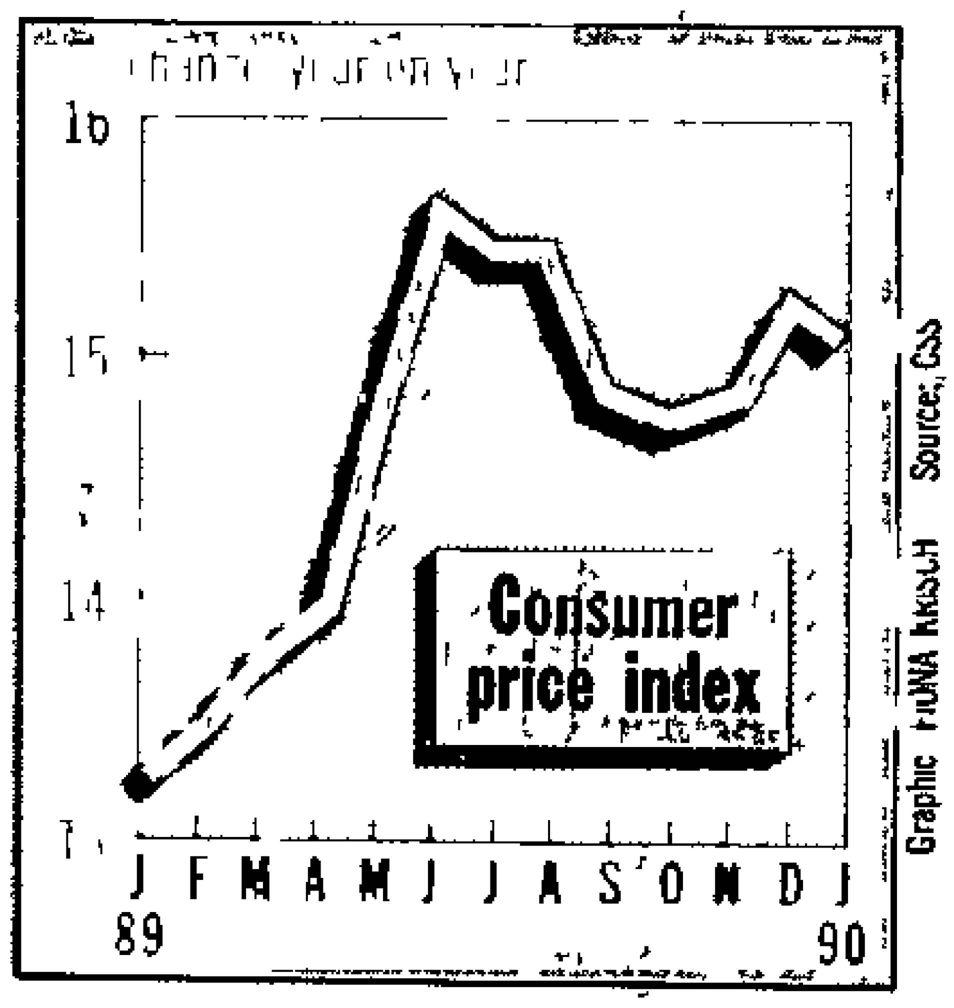
THE annual rate of increase in inflation, as measured by the change in the Consumer Price Index (CPI), was 15,1% for January, 0,2 percentage points lower than December's 15,3%

(153)

Central Statistical Service (CSS) figures released yesterday showed the monthly non-seasonally adjusted increase was 1,4% The increase raised the index from 189,4 in December to 192,0 in January.

This means it now costs R192 to buy the same bundle of consumer goods that cost R100 in 1985. B/Day 23/2/90.

The annual rate of increase in the indices for the lower, middle and higher income groups were 15,0%, 14,7% and 15,4% respectively.



☐ To Page 2

Inflation B/Day 23/2/90 (153)

☐ From Page 1

Large contributions to the monthly increase were made by food (28,6%), medical care and health expenses (21,4%) and fuel and power (14,3%).

The food index showed a monthly rate of increase of 1,8% and an annual rate of 14,9%. Large contributions to high annual food price inflation were made by price increases for grain products (17,8%), vegetables (47,8%) and fruit and nuts (28,1%)

Economists said the overall increase was in line with expectations and the economy was still on course for an inflation rate of 13% for the year.

TrustBank economist Nic Barnardt said the monthly increase of 1,4% was high, but attributed this to January being a month in which big increases were traditionally recorded

FNB economist Cees Bruggemans said "This year will see lower oil prices and interest rates relative to the base year — and this will have a positive effect on the rate of increase in the CPI."

Star 23/2/90 (153)

Inflation fears mount in US, UK

Food prices climbing again

Finance Staff

South Africa's inflation rate, as measured by the Consumer Price Index (CPI), dropped by 0,2 percentage points to 15,1 percent, according to figures released by the Central Statistical Services yesterday.

The inflation rate in December was 14,9 percent, while inflation averaged 14,7 percent for the whole of last year.

From December to January consumer prices rose by 1,4 percent, with the largest contributions coming from food prices and medical care and health expenses.

Food prices, in particular, are beginning to pick-up again. On a year-on-year basis they rose 14,9 percent and on a monthly basis by 1,8 percent.

But the statistics fail to reveal the real picture.

Over the last year vegetable prices have risen a staggering 47,8 percent, after surging by 12,8 percent in January alone.

Fruit and nuts have gone up 28,1 percent and grain products by 17,8 percent.

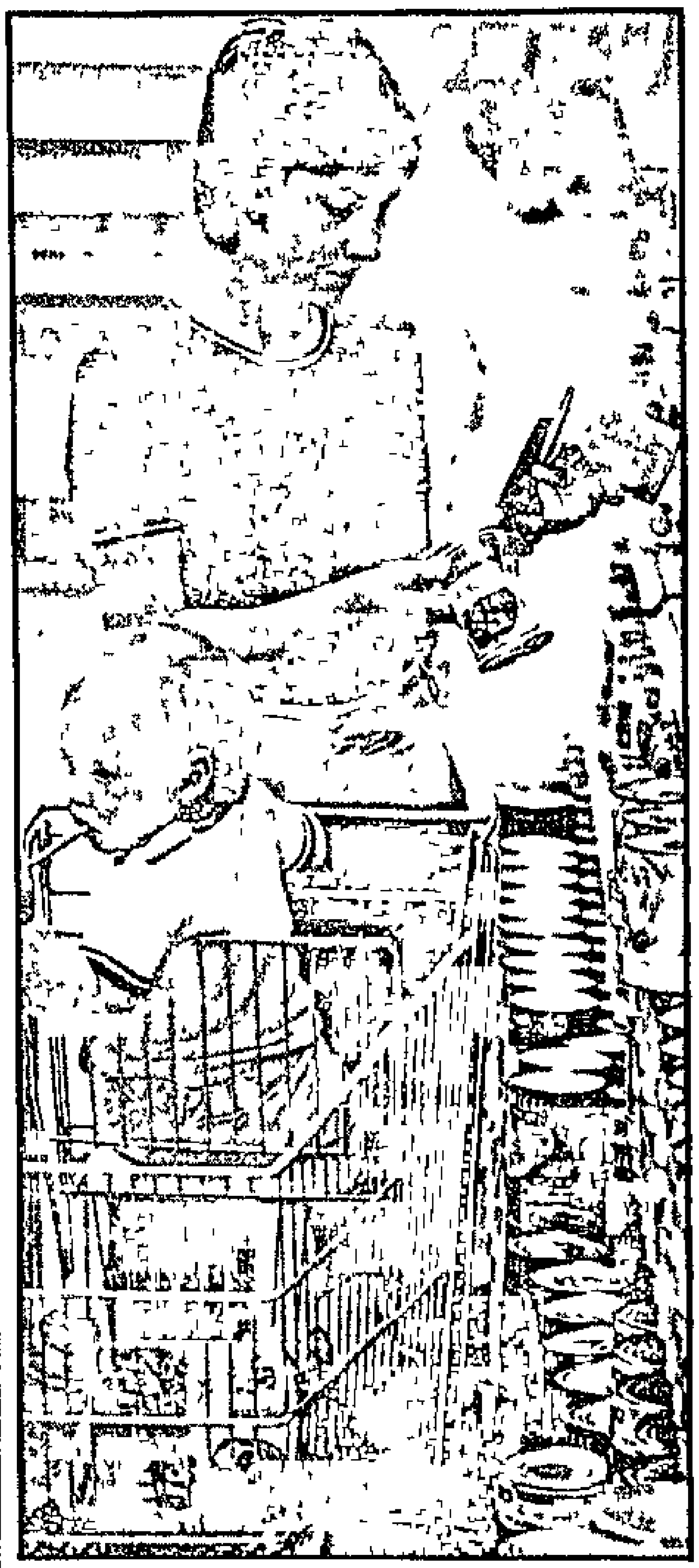
More detailed figures were also made available by the CSS recently which show the extent to which prices of certain products soared from November to December. last year.

Vegetable and fruit prices again experienced the highest rises: The price of tomatoes in December increased by 18,4 percent, cabbage by 12,7 percent and lettuce by a incredible 50,8 percent. Bananas were up 28,9 percent and oranges by 11,8 percent.

Other product prices did not lag far behind. Tea (3,8 percent), coffee (4,9 percent) and marmalade (18 percent) also featured.

Beat inflation with shopping sacrifices

24/2/90 153



PRICE-WISE Shoppers can lower their personal inflation rate by changing to cheaper brands, or, more drastically, by doing without

CHRIS MOERDYK

WITH the Reserve Bank firmly convinced that it finally has the measure of the inflation bogey, there is the distinct possibility that if it ever drops to a manageable level and subsequently out of the headlines, concensus would probably still not have been reached on what the inflation rate was at any given time

The past year has seen an increase in argument and counter-argument about the *real* inflation rate, without anyone being able to pin it down anywhere near conclusively

Government statistics this week put the rate at 15,1 percent. Myriad economists might suggest it is a few points higher or lower and last month Durban mathematician, Dr Karl Posel reiterated his "irrefutable, quantitative evidence" which indicated an inflation rate of 30 percent plus

All of which has left ordinary South Africans confused about whether annual pay increases are leaving them effectively richer or poorer The irony of it all is that on one hand there seems to be convincing argument that the inflation rate could not possibly be as high as 30 percent, but on the other most consumers battle to think of anything that *hasn't* gone up by a lot more than 15 percent in the past year

And while argument rages on whether inflation should be calculated on consumer expenditure, the consumer price index or any number of other factors, the facts don t seem to help either

For example, if one takes the prices of products as they were 30 years ago and relates them to disposable income at the time and then applies the same arithmetic for today, it is more often than not found that many products are, in fact, relatively cheaper now than they were in the good old days when the word inflation was used solely for pumping up car tyres.

This being the case, why aren t South Africans living as well as they were 30 years ago? Why can one only manage to take the family out to a steak-house once in a blue moon these days and not once a week as it was in the old days?

How the inflation rate differs from family to family.

The Smith and the Jones families had identical incomes in 1988 and 1989 as well as the same expenditures in 1988. However, while the Smiths paid more in 1989 to maintain their standard of living of the previous year, the Jones family decided in 1989 to make sacrifices

They bought fewer or cheaper grocery items, they stopped taking Sunday drives in their car and cut down on unncessary trips And the kids were coerced into making fewer telephone calls

This meant the Joneses were able to save R140 in March 1989 So, the inflation rate in the Jones family was only approximately 7,5 percent compared to the roughly 13 percent inflation rate next door at the Smith's

On the other hand if for example the Joneses had bought a new car in 1989 the higher HP payments could well have resulted in the Jones family suffering an inflation rate of say 25 per cent in spite of their sacrifices

(These tables have been simplified to illustrate a point and all figures are hypothetical and bear no relation to actual costs or price increases)

THE SMITH FAMILY

	March 1988	March 1989
Income		
Take home pay	2 000	2 300
EXPENDITURE		
Car HP	220	220
Insurance policies	150	175
School fees	60	80
Groceries	550	630
Transport (car service petrol etc)	220	260
Light and water	60	75
Telephone	80	100
Bond	500	580
Entertainment	160	180
Total	2 000	2 300
Inflation 13 percent		

THE JONES FAMILY

	March 1988	March 1989
Income		
Take home pay	2000	2300
EXPENDITURE		
Car HP	220	220
Insurance policies	150	175
School fees	60	80
Groceries	550	550
Transport (car service petrol etc)	220	220
Light and water	60	75
Telephone	80	80
Bond	500	580
Entertainment	160	180
Total	2 000	2 160
Inflation 7 5 percent		

Well, the culprit here is not inflation as such It s an equally ominous bogey called taxation — aided an abetted by a henchman called fiscal drag, that killjoy who bumps you into a higher tax bracket at salary hike time So, if one applied the same tax rate that was enjoyed 30 years ago then everyone would now be a lot better off than they were then.

But, getting back to DIY inflation rate calculations Perhaps this is the only way the average family can calculate whether or not they're making ends meet or continually falling behind.

The idea here, is that whatever the experts believe the inflation rate to be, in practice it could actually be a lot different when one compares one family with another, let alone a before-and-after scenario involving the entire population.

Take two identical families, living next door to each other earning the same salaries and paying the same tax. Family A might have a supermarket shopping list — the same list they've used for the past ten years — and regularly every month they go out and buy everything on the list.

Their neighbours might have had the identical list ten years ago but year by year, as prices increased they have knocked a number of the items off the list or selected cheaper substitutes. The two inflation rates would be completely different.

It is for this reason that any inflation rate calculation that is based on a so-called "basket of products' cannot be all that accurate. Simply because it assumes that consumers stick to buying the same things and don't ever sacrifice anything.

The more the whole question of the inflation rate is investigated, the more one is forced to come to the conclusion that at best the "official" rate makes so many assumptions that it cannot be treated as anything else but a rough stab at a true figure. Which means that those who suggest it is a lot higher should not be scoffed at. Nor those optimists who believe it is lower

At the end of it all, the only accurate way of determining to what extent inflation is hitting your pocket is to apply a little DIY inflation accounting It s quite simple — a question of making a note of what you buy and at what cost this month and then doing the same next month. Toss in salary increases at the appropriate moments and you will have your own instant inflation rate

Deferred compensation schemes provide relief

Star 24/2/90 (153)

Ways of combating inflation sought

"WITH inflation eroding the value of money and income tax rates being excessively high, it is not surprising that individuals are continually seeking methods of both combating inflation and minimising their income tax liabilities", says Mr Luciano Orlando, assistant general manager of AA Life's broker division

One of the most effective solutions to this double-edged problem is provided by life assurance companies in the form of deferred compensation schemes funded by life assurance policies

"For some strange reason, the public seems to consider deferred compensation schemes complicated and out of the reach of ordinary people — this is not so", says Mr Orlando

A deferred compensation scheme is simply an agreement entered into between an employer and an employee (who can be a director or shareholder) whereby the employer promises to pay the employee an amount of money on retirement (or death or disablement) for services rendered A legal agreement is then drawn up

In order to ensure the employer has the funds to meet this obligation, a life insurance policy is bought by the employer on the life of the employee On retirement (or death or disablement) the life assurance policy pays out and the employer uses this fund to discharge its obligation to the employee or his estate

"This is the only time that the premiums are tax deductible and the benefit is tax free All other times either the premiums or the benefits enjoy tax relief, but not both," says Mr Orlando

Deferred compensation schemes

LUCIANO ORLANDO. Deferred compensation a solution to tax rates.

are legal as they take advantage of three different sections of the Income Tax Act

Section II(w) of the Income Tax Act allows a company to deduct premiums paid on life assurance policies providing the policies meet certain minimum criteria (life cover, term of policy, etc)

When the policy pays out, the amount is taxable in the hands of the employer However, in term of Section II(a) of the Act, the amount becomes deductible as it is paid to the individual as a compensation in terms of a legally binding agreement, and no income tax is payable

Section 10(1)x of the Income Act states that if an individual receives a lump sum payment on retirement as a compensation for services rendered, the lump sum will be treated as follows for Income Tax purposes

(1) The first R30 000 is tax free,

(2) An amount in excess of R30 000 equal to three times the average annual salary for the three years preceeding the individual's retirement will be taxed at average rate of tax

(3) Any amount in excess of 1 and 2 combined will be taxed at marginal rate

A further concession is provided by section 7A(4) which allows the taxpayer the option to spread the taxable portion of the lump sum over three years for tax purposes

EXAMPLE:

An employee who receives a lump sum, of say R150 000, at retirement and whose average annual salary for the three years before his receiving the lump sum was R35 000 per annum, would be taxed as follows

Lump sum award R150 000

Exempt (Section 10(1)x R30 000

Taxable portion R120 000

Taxable at average rate three x R35 000 R105 000

Taxable at marginal rate R15 000

If three years spread is taken, taxable portion each year R40 000

Year one — taxed at average tax R40 000

Year two — taxed at average tax R40 000

Year three — taxed at average rate R25 000

— Taxed at marginal rate R15 000

So we see that deferred compensation schemes are simply ways that an employer can reward a loyal employee with a lump sum on retirement and where both will enjoy valuable tax relief in the process

AA Life has published a booklet on Deferred Compensation which is available free of charge from any of its offices throughout the country ceives a lump

available free of charge from any of its offices throughout the country.

Savers' interest should be protected — Iscor chief

Star 24/2/90 **FINANCE STAFF**

153

GREATER tax relief on interest earned by small savers would help fight inflation and aid the country's economic recovery, says a leading industrialist.

Mr Marius de Waal, chairman of Iscor, said at Old Mutual's annual meeting in Pinelands recently that the simple test to determine whether South Africa would make the grade in the coming decade lay in a recovery in people's capacity to save. The first step was to contain inflation.

The Government's strategy here should be based heavily on the curtailment of State spending. There must also be a strong focus on a policy of real interest rates (rates higher than inflation). "Real interest rates should preferably be supported by tax relief on interest earned by individuals."

Argus 28/2/90 (153)

BUSINESS

Inflation is what you make it

From CHRIS MOERDYK

JOHANNESBURG — With the Reserve Bank firmly convinced it finally has the measure of the inflation bogey, there is the distinct possibility that if it ever drops to a manageable level and consequently out of the headlines, concensus would probably still not have been reached on what the inflation rate was at any given time

The past year has seen an increase in argument and counter argument about the real inflation rate, without anybody being able to pin it down anywhere near conclusively

Highest bid

Government statistics this week put the rate at 15,1 percent Myriad economists might suggest it is a few points higher or lower and last month Durban mathematician Dr Karl Posel reiterated his "irrefutable, quantitative evidence" indicating an inflation rate of 30 percent plus

All of which has left ordinary South Africans confused about whether annual pay increases are leaving them effectively richer or poorer The irony of it all is that on one hand there seems to be convincing argument the inflation rate could not possibly be as high as 30 percent, but on the other most consumers battle to think of anything that hasn't gone up by a lot more than 15 percent in the past year

And while argument rages on whether inflation should be calculated on consumer expenditure, the consumer price index or any number of other factors, the facts don't seem to help either

For example if one takes the prices of products as they were 30 years ago and relates them to disposable income at the time and then applies the same arithmetic for today, it is more often than not found that many products are, in fact, relatively cheaper now than they were in the good old days, when the word inflation was used solely for pumping up car tyres

This being the case, why aren't South Africans living as well as they were 30 years ago? Why can one only manage to take the family out to a steakhouse once in a blue moon these days and not once a week as it was in the old days?

The culprit here is not inflation as such It's an equally ominous bogey called taxation, aided and abetted by a henchman called fiscal drag, that killjoy who bumps you into a higher tax bracket at salary hike time So if one applied the same tax rate enjoyed 30 years ago then everybody would now be a lot better off than they were then

Perhaps the best way the average family can calculate whether it is making ends meet is to its expenditure with that of another family's

Take two identical families living next door to each other, earning the same salaries and paying the same tax Family A might have a supermarket shopping list, the same list it's used for the past ten years, and regularly every month buys everything on the list

Items knocked off

Family B might have had the identical list ten years ago, but year by year as prices increased it has knocked a number of items off the list, or selected cheaper substitutes. The two inflation rates would be completely different.

It is for this reason that any inflation rate calculation based on a so-called "basket of products" cannot be all that accurate Simply because it assumes consumers stick to buying the same things

The more the whole question of the inflation rate is investigated, the more one is forced to come to the conclusion that at best the official rate makes so many assumptions it cannot be treated as anything else but a rough stab at a true figure.

Which means that those who suggest it is a lot higher should not be scoffed at Nor those optimists who believe it is lower

The only accurate way of determining personal inflation is by making a note of what you buy and at what cost this month and then doing the same next month Toss in salary increases at the appropriate moments and you will have your own instant inflation rate

If you can persuade your neighbour to do the same and a comparison is made you will understand why some of the finest economic brains in the country haven't been able to come up with anything but guesstimates

STAR 2/3/90 (155)

Water board to seek interdict against union

Labour Reporter

Fearing a strike at major pumping stations, the Rand Water Board will today seek an Industrial Court interdict against a black trade union and more than 2 000 black employees.

In the event of a strike, threatened for Monday, the RWB would maintain its services, a board spokesman said

The general secretary of the non-aligned Municipal, State, Farm and Allied Workers' Union, Mr Philip Masiya, confirmed that workers had threatened action to win the reinstatement of 300 colleagues fired after striking last year.

Hundreds of workers from the Swartkoppies pump station, near Johannesburg, last week staged a march to the RWB's Rietvlei head office to present their demands.

The board spokesman said that the RWB would argue that strike action would pre-empt a forthcoming Industrial Court case on the dismissals. And as water supply was an essential service, a strike would be illegal, he added.

FM 2/3/90 (153) 2/3/90

THE RAND

Coming up for air

■ Pretoria must grab what anti-inflationary advantage it can — while it can

There appears to be some ambivalence in official circles over what policy to adopt towards the rand

The dilemma is understandable. If the Reserve Bank allows it to continue rising, inflationary pressures will be reduced, but disruptive volatility in the future is a risk if capital inflows are suddenly reversed.

On the other hand, if the Bank buys dollars to keep the rand relatively weak and thus ensure export earnings remain buoyant — which will help repay onerous foreign debts — inflation will be encouraged both by higher-than-otherwise import prices and difficulties in keeping down rampant growth in the money supply.

Yet again, the dilemma may soon disappear For when the rand/dollar exchange rate moved below R2,60 on December 5, it seemed it would be only days before it reached the crucial psychological R2,50/$ — US40c/R. However, though much has gone its way since then, the rate has stayed stubbornly above that.

Reserve Bank Governor Chris Stals leans towards not letting the external value of the rand rise too quickly His reasons are that he would first like to see the elimination of the discount between the commercial rand and financial rand (the lower rate at which non-residents can buy the currency) He favours the incentive to exporters and deterrent to importers provided by a weak currency. As a central banker he tends towards a desire to maintain an element of stability in currency markets

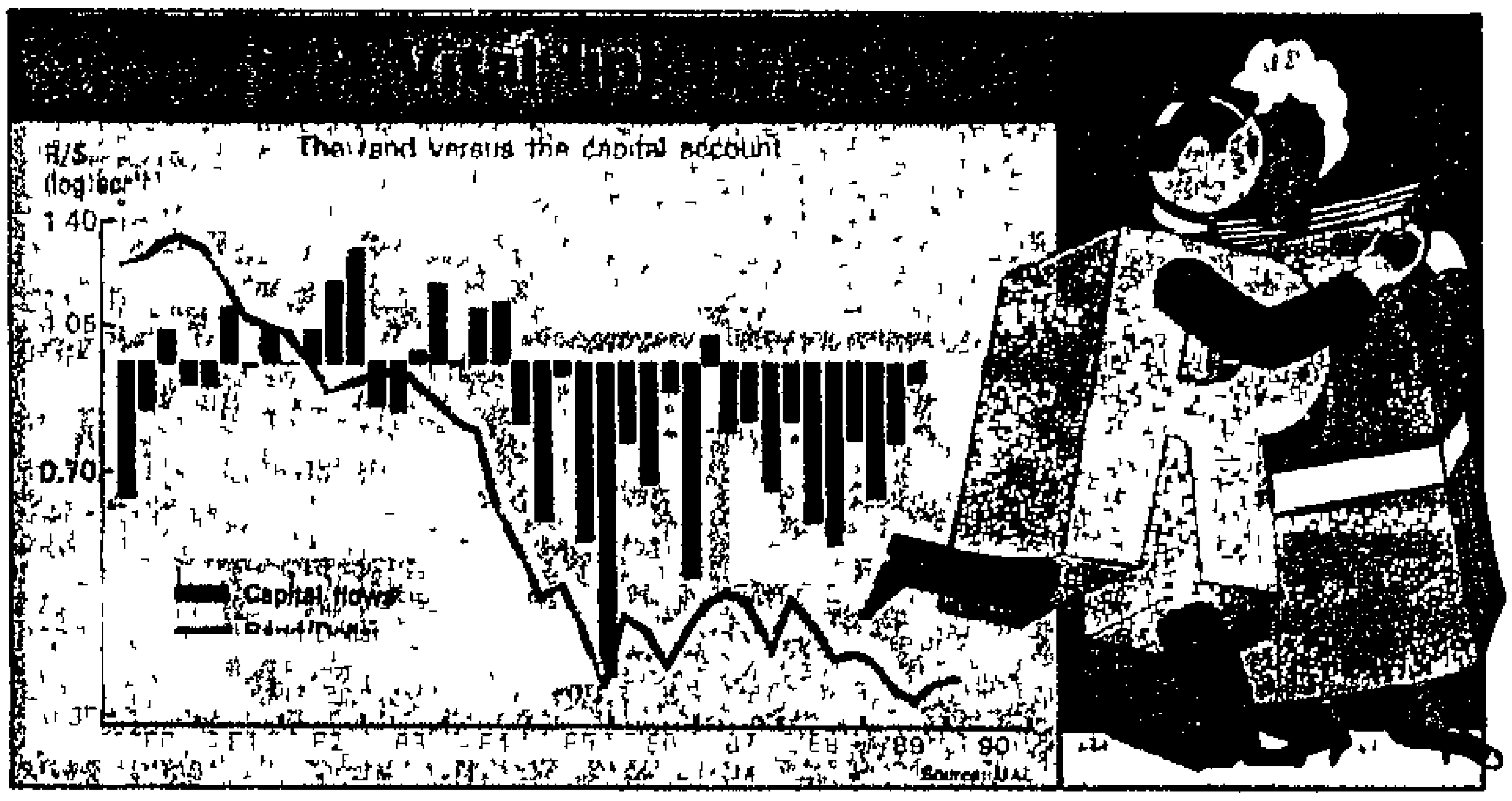
So it is not clear to what extent the rand's value is being determined by the market and how much by Central Bank "management "

Finance Minister Barend du Plessis says. "The value of the rand will be decided in the markets " What is not known, he points out, is what the markets will dictate. His uncertainty was reflected in a speech at the Frankel Kruger Vinderine conference in Johannesburg last week.

"With restrictive fiscal and monetary policies firmly in place, we no longer have to rely extensively on the exchange rate as the adjustment mechanism to realise a surplus on the current account of the balance of payments of adequate proportions to meet foreign commitments," he said. On the other hand "A surplus (on current account) of R4,1bn was recorded during 1989, but the outflow of capital amounted to more than R5bn, so net foreign exchange reserves declined further " We guess he is reluctant to stop the accumulation of forex reserves the recent rise in the value of the rand has made possible.

The weight of opinion — whatever Central Bank misgivings there may be — seems to be that the rand will firm, despite the danger of the recent capital inflows turning into hot money vulnerable to flight The rand's upward momentum since its R2,87/$ low point on June 15 seems to be rooted in fundamentals.

Much of the rand's positive performance against the dollar since September is due to the weakness of the dollar itself Munich's Bayerische Vereinsbank says the dollar has fallen an average 5% against other currencies since then and about 14% against the D-mark.



But the rand has also been buoyant on a trade-weighted basis (though the steep climb between September-December from about 37,7 to more than 40,5 has now flattened).

The original spurt came not only from the US economic problems that undermined the dollar Other major economies also had their share of difficulties· current account deficits and inflation in the UK, rising inflation and political setbacks for the ruling Liberal Democrats in Japan

Nor has the currency been gingered up only on bad news abroad Positive developments here have pushed it up, too Last year ended with a "R13,4bn cumulative trade surplus which," says the Standard Bank, "was far larger than expected, outperforming even our R13bn upper limit forecast and improving on 1988 by a massive 131% This created an increasing surplus on current account during the year "

Politically, the rout of the right within the National Party opened the way back from pariah status in the world. What secured the trend, however, was the rise in the gold price in November from below $360/oz to over $400 by year-end

So the rand, having been overwhelmed by the strength of capital outflows in recent years (see graph), has now begun to surface with the help of tentative inflows. Fortunes in the following months will depend on the strength and direction of flows which, in turn, could also depend largely on political developments.

What the governor must keep in mind is that priorities have changed Curbing inflation is much more important now than easing the debt repayment burden, which he himself has so skilfully negotiated to our substantial advantage since 1985.

Hindsight is always helpful At a press briefing in April late Reserve Bank Governor Gerhard de Kock conceded that, over the previous four years, the Bank had depended too heavily on the depreciation of the rand

Referring to the need to build reserves to meet debt repayments, he said· "In retrospect, a somewhat less inflationary (balance of payments) adjustment would have been both possible and desirable "

There are two ways of measuring the value of a currency — externally by the amount of foreign currency it can buy; and internally by the goods and services it can purchase

If a unit's internal purchasing power declines, its external value depreciates But the process goes further the effect becomes a cause and the sliding external exchange rate further reduces purchasing power So what De Kock was explaining was that, by failing to protect the currency with appropriate interest rates, he had allowed inflation its head.

Hopefully, if the positive inputs now feeding into the rand remain in place, the error will not be repeated Both Finance Minister Barend du Plessis and Stals have stated the

FIM 2/3/90 (153)

priorities: firstly to reduce inflation and secondly to strengthen foreign exchange reserves They need to act accordingly

It is hardly surprising De Kock did not hit on the precise mixture of exchange rate depreciation and monetary discipline the occasion demanded in the closing months of 1985

After former State President P W Botha's disastrous decision not to cross the Rubicon, events moved very quickly. The currency's recovery was abruptly halted. The imposition of international credit sanctions followed. Then came the debt standstill and closing of the JSE for three working days in August Emotions were running high.

Reserve Bank's Stals ... wants to maintain stability

The country was under siege with sources of capital almost completely severed and a hostile world threatening to do its damnedest. Immediate objective was to protect and build reserves, so as eventually to be able to meet our $23,7bn foreign debt. At the same time, the political upheaval of 1984-1986 made economic growth a political priority.

At the briefing, De Kock was frank about monetary policy in the preceding few years. Its objective, he said, had not been to counter inflation but protect the reserves and simultaneously counter domestic recession

He allowed the rand to fall — "from its relatively stable level of about US50c between January and late July 1985 to between 36c and 38c in the ensuing months."

By promoting exports and penalising imports, this conserved a surplus on the current account of the balance of payments The lower purchasing power of the unit was the price paid for this "growth-orientated balance of payments adjustment "

There was another route to protecting reserves — what De Kock described as "Draconian deflationary fiscal and monetary measures which, among other things, would have meant decreases or very limited increases in nominal wages and salaries . But such a deflationary policy would have exacerbated unemployment which was already high and further undermined business confidence which was already very low."

This option, he pointed out, was chosen by Rumania, which relied on restrictive monetary policy to enable it to pay off international debt The policy ensured negative inflation but wiped out economic growth

In SA's case, said De Kock: "In the abnormal socio-political circumstances, the monetary authorities judge that adjustment purely via deflation would have been neither feasible nor in the country's interest."

De Kock was always very good at hindsight, always prepared to smear ash in his hair and rent his garments if he'd misjudged what was later seen to be a difficult and confusing situation. Noble though he might have been, it didn't achieve very much and Stals would be wise not to emulate him

Time to reassess

In any event, the need to curb inflation has become more pressing. Foreign debt is beginning to look after itself And every advantage must be taken — however short-lived — to use the buoyancy of the rand to curb inflationary pressures

It is time to reassess the situation and look beyond US40c As Du Plessis says· "The depreciation of the rand played a major role in the acceleration of inflation during the past year — not only directly but also indirectly Higher rand export prices were obviously passed on to local buyers of these products, whereas import prices often served as a yardstick for the upward adjustment of domestic prices, even if the products were not directly imported "

Like any mispricing, an artificial valuation of the rand will create distortions and allow misallocation of resources With the future providing endless and expensive challenges, we can't afford this

It is true there is uncertainty about future capital flows Adverse circumstances may revive capital outflows and again threaten the rand

But we are not in the happy position in this country that we can turn away from short-term gain in the dubious belief that stability in exchange markets is more important and that a growing balance of payments surplus is critical — though the need for some surplus is important.

Learn to manage volatility

The authorities must learn to manage volatility and crises as they occur. They must take advantage of favourable conditions whenever they can For inflation at current levels will quickly erode the foreign trade advantages of keeping the rand artificially weak And if, after a 40% currency depreciation, exporters cannot secure their positions and need further protection, they don't deserve to be in business

One benefit of allowing markets to price the currency is that no politician has to accept responsibility. A market-determined exchange rate is depoliticised.

So in present circumstances, the authorities should allow the rand to rise, until the market (for whatever reason) imposes its own restraint. If the capital inflows should be reversed because of silly things said by ANC leaders about nationalisation, not only will the country have had some advantage in the meantime, but the rest of the world will see precisely where the reluctance to restructure really lies. ■

Objection to term in committee brief

BDay 2/3/90

GRETA STEYN (153)

GOVERNMENT's investigation into fighting inflation through consumer resistance to "price exploitation" has drawn sharp criticism from the SA Chamber of Business (SACB).

The SACB, in a memorandum to the President's Council Economic Affairs committee, described the words "price exploitation" in the terms of reference of the committee as "misleading and unfortunate".

Misleading as it implies price exploitation causes inflation, and unfortunate as it implies exploitation is an established fact and would tend to "engender hostility between consumer and businessman".

The terms of reference suggested there was a misunderstanding as to the "real causes" of inflation.

The SACB said it rejected allegations of price exploitation. It was emphatic that effective competition, and not "consumerism", could be the only response to what is perceived to be "exploitive prices".

"No-one can say what constitutes a reasonable or fair mark-up in relation to an exploitive mark-up, but one element of certainty is that competition drives down mark-ups."

To achieve effective competition, the active pursuit of deregulation and privatisation was necessary. In addition, the economy had to be opened up to participation by all.

"The best safeguard for consumers' interests lies in the appropriate level of workable competition," the SACB said. It added a number of bodies watched over competition and there were also laws to protect the consumer.

Further regulations "could well have the opposite effect to what is actually sought".

SACC 6/3/90 153

350 strikers yield to Sappi

About 350 workers at Sappi Novobord in Port Elizabeth have accepted defeat in a month-long strike, by taking the company's 16 percent wage offer The company has not shifted on the size of the package offered, although it has been "restructured" — Labour Reporter.

Fewer strikes but more strikers in '89

Star 6/3/90 **Labour Reporter** (153)

More workers downed tools and more man days were lost through strikes last year than in 1988, in spite of a 16 percent drop in the number of strikes, the Minister of Manpower, Mr Eli Louw, said.

Speaking at a Johannesburg labour conference, Mr Louw said in the year up to last November, the number of workers involved in strikes had risen from 162 000 to 177 000. Lost man days rose by 286 000 to 1,2 million.

Mr Louw said pay remained the main strike trigger and pay strikes tended to last longer — and more were legal. Employers were showing greater resolve to ride out strike action, he added

Mr Louw said South Africa would see growing sophistication in wage demands, with a likely stress on an improvement in real earnings.

SA inflation figures soaring

Buying power of rand is shrinking

Star 9/3/90 (153)

South Africans have been reeling under increasing financial strain over the past decade compared to their counterparts overseas. VIVIEN HORLER reports

While South African inflation figures are soaring and the buying power of the rand is steadily eroded, Europeans and North Americans barely notice they have an inflation problem.

Average inflation in South Africa last year was 14,7 percent (15,3 percent in December), compared with 4,9 percent in the United States, 6 percent in Britain, 3 percent in West Germany, 3,6 percent in France and 2,7 percent in Japan

Stellenbosch economist Mr Adriaan Mocke said that while disposable income had increased by an average 1,1 percent last year after inflation had been taken into account, the Bureau for Economic Research was predicting negative income growth in real terms this year In other words, although you might be earning more, your spending power will decrease

In affluent Europe the standard of living is much higher than here In Britain 54 percent of nuclear families — man, woman and two children — have at least one car, 98 percent have a washing machine, 99 percent have a fridge, 99 percent have a television set, 86 percent have a telephone, and 67 percent have a video

By contrast, only 34 percent of South Africans have electricity at home

Bond rates higher

And by the time South Africans have had their taxes deducted and paid for their housing, electricity or fuel, insurance, food and transport, they have used up almost 70 percent of their income, leaving just 30 percent for medical bills, education, clothing and shoes, furniture and household equipment, servants, holidays, recreation, cigarettes and alcohol

In Britain angry homeowners are squealing about the bond rate which has just risen to 15,4 percent Meanwhile South Africans are struggling to pay back their bonds at about 20,5 percent In the United States, bond-rates vary between 8 percent and 10 percent, and in Australia the rate is about 12,25 percent

A comparative study of figures for South Africa and abroad drawn up by Professor J H Martins of Unisa's Bureau of Market Research reveals that in the mid-1980s Britons spent about 14 percent of their income on food, compared with 15 percent by the Dutch, and 19 percent by Australians

In South Africa by contrast whites spent about 13 percent on food, coloured people 26 percent, Indians 23 percent and blacks a hefty 30 percent Blacks in the homelands and national states spent 40 percent of their incomes on food

In the mid 1980s Australians spent 16 percent of their incomes on housing, electricity and fuel, compared with 19 percent for West Germans and Britons, and 20 percent for the Dutch

In South Africa whites spent 20,5 percent, coloureds 19,5 percent, Indians 22,8 percent and blacks 11,9 percent Homelands residents spent 13,4 percent

When you're struggling to eat and keep a roof over your head, essentials like education may have to take a back seat In the mid-80s Canadians spent 11,4 of their incomes on education, the Dutch 9,4 percent, the French 5,5 percent, Australians 11,9 percent, West Germans 8 percent, the British 9,3 percent and the Japanese a whopping 18,3 percent

By contrast in South Africa whites spent 3,5 percent of their income on education, coloureds 2,3 percent, Indians 2,6 percent and blacks 3,2 percent

The amount of money spent on durable goods such as housing, cars and furniture indicates relative wealth Says Mr Mocke, "The percentage of income spent on non-durables such as food and clothes will remain more or less the same for a family as it gets poorer, while the proportion spent on durables will decrease."

Low savings

Analysing the current situation, Mr Mocke said "Remuneration of South African employees increased in nominal terms by 17,1 percent during last year, and the increase in disposable income after tax increased by 15,3 percent

"But after provision is made for inflation, the increase in real disposable income was only 1,1 percent And it is expected that this figure will show a negative growth rate this year

"The savings ratio indicates that whereas 6,6 percent of income was saved in 1985, only 0,9 percent of income was saved last year "

Using Bureau for Economic Research tables, Mr Mocke said only 9,3 percent of people's incomes was spent on durable goods in South Africa last year compared with 13,7 percent in 1980, while 75 percent was spent on non-durable goods (such as food and clothes) and services compared with 69,9 percent in 1980.

He added "The population grows at an average rate of 2,5 percent a year whereas employment in the formal sector increased by 0,9 percent in 1989

"This indicates that a large portion of the total labour force must seek accommodation in the informal sector, as the economy is restricted through the balance of payments problem to grow by only 2,5 percent

"All this implies that the average South African has been subjected to more and more financial strain during the past decade."

Goal posts are being moved in ongoing fight against inflation

Str 10/3/90 (153)

PRINTED on a stockbroker's calender standing on a colleague's desk is this quotation from former US president Herbert Hoover "Blessed are the young, for they shall inherit the national debt"

He was, of course, referring to the US national debt, which was a problem even in the twenties

Today, more than 60 years later, the US national debt far exceeds $1 trillion and is showing no signs of abating

Something very similar can be said of the growing debt problem in South Africa

We all know that the debt level of the average South African has increased sharply in the past decade, but not as sharply as the latest available figures show

Old Mutual, in its latest economic survey, euphemistically calls South Africans "over-borrowed"

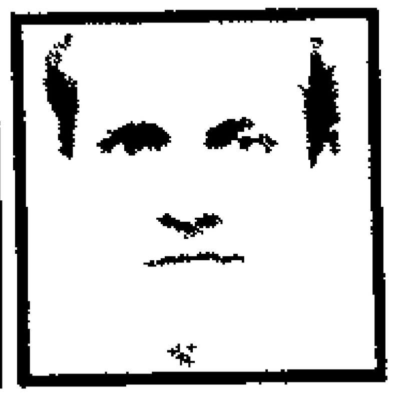
What it doesn't say is that on average they have never been as deeply in debt as they are now

Since 1979 to the middle of last year personal debt has risen more than seven-fold

But more important than the absolute level of debt, which was

Money Matters

MAGNUS HEYSTEK



no doubt fuelled by the high inflation rate in the eighties, is the fact that the personal debt burden has been rising at a much faster rate than aggregate personal disposable income

Put differently, the debt burden of the average consumer has increased considerably in the past 10 years

Beginning of '80s

At the beginning of the eighties, which kicked off on such a glorious note with the gold price above $800 an ounce and real economic growth of eight percent in 1980, the ratio of debt to total personal disposable income amounted to an average of 28,8 percent

By the first half of last year (the latest available figures) it had risen to more than 45 percent

What these figures mean is that on average South Africans owe nearly half of the money that they have available to spend

More worrying is the fact that these figures are not wholly inclusive and the true personal debt figure might be much higher

Several factors are to be blamed

They include high inflation (and expectations of high inflation), negative interest rates, easier access to credit and greater willingness to accumulate debt

Savings were inadvertently discouraged by the policies of the Reserve Bank, no doubt under immense pressure from the politicians who several times in the eighties had either a referendum or election to fight

Each time the same short-sighted policy was followed lower interest rates and artificially boosted economic growth

And each time the aftermath was the same high inflation, a sharp rise in interest rates and a sharp drop in the economic growth rate

People started saving with debt In an environment of high inflation, low economic growth and negative return on savings, people soon realised the only way to build assets was to acquire debt

As some eminent economist once remarked "Inflation makes financial geniuses of us all"

But this scenario is changing and Mr Average should take note of the new developments

Under governor of the Reserve Bank Dr Chris Stals, aided and supported by President F W de Klerk, there has been a fundamental change in the way the financial affairs of the country are being run

Further proof of this will be found in next week's Budget

Tax relief

Interest rates are likely to stay high until the inflation rate declines significantly and permanently

Savings are likely to be boosted by the abolishment of tax on dividends and further relief for tax on interest

People who fail to realise that the goal posts are being moved, might find themselves in dire financial straits

Personal debt management will be of utmost importance in the nineties

Do not rely on sharp drops in interest rates and sharp annual salary increases to provide a financial lifeline

The times they are a'changing!

Local authorities. remuneration

*2 Mr R M BURROWS asked the Minister of Planning and Provincial Affairs

(1) Whether he has received a report from the Commission for Administration on the remuneration of local authority councillors and committee members; if so, (a) when did he receive the report, (b) what were the main recommendations made in it and (c) what is the likely annual additional cost which would be incurred by local authorities in implementing the recommendations contained in the report,

(2) whether the Council for the Co-ordination of Local Government Affairs has considered the above report, if not, why not, if so, (a) to what effect and (b) what alternatives have been recommended?

B352E

The MINISTER OF PLANNING AND PROVINCIAL AFFAIRS

(1) Yes

(a) 18 June 1989

(b) That a comprehensive remuneration system of which the detail has not yet been formulated, be determined

(c) As detail has not yet been formulated in the report, the likely costs that it holds in for local governments cannot be determined

(2) Yes, before the Action Committee of the Council for the Co-ordination of Local Government Affairs

(a) It has been decided that the recommendations, contained in the report of the Commission for Administration, be accepted, provided that

(i) the rand value as mentioned in the report be determined by the Office of the Commission for Administration,

(ii) any discrepancies and other deficiencies which may occur be addressed by the Office of the Commission for Administration,

(iii) special attention be afforded to the position of the deputy mayor of Cape Town and the deputy chairman of the management committee of a local authority, as well as to the positions of persons in other relevant posts, and

(iv) the Office of the Commission for Administration (convener) and the four provincial governments determine a formula, as well as finalise the objections raised

It was also decided that after the conditions have been reconsidered and discussed, the Office of the Commission for Administration again submits the report as adapted to the Action Committee of the Co-ordinating Council for discussion

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that the four administrators, with Administrator D J Hough as convener, will consider the matter further and finally decide on the percentage of the proposed increase in the remuneration of councillors as well as the date of commencement, and

that the Minister of Planning and Provincial Affairs will clear the matter of parity in the compensation of councillors of local governments with the Own Affairs Ministers

The matter has thus not been finalised

(b) None

The state v W H Rabe

*3 Mr L FUCHS asked the Minister of Justice

(1) With reference to the case of *The State v W H Rabe* concluded in the Piet Retief Regional Court on 12 February 1990, (a) for what offences was the accused (i) charged (ii) prosecuted and (iii) convicted and (b) what sentence was handed down, Hansard 13/3/90

(2) whether any witnesses present at the time of the alleged offences were committed were not summoned to appear in court, if so, (a) which such witnesses and (b) why?

Hansard 13/3/90 B357E

The MINISTER OF JUSTICE

(1) (a) (i) Murder

(ii) Culpable Homicide

(iii) Assault

(b) R100,00 or 50 days imprisonment

(2) Yes

(a) M S Nkosi, L N Xaba, J Q Sithole and M S Ndlangamandla The latter two did in fact turn up at court

(b) I had enquiries made and it seems that the main state witness s evidence was in no way contradicted and that there were no challenged facts concerning the assault between the State and the defence The District surgeon further testified that the cause of death had absolutely no connection with the assault In the light of these facts the prosecutor concerned decided not to call any further witness

I would like to add that I do not agree with the sentence that was imposed and cannot defend it This is an excellent example where the State would possibly have liked to appeal against the sentence A proposal in this regard will be laid upon the table soon and I am of the opinion that I shall get support of Parliament

My opinion, which I have repeatedly stated, is that the lower courts are under the control of the Supreme Court and that the Supreme Court should give the necessary guidance to the lower courts It would be inappropriate for politicians to try and play this role

Development Boards: taking over of staff

*4 Mr H D K VAN DER MERWE asked the Minister for Administration and Privatisation

Whether all phases of the taking-over of staff of the former Development Boards have been completed, if not, why not?

Hansard 13/3/90 B361E

The MINISTER FOR ADMINISTRATION AND PRIVATISATION Hansard 13/3/90

Yes However, requests for the adjustment of the dispensation of individual staff members, which were later received, are at present being attended to

Inflation

*5 Mr H H SCHWARZ asked the Minister of Finance Hansard 13/3/90

What action is being taken in order to reduce the level of inflation in South Africa?

B363E

The MINISTER OF FINANCE 153

The thrust of the Action Plan for the Combating of Inflation is fiscal and monetary discipline Both of these have been exercised during the past year, and this will certainly continue

Government spending is under control The overrun in the 1989/90 Budget is estimated at a mere 0 3 per cent Fiscal discipline will be maintained in the coming year Details will be forthcoming tomorrow

The promotion of saving must clearly be a component of a counter-inflationary strategy, and the Government sets a high premium on both personal saving and the avoidance of dissaving on its own part But here too it would be better to wait until tomorrow for the fine print

In the monetary field, a declining money supply growth reflects the Reserve Bank's tightened policy which was achieved inter alia by raising the cost of accommodation to the banking sector, both by penalty rates at the discount window and by increases in Bank rate Positive real interest rates, together with disciplined public expenditure have contributed to curtailing gross domestic expenditure growth successfully Gross domestic expenditure actually declined by 1 per cent in real terms during 1989 These are important factors in the lowering of inflationary expectations The more stable and even slight appreciation of the rand in recent months, was a further positive factor

More generally and within a longer term framework, the Government seeks to strengthen the supply side of the economy, and not least by tax reform that will reduce disincentives to labour and production the taxation of married women is an example At a wider remove are the substantial budget allocations to education and to the provision of physical and social infrastructure, while small business promotion, deregulation and the scrapping of outmoded legislation are opening up opportunity on an increasing scale Various steps have also been taken to improve efficiency in the public sector eg the introduction of value-for-money auditing Hansard 13/3/90

As far as the actual process of price formation is concerned, the government is committed to the free play of competitive market forces—hence the Competition Board reinforced by the Consumer Council and the Harmful Business Practices Committee Moreover, the Committee on Economic Affairs of the President's Council recently initiated an investigation into what it termed "price exploitation"

Inflation in South Africa over the past few years can however not be regarded as a problem in isolation and with a solution of its own It was and is an integral part of the whole adjustment problem with which the South African economy has grappled since 1984 In this sense inflation will not be successfully combated unless structural adjustments are made that will improve the economic growth potential The various elements of economic restructuring announced by the State President in his parliamentary opening address on 2 February 1990 which will be referred to during tomorrow s Budget Speech, are therefore very important in combating inflation

Walvis Bay: representations

*6 Mr J H HOON asked the Minister of Foreign Affairs † Hansard 13/3/90

(1) Whether the Government has received any representations for Walvis Bay to be handed over to the new government of an independent Namibia if so from whom,

(2) whether the Government has taken any decision in this regard, if not why not, if so, what decision,

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

B404E

The MINISTER OF FOREIGN AFFAIRS

(1) During informal talks with designated members of the independence government of Namibia, they indicated that the people of Namibia would welcome it as a deed of great goodwill if Walvis Bay could be handed over to Namibia Hansard 13/3/90

(2) The South African Government's position is that Walvis Bay forms part of South African territory However, it is also realised that Walvis Bay is presently the only deep sea harbour available to Namibia It is expected that discussions will be conducted between the South African Government and the future Government of Namibia about the use of Walvis Bay

(3) Falls away

Komatipoort/Maputo road. assistance

*7 Mr A GERBER asked the Minister of Foreign Affairs † Hansard 13/3/90

(1) Whether the Government (a) has decided to make available or (b) is considering making available financial and/or other assistance to Mozambique for the building of a road from Komatipoort to Maputo, if so, what amount has the Government contributed or does it envisage contributing,

(2) whether the Government intends contributing financially on an annual or any other basis, towards the maintenance of this road if so (a) on what basis and (b) what amount is involved,

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

B410E

The MINISTER OF FOREIGN AFFAIRS

(1) Yes but for the present only an amount of R300 000 has been made available for a feasability study Afterwards attention will be given to the financing of the road It may be that only part of the road needs to be rebuilt and that the remaining parts of the road will have to be renovated The possibility of trying to procure overseas funding is also being considered

(2) It will depend on the terms of any loan agreement which may be concluded between the two countries for the financing of the road This does, however, not mean that a loan agreement will be concluded Hansard 13/3/90

(3) Yes, when greater clarity with regard to all the facets of this matter has been obtained

Zaire: road building programme

*8 Mr A GERBER asked the Minister of Foreign Affairs † Hansard 13/3/90

(1) Whether the Government (a) is supporting or (b) intends supporting a road building programme in Zaire, if so, what amount has the Government contributed or does it intended to contribute towards it,

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

B411E

The MINISTER OF FOREIGN AFFAIRS

(1) (a) No

(b) No

(2) Falls away

Reserve Police Force: political activities

*9 Mr A P OOSTHUIZEN asked the Minister of Law and Order † Hansard 13/3/90

Whether any instructions to refrain from political activities were issued to members of the Reserve Police Force during the latest specified period of three years for which information is available, if so (a) on how many occasions (b) for what reasons and (c) who issued these instructions?

B413E

The MINISTER OF LAW AND ORDER

I refer the honourable member to interpellation number 1 of 18 April 1989 (Hansard Column 677) during which this matter was debated I regard the information which was furnished during this interpellation to also be an adequate reply to this question

RSA/Lesotho: inter-state border fence

*10 Mr A P OOSTHUIZEN asked the Minister of Foreign Affairs †

(1) Whether there is any dispute between the Republic of South Africa and Lesotho over the inter-state border fence erected Hansard 13/3/90 or to be erected between Wepener and Zastron, if so, (a) what are the points in dispute, (b) when is it expected that the dispute will be settled and (c) what steps have been taken or are proposed to be taken in this regard, if not,

(2) whether there is any delay in erecting the border fence concerned, if so, what is the reason for the delay?

Hansard 13/3/90 B415E

The MINISTER OF FOREIGN AFFAIRS

(1) Yes

(a) There is a difference of opinion between the Republic of South Africa and the Kingdom of Lesotho in connection with the location of the international boundary between Wepener and Zastron

Two portions of the border are being questioned by the Kingdom of Lesotho namely the Cornetspruit/Liphiring area and the Langeberg area

(i) The Cornetspruit/Liphiring area lies north east of Zastron to the west of Mohales Hoek The original border was indicated by beacons according to the coordinates and stipulations of the Second Treaty of Aliwal North (1869) In this area the border fence partially does not follow the border beacons and the fence is situated within the RSA The fence was erected within the RSA for practical reasons because the beacons are on a mountain ridge which is extremely inaccessible The positioning of the fence was a unilateral decision of the RSA for the practical reasons mentioned

(ii) The Langeberg area east of Vanstadensrus Here also the border is determined according to the stipulations and coordinates of the Second Treaty of Aliwal North (1869) The thus determined border results however in a triangle of about 80 hectares RSA territory 'projecting' into Lesotho which

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B352E

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B363E

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The promotion of saving must clearly be a component of a counter-inflationary strategy, and the Government sets a high premium on both personal saving and the avoidance of dissaving on its own part But here too it would be better to wait until tomorrow for the fine print

In the monetary field, a declining money supply growth reflects the Reserve Bank's tightened policy, which was achieved inter alia by raising the cost of accommodation to the banking sector, both by penalty rates at the discount window and by increases in Bank rate Positive real interest rates, together with disciplined public expenditure, have contributed to curtailing gross domestic expenditure growth successfully Gross domestic expenditure actually declined by 1 per cent in real terms during 1989 These are important factors in the lowering of inflationary expectations The more stable and even slight appreciation of the rand in recent months, was a further positive factor

More generally and within a longer-term framework, the Government seeks to strengthen the supply side of the economy, and not least by tax reform that will reduce disincentives to labour and production the taxation of married women is an example At a wider remove are the substantial budget allocations to education and to the provision of physical and social infrastructure, while small business promotion, deregulation and the scrapping of outmoded legislation are opening up opportunity on an increasing scale Various steps have also been taken to improve efficiency in the public sector, eg the introduction of value-for-money auditing Hansard 13/3/90

As far as the actual process of price formation is concerned the government is committed to the free play of competitive market forces—hence the Competition Board, reinforced by the Consumer Council and the Harmful Business Practices Committee Moreover, the Committee on Economic Affairs of the President s Council recently initiated an investigation into what it termed "price exploitation"

Inflation in South Africa over the past few years can however not be regarded as a problem in isolation and with a solution of its own It was and is an integral part of the whole adjustment problem with which the South African economy has grappled since 1984 In this sense inflation will not be successfully combated unless structural adjustments are made that will improve the economic growth potential The various elements of economic restructuring announced by the State President in his parliamentary opening address on 2 February 1990, which will be referred to during tomorrow's Budget Speech, are therefore very important in combating inflation

Walvis Bay: representations

*6 Mr J H HOON asked the Minister of Foreign Affairs † Hansard 13/3/90

(1) Whether the Government has received any representations for Walvis Bay to be handed over to the new government of an independent Namibia, if so, from whom,

(2) whether the Government has taken any decision in this regard, if not, why not, if so, what decision,

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

B404E

The MINISTER OF FOREIGN AFFAIRS

(1) During informal talks with designated members of the independence government of Namibia, they indicated that the people of Namibia would welcome it as a deed of great goodwill if Walvis Bay could be handed over to Namibia Hansard 13/3/90

(2) The South African Government's position is that Walvis Bay forms part of South African territory However, it is also realised that Walvis Bay is presently the only deep sea harbour available to Namibia It is expected that discussions will be conducted between the South African Government and the future Government of Namibia about the use of Walvis Bay

(3) Falls away

Komatipoort/Maputo road: assistance

*7 Mr A GERBER asked the Minister of Foreign Affairs † Hansard 13/3/90

(1) Whether the Government (a) has decided to make available or (b) is considering making available financial and/or other assistance to Mozambique for the building of a road from Komatipoort to Maputo, if so, what amount has the Government contributed or does it envisage contributing,

(2) whether the Government intends contributing financially on an annual or any other basis towards the maintenance of this road if so, (a) on what basis and (b) what amount is involved,

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

B410E

The MINISTER OF FOREIGN AFFAIRS

(1) Yes but for the present only an amount of R300 000 has been made available for a feasability study Afterwards attention will be given to the financing of the road It may be that only part of the road needs to be rebuilt and that the remaining parts of the road will have to be renovated The possibility of trying to procure overseas funding is also being considered

(2) It will depend on the terms of any loan agreement which may be concluded between the two countries for the financing of the road This does, however, not mean that a loan agreement will be concluded Hansard 13/3/90

(3) Yes, when greater clarity with regard to all the facets of this matter has been obtained

Zaïre: road building programme

*8 Mr A GERBER asked the Minister of Foreign Affairs † Hansard 13/3/90

(1) Whether the Government (a) is supporting or (b) intends supporting a road building programme in Zaire if so what amount has the Government contributed or does it intended to contribute towards it,

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

B411E

The MINISTER OF FOREIGN AFFAIRS

(1) (a) No

(b) No

(2) Falls away

Reserve Police Force: political activities

*9 Mr A P OOSTHUIZEN asked the Minister of Law and Order † Hansard 13/3/90

Whether any instructions to refrain from political activities were issued to members of the Reserve Police Force during the latest specified period of three years for which information is available, if so, (a) on how many occasions, (b) for what reasons and (c) who issued these instructions?

B413E

The MINISTER OF LAW AND ORDER

I refer the honourable member to interpellation number 1 of 18 April 1989 (Hansard Column 677) during which this matter was debated I regard the information which was furnished during this interpellation to also be an adequate reply to this question

RSA/Lesotho: inter-state border fence

*10 Mr A P OOSTHUIZEN asked the Minister of Foreign Affairs †

(1) Whether there is any dispute between the Republic of South Africa and Lesotho over the inter-state border fence erected Hansard 13/3/90 or to be erected between Wepener and Zastron if so, (a) what are the points in dispute, (b) when is it expected that the dispute will be settled and (c) what steps have been taken or are proposed to be taken in this regard, if not,

(2) whether there is any delay in erecting the border fence concerned, if so, what is the reason for the delay?

Hansard 13/3/90 B415E

The MINISTER OF FOREIGN AFFAIRS

(1) Yes

(a) There is a difference of opinion between the Republic of South Africa and the Kingdom of Lesotho in connection with the location of the international boundary between Wepener and Zastron

Two portions of the border are being questioned by the Kingdom of Lesotho, namely the Cornetspruit/Liphiring area and the Langeberg area

(i) The Cornetspruit/Liphiring area lies north east of Zastron to the west of Mohales Hoek The original border was indicated by beacons according to the coordinates and stipulations of the Second Treaty of Aliwal North (1869) In this area the border fence partially does not follow the border beacons and the fence is situated within the RSA The fence was erected within the RSA for practical reasons because the beacons are on a mountain ridge which is extremely inaccessible The positioning of the fence was a unilateral decision of the RSA for the practical reasons mentioned

(ii) The Langeberg area east of Vanstadensrus Here also the border is determined according to the stipulations and coordinates of the Second Treaty of Aliwal North (1869) The thus determined border results, however, in a triangle of about 80 hectares RSA territory "projecting" into Lesotho which

Strike 'will force closure of mine'

Labour Reporter

The Marievale Gold Mine had a maximum life expectancy of a year and the National Union of Mineworkers knew that a strike could force its early closure, management said yesterday.

Gengold managing director Mr Gary Maude was reacting to Num complaints that because of the short notice given, it was not represented at an Industrial Court hearing over a strike at Marievale. 153

The court ordered a return to work on the unprecedented grounds that a strike could force the mine to close.

Mr Maude said Marievale was operating at break-even, and was vulnerable to small changes in profitability.

He stressed that if the mine closed during a strike, workers would not get retrenchment pay.

He added that the longer the mine continued to operate, the easier management would find it to relocate workers elsewhere in the group.

...ctor tells court

...Caplan following an argument be-...ther and her husband in December ...t heard.

...n told me that on one occasion in ...988 he kicked his ex-father-in-law ...no remorse. I think Dr Caplan is a ...d bad man. I don't think he should ... reasons are purely to protect my ...Armanda's family and myself," Dr

Joining forces to get to grips with high inflation

BDay 13/3/90

153

INFLATION in building costs holds at around 18% overall — and is to be combatted by the two main bodies representing the building and civil engineering industries.

The Building Industries Federation of SA (Bifsa) has joined forces with the SA Federation of Civil Engineering Contractors (Safcec), to look into areas where inflation is outstripping the general inflation rate.

Bifsa executive director Neil Fraser says "It is still too early to say why the prices of such products as bricks, sand, crushed stone and ceiling materials should be subject to an annual inflation of more than 15% — but we will be looking for ways to slow the trend

Maintained

"We will also look into cases where price increases are maintained at around the official inflation rate

"Increases should not be imposed as a matter of course merely because we operate in an inflationary environment and because there is no competition to control them

"All the producers put general inflation forward as their reason for increases — but I am concerned that a lot of the increases could arise out of monopolies and cartels"

Labour costs to the industry are also increasing faster than the general rate of inflation, and the per capita cost of labour will continue to increase rapidly in the foreseeable future.

Fraser says the only way to cushion the effect of this is to increase the efficiency and productivity of the industry

"Training to upgrade the skills of people in the industry is essential," he says

"It is estimated the formal building industry employes about 200 000 site workers

"In the past 20 years, a mere 50 000 have passed through Bifsa's training colleges, meaning that only about 15% of the people employed in the formal sector of the industry are trained to a reasonable level"

Bifsa is tackling the problem on two fronts On the one hand, it is attempting to improve the training of newcomers to the industry, while on the other it has embarked on a drive to upgrade the skills of established workers

"If we could raise productivity by only 10%, this would be a major force to counter inflation," Fraser says

The informal sector is also a significant operator, comprising an estimated 40 000 self-employed builders — many of whom employ labourers

The impact of this sector is borne out by the experience of leading brick manufacturers, who measure their average order in hundreds — as compared with the tens of thousands which was the norm in the past

Recognising the importance of the informal sector, Bifsa is introducing courses to meet their needs at various levels.

Govt to unveil new strategy to counter inflation

CAPE TIMES 14/3/88

153

By MIKE ROBERTSON

ON the eve of his Budget, Finance Minister Barend du Plessis yesterday promised to unveil details of a counter-inflationary strategy that encouraged both personal saving and the avoidance of dissaving on the part of government.

Replying to a question from Harry Schwarz (DP Yeoville) on what was being done to combat inflation, Du Plessis said the thrust of government's action plan for tackling inflation was fiscal and monetary discipline

Government spending was under control and fiscal discipline would be maintained in the coming year as would be seen in the Budget.

"In the monetary field, a declining money supply growth reflects the Reserve Bank's tightened policy, which was achieved by raising the cost of accommodation to the banking sector, both by penalty rates at the discount window and by increases in the Bank rate.

"Positive real interest rates, together with disciplined public expenditure, have contributed to curtailing gross domestic expenditure growth successfully

"These are important factors in the lowering of inflationary expectations. The more stable and even slight appreciation of the rand in recent months, was a further positive factor," Du Plessis said

In the longer term governmment sought to strengthen the supply side of the economy, not least by tax reform that would reduce disincentives to labour and production The taxation of married women was an example of this, he said

"At a wider remove are the substantial Budget allocations to education and the provision of physical and social infrastructure, while small business promotion, deregulation and the scrapping of outmoded legislation are opening up opportunity on an increasing scale," he said

As far as the actual process of price formation was concerned, he said, government was committed to the free play of competitive forces.

He added that inflation in SA could not be regarded as a problem in isolation with a solution of its own

"It was and still is an integral part of the whole adjustment problem with which the SA economy had grappled since 1984

"In this sense inflation will not be successfully combated unless structural adjustments are made that will improve the economic growth potential

"The various elements of economic restructuring announced by the State President in his Parliamentary opening address on February 2, which will be referred to in today's Budget speech, are therefore very important in combating inflation," he concluded not be implemented before October 1 1991.

The TAC's task was to proceed with the reform

Inflation still high

153

Sowetan 15/3/90

THE evil of inflation was still far from being solved and a gradual reduction in the rate would receive a high priority, Mr Barend du Plessis, said yesterday.

It was of extreme importance that the private sector supported the Government's measures to fight inflation, for example by way of salary negotiotions.

Although inflation rate was still high, there were signs that the expansion rate had started to decelerate slightly.

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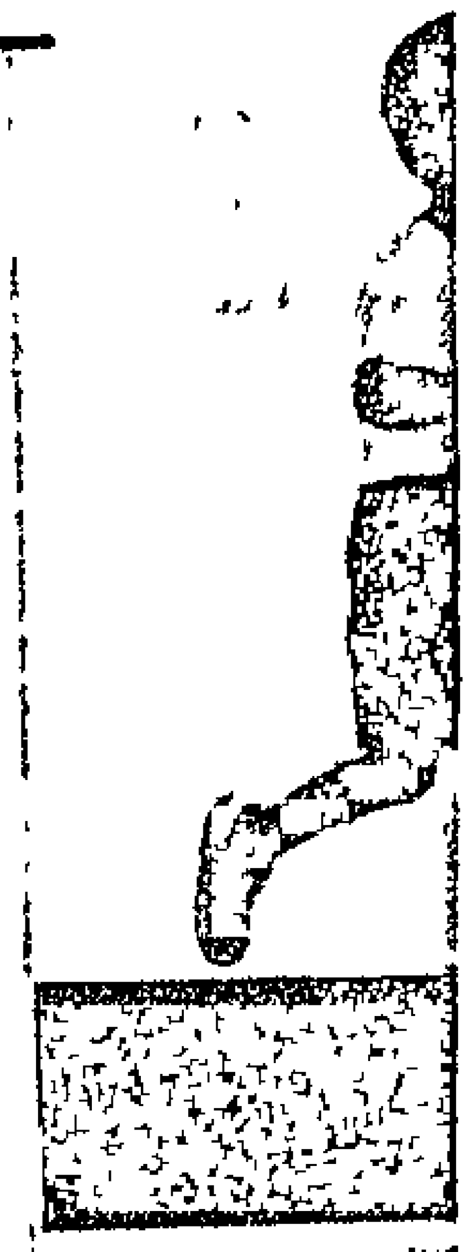


Money supply target figure being revised

153

Star 19/3/91

By Ian Clover

THE Reserve Bank is to announce its money supply target soon, having waited for the Budget before determining how much influence it needs to exercise on the economy.

Dr Chris Stals, Governor of the Reserve Bank, told businessmen during a debate on the Budget, organised by the Junior Chamber of Commerce and Industry, that he did not envisage a drop in interest rates in the near future.

The Reserve Bank is concerned about how soon the Government intends spending funds set aside from existing government cash surpluses for various capital funds

Dr Stals said these funds were put in trust with the Reserve Bank last year, effectively taking them out of circulation, thereby helping to curb inflation by limiting government spending.

However, if these funds were put back into circulation too quickly it could be inflationary, he said

Outlet chain for hawkers, spazas

153

THEO RAWANA

WHOLESALE and distribution giant Metro Cash & Carry will open the first of a chain of outlets for hawkers and spaza shops in Johannesburg on April 3. BDay 22/3/90

The chain, to be called Siyakhula — "we are growing" — was a response to the growing informal sector and the need by suppliers to find effective distribution channels, Metro informal sector manager Mike Solomon said yesterday.

"Launching was a calculated risk due to the lack of accurate information on the sector. But our research shows the market is growing. If the concept proves successful, we plan to launch in all major urban areas."

Informal traders, who were small-scale buyers with specialised product needs, were not being properly serviced by wholesalers and this limited distribution potential.

Siyakhula services would include special product lines, condition-free buying cards and year-round promotions. The smaller pack size concept Metro would introduce would go well with the informal sector.

Planned surveys and the monitoring of customers would provide the first accurate information on informal trade buying patterns and spending power.

Solomon said Siyakhula marked a victory of hawkers and spazas who had been ignored by the formal sector and harassed by the authorities.

Inflation declines, but food prices rise

B/Day 23/3/90. 153

NEIL YORKE SMITH

THE inflation rate is declining, but economists are concerned low income groups are bearing the brunt of price increases.

This was disclosed in interviews yesterday, after the February consumer price index (CPI) figures were released

The annual rate of increase in the CPI was 14,9% for February, 0,2 percentage points lower than January's 15,1%.

Central Statistical Service (CSS) figures showed the monthly non-seasonally adjusted increase was 0,7% (1,4%)

The annual rate of increase in the indices for lower, middle and higher income groups for February were 15,6%, 14,8% and 14,7% respectively, compared with February last year

"The overall reduction is welcomed but it is worrying that low income groups are bearing the brunt of high price increases, especially for food products," SA Chamber of Business economist Keith Lockwood said yesterday.

The price index for food was 15,7% higher than for the corresponding period last year. This was the index's largest annual increase since August 1988.

TrustBank economist Nick Barnardt said the lower rate of increase confirmed views that inflation would continue to fall.

"We expect the rate of increase in the CPI to be 13,5% by the middle of the year and 12,5% by year-end," he said.

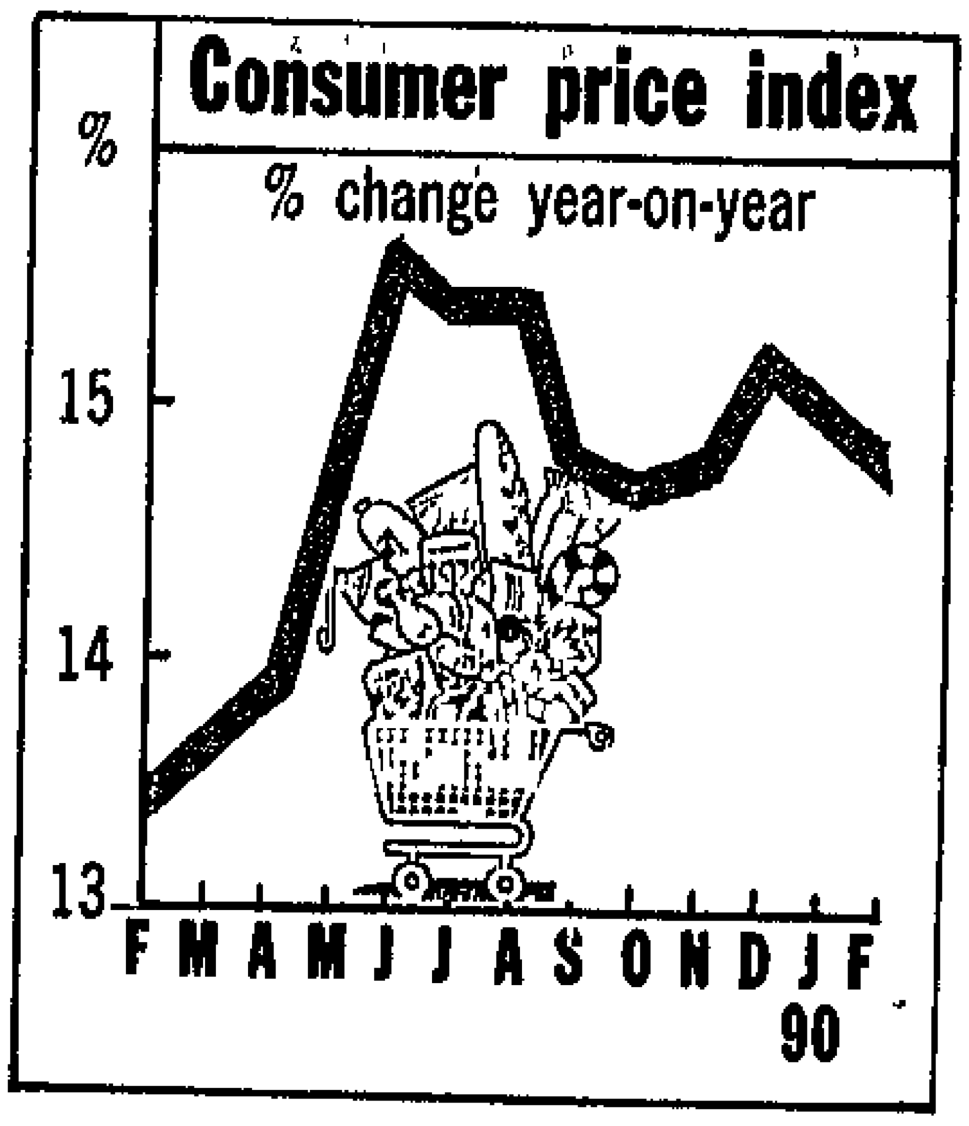
Barnardt attributed the reduced rate of increase to the relative stability of the rand in recent months.

"The rate of increase in the producer price index has been falling recently, largely because of lower import price inflation," he said.

The largest contribution to the monthly increase came from transport costs. This resulted from higher prices for new vehicles, increased running costs and higher prices for public and hired transport.

Other large increases were recorded for milk, cheese and eggs (1,7%) and coffee, tea and cocoa (2,2%)

The actual index increased to 193,3, meaning it now costs R193,30 to buy a basket of goods which cost R100 in 1985



FRIDAY, MARCH 23, 1990

Food prices continue to rise

CAPE TIMES 23/3/90 (153)

Inflation rate dips to 14,9%

By AUDREY D'ANGELO
Financial Editor

THE inflation rate dipped to 14,9%, year on year, in February compared with 15,1% in January The rise between January and February was only 0,7%.

But food prices are continuing to rise and Old Mutual economic analyst Ursula Maritz warned that this was putting upward pressure on the inflation rate

In spite of this, she expects the consumer price index (CPI) to fall to 13,5% by December and the average for the year to be about 14,5%.

Southern Life economist Mike Daly, who pointed out that the 14,9% year on year rise was from a high base in February 1989, expects the CPI to be down to 13% in December and the average for the year to be 13%,5%

He said the producer price index (PPI) had been dropping and this was having an effect on the CPI.

Volkskas Bank economist Adam Jacob said that although the underlying trend was still too high he expected the CPI to move gradually downwards with interest rates beginning to drop by the middle of the year

Old Mutual economist Andre Roux said he also thought interest rates would start to come down by the middle of the year, in spite of recent warnings that they might stay at present levels for longer.

Figures issued by the Central Statistical Services yesterday showed that the food only index had risen by 15,7% in the 12 months to February This is the highest annual increase since August 1988 when it was 16,8%

The annual rate of increase in the food index for the lower income groups was 17,4%. It was 15,8% for the middle income group and 14,3% for the upper income group

Ursula Maritz said she thought the total CPI for February presented "a fairly positive picture at this stage".

There was a danger that food prices could continue to pick up However, she expected the CPI to continue "falling back moderately".

Adam Jacob pointed out that the total CPI had been 15,5% in August, 14,9% in September, 14,8% in October, 14,9% in November, 15,3% in December and 15,1% in January.

However, he considered the index excluding food prices more important. This showed a gradual, steady decline from 17,3% in June and July and 17,2% in August to 16,5% in September, 16,2% in October, 15,9% in November, 15,6% in December, 15,2% in January and 14,6% in February

"This is still too high, but we are moving in the right direction. We have always said that progress would be slow — the authorities cannot achieve miracles.

"They will have to carry on for some time with tight policies The balance of payments is still not all that rosy and there is great concern about the fall in the gold price

'Rein in extension of credit — or else'

BDay 26/3/90 (153)

GRETA STEYN

IN AN assault on inflation, Reserve Bank Governor Chris Stals has tightened the credit squeeze with tough monetary growth guidelines of 11%-15% for 1990

Stals said in a statement at the weekend "The lowering of the target range by three percentage points signals the determination of the monetary authorities to make a contribution to the combating of inflation by reducing the rate of increase in the money supply."

The new range for growth in the broadly defined money supply, M-3, is lower than the 12%-16% expected by the markets and well below last year's 14%-18% target. The actual growth last year was 23,5%

M-3 consists of cash in circulation and all deposits with banks, building societies and the Post Office.

Stals's statement is a clear signal to the banks to rein in credit extension — or else He repeated the Reserve Bank's request that banks limit the monthly growth in credit to an average of about 1%, and added: "Not many banks complied with this request last year and discussions will be held with representatives of the banks shortly to explore ways of making this request more effective"

Asked whether the new targets for growth were not too ambitious, given the past two years' failure to come even within striking distance, Stals said "The new range for growth in M-3 should not be seen as a target or a forecast. It is a guideline, an indication of what we regard as appropriate. As long as growth in the money supply far exceeds the desired range, we cannot contemplate easing monetary policy"

He acknowledged this view signified a change in style to accord even greater flexibility to the targeting exercise. In spite of the Reserve Bank's repeated claims in the past that targeting was a "low profile" policy instrument, the targets were centre stage in the De Kock era.

Stals's statement indicates that the maintenance of relatively high positive real rates of interest as part of a longer term economic strategy is now at centre stage of monetary policy

He repeated his faith in the maintenance of positive real interest rates — and indicated success in combating inflation was likely to be a precursor to lower nominal interest rates Nominal interest rates "may well move in accordance with changes in the rate of inflation"

To ensure downward pressure on the inflation rate, a further reduction of the guidelines for M-3 growth may be called for in 1991, the statement said.

The lower guidelines were believed to be reconcilable with projected growth in real GDP in 1990 of up to 1%, a surplus on the current account of the balance of payments of at least R6bn and a gradual rise in the official gold and other foreign reserves

It is evidence of the low profile accorded to monetary targeting that Stals chose to release the new guidelines on a day when gilts dealers' train of thought was far away — on Rand Merchant Bank's Gilts Express to the Magaliesberg

Star 29/3/90

Inflation has become chronic, says BER

Star 27/3/90 (153)

STELLENBOSCH — South Africa's inflation is chronic, and throughout the economy "prices are feeding each other with no resistance to break the circuit", says the Bureau for Economic Research (BER) at the University of Stellenbosch.

It says in a survey of the manufacturing sector that manufacturers expect prices to rise and that the political climate is still hampering normal business activities

Shedding politically based restrictions would "take some time and was to a large extent out of the manufacturers' hands", even though certain economically motivated constraints "like the shortage of skilled labour, currently on a higher intensity level than sanctions" are to some extent "within the ambit of manufacturers' capability"

Political reform measures had not impacted positively with immediate effect on manufacturers, even though confidence was up a slender one percentage point (from 51 percent to 52 percent) since the previous BER survey

In the longer run, however, recent political announcements had created more positive expectations.

This was borne out by the fact that in the previous BER survey, 38 percent of manufacturers expected general business conditions for the next 12 months to be lower.

In the current survey period, however, only five percent believed this would be the case.

Negative business conditions were foreseen for the immediate future, but the intensity of expectation had levelled off

There was a realisation that solving political issues would not on its own create satisfactory economic growth.

Real fixed investments in machinery and equipment were expected to increase "to comply with expected rising domestic demand"

Job creation in the manufacturing sector was decreasing, with some 15 percent of manufacturers having fewer employees than in 1989

Higher production volumes had, however, been maintained through higher productivity

Production had exceeded demand, however, and there was an increase in the numbers of manufacturers carrying greater stocks of raw materials and finished goods.

In general, the manufacturer was "locked between the conflicting gravitational forces of social responsibility and profit-making"

This was in line with the experience of manufacturers elsewhere and due to "political ideologies and economic realities being in turmoil", the BER says — Sapa

SA's inflation is chronic

Sowetan 29/3/90

(153)

SOUTH Africa's inflation is chronic, and throughout the economy "prices are feeding each other with no resistance to break the circuit", the Stellenbosch University's Bureau for Economic Research has said in its latest report on the manufacturing sector.

According to the report manufacturers expect prices to rise and that the political climate is still hampering normal business activities

Shedding politically based restrictions would take some time and was to a great extent out of the manufacturers' hands

The report said shortage of skills, one of the constraints in the economy, "currently on a higher intensity level than santions", was to some extent "within the ambit of manufacturers capability"

For the long run recent political announcements had created positive expectations. In the last survey period 38 percent of manufacturers had expected general business conditions for the next 12 months to be poorly.

In the current survey period only five percent expect poor conditions.

Inflation can make things go backward

BID 2/4/90

153

RISK takes many forms, but one of the surest ways to lose money is to invest in something that does not give a return at least equal to the rate of inflation

This is one point made by Prospur Portfolio Managers when suggesting everyone — not just the government — should have a five-year plan with professional input

Succeeding in financial markets is like winning in any other field of endeavour Sometimes it is false economy to blunder around the markets and it would be cheaper to entrust investments to a professional manager.

Backwards

Inflation, says Prospur director John van Zyl, is one of the least understood investment phenomena which makes most things go backwards But risk cannot be avoided if one expects to beat it

"There is no SA investment without some form of risk," he says "In order to earn a positive *real return* the risk should be fairly obvious to anyone who is reasonably aware of the investment market"

For the private investor, this realisation has some very real implications, probably the most important being that unless he becomes competent at managing investments that carry risk he cannot afford to stop working, or his capital will decline

Few investors calculate the real return on fixed interest investments

This means that if inflation is 15% a year and one's investments earn 18,5%, the *after-tax* return may be as low as 10% net — depending on the individual's marginal tax rate

That ends up as a negative real return of 5% a year and a steadily lower standard of living

Thus, for example, he cautions that fixed interest investments may not seem risky, but they rank among the safest way to lose money, because they provide low interest rates which are mostly taxable

"With double digit inflation here to stay we need to plan our future," he says

For instance, many people think when they retire their pensions will be sufficient to live on, but most pensions do not make adjustment for inflation

One may retire on R10 000 a month, yet with inflation at 15% in five years one will need R20 113 a month to maintain the standard of living at the same level as when retirement commenced

"However, if inflation is higher — say 25% (some economists say 25% is closer to the real inflation rate) — then one would need R30 517 in five years to simply break even

"It is therefore vital that all excess cash should be invested in growth assets, such as equities,"

Thus in buying shares one should limit investments to quality counters, like companies that are profitably managed and have strong balance sheets, a solid history and a promising future

Above all, the share price should represent good value when compared with the underlying assets one is purchasing, he says

"Equities have historically yielded growth better than either cash or property Recent declines in the JSE offer excellent opportunities to buy some good shares at reasonable prices"

Van Zyl suggests any good financial manager should be able to provide professional advice on such matters as

Adequate

☐ Retirement planning Whether the client will have adequate proceeds to retire on and which will also ensure a continuation of that person's normal standard of living,

☐ Estate planning to minimise duty payable on large estates to ensure one's will is properly structured,

☐ Business planning, which includes buy and sell agreements that prevent a surviving partner from paying a large sum to the executor, action against serious financial problems arising from the death of key personnel and coverage against large liabilities on load accounts

☐ Investment planning, which is tax efficient and caters for the financial objectives of the individual and his family, including reasonable financial goals

Costly price-tag on opening up cities

STEL 7/4/90

Small black traders and property owners likely to be the first to suffer

TOM HOOD

CAPE TOWN — About 150 000 independent small black traders could be put out of business after the scrapping of the Group Areas Act.

This is the belief of a leading property researcher, Mr Erwin Rode, whose Bellville-based Real Estate Surveys company has produced a special report Property Prices in Post-Apartheid South Africa.

These traders represent a turnover of R24 million a year, he says.

"Ironically, they have been protected from the jungle of competition by legislation such as the Group Areas Act, which has kept the capital-intensive and aggressive retail chains out of black areas.

"The white retail market is over-traded, making the black domestic market the natural target of the retail giants.

"The survival of the vast majority of black retailers in the face of such competition is doubtful

"However, on the positive side this would provide black consumers with a greater variety of lower-prices goods nearer their homes"

Property outlook

The report also pinpoints sectors of the property market where values are likely to fall and suggests strategies for owners and investors to protect their investments

It recommends investors should immediately assess their interest in both residential and commercial areas which are most vulnerable to "invasion and "ghettoisation, as values decline following deregulation

"They should consider limiting and redirecting their interests as speedily and as cost-effectively as possible."

Property values are most likely to fall in suburbs where more than 20 percent of housing units are priced below R85 000 (see chart)

Other major factors to be considered according to the survey are. a significant proportion of existing rented accommodation, proximity to Black suburbs and amenities such as transport; proximity to a metropolitan central area, presence of urban decay; if a significant number of properties are rent controlled; attitude of local authorities to multi-family occupation, and the level of current property values.

The report says white residential areas turning grey are doing so for unavoidable and fundamental reasons, representing "a flood which cannot be stemmed. In the end most grey areas will become black."

Mr Rode therefore says the Group Areas Act might as well be scrapped - "the remaining issue is the when and the how of the abolition of the Act."

Looking at coloured and Indian residential area, the report noted that excessive demand had led to premiums of as much as 30 percent above comparable white housing.

A study in Bellville showed coloured families paid 19 percent more for identical accommodation in comparable middle-class suburbs. The price premium, caused by a shortage of houses, was as much as 30 percent elsewhere.

This premium would be eroded as more suburbs were opened and would result in lower property values.

"Coloured and indian suburbs close to black areas would also be prone to invasion by blacks, negatively influencing property prices."

The report commented there was a marked difference between expectations and realities. Only a minority of racial groups other than white, who had the education and skills, would experience any significant upward mobility.

A recent study in Cape Town showed 53,8 percent of coloured families would prefer to be relocated in white suburbs.

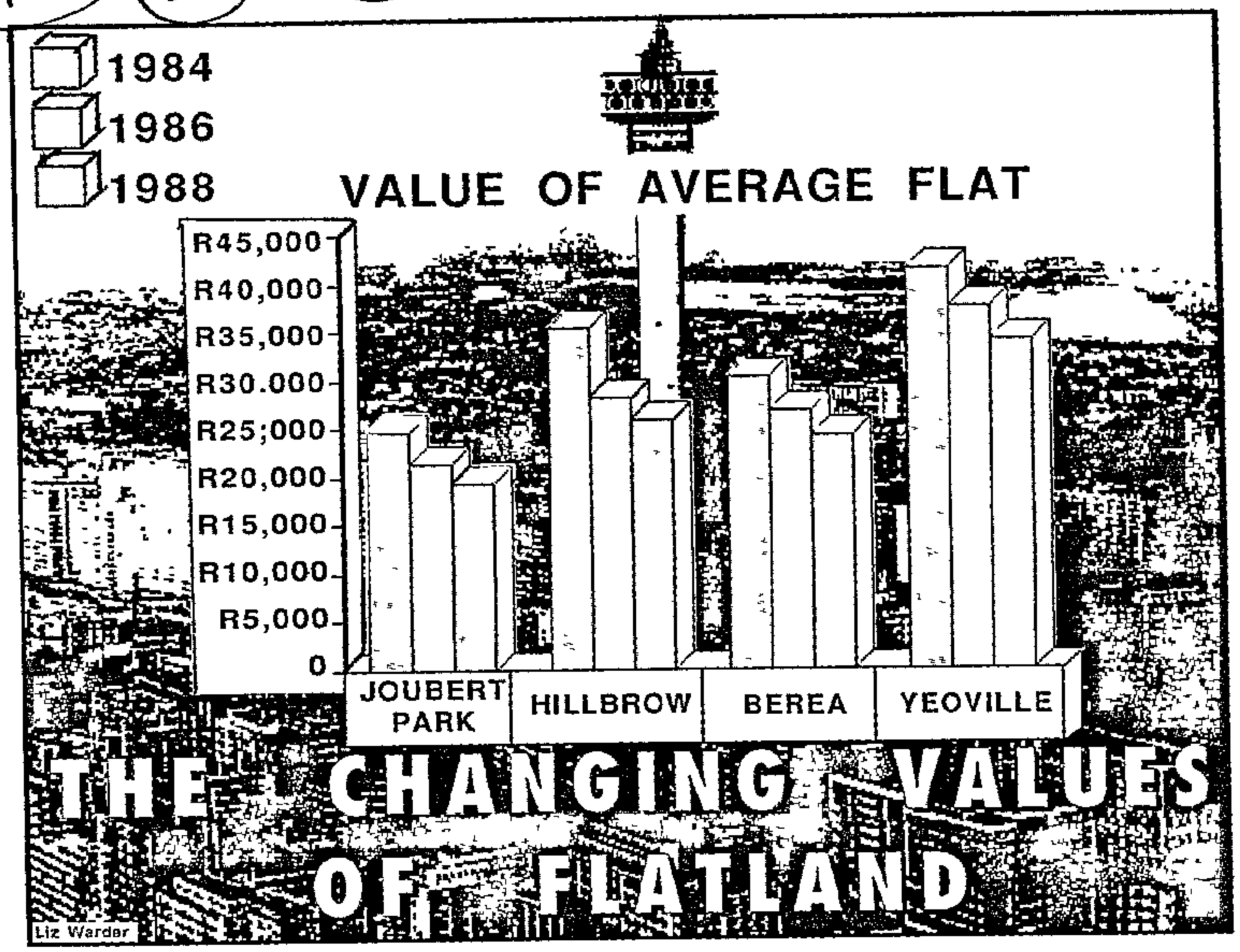
Half of that group preferred upper-class suburbs such as Rondebosch, Constantia, Newlands and Claremont but only 3 percent would be able to afford to live there.

"The perception that people of colour already buying into white areas in expectation of changes in legislation will exert an upward pressure on property prices is not necessarily accurate.

"Admittedly this will increase the demand but the effect in the upper-income suburbs will be so dispersed that the net result on prices may be very slight.

"Living conditions for the mass of the rapidly increasing urbanised black population are unlikely to be transformed in the foreseeable future, even by the total abolition of the Group Areas Act."

The report concludes that the possibility of whole cities being declared free settlement areas would minimise financial damage and "take the heat off the government."



OPENING UP: Property values are most likely to fall in suburbs where more than 20 percent of housing units are priced below R85 000 or are already grey, according to the research. It recommends investors should immediately assess their interest in both residential and commercial areas which are most vulnerable to "invasion and "ghetto-isation".

Economists raise forecasts on prime

B104 5/4/90

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GRETA STEYN

ECONOMISTS have revised upwards their forecasts for the prime interest rate at year-end — signalling their belief that monetary policy will have to bear most of the burden in the fight against inflation.

According to Firstbase, the monthly survey of economists' forecasts done by First National Bank, economists have raised their prediction of prime by about 0,5 percentage points.

At the same time, they have again slightly revised their inflation projections downward — a vote of confidence in Reserve Bank Governor Chris Stals.

The high range of projections for the prime rate at year-end averaged 19,4% — up from February's 18,9%. The median was at 18,5% (February 18,1%) and the low range averaged 17,6% (from 17,2%).

The median inflation rate for the year is now at 13,1%, which is well below the original forecasts of 13,5%-14% for 1990 made at the beginning of the year.

Old Mutual economist David Mohr said: "Clearly the burden of stabilisation policy is now falling squarely on the shoulders of monetary policy. With fiscal policy addressing longer term, structural issues, the authorities cannot afford to take chances by dropping interest rates too soon.

"Policy should rather err on the side of being too restrictive," he said.

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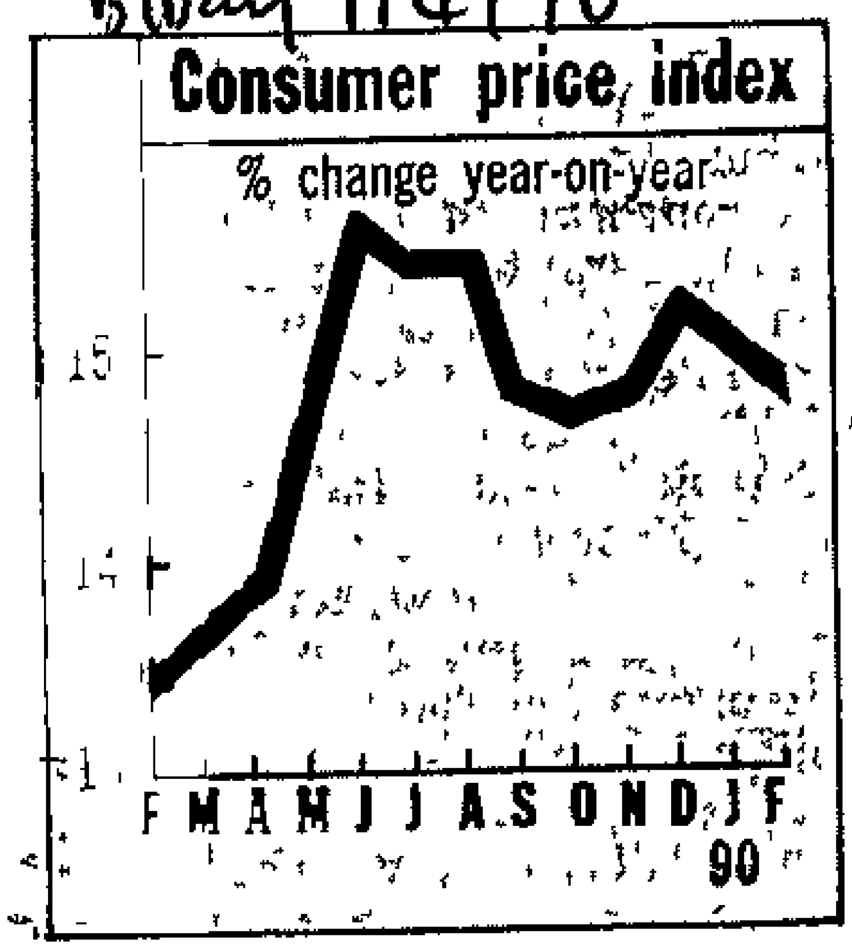

Redistribution of wealth 'could be inflationary'

NEIL YORKE SMITH (153)

ECONOMIC policy-makers would battle to curb inflation because of demands for high wage increases and the wealth redistribution problems, economists said at the weekend.

Commenting on Reserve Bank Governor Chris Stals's anti-inflation policy, Econometrix economist Azar Jammine said "Stals has expressed determination but so far the results have yet to be seen

"Also, the potential redistribution of wealth could be inflationary, especially if wage increases for the masses are not matched by increases in productivity," he said.

FNB economist Cees Bruggemans said "We expect inflation to reach 13% by the second half of this year. This should be obtainable given the positive inflationary impulses of the past few months"

TrustBank's Nick Barnardt said "High wage increase demands make single-figure inflation unlikely in 1991".

It was unlikely authorities would be able to contain the rate of increase to below 10%

"If the authorities aim for single figures they will have to retain strict financial policy, risking unemployment and social instability," Barnardt said

According to Bruggemans, the large number of unknown factors influencing the inflation rate made long-term predictions difficult

Inflation indicators like the consumer price index (CPI) and the producer price index (PPI) had recorded reduced rates of increase recently, largely as a result of a more stable rand exchange rate

Said Barnardt, "The stable exchange rate over the past nine months has been important in controlling import price inflation."

Jammine confirmed short-term indicators appeared positive, but stressed they did not mean an end to high inflation rates

"Money supply growth remains a major problem This combined with excessive wage demands could have a negative impact on the inflation rate," he said

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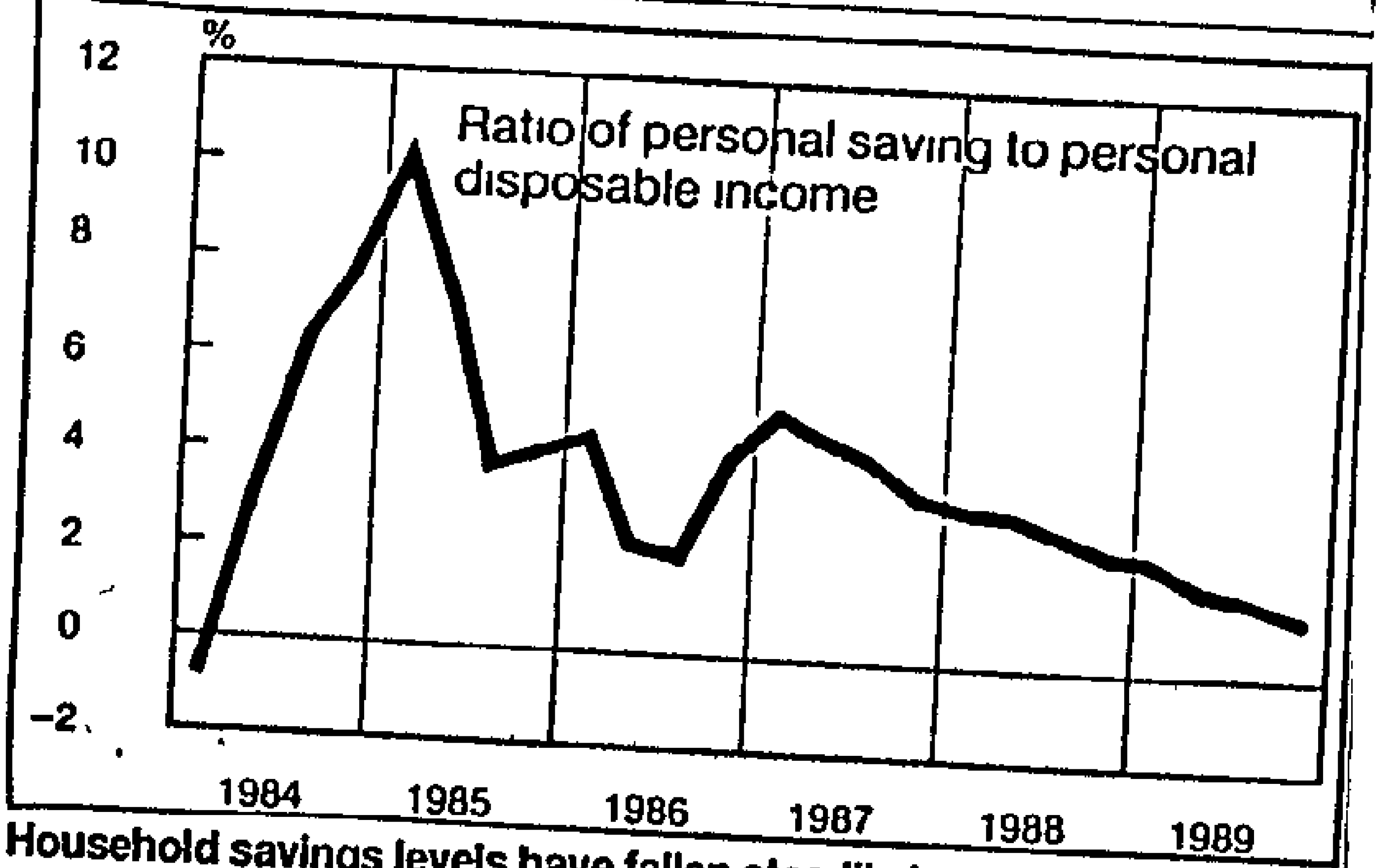
BUSINESS

High inflation and higher taxes depress SA savings

A sharp drop in the ratio of savings to disposable income is set to boost unemployment over the next few years, reports KURT JENSEN



Household savings levels have fallen steadily in recent years

Graph: RESERVE BANK

THE savings levels of South African consumers have hit alarmingly low levels and, coupled with a decline in gross domestic fixed investment, hold little hope for substantial employment creation in the near future

The Reserve Bank's latest *Quarterly Bulletin* paints a dismal picture of the average South African's savings level which has been hit by the high inflation rate and a substantial rise in tax payments.

According to the *Bulletin*, the ratio of net savings as a percentage of real disposable income last year declined to a record low of 1,5 percent compared with 2,5 percent in 1988 (see graph).

In the late 1970s this level was as high as 14 percent but has declined constantly since then as direct taxes paid by households have risen by over 150 percent since 1980.

In an attempt to address this problem, Finance Minister Barend du Plessis in the Budget lifted tax on dividends and raised the tax free portion on interest rates to R2 000

While this could lift the ratio of savings to disposable income to 2,5 percent this year, it will not be sufficient to substitute for the anticipated decline in fixed investment.

After rising by 5,5 percent, 4,5 percent and 0,5 percent in the first, second and third quarters of last year respectively, gross domestic fixed investment dropped by three percent in the ensuing three months

The lack of future investment potential either through the use of savings or new investments by the public and private corporate sectors is likely to boost official, not to mention unofficial, unemployment figures to even higher levels

According to the *Bulletin*, the number last year was roughly equal to some 10,7 percent of the estimated labour force This apparently is a record low, but belies other academic research which puts the figure closer to about 2,5-million.

A more reliable statistic is the number of registered "white, coloured and Asian" unemployed workers, which in December last year fell to a four-year low of 41 100, reflecting the demand for skilled labour.

On the broad economic front, the *Bulletin* says the most conspicuous feature was the quite remarkable softness of the cyclical "landing" in economic activity from late 1988.

The "soft-landing" is the result of the Reserve Bank's policy of restricting domestic demand by corporations and individuals without strangling economic growth

In this consolidation phase, the Bank says, the economy has been "moving in the right direction" satisfactorily as regards the balance of payments, foreign reserves and exchange rate situation in particular.

But it says less satisfactory progress had been made thus far in, among other things, subduing inflation, moderating wage adjustments and slowing down the expansion of bank credit and the money supply.

The resistance of the economy has been upheld by a variety of factors:

- The sharp rise in real agricultural production from 1988 to 1989
- The vigour of South African merchancise exports last year
- The rise in the real wage per non-agriculatural worker and the increased share of labour remuneration in total factor rewards that are likely to have supported household spending and the average propensity to consume

War on inflation to be stepped up

Star 17/4/90 (153)

By Magnus Heystek, Finance Editor

The Reserve Bank is expected to announce further measures this week to control money supply in order to bring down inflation

These might include measures to curb mortgage finance and lead to a cooling off of the overheated residential property market.

Such measures would clearly rule out any relaxation in monetary policy until the fourth quarter, at the earliest.

Last week the Reserve Bank announced several measures to bring back about R9 billion of banking sector assets onto the balance sheet, thereby leading to higher cash and other asset requirements

This was done to gain better control over growth in money supply, which has so far doggedly refused to decline to within Reserve Bank parameters.

All three classes of money supply are growing at well over 20 percent per annum — far higher than official targets of 11 to 13 percent

While the economy is heading towards a soft landing, there is virtually no chance of any decrease in interest rates before at least the end of the year

Unexpected upward pressure on international interest rates, however, could lead to another increase in the prime overdraft rate in South Africa, economists warn

Dave Mohr, chief economist at Old Mutual, says the current recession could even last well into next year, with interest rates kept at current high levels in order to bring down inflation

This is in contrast with earlier forecasts made by economists and analysts that interest rates could start easing from the middle of the year

Several factors in recent weeks have contributed to this altered scenario, not the least the sudden and largely unforeseen drop in the gold price to below $380

The key to any drop in interest rates, which would benefit hundreds of thousands of homeowners with mortgage bonds, lies in the inflation rate

In an interview with Reuters last week, Dr Chris Stals, Governor of the Reserve Bank, made it clear that he intended to maintain real interest rates (i e after taking into account the inflation rate) at five to seven percent, much in line with international banking practices

Dr Chris Stals

The prime overdraft rate is currently 21 percent, smack in the middle of that projected target range

Any reduction in interest rates without any concomitant decrease in inflation, would lead to further outflows of capital, which SA can ill afford

While the decline in growth of the production price index (PPI) in March this year to an annualised 12,9 percent has been welcomed, economists still doubt that the consumer price index (CPI) will decline substantially in the coming months

Although there exists a close correlation between the CPI and PPI, the PPI excludes factors such as the costs of services, which have been rising at a rate far in excess of the PPI.

This could provide a dampener on prospects for substantially lower inflation in the near future

Another factor preventing the monetary authorities from allowing interest rates to decline is the still-excessive growth in money supply

It is widely expected in banking circles that Dr Stals will announce further measures to curb the current level of credit extension, which he feels is excessive and stimulatory, of banks and other financial institutions

It is rumoured that steps may even be taken to contain home mortgage financing, a factor contributing greatly to the excessive rise in house prices

Residential property prices have rocketed over the last twelve months, no doubt fuelled by easy access to mortgage finance

This contrasts sharply with the provision of lower-cost housing, particularly for blacks, that is being hampered by a severe lack of funds and the unavailability of serviced stands

Commercial banks have in recent weeks made representation to the Reserve Bank for an increase in the prime overdraft rate to enable them to increase mortgage rate and financing agreements tied to prime overdraft rates

While many consumers are benefiting from the reluctance on the part of the Bank to bow to this pressure, they are nevertheless paying substantially higher interest rates for other types of finance, including revolving credit, personal loans and overdrafts

The behaviour of the gold price is, as ever, crucial to monetary policy

The sudden drop in the price in recent weeks has removed virtually all possibility of a relaxation in monetary policy

While SA's balance of payments improved sharply in the first two months of this year, the decline in gold and other precious metals revenues in March will put pressure on the balance of payments

But overall, the situation is not critical and most economists expect SA to maintain a surplus on the current account of roughly $2,5 billion for 1990, which leaves sufficient reserves to pay foreign creditors

'Strong rand needed to curb inflation'

Cape Times 17/4/90 153

AUDREY D'ANGELO
Financial Editor

A FALLING exchange rate results in higher inflation The Reserve Bank should therefore allow the rand to strengthen, in spite of the need to promote exports and protect the balance of payments, Standard Bank economists advise.

They concede, in their Economic Review, that an under-valued rand encourages exports and penalises imports — resulting in bigger current account surpluses and improved gold and foreign exchange reserves — and stimulates growth through export promotion.

"However," they point out, "such a weak-rand policy inevitably raises the domestic cost of foreign debt servicing and repayment.

"It also increases domestic price pressures as the cost of importing goods rises when the exchange rate falls"

The 32,6% rise in the imported component of the producer price index (PPI) between January 1985 and January 1986, at a time when international prices rose only slightly, showed the effect of the weakening of the rand in this period.

Price escalation

But, the Standard warns, "a more insidious effect of a sustained fall in the exchange rate over time is that international competition ceases to act as a check on domestic costs and prices.

"Price escalation results from the undesirable practice of 'import parity pricing', where local manufacturers in an environment of limited domestic competition often set their prices, not in terms of cost, but according to the cost of importing similar products from overseas suppliers

"Moreover, domestic producers will not resist rising costs resulting from higher wages or inefficient productive techniques if protection from international competition is automatically provided by a weakening exchange rate"

Even exporters, they continue, "have little incentive to enhance their global competititiveness by introducing cost saving techniques if increased competitiveness is gained anyway from exchange rate depreciations

"Thus a weak and declining exchange rate impacts negatively on domestic productive efficiency and therefore on long-term inflationary pressures"

Urging the Reserve Bank to resist calls to stimulate exports by pushing the rand down further than is required by capital flows, the Standard points out that the "significant slowdown" is already reflected in falling imports

Political climate

"A healthy trade surplus is already being achieved and it now seems likely that a current account surplus approximately equal to anticipated capital outflows will be recorded in 1990

"Moreover, improved political perceptions of this country could result in actual net capital outflows being somewhat smaller than the R2,4bn originally estimated

"Under such circumstances, downward pressures on the rand may not be as severe as was initially feared This may act as a spur to greater domestic productive efficiency and, therefore, lower inflation"

Inflation is 'our biggest headache'

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Debt hurdle easy to clear, says Stals

B/Day 17/4/90

GRETA STEYN

THE balance of payments (BoP) is likely to continue defying expectations in the current quarter after a spectacular first three months, and SA is set to clear its foreign debt hurdle with unexpected ease.

Reserve Bank Governor Chris Stals said in an interview at the weekend it was unlikely SA would have to repay the full $2,2bn (R6bn) in foreign debt falling due this year. Most of the debt becomes payable in the second quarter.

● STALS

"We are optimistic that many of the positive developments in the first quarter will continue into the second quarter. The BoP is not our major concern at the moment — inflation is," Stals said.

He was optimistic about the continuation of roll-overs of debt and increased access to foreign credit in response to reform initiatives in SA.

In addition, he believed import volumes would drop considerably, as the economy appeared to be slowing down rapidly. Against a background of falling imports, the recent drop in the gold price was less worrying.

"Quite apart from politics, there are economic reasons why the turnaround in the BoP should continue. High interest rates and the squeeze on banks have made domestic credit increasingly scarce. At the same time, a stable exchange rate is helping the leads and lags situation."

Foreign creditors' perceptions of SA, because of political developments, were more positive now than a year ago, in spite of recent outbreaks of unrest

"On balance, attitudes have improved since the release of ANC leader Nelson Mandela," said Stals.

It was this improvement in attitude that saw foreign banks increase the credit limits for SA trade-related finance, and arrange roll-overs of existing foreign debt including a portion of Eskom's Almost all of Eskom's debt falling due in the first quarter had been rolled over

"Early indications are that there was virtually no net capital outflow in the first quarter"

However, it was in the second quarter that SA would have to clear the hump Stals remained emphatic policy could not be eased The situation was volatile and the country had to be careful not to count its chickens before they hatched .

He added: "Even if the BoP is a success story, we have to bring inflation down

☐ To Page 2

Debt hurdle

B/Day 17/4/90

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☐ From Page 1

That is our biggest headache"

For the past two years, SA's current account surplus has not been enough to cover total capital outflows. Last year's current account balance of R4,1bn was extinguished by capital outflows of R5,6bn. By far the greatest portion (80%) of this was short-term outflows (R4,5bn) — largely a reflection of negative "leads and lags".

One of the reasons for the positive BoP in the first quarter was a decisive turnaround in the negative leads and lags situation of the past two years

"A stable exchange rate and high interest rates in the first quarter should ensure these outflows are not a problem this year," Stals said

A stable rand is a major weapon against negative leads and lags Exporters "lag" when they believe the rand will depreciate by granting buyers extended payment periods Those with foreign parent companies are able to keep proceeds in international bank accounts — especially popular when local interest rates are out of line with foreign rates. Importers "lead" payments, mainly when they believe the rand will depreciate

Low gold price and inflation threaten mine

153 RIAAN SMIT

GENGOLD's Stilfontein mine in the western Transvaal faced closure if the gold price and inflation remained at current levels, MD Gary Maude said yesterday.

At the release of the group's March quarterly results, Maude said Stilfontein's high grade Vaal Reef had been mined out and Gengold was trying to keep it profitable by stoping the remaining low grade Ventersdorp Contact Reef.

He said a decision about the 38-year-old mine's future would be taken at the end of the current quarter, and added that it was Gengold policy to close a mine if it had made losses for three consecutive months. B Day 19/4/90

Gengold's Marlevale gold mine on the East Rand will no longer publish separate results as the mine is winding down its operations.

The company said yesterday its Grootvlei mine had assumed management responsibility for Marlevale with effect from April 1. The ore produced from the winding down of Marlevale's operations is being treated at Grootvlei.

Gengold said the arrangement enabled the plant clean-up at Marlevale to proceed.

Average taxed profit at the group's 11 mines fell by 3% to R11,2m. However, yields were up at seven of the mines.

Winkelhaak was the star performer for the March quarter with an increase of 8,7% in taxed profit to R33,1m and a R769/kg reduction in cost.

Gengold's average working cost a kilogram increased by 3,9% for the March quarter, reflecting the cost squeeze in the industry due to a flat rand gold price and inflation.

Last year the group showed decreases in average cost per kilogram of 1,6% in the second quarter, a 1,9% increase in the third and a 1,9% drop in the December quarter.

Discussing the quarterly results, Maude said gold mines were caught up in political action by unions aimed at government and had suffered production losses during the quarter.

Maude said President F W De Klerk's speech on February 2 and the release of Nelson Mandela had heralded the start of a National Union of Mineworkers (NUM) campaign against "perceived discrimination" at some mines.

● See Page 5

Sanlam calls for lid on pay rises

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S/Times 22/4/90

Business Times Reporter

INFLATION, named public enemy No 1 by the Reserve Bank early this year, is still top of the hit list

So much so that one of South Africa's top economists suggests that wage and salary increases might have to be limited — "as a short-term measure" — to below the inflation rate

Sanlam chief economist Johan Louw writes in the group's Economic Survey that the "unacceptably high" inflation rate can be lowered only if strong monetary and fiscal discipline is supported by a more stable rand, restrained pay increases and and real efforts to increase productivity

Unrest

"Everyone will have to make a contribution to lowering the high inflation rate to more acceptable levels

"There is growing realisation that a significant drop in the inflation rate can be effected only by a comprehensive package involving the public and private sectors"

There is no instant solution to the deep-rooted problem, particularly for SA with its open economy, relatively small domestic market, extensive socio-economic problems and the strong unrest potential stemming from large-scale unemployment

Mr Louw says it is generally appreciated that the maintenance of monetary and fiscal discipline must form the cornerstone of any anti-inflation policy

In monetary policy the Government has been trying hard to limit excessive credit and growth in the money supply for a long time This has been joined by the maintenance of positive real interest rates It is official policy not to lower interest rates until there is a significant fall in the inflation rate

Indication

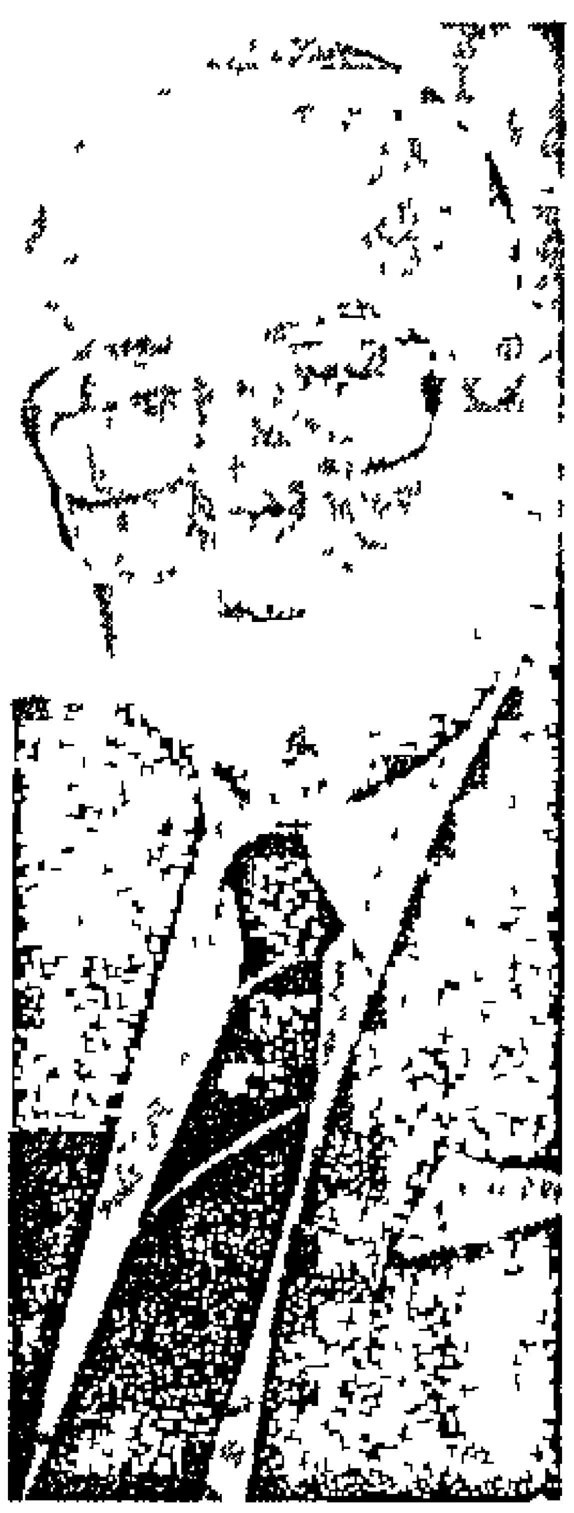
The Budget was an indication that fiscal discipline is being used to curb inflation The Government was trying to maintain a fairly stable external value of the rand to limit increases in the cost of imports and to give domestic prices more stability

"This could makle a significant contribution to lowering the inflation rate," says Mr Louw

Salary and wages represent a large cost input for nearly all industries

"Adjustments — against a background of productivity changes — play an important role in cost and price levels of goods and services

"The higher inflation rate, which consists of higher labour and other costs, is simply built into the next round of wage and salary adjustments, and so, with the help of a rise in the money supply, perpetuated



JOHAN LOUW sacrifices to beat inflation

"To break this undesirable spiral we believe that — apart from all the other steps to lower the rate of price hikes — it might be necessary as a short-term measure to limit wage and salary increases to a rate even lower than the prevailing inflation rate

"To achieve the desired results business will have to pass the 'savings' in labour costs on to consumers by means of smaller price increases

"We are convinced that such action is essential to force the unacceptably high inflation rate down to lower levels"

Foreceful promotion of productivity could also make an important contribution to lower inflation

Competition

"An imaginative programme to achieve this can be postponed no longer That includes better tuition and training of manpower and the greater involvement of managements and trade unions in productivity programmes," says Mr Louw

The promotion of effective competition should also help to reduce inflationary pressure

It would include the promotion of the informal and small-business sector by accelerating the deregulation programme Mr Louw says that in spite of steady progress in this direction, some laws, rules, regulations and practices hamper competition

Privatisation, which could lead to more effective application of production factors and result in greater cost effectiveness and price stability, could also help to contain inflation

Finally, the Competition Board could do more to promote competition, says Mr Louw

Liquidity

Persistently high inflation is also adding to pressure to maintain high interest rates Mr Louw does not expect any decline in prime overdraft rate before the third quarter of this year He believes prime will stand at 19% at the end of the year

Other factors militating against any early reduction in prime are the upward trend in foreign interest rates, indications that demand for credit is still strong and the fact that foreign reserves are still too low for comfort

"It can be expected that the Government will take steps, if necessary, to rid the system of excessive liquidity to prevent interest rates from dropping too rapidly," says Mr Louw

"If the present poor performance of the gold price continues, it will obviously defer any decline in interest rates"

Sanlam envisages long-term interest rates fluctuating around current levels for the next few months

Eskom to hold price rises below inflation

S|Tmes 22/4/90 (153)

FUTURE increases in Eskom's electricity tariffs will be higher than in previous years.

But Eskom chairman John Maree tells Business Times price increases will be kept one or two percentage points below the inflation rate for the foreseeable future.

Mr Maree appears to have met most of the targets he set when he took over the utility in 1986. He has cut manpower by 15 000 and held costs so that on occasion price increases were five percentage points lower than inflation.

But the balance sheet is still stretched

Balance

Mr Maree says "We have since 1986 resisted, in the national interest, the option to increase electricity prices in line with rising inflation. Instead we have focused on cost control and improved productivity.

"However, Eskom is unable consistently to absorb rising costs outside its control without impairing its financial health."

The real cost of electricity has declined because increases have lagged behind the inflation rate.

General manager, finance, Mick Davis says "a better balance between internal cash generation and borrowings is required."

The annual report says Eskom has had to absorb increases in input costs well above the inflation rate and it cannot continue to do so indefinitely.

Mr Marais says the three major input costs are coal, salaries and wages, and interest and finance charges. Each constitutes a third of costs.

Eskom's 1989 results show that operating income rose by 9,9% to R3,6-billion and revenue by 13,6% to R9,2-billion. But operating expenditure increased by 6,2% to R5,6-billion.

By Dirk Tiemann

Interest and finance charges rose by a net 16,2% to R2,8-billion, leaving the surplus 12% down at R728-million.

Total cash generated for the year to December 31 last was R7,35-billion. Capital employed amounted to R33,6-billion with accumalated reserves of R9-billion at the end of the year.

Mr Davis says Eskom is highly geared with a debt:equity ratio of 2,81, with net asset value only R8,7-billion. The ratio for similar companies abroad is only 1.

Operating income covers finance charges 1,25 times, but an interest cover of between two and three times would be more appropriate. Mr Davis says it is essential for Eskom to reduce borrowings and increase reserves.

Eskom has total borrowings of R24,6-billion including $5-billion foreign debt, says Mr Davis.

This leaves Eskom in a vulnerable position as far as interest and exchange rates go.

Engineering manager, finance, Patrick Ward says a 1% rise in interest rates costs Eskom R200-million a year.

Mr Davis says that the cost of covering forward is becoming prohibitively expensive. R1-billion being budgeted for 1990.

Access to the European bond markets is difficult, but "we are talking to German and Swiss banks".

This year, R1,6-billion foreign debt will be repaid and Eskom hopes to refinance 50% of it.

Chief executive Ian McRae says physical sales have increase by 3,7% in spite of the economic slowdown. Sales to the mining sector, which takes 27% of the total, grew by only 0,9% last year.

Sales to industry and commerce fell by 2,1% from a previous growth of 3,7%. Bulk sales to municipalities and neighbouring states offset the decline in mining sector sales. This sector now accounts for 40% of total sales.

JOHN MAREE balance sheet still stretched

Mr McRae says productivity improvements have been achieved, but they cannot be expected to offset the effects of high inflation indefinitely.

He says a view exists that productivity improvement results in lost job opportunities. Eskom believes its strategy will eventually secure more job opportunities with higher skills requirements. The number of employees fell from 56 726 to 51 554 last year.

Pineapples a cropper

S|Times 22/4/90

By Robyn Chalmers

MORE than 1 000 tons of pineapples lie rotting and hundreds of blacks are joining the unemployment queues in a pineapple-growing area of the Cape.

The liquidation of East London's Premier Pineries last September put 1 200 people out of work in the economically depressed region and propects for the pineapple industry in 1990 are not good.

In 1988 and 1989 SA producers lost the American market because of sanctions and Britons boycotted canned pineapples.

This left other European Economic Community countries but large volumes of the fruit from the Far East, particularly Thailand resulted in fierce competition and sharply lower prices.

Scarce

Former Premier Pineries managing director Charles Everard says the company decided in 1989 that it was time to "get out of the rat race".

"Sanctions, boycotts, a rapidly dwindling market and falling prices made it extremely difficult for us to operate. We decided that we would do much better investing our money elsewhere."

Premier has stopped production on all its farms and sold them. Within two years, these farms will produce no more pineapples.

Competitor Western Province Preserving will buy some fruit this year and next.

The closing of Premier Pineries has hit workers badly. The pineapple industry provides jobs in a region where employment is scarce for rural blacks.

Mr Everard says a contributory factor in the closure of the company was the growing strength of trade unions, which are increasingly flexing their muscles in the Border region.

"In East London, employees refuse to work overtime, resulting in fruit being wasted. The quality of the pack is deteriorating because canners are having to work with overripe pineapples.

"The pineapple industry probably employs about 8 000 people directly, and thousands more in subsidiary industries. Tens of thousands depend directly or indirectly on the pineapple industry."

Although prospects in 1990 look healthier in terms of improving world prices and waning competition from Thailand where crops are not as good as predicted, SA's soaring inflation is dampening hopes.

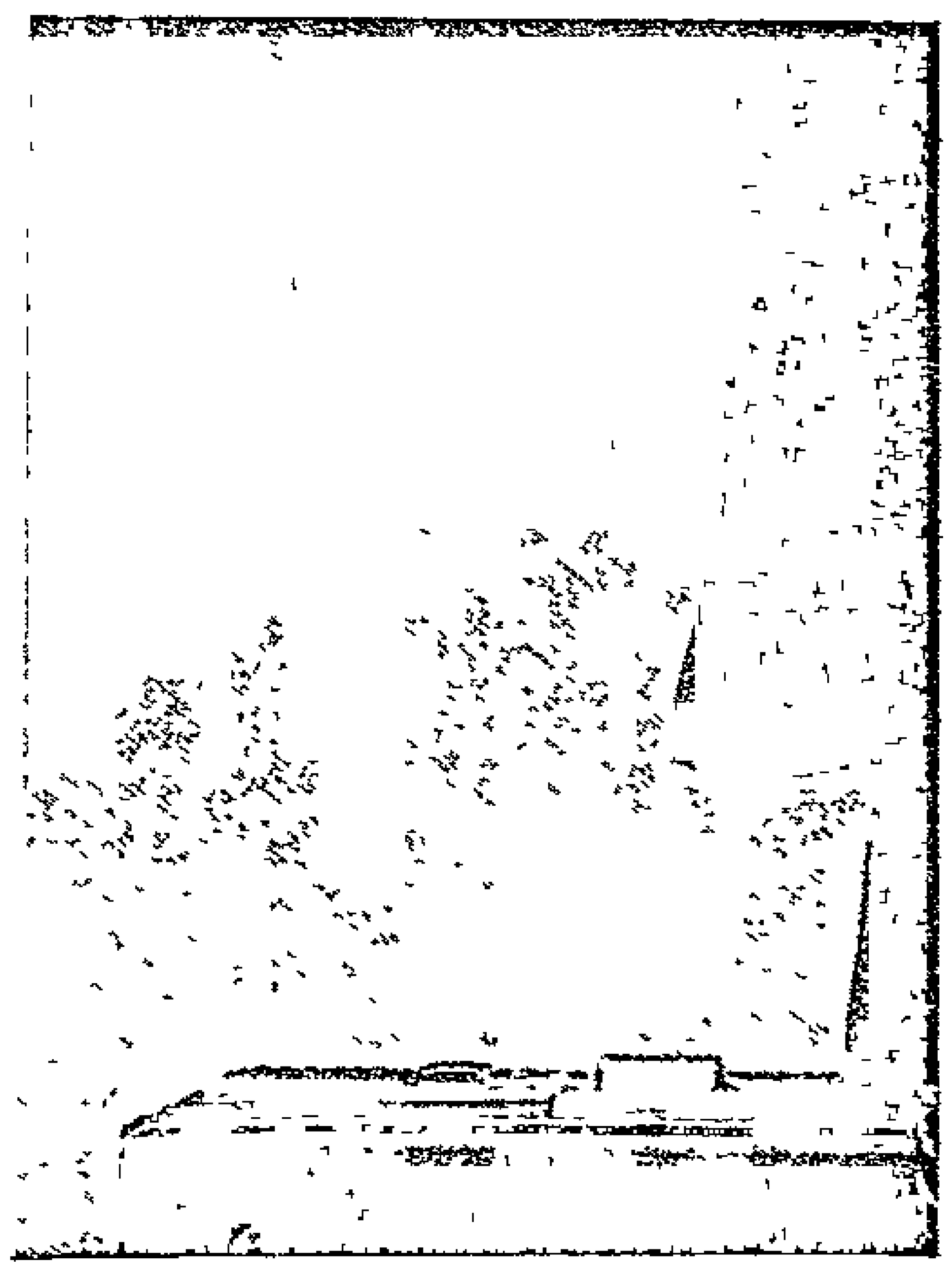
SA grew about 220 000 tons of the raw fruit, which gave a pack-out of 3-million basic cartons last year. Of this, 2,5-million cartons were exported and the rest sold in SA.

Telephone speed-up

LONG delays on the telephone when seeking flight information from Jan Smuts airport are about to be eliminated.

Siemens has won an order for a R4-million Hicom 4100 PABX to replace the existing exchange system.

The new system, which has a capacity of 4 000 extensions and 413 junctions, is due to come into service about August.



Cement industry set for tumble

The cement industry, which has only recently recovered to 1984 levels, looks set to take another tumble.

Hit by the 1985/86 recession, demand fell, but it recovered to about 8 million tons during the period 1987-1989. Growth continued until December but since then demand has dropped

Pretoria Portland Cement (PPC) financial director Mr Chris Wrogemann says the company is hoping that the faltering demand may be caused by adverse weather conditions. However, he says market conditions in the building and construction industry seem to indicate the fall is market related.

But, he says: "During 1988 we experienced a 15 percent increase in demand but the gross domestic fixed investment only increased by seven to eight percent This indicates an unrecorded demand for our product, either there is an error in the figures or there was a large call on cement from the informal sector. The same degree of difference did not show up in 1989," says Mr Wrogemann.

Plant replacement costs in the industry are high. The smallest new practical plant — starting from scratch as opposed to expanding an existing facility — would have a capacity of about 600 000 t a year and would cost about R500 million at today's prices.

However, PPC is not concerned. Mr Wrogemann says the company is operating at about 70 percent of its existing capacity.

"There would have to be a sizeable increase in demand before we need more capacity. We believe the existing plant will be sufficient for some years to come," he says.

Apart from one year cement prices have held to below the official inflation rate for the past eight years.

Cement is priced according to the buyer's nearest railway station. The cement producers PPC, Anglo Alpha and Blue Circle form a cartel and cement is delivered from the plant nearest to the buyer.

Sanlam call for lower wage increases in inflation fight

LESLEY LAMBERT

CAPE TOWN — Sanlam has focused on the fight against inflation in its latest economic report and has called for lower wage and salary increases, higher levels of productivity and the passing on of savings in labour costs to consumers

Chief economist Johan Louw says there are no instant solutions to the deep-rooted inflation problem in countries like SA which have open economies, relatively small domestic markets, extensive socio-economic problems and strong unrest potential rooted in large-scale unemployment

Because wages and salaries are so closely linked to inflation, a higher inflation rate — which consists of higher labour and other costs — is built into each round of remuneration adjustments and perpetuated by money supply increases.

To break this inflationary spiral, Louw says it may be necessary in the short-term to limit wage and salary increases to levels below the current inflation rate.

But this will only be effective if the savings are passed on to consumers by way of smaller price rises.

Lower salary and wage increases should be accompanied by a programme to improve productivity with greater involvement by the public and private sectors and trade unions in the training and instruction of manpower, Louw says

But employers will have to convince trade unions that an improvement in productivity will lead to the creation of new job opportunities rather than worker redundancy

The promotion of competition by accelerating deregulation and privatisation programmes will also help decrease inflationary pressure, he says.

The financial authorities have applied fiscal and monetary discipline as the cornerstone of the anti-inflationary policy.

For some time, they have tried to limit the excessive granting of credit and the sharp growth in money supply and to maintain positive real interest rates as part of their monetary policy

On the fiscal side, they have tried to curb inflation by strict control of government spending and a moderate budgetary deficit before borrowing.

In addition, they have been aiming at a fairly stable external rand value as a way of limiting increases in import prices and introducing greater price stability in domestic markets.

"SA's unacceptably high inflation rate can be lowered only if continued monetary and fiscal discipline is supported by a more stable rand, restrained increases in labour remuneration, real efforts to raise productivity and determined steps to effect greater competition in the economy," Louw says.

Plea to keep wages realistic

CT 25/4/90 153

The inflation rate could be kept down only if demands for remuneration packages remained at realistic levels, the **Minister of Finance, Mr Barend du Plessis**, said yesterday.

Speaking in debate in the Extended Public Committee on Finance, he said it was a source of immense concern that productivity had decreased while the real salary per worker had increased.

"This has resulted in the real labour cost a unit produced increasing by 1,6 percent in the first nine months of 1989 in comparison to the same period in 1988

"This definitely contributed to inflation, something which can only be effectively brought under control if negotiations for remuneration packages remain realistic"

The authorities had done their part by monetary and fiscal discipline and wage restraints to reduce inflation, but this stood to be negated by inordinate wage increases.

The recent Budget would play an important role as an instrument in pursuing more prolonged and stable economic growth, even if not at spectacular levels

The immediate macro-economic objectives involved the balance of payments and inflation

"The average monthly trade balance for the first quarter of 1990 is encouraging and indicates a current account surplus for the year of the targetted figure.

"Reserves of gold and foreign exchange at the end of February were R8,3 billion, which is the highest since October 1987. Even this level constitutes only about 1,5 months' import cover and we are looking to double this ratio.

"There can, therefore, still be no question now of relaxing exchange control."

The cooling-down measures were working but not to the extent that a further period of consolidation was not indicated.

"We do not now contemplate any major change in our stabilisation package," Mr du Plessis said. — Sapa.

Wage demands hold up slowdown in inflation

Star 26/4/90 153

By Sven Lunsche

The inflation rate could well remain higher than originally anticipated, Southern Life's economist Mike Daly said yesterday.

Presenting Southern's latest Economic Comment, Mr Daly said that the lower gold price could push up the cost of imported goods and subsequently keep prices at high levels for longer than anticipated

He estimated that inflation could reach about 13,5 percent by year-end, with an average rate for the year of about 14 percent, compared with last year's 14,7 percent.

Pressure on inflation is also likely to come from higher salary and wage demands by public sector servants, which are increasingly backed by strikes and go-slows.

"Food-price inflation also overtook the overall inflation rate for the first time since October 1988 and looks set to go higher," he said.

However, the main impetus for higher prices is from the rising cost of imported goods

"Until February, the rand's strength was instrumental in bringing the producer price index down continuously, but I believe that the trade weighted exchange rate of the rand has peaked in February and will not improve substantially on this level during the remainder of the year," Mr Daly said

However, some relief on inflation can be expected from an anticipated recovery of the gold price over the next few months

"The fundamentals regarding gold are currently as bad as they are likely to get," Mr Daly said

"The metal has been dented by inflationary fears in the developed economies throughout the world as the monetary authorities have responded with higher interest rates

"The threat of eventual severe contractions in international output as a result of ongoing tight monetary policy makes for a high probability that the peak for international interest rates has been reached.

"Gold will benefit from the subsequent decline of these rates," Mr Daly said, adding, however, that the recovery will come off a lower base than the $410-plus of a month ago.

TrustBank sees drop in inflation rate by 1991

153

ANDREW GILL

SOUTH Africans can expect a real GDP growth of below 1% and a 12,5% inflation rate — currently at a static 14,9% — by the end of the year, TrustBank's latest issue of Econovision forecasts

In its March/April issue, the bank said the GDP estimate would be a result of tight monetary policy; the lowest rise in consumer spending and the first fall in fixed investment in four years; a marked reduction in commercial and industrial inventories, lower agriculture production volumes, and slower export growth

Inflation was expected to fall to 13,5% by July and 12,5% by year-end This would be a major factor affecting interest rates, which Econovision expected to fall gradually over 1991

B/Day 27/4/90

The lag was expected because the authorities would not act immediately on the lower inflation rate but would wait until a clear declining trend had emerged Other factors, such as monetary growth and foreign reserves, would also have to reach satisfactory levels

High interest rates and limited credit creation this year would result in restricted spending into 1991, especially on fixed investment, which only reacted after a long time lag, the publication said

TrustBank's econometric models have suggested corporate profits would be hard-pressed over 1990/91, thus having a further downward effect on fixed investment and job creation

Growth next year was expected to be retarded by further declines in fixed investment and a world slowdown in exports, resulting in a real GDP growth below 2%, the report said

However, tax relief announced for this year and next — supported by lower inflation and interest rates — should result in consumer spending rising during the course of next year

Pay rises stashed away to beat tax

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S I Times 29/4/90

NEARLY every investment house in SA boasts about its ability to do better with your money than the harm done by inflation.

The saver's two worst enemies are inflation and tax So if inflation can be whipped, are there any good ways of minimising the effects of punitive tax rates?

Deferred compensation is one route by which your employer can save you money and keep you happily employed

Loaded

It is exactly what its name suggests When a pay rise is granted, you might not specifically want more cash every month

By the time the taxman has had his slice and your pension fund contribution has risen according to a percentage of your gross salary, you probably feel that it was hardly worth getting the increase

Company pension funds are often loaded against you in the first place

Even if you work for your company for 25 years you are unlikely to receive more than 2% times 25, or 50%, of your final salary Sometimes it is not even a fraction of your last month's salary — it could be averaged over your last three years' income

Whatever the rules, hard and diligent service is not compensated for in any corporate or State pension fund

The salary that is deferred — not paid straight away — is invested by your employer in an endowment policy No tax is paid on the premium, which helps to build a cash lump sum on retirement

Not only do you benefit from paying lower tax, but endowments have proved to be inflation beaters

The tax benefits extend to when you retire. Currently R30 000 of the lump sum on maturity of the endowment is tax free — over and above any other tax-free lump sums, such as pension, provident or retirement annuity

The surplus — subject to a ceiling of your total last three years' salary — is taxed at the average, not marginal rate

The surplus does not have to be shown over one year for tax purposes, it can be spread over three equal instalments in consecutive years

Cover

The deferred compensation must not be more than 10% of an employee's total remuneration package. Schemes such as the Old Mutual's allow contributions to be increased at up to 15% a year, and incorporate low-cost life cover

The deferred compensation benefit may be taken at any time within five years of normal retirement age, but the lump-sum tax relief applies only where men have reached 55 and women 50

The policy can also go with you if you leave The company can cede it to you, although tax is payable and the amount is based on the Receiver's valuation of the policy

The benefits can never be claimed by your creditors

Mr Mashinini . . . "It's all very well to talk about poverty — but it's different to do some

Inflation rate unchanged, say experts — but something doesn't add up

Star 30/4/90

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You figure it out. The experts say the cost of living index has not gone up. Consumers, on the other hand, say they are paying more to stay alive Something doesn't add up. SHIRLEY WOODGATE reports

The newest figure showing the annual rate of increase in the consumer price index has been queried, by, among others, Mrs Lyn Morris, president of the South African Housewives League

"The Central Statistics Service said the figure was unchanged in March from the February rate of 14,9 percent They are pulling figures out of their computers and enjoying themselves, but all I understand is that it is costing me much more to live this year than it did last year", she said.

"I don't believe the inflation rate is the same, but I can't prove it"

Rubbing salt into the consumers' collective wounds, the CSI provided a graph which showed South Africans' cost of living had dropped from a high of nearly 16 percent in June last year. There was also an expert projection that the CPI would be under 14 percent by mid-year.

What does it mean to the hard-pressed consumer?

Mrs Veronica August from Eldorado Park challenged the CSS to do the "housewives' test".

Speaking as a housewife and vice-president of the Black Housewives League, she said while the CSS regarded food as only 23 percent of the inflation rate, this was where the average household's costs should be determined

Mr Morris Klempman (68) shook his greying head when approached on the pavement in Hillbrow. "Of course the cost of living is increasing all the time. These days I have to draw from my capital to make ends meet," he said.

"Blacks seldom buy houses and many have not paid rent since 1986. How do they explain that the 21 percent housing component of the CPI makes up almost the same as the outlay on food?" she asked.

"At the end of the day what cost of living means to me is that I am paying a lot more for my half sheep or ox now than I did a year ago

"At the same time my salary as a nurse has not increased in two years," she said

Glen Marais housewife Mrs Agla Joy said unless age groups and not only home groups were included in any cost survey, it would not be accurate since the emphasis in her own home had altered as the children had left home.

"It is hard to believe the price of clothing and footwear has gone up only about 17 percent When one discards the figures, the reality for me is that I now make my own clothes because of the excessive price increase.

"It seems the authorities simply juggle figures while the man-in-the-street gets poorer

"Judging by our own increase in expenditure over the year, I suggest a realistic inflation figure is between 20 and 30 percent," she said

In Hillbrow, pensioners who were approached for comment were shocked to hear inflation remained the same

One, Mrs Tilly Marais, who had just bought her daily rations at a local supermarket dismissed the latest official figures.

"I am spending the same amount of money this year but the groceries have really shrunk."

Battle against inflation will be lengthy

153 Star 1/3/90

By Sven Lunsche

The monetary authorities will be forced to steer a narrow line between reducing inflation and avoiding recession over the next few years, Standard Bank comments in its latest Economic Review

The bank's economists say that as inflation has replaced debt repayment as the primary concern of monetary policy this year, the direction of economic policy has changed significantly

"The battle against inflation will be a lengthy one and spectacular short-term success in reducing inflation to the levels of South Africa's major trading partners is unlikely," Standard

"As the pace of economic activity slows further, the monetary authorities will increasingly be forced to maintain a delicate balance between the desire to reduce inflation and the necessity of avoiding economic recession if socio-economic priorities are to be addressed

"The focus of monetary policy has moved away from the short-term needs of slowing the real economy and boosting the current account surplus, which were the main priorities in 1988 and 1989, towards addressing longer-term policy issues

"More specifically, monetary policy is now directed at com-

reducing the very high rates of growth of money supply and credit extension which have occurred in recent years," the economists write

These shifts in policy will have important economic consequences, not least on interest rates "which will remain higher than was previously anticipated because significant declines in inflation are unlikely in the short-term".

The timing of the assault on inflation and historical socio-economic imbalance is opportune, as it will further strengthen the country's balance of payment at the time when the gold price is low and global commodity prices

Standard Bank welcomes the assault on the inflationary spiral but adds that the recent restrictions on the availability of bank credit, rather than reducing its demand, amounted to informal rationing

"Partly for political reasons, but possibly also for fear of inducing a recession, an increase in the cost of credit through higher interest rates has been avoided and the cost of funding to the bank has been raised instead

"This represents a step backwards from the financial deregulation and increasingly market-orientated stance of monetary policy over the past dec-

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Inflation bites deep into old-age pensions

By Shirley Woodgate

The effects of inflation on retirement planning for people with limited means has been disastrous. Increasing numbers are now forced to depend on social old-age pensions, says the annual report of the Rand Aid Association

"Pension payouts have risen dramatically, increasing more than tenfold from R103 million in 1973 to R1 069 million in 1986. More than 30 percent of whites aged over 64 now receive social old-age pensions, while the figure for the total population now stands at about 60 percent," the report says.

"Generally speaking, people in the top or upper middle income groups whose earnings have kept pace with inflation, have been able to make adequate provision for retirement through membership of pension schemes or through individual arangements

"Even so, inflation is rapidly eroding the standard of living of many pensioners who once thought they were financially secure"

The report added that over the past 20 years the cost of living had increased about nine times In the case of people who started working in the late 1940s, the cost of living has increased more than 16 times

An increasing tax burden will have to be borne by the economically active if the level of support for the aged is to be maintained

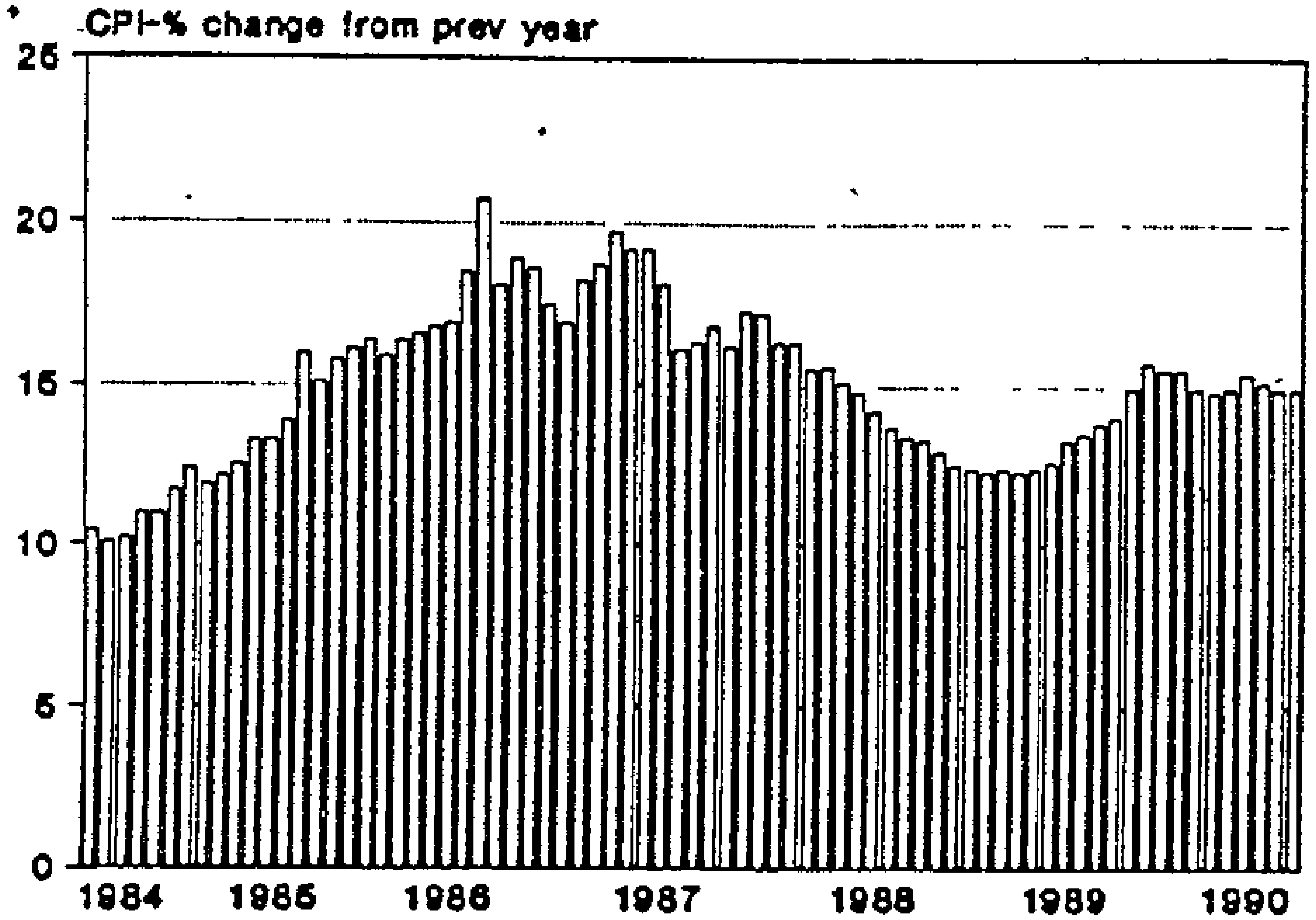
The population of South Africa is increasing at the relatively high rate of 2,1 percent a year, mainly because of the high birthrate among the black population.

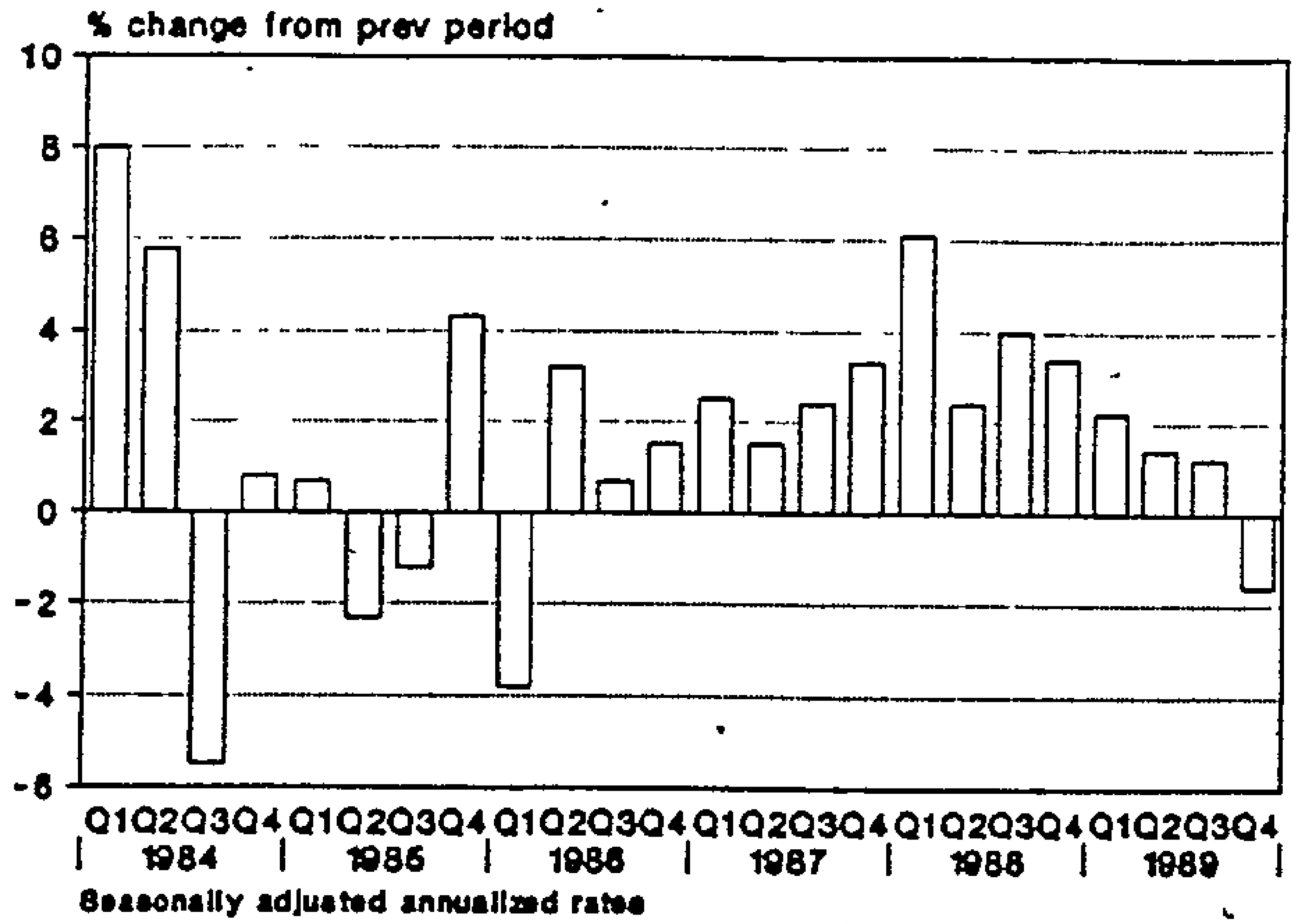
In 1980 the total economically active population aged between 20 and 64 was 13 million, and the number of people over 64 was 1,1 million — about 12 economically active people to each retired person.

"In 1980 the ratio was just over six economically active whites to each white aged over 64 It is estimated that that ratio will be reduced by the year 2015 to 4,5-to-1

"Thus the burden on economically active whites will increase considerably."

The Government was well aware of the problems of providing a reasonable standard of living for retired people of limited means, and the increasing strains on the taxpayer. Although several investigations had been conducted in the past 25 years, no significant reforms had resulted, the report said.





The graphs indicate that consumer price inflation has eased (left) while real GDP (right) has slowed

w/Mail
4/5-10/5/90
(153)

Battle against inflation will keep interest rates high

Weekly Mail Reporter

BUSINESSES and individuals with high levels of credit should prepare to tighten their belts. Interest rates are likely to stay high for some time, concludes the Standard Bank in its latest *Review*.

This is a consequence of the switch in emphasis of economic policy from boosting the surplus on the current account of the balance of payments to combating inflation.

The main priorities in 1988 and last year were the short-term needs of slowing the real economy and boosting the current account surplus.

The government can change tack in the direction of economic policy, towards longer term objectives, because of an improvement in the current account surplus, to the point where gold and foreign exchange reserves rose in the first three months of this year, reversing the downward trend which began at the end of 1987.

The slowing of the economy in response to the progressive tightening of monetary conditions since the beginning of 1988 has reversed the growth of domestic demand and imports have fallen.

"Moreover," the *Review* continues, "more favourable political perceptions of South Africa abroad have resulted in improved access to foreign capital markets and it now seems probable that foreign debt repayments in 1990 will be met without undue difficulty."

Monetary policy is now directed at combating inflation and, to this end, reducing the high rates of growth in money supply and credit extension of recent years.

The emphasis of fiscal policy has also changed. "Thus, although the the 1990/91 Budget will attempt to maintain a pattern of government spending and income that is compatible with short-term economic stabilisation, new emphasis has been given towards attaining longer-term structural and socio-economic priorities.

"The shifts in policy will have important economic consequences. They will impact on both the level and direction of government spending, and interest rates will remain higher for longer than was previously anticipated because significant declines in inflation are unlikely in the short-term."

The good news is that the dampening effect on domestic demand of higher interest rates will continue to boost the current account surplus, the *Review* says. This is fortunate because the continuing weak gold price and weaker international commodity prices are likely to cut into export earnings this year. Also, big foreign debt repayments are due beyond 1990 and, despite recent increases, gold and foreign exchange reserves are still too low.

"Thus," the *Review* cautions, "while the prime policy objectives for the remainder of 1990 will be the reduction of inflation and the achievement of socio-economic goals, the authorities will be forced to steer a narrow line between reducing inflation and avoiding economic recession."

Economic growth rate expected to come to a halt this year

Star 7/5/90 (153)

South Africa's economic growth rate is expected to come to a halt this year, the United Building Society says in its latest Economic Monitor

It says the strains on the country's reserves do not allow for an economic growth rate of more than one percent.

Moreover, the authorities' determined anti-inflation stance, including their opposition to fiscal stimulation, may depress gross domestic expenditure by about 1,5 percent.

Real expenditure on fixed investment may deteriorate even faster and may be accompanied by a substantial reduction in inventory levels.

These declines in aggregate demand are expected to reduce real imports by about three percent.

On the other hand, the lacklustre performance of gold and a weakening in the world economy will result in only a 2,5 percent increase in the country's real exports

The outlook for inflation, however, is more encouraging than it was for 1989.

The effects of the monetary authorities' anti-inflationary policy is already evident in the tapering off of the money supply growth, which is likely to fall about 17 percent by year-end, or two percent above the upper M3 growth target.

Major inflationary pressures remain the real wage increases greater than any improvement in productivity and the expected fall in the dollar-rand exchange to around R2,95 at year-end.

Commenting on expected developments in the money market, the United says the downward adjustment of the M3-growth target from a 14-18 percent range to 11-15 percent for 1990 reflects the seriousness of the monetary authorities' current anti-inflationary policy.

The bank rate is expected to remain at its current level of 18 percent until well into the third quarter of 1990.

In the second half of the year, a moderate decline in interest rates my be expected, and a bank rate of about 17 percent, or a prime rate of 20 percent, the United says. — Sapa

Tax fuels inflation — economist

(153) 8/5/90

NEIL YORKE SMITH

HIGHLY progressive tax schedules and powerful tax accelerators are important causes of SA's rampant inflation, Nedbank economist Edward Osborn said yesterady.

"To maintain the same real position in an environment where official inflation is about 15%, a salary increase of 20% is required," he said.

"It is frightening that in some cases a given increase in taxable income results in a doubling of the amount of tax paid Because tax payments take a greater proportion of income you are constantly striving to maintain the same position."

This resulted in a situation where people were "running as hard as possible but staying in the same place", Osborn added.

Demands for higher pay increases were countered by similar demands for higher increases by managers who were reluctant to decrease the wage gap, he said. Union pressure was also an important factor.

"In effect, labour costs rise at a greater rate than productivity. This is inflationary, as cost increases are simply passed onto end users in the form of price hikes.

"SA's uncompetitive economy and the ease with which money supply is increased makes it all too easy to pass costs on," he said.

In a more competitive environment companies would be forced to keep prices low and focus on efficiency, or accept lower profits, he said.

Osborn confirmed the problem was partially self-fulfilling, as people expected a certain inflation rate and consequently demanded higher pay increases.

This had the effect of pre-empting the type of inflation South Africans had become accustomed to, he added.

There was no easy solution to the problem, Osborn said.

"We need a stable currency to reduce external influences on inflation, a change in wage and salary structures and a different tax climate in which people are not constantly striving to maintain real incomes," he said.

E Star 9/5/90 (153)

Living costs soar for low income families

Finance Staff

Lower income Indian, black and coloured families in Durban are being ravaged by rises in their costs of living which are considerably bigger than those reflected in official inflation figures, according to an independent academic report

The latest household subsistence level (HSL) survey of the University of Port Elizabeth shows, for example, that an Indian family of six living on R665,95 a month at the end of last September, needed an additional R79,25 (R745,20) at the end of March to maintain the same standard - an increase of 11,9 percent.

The same rate of increase for the next six months would translate into an annual rise of 23,8 percent

By contrast, the official consumer price index (CPI) monitor of the Government over the September-March period put inflation for lower-income families countrywide at 15,6 percent a year

FOOD

Ascribing the rise to such factors as steep increases in food and clothing prices, the university's Dr JF Potgieter says blacks in Durban saw their HSL rise 9,3 percent in the six months, while the level for coloured families increased 8,9 percent

In the 12 months to the end of March, coloureds needed an 18 percent increase in household income to keep the wolf from the door

However, although subsistence costs for blacks in Durban were rising at the third-fastest rate in the country, their counterparts in Pietermaritzburg lived in the cheapest centre surveyed in the country

There, a five-member black family could survive on R544,87 a month, while those in all the major centres would need more than R600

Describing trends in the survey, Dr Potgieter says food, particularly vegetables, fruit and dairy products, is "very expensive"

MEAT

"While the cost of milk powder, cheese and dried legumes was significantly up, it was found that in all centres meat tended to be the same or even lower than at the previous update

"Vegetables were found to be very expensive, especially in centres such as Port Elizabeth, Durban, Pretoria, Queenstown and Brits"

Dr Potgieter says men's and women's clothing was found, on average, to have risen between 10 and 20 percent in the six months

Lombard urges Govt to resist generous wage offers

Star 9/5/90 153

By Sven Lünsche

"The government should resist firmly more generous wage settlements in the public sector than labour-market conditions warrant if it is to bring inflation under control, Reserve Bank Deputy Governor Professor Jan Lombard said this morning.

Professor Lombard commented that while fiscal and monetary policies were already geared towards lowering inflation, private sector wage and salary adjustments also had to come into line with this policy.

"The authorities cannot interfere directly in this process, but they can set an appropriate context for wage negotiations", he told delegates at the Housing Conference of the National Association of Home Builders in Pretoria.

Quoting from a recent OECD paper, Professor Lombard highlighted three clear commitments the government should provide

- Anti-inflationary monetary policies, supported by a suitable orientation of fiscal policy
- Making markets more competitive, in particular by actions to reverse both subsidies and border protection and to strengthen competition policies
- The need to resist firmly more generous wage settlements in the public sector than labour-market conditions warrant.

Commenting on recent statements by union leaders that an acceleration of wages was required to facilitate the distribution of national income, Professor Lombard commented.

"The unions should note that all economic experience shows that accelerating nominal wages merely erodes growth of output and employment.

"By contrast more moderate wage settlements would produce real wage gains in line with economy-wide productivity gains and thus contribute greatly towards reducing the real costs of restoring financial discipline in spending decisions"

Professor Lombard said other circumstances in South Africa are also inhibiting the ability of the supply side of the economy to adjust productivity to changing relative costs.

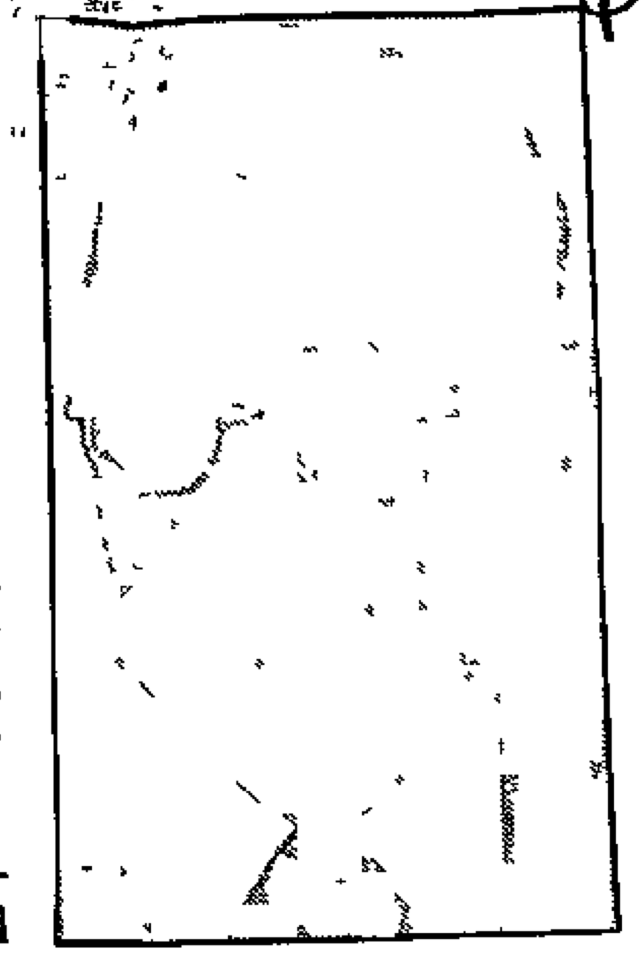
"These inhibiting circumstances, such as the over-regulation and over-protection of industry, will be examined and if possible, removed," he said.

Furthermore Professor Lombard proposed that "the authorities should publicly announce quite specific targets or objectives for, say, a three year programme of bringing inflation right down to levels comparable to those of our trading partners"

Such targets would imply that the rand exchange rate would stabilise, but, more importantly, would change the public's inflation expectations which are usually unaffected by a more gradual deflationary policy

"An announced commitment by the Government about the pace at which the rate of inflation will be managed downwards seems a necessary ingredient of the strategy if excessive costs, in the form of losses of output and employment, are to be avoided

"What, however, has to change primarily is the public's willingness and ability to buy goods and services at continuously increasing prices," Professor Lombard concludes



Prof Jan Lombard — Inflation targets should be set

Escalating costs hit Southern Sun

Star 10/5/90

By Sven Lunsche 153

A 92 percent rise in operating profits by hotel group Southern Sun reduced to a six percent increase at the attributable earnings level as a result of sharply escalating financing costs.

In the year to end-March Southern Sun's turnover rose by 21 percent to R471,9 million (R390,4 milion) and operating profits surged by 92 percent to R28,2 million (R16,7 million).

But net financing costs virtually doubled to R34,4 million (R18,6 million) as interest bearing debt increased by R54,7 million to R323,5 million (R268,8 million).

The higher costs, which also pushed up gearing to 64 percent at the end of March, followed on further investments in the refurbishment and maintenance of the group's hotel properties and the higher level of interest rates.

The economic slowdown also resulted in a drop of local business-relatd and holiday packaging occupancies, although the improvement in overseas tourism helped overall occupancies to increase marginally from 62 to 64 percent

Attributable earnings were up by six percent to R26,5 million (R25,1 million), equivalent to earnings per share of 37,8c (35,7c). The final dividend was raised from 25c to 26c a share

Unit trusts spread your money and cut the risk

Sowetan 10/5/90 (153)

IN an inflationary climate as we have in South Africa today it is important that you protect your hard earned savings. If you don't you will find that the R1 000 you saved will be worth less than R500 in five years' time.

One sure way of protecting your capital against inflation is to invest in unit trusts

A unit trust enables a large number of investors to pool their individual capital sums for investment on the stock exchange.

By doing this, these investors obtain a spread of investment which they could not achieve individually

The unit holder's money, which can be as little as R20 a month, is invested by the unit trust managers, professionals whose job it is to watch the markets day in and day out

Any person who wants to build up a balanced savings programme aimed at accumulating capital for educating children, for building up or supplementing a pension, or as a savings mechanism

Every financial plan for people who are determined to build real wealth should include a unit trust investment

Effectively, for a small cost, you obtain a spread of investment and risk, professional management of your money, the provision of a full administration service and the ability to acquire and realise your investment at ruling prices without having to compete against other buyers and sellers and so force up (or down) share prices

Depending on the fund in which you invest, income is distributed either quarterly or half-yearly and is made up of both dividends and interest

The money that you receive at these times is the income which is generated by the trust after deducting the service fee

If you do not require immediate income, you can select an investment plan that allows for the income that is generated to be re-invested

This buys more units, and so speeds up your savings plan and is highly recommended

As an investor you must recognise that a unit trust is a long-term investment (an investment which you can afford to leave for three to five years) which, over many years, has enabled unitholders to obtain a "real" return, that is a return which is over and above the rate of inflation

Under no circumstances must an investment in a unit trust be regarded as a short-term investment

There are now 33 unit trusts in South Africa - 14 general equity trusts investing in a balanced and diverse portfolio of companies, 10 specialist equity trusts which invest in a selected or focused area of the stock market and nine high income trusts which seek an above-average level of current income for their unit-holders

Investors can obtain application forms from most financial institutions, financial advisors and stockbrokers

INFLATION FM 11/5/90 (153)

Prospects for 1991

Average inflation rates of 14,2% in 1990 and 11,9% in 1991 are predicted by the University of Stellenbosch's Bureau for Economic Research (BER) in its April *Economic Prospects* Inflation is expected to bottom at the end of 1991 and rise again because of wage and salary increases in the private sector, and an increase in government spending, after a conservative 1990-1991

The rand exchange rate will also affect the inflation rate This is expected to depreciate against the four major currencies in 1991 though roll-overs of foreign debt repayments are expected to keep the rand stable this year

Because of these roll-overs, the report sees capital outflows in debt payments this year

FM 11/5/90 (153)

at about R1,5bn less than the R6,4bn commitment Debt commitments for 1991 are expected to be R6bn ■

Low interest rates a thing of the past

Star 11/5/90 (153)

Finance Staff

Low interest rates are a thing of the past — but this is healthy development for capital formation, says Johannesburg Stock Exchange president Mr Tony Norton.

Low and un-realistic interest rates had been a cancer in the economy, he told a meeting of the Burgerspark Business Club

Mr Norton said interest rates below inflation encouraged people to misallocate capital and to invest in lower-return projects, while encouraging imports and boosting inflation.

Mr Norton said it was essential for good economies to have real interest rates to encourage savings, and to discourage the poor allocation of capital

Government policy was to move towards making saving easier — such as tax treatment to encourage savings and through easier access to the sharemarket — "which was long overdue".

"There are enormous grounds for optimism with regard to the capital segment. Previously political considerations overrode the needs of the economy Now that has changed," he said

The four classic factors of capital production are land or resources, entrepreneurship, labour or skills, and capital

With regard to capital, Mr Norton said South Africa was a capital-exporting country, which placed an enormous damper on the economy

Growth rate

Keeping a surplus on the current account of the balance of payments had reduced South Africa's growth rate between four and five percent, to one or two percent, and the country needed to use capital better

"The pattern and nature of saving in South Africa has swung in the last two decades from balance to total imbalance The government has become a dissaver, and individual savings are pathetic," he said

Turning to capital mobility, Mr Norton said if people could invest in the stock market and get out in quantity without disturbing the price, it resulted in premium marketability

"If people are able to invest liquid capital in the stock market it lowers the cost of capital, and ultimately lowers the cost of products domestically and for export," he said

He said the JSE had tried to pursue wider capital markets, but the volume of trade on the JSE represented only five percent of its capitalisation compared with a worldwide average of about 50 percent

Mr Norton said there was no adequate capital mobility and the JSE did not have the resources to cope with increased volumes At present the stock exchange was R60 million in debt.

BDay 14/5/90 POLI

Schwarz warns on GDP drop

LESLEY LAMBERT

CAPE TOWN — The 1,4% annualised drop in GDP in the first quarter of this year held serious implications for the economy and for stability in SA, DP finance spokesman Harry Schwarz said yesterday.

In per capita terms, the reduction meant a drop of almost 4%, Schwarz said. This was serious at a time when political change required stability and such stability was threatened by increasing unemployment and acute poverty among sections of the population, he said.

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Inflation

Schwarz confirmed reports that hopes for a soft landing for the economy were receding.

"That there is a need to control money supply and that this is necessary to combat inflation is accepted, but it was hoped that this would be managed in such a manner that there would be a soft landing," he said

He said the economy was close to a recession and the authorities needed to ensure the delicate balance between fighting inflation and the need for job creation was maintained in the interests of maintaining stability in difficult political times

Star 16/5/90 (153)

No let-up in fight against inflation

By Sven Lunsche

The Reserve Bank will not ease its tough monetary stance in the months ahead, despite indications that the economy is heading for a prolonged slowdown

Senior deputy general manager Professor Jan Lombard said yesterday "We have no intention at this stage of changing our economic stance

"We will obviously try to avoid any undue hardships, but the Bank has indicated before that the battle against inflation will demand substantial sacrifices," Professor Lombard said

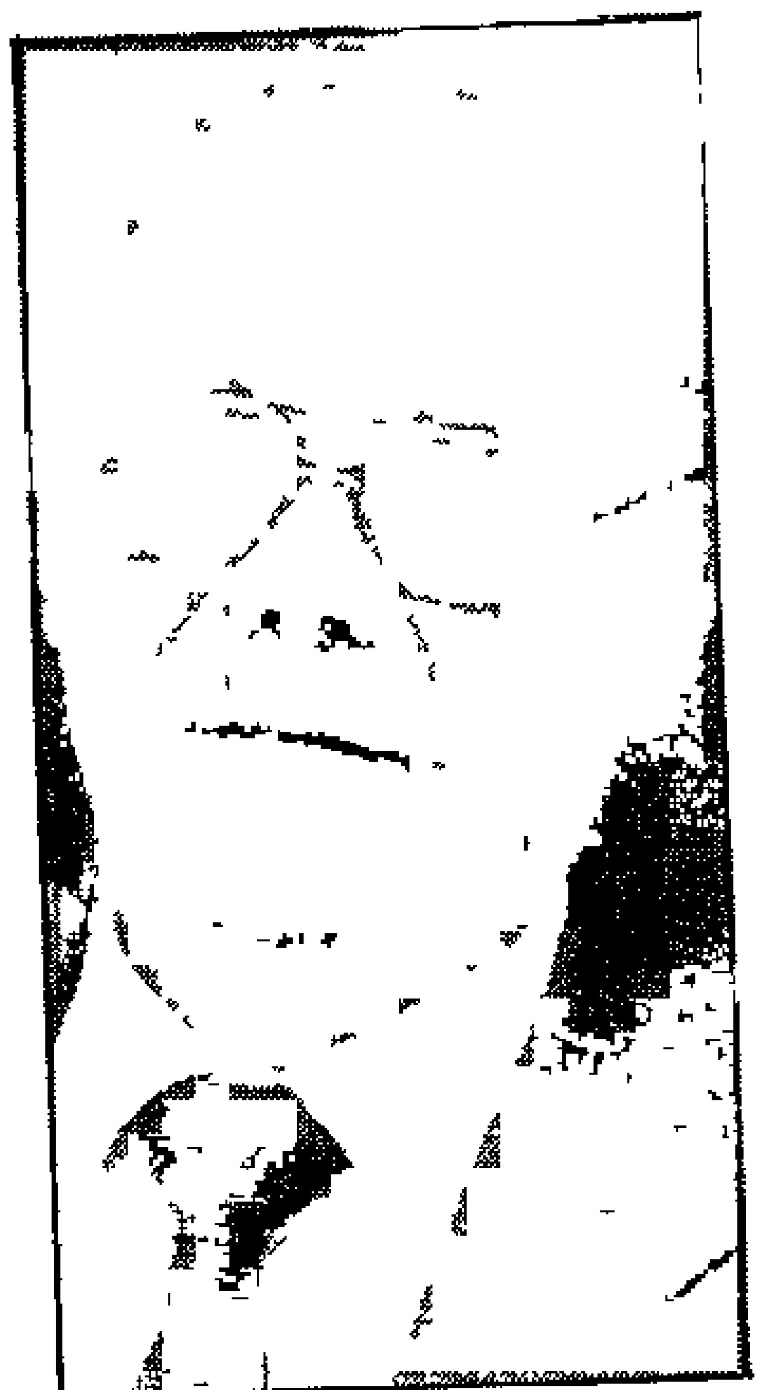
In the wake of the rough time the economy is currently experiencing, analysts fear the slowdown could last longer than originally expected

Retailing sector

Central Statistical Services reported this week that seasonally adjusted total real gross domestic product (GDP) had dropped by 1,4 percent in the first quarter of this year after a 1,7 percent decline in the last quarter of 1989.

This is supported by some hard-hitting data from the retailing sector, where more and more companies are beginning to report substantial declines in earnings growth

In addition, car sales are plummeting and the number of liquidations showed a worrying 40 percent increase in the first quarter of this year, compared with the same period in 1989


Professor Lombard

Already some economists have downscaled their GDP growth forecasts for the year from the generally expected level of one percent.

Nedbank's Edward Osborn estimates that GDP will only rise by 0,5 percent for 1989, while Dr Hans Falkena of the UBS expects no growth at all.

The Reserve Bank itself has not yet adjusted its growth prospects for the year, sticking to its original estimate of about one percent and pointing out that most sectors of the economy are still on course for a soft landing

Investment expenditure, however, is likely to take the brunt of the extended slowdown as companies scale down their capital expenditure plans to improve cash flow

Both the Bureau for Economic Research at Stellenbosch University and Dr Falkena expect gross domestic fixed investment to fall by over five percent this year, leaving a gloomy picture for potential job creation

Despite the urgent need to address socio-economic imbalances, most economists support the Reserve Bank in its tight monetary stance to bring inflation down to single-digit levels

"To ease up now for political reasons could send the wrong signals to the market and would have disastrous long-term consequences," Dr Falkena says.

"If there is a real recession the authorities would have to ease up their tight stance. But we are not talking about a recession, even if the economy should decline slightly," says Mr Osborn

Professor Jan Lombard says the disappointing performance of the gold price has added pressure to protect the balance of payments and foreign exchange reserves

"While the foreign exchange reserves have shown significant improvements recently, we have to plan ahead and build up the reserves to guide the economy into a more stable growth phase," he says

Cartels 'fuelling inflation'

Star 17/5/90 153

South Africa provides a fertile ground for collusion and price-fixing with unofficial cartels providing more than 75 percent of the output in many sectors of the economy

Robin McGregor, chairman of McGregor's On Line Information, says until this practice is stopped, the inflation rate will never be conquered.

"The system of cartels discourages improving productivity as a means of increasing profits as it is far simpler to raise prices

"This concentration of control in the private and public sectors results in very significant inflationary factors."

Although cartels are illegal Mr McGregor says, their detection is almost impossible.

What Mr McGregor advocates is the breaking down of the degree of concentration of financial and production control in the private sector In support of this action, he cites the current worldwide ~~trend~~ towards ~~hands~~-on manager-owned entrepreneurial control

"What is happening here, however, is the exact opposite because of the bureaucracies it has to develop to control the financial empires that have been spawned

"Not only is the sum of the parts often greater than the whole but the diseconomy of scale, which often creeps in down the line, could result in the subsidiary supplying its parent with goods at higher pices than it could obtain if it was able to buy in a more competitive market"

Mr McGregor feels it is time the major groups realised this and began selling off subsidiaries to management or other owner/managers and to get on with those activities which are their particular areas of expertise

He points out that SA probably has about 200 000 operating companies, including corner cafes and other small businesses Only about 40 000 employ more than 30 people There are 25 236 companies listed in the 10th edition of Who Owns Whom as subsidiaries or associates of companies listed on the JSE.

"It is unlikely that there are many listed company subsidiaries which employ fewer than 30 people, which means that 63 percent of the medium and large-sized companies are controlled by listed companies.

"To aggravate this degree of concentration, four groups on the JSE control 80 percent of market capitalisation."

Mr McGregor notes that as listed companies in 1980 only controlled about 13 000 companies, a great deal of concentration has taken place in the last 10 years.

Breaking down this concentration would be difficult, but could be achieved by studying legislation in other world markets, Mr McGregor says — Sapa

Outlook brightens for 1992 and beyond

153

By Michael Chester

The economic tempo is set to be locked in low gear for up to 18 months ahead, but the business outlook beyond next year has begun to appear a lot more promising, forecasts by the Econometrix research unit suggest

With the political logjam now broken by the talks between President F W de Klerk and Nelson Mandela, two years from now sanctions may well have vanished, say the think-tank experts

FRESH FLOWS

Econometrix director Dr Azar Jammine is confident that if political negotiations stay on track, new economic boosters may be provided as fresh flows of investment capital resume from overseas sources.

"Foreign perceptions of the government have improved and are likely to continue to do so," he says in a new review of the business outlook

"In two years, South Africa could be in a position to roll over most of its overseas debt or alternatively gain access to new foreign loans.

"In such circumstances, South Africa might be in a position by 1992 where it no longer has to run a current account surplus

"We feel confident that the 1990s will see an accelerated gross domestic product growth rate of some three percent a year — compared with the dismal 1,5 percent recorded for the 1980s"

Even then, however, the official growth may not be strong enough to alleviate the chronic unemployment That in turn may mean an even faster spread of the informal sector in the next decade

Dr Jammine says caution about predicting a growth rate of more than three percent is based on dangers of persistent high inflation in the 1990s — especially as the government launches massive but vital social upliftment programmes in education, housing and health services.

"Moreover, in an environment in which attempts are made at redistributing income from the rich to the poor, without there being commensurate increases in productivity, inflation is bound to be rife.

"Inflation is also likely to be spurred by a shortage of skilled manpower which is bound to emerge once growth accelerates"

The government, whatever its political creed, was likely to find itself continuously called upon to cool off economic activity to prevent inflation getting out of hand.

Vast spending on social upliftment schemes could accelerate the economic tempo by three to five percent a year in the next few years

But by the mid-1990s the authorities might well be forced to clamp down again with restrictive fiscal and monetary policies to counter the inflationary forces that could be unleashed

"We might therefore have to endure another period of slow growth in the mid-to-late 1990s," says Dr Jammine

"Perhaps by the end of the decade one can contemplate a sustained period of rapid non-inflationary growth, spurred on by the entry into the labour market by then of a vast pool of skilled black manpower

"Recent political developments have provided a semblance of hope, where there was none before

"However, many hurdles need to be overcome and it seems difficult to contemplate a sustained period of growth in the South African economy until the 21st century

"In trying to paint scenarios for the future of South Africa it is apparent that one is delving into the unknown in which no historical precedent exists

"South Africa is moving into unchartered waters, with political and economic history in the making"

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Still too soon to ease constraints, says Jacobs

BDN 23/5/90

GERALD REILLY

PRETORIA — Conclusive evidence that could justify a relaxation of monetary and fiscal constraints at this stage was lacking, the Finance Minister's special adviser Japie Jacobs said here yesterday.

Speaking at an Afrikaanse Sakekamer lunch, he warned that great caution should be given to the view that the economy was no longer headed for a soft landing, but was already "beached" and moving into a recessionary phase

He said it was correct that the economy and inflation had reacted to the fiscal and particularly the monetary constraints and that the economy had begun to cool off

But he stressed there were no convincing indications at this stage to support a relaxation of existing policies

Jacobs said it was argued that the price for the strategy was too high — taking into account the expectations associated with the initiatives for a new political dispensation But this argument ignored the fundamental economic principles involved

A relatively high inflation rate, he said, was a drag on economic growth and it was untenable to attempt to compromise.

"We must therefore remain alert not to repeat the blunders of the '80s by relaxing the limiting monetary and fiscal measures at the first signs that the economy is cooling off"

The economy was moving into a consolidation phase, which would be a basis for a restucturing programme aimed at raising the long-term growth potential

Jacobs said the main aim of the monetary and fiscal measures remained the lowering of the inflation rate

On monetary policy, he said that spending in SA, which depended to a greater or lesser extent on the state of the business cycle, the increase in real earnings, the inflation rate and inflationary expectations, was being financed through bank credit

As a consequence, the economy had overheated and demanded the introduction of restraints

The aim in such circumstances was to make credit less available and more expensive

On complaints of unreasonable competition between financial institutions, Jacobs said· "If we succeed in materially lowering the inflation rate, many of these complaints will disappear"

If the fiscal policy failed to make its rigthful contribution, this would indicate that the monetary policy, through the interest rate mechanisms, had a greater role to play to slow down spending in the private sector as well as individual spending

Jacobs said the rate of increase in the money supply — accepted as a guideline for monetary policy decisions for 1990 — varied between 11% and 15%

● JACOBS

Although it rose by 20% to 28,5% in March 1988, the rate of increase had begun to fall

He pointed out that inflation and inflationary expectations had an important influence not only on total domestic savings, but also in the marshalling of savings and the way in which they flowed through the financial system and, eventually, into the economy

Food holds back inflation decline

By Sven Lünsche

The inflation rate is finally responding to the slowdown in the economy, but rapidly escalating food prices are holding back the rate of decline

Latest Central Statistical Services (CSS) figures, released yesterday, show that while inflation fell to 14,6 percent in April, compared with 14,9 percent in March, food prices soared by a year-on-year 16,8 percent last month — the highest level in almost two years

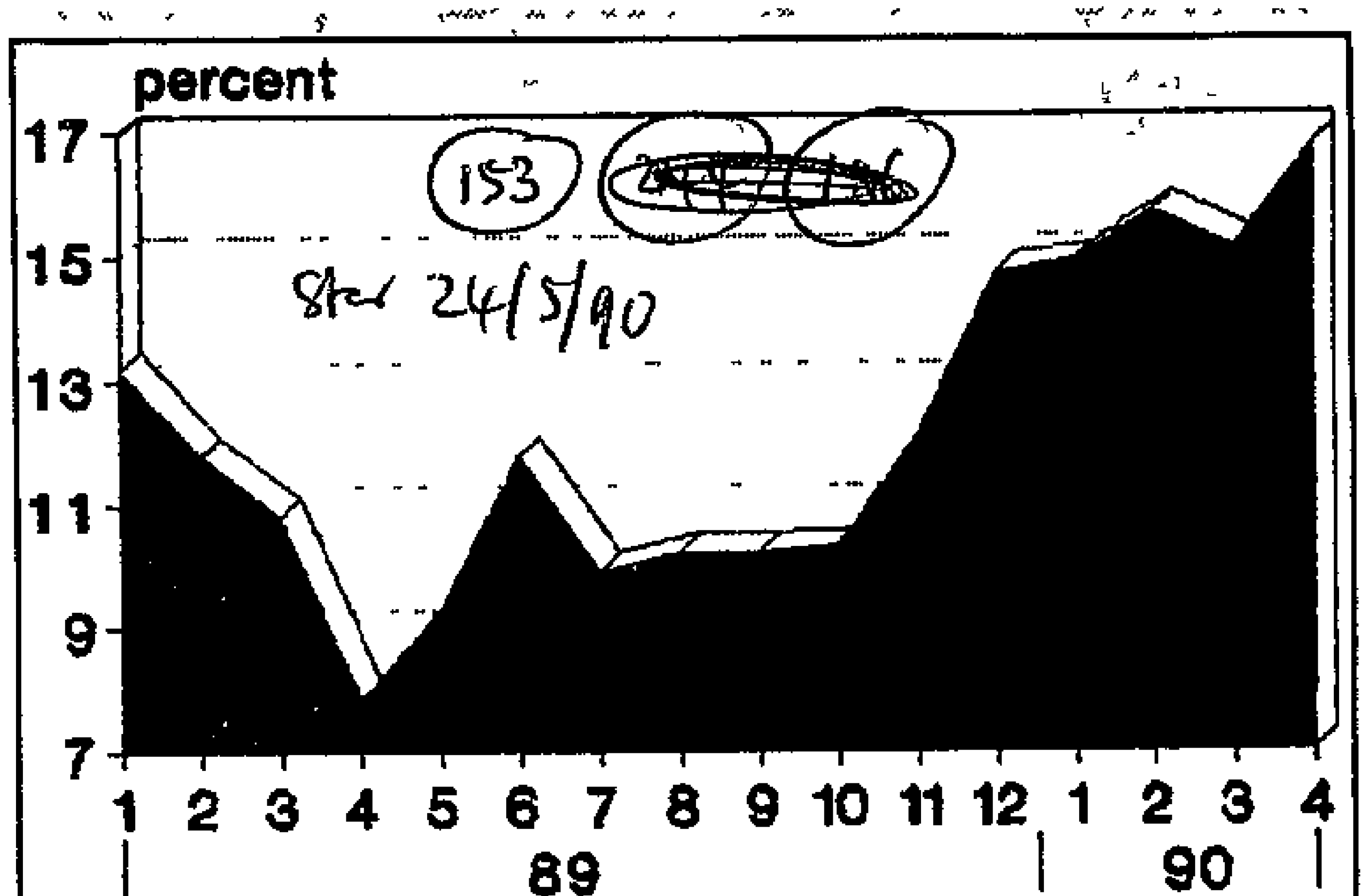
For most of last year food price increases were lower than the overall rate of consumer price rises

But prices of these goods have been escalating rapidly over the last few months

In January the consumer price index (CPI) for food rose by an annual 10,3 percent. In February it surged by 15,7 percent and in March by 15,1 percent before the higher rate of increase was repeated in April

On a monthly basis, the food CPI was up by 1,6 percent last month

Food prices were responsible for about 40 percent of the overall monthly CPI increase of one



The inflation rate for food

percent.

A detailed analysis of these increases makes worrying reading.

The CSS says vegetable prices alone rose by 44 percent over the year, with fruit and nuts not far behind at 29 percent

Econometrix economist Tony Twine says a particularly dry season in the vegetable- and fruit-growing areas of the Eastern Cape was largely responsible for this, with the few quality goods that hit the market being sold at a premium.

On a monthly basis, relatively large increases occurred in the prices of grain products (1,7 percent), dairy products (7,1 percent), sugar (2 percent) and, once again, fruit and nuts (5,3 percent)

What effect will these increases have on consumer price inflation rate?

The weighting of food at 23 percent of the overall CPI is significant. Since many economists expect at most a slightly lower rate of increase for food over the next few months, they are revising their estimates for average inflation this year.

Sanlam, in its Economic Survey, forecasts a rate of about 14 percent for 1990, compared with an average of 14,7 percent last year, "which is slightly higher than previously expected"

Syfrets' Elmien de Kock expects inflation to average out at just below 14 percent this year. The Bureau for Economic Research at Stellenbosch predicts a rate of 14,2 percent

However, most longer-term forecasts still sound optimistic and are supported by the recent substantial drop in the rate of increases in producer prices

From a peak of 16 percent in mid-1989, the year-on-year increase in the producer price fell from 14,1 percent in January to 12,9 percent in February and again to 11,6 percent in March.

Consumer prices usually lag changes at the producer level by about six months

Even if the weather continues to play havoc with agricultural conditions, these benefits will eventually filter through to the consumer level.

Inflation continued its downward trend in April

NEIL YORKE SMITH

INFLATION — as measured by the year-on-year rate of change in the consumer price index (CPI) — continued its downward trend in April, falling by 0,3 percentage points to 14,6% from 14,9% in March

The rate of increase in the CPI has been falling since December when it was at 15,3% A peak of 15,7% was reached last year in June — much lower than the 1986 peak of almost 21%

The fall in the consumer inflation rate was signalled by the decisive turnaround in inflation at the producer level, from more than 15% in mid-1989 to below 12%

"The lower rate of increase in April was expected and probably reflected recent reduced rates of increase in the producer price index (PPI)," Econometrix economist Tony Twine said

Statistically, the decline in April was the result of a smaller month-on-month increase (1%) this year compared with last year's large 1,3% increase between March and April

Contributions to the monthly (non-seasonally adjusted) increase of 1% came largely from food price increases

☐ To Page 2

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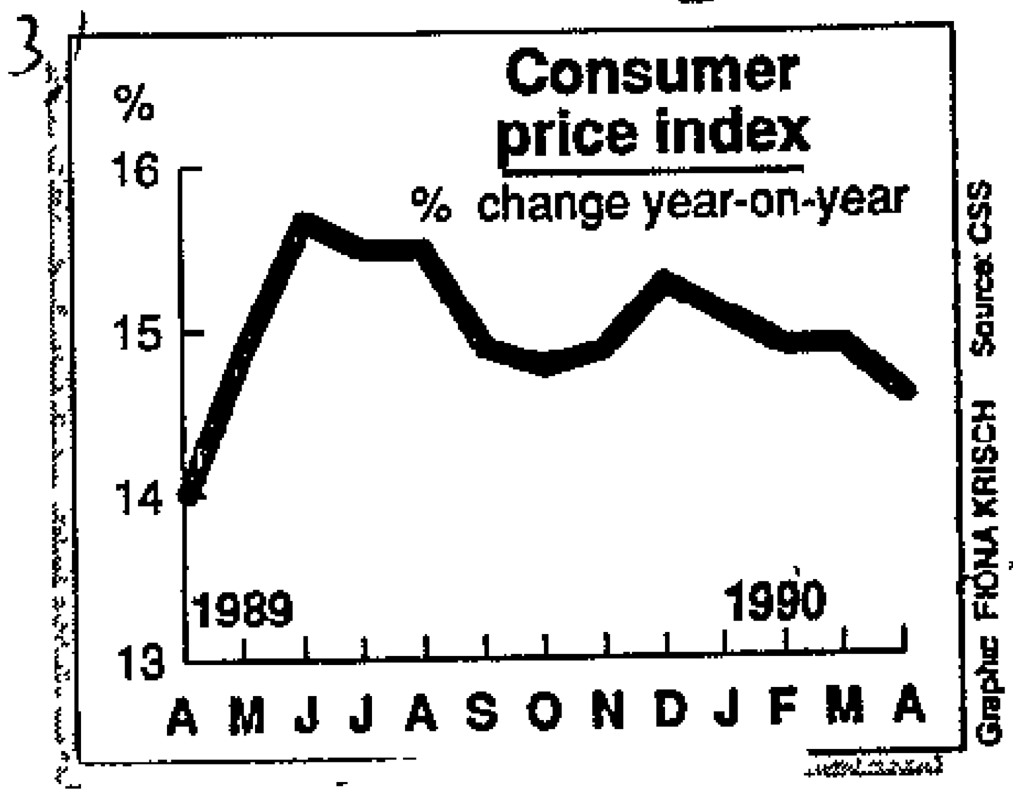

Inflation

61 Pay 23/5/90

(153)

☐ From Page 1

Economists were concerned that the lowest income groups continued to bear the brunt of high price increases, especially for food

The annual rate of increase in the food price index was 18% for the lower income group, 17,2% for the middle income group and 15,9% for the higher income group

The year-on-year percentage change in the price index for food was 16,8%, the highest since May 1988

Large monthly increases occurred in the prices for grain products (1,7%), milk, cheese and eggs (7,1%) and fruit and nuts (5,3%)

The largest annual increases occurred in the prices of fruit and nuts (29%) and vegetables (44,1%)

Other large increases were recorded for alcoholic beverages (2%), cigars and tobacco (7,5%) and communication (4,7%)

The actual index rose to 198,3 This means it now costs R198,3 to purchase the same basket of goods which cost R100 in 1985

Inflation trend widens the gap between the rich and poor

W/Mail 25/5/–31/5/90

Weekly Mail Reporter

LOW-INCOME South Africans are suffering higher rates of inflation than higher income people, in contrast to the trend last year, when rising house and car prices were among the factors raising prices faster for the rich than for the poor.

The latest consumer price index figures, released this week, show inflation for the lower income group stood at 15,5 percent in April, for those with higher incomes at 14,2 percent and for the middle income group at 14,6 percent.

April's inflation rate was 14,6 percent, down slightly from the 14,9 percent recorded in the previous two months. But food inflation for April was running at 16,8 percent (18 percent for those with low incomes). Since the poor spend a higher proportion of their incomes on food, they have been experiencing inflation higher than the average.

Food price increases made the major contributions to the increase in the price level in April, accounting for half the 0,8 percent monthly rise in the consumer price index (CPI). The largest increases over the month were in the prices of grain products, milk, cheese and eggs, fruit and nuts and sugar, according to the Central Statistics Service.

Other commodities whose prices rose fairly sharply during the month were beverages — alcoholic and non-alcoholic — and cigarettes.

The latest figures suggest inflation is beginning to slow down. The monthly increase in the CPI in April was lower than in the previous couple of months. In the past two months economists have been encouraged by a lower rate of wholesale price increases (measured by the producer price index as opposed to the CPI, which reflects retail prices). Retail prices usually follow wholesale prices with a lag of two to three months.

But despite the government's and the Reserve Bank's efforts to curb it through tight monetary policy (high interest rates) and fiscal policy (limiting the increase of government spending), inflation has stubbornly refused this year to fall. At the beginning of the year some economists were predicting an average inflation rate for this year of as low as 13 percent. Now it seems the average will be closer to 14 percent, much the same as last year's.

Unemployment, inflation adding to SA's problems

Sowetan 25/5/90 153

SOUTHERN Africa was faced with a wide diversity of severe socio-economic problems and constraints which included low economic growth rate; poor and inadequate housing in black areas, Nafcoc president Dr Sam Motsuenyane, said this week.

Speaking at the diploma-day ceremony at the M L Sultan Technickon in Durban, he said the rampant inflation, escalating unemployment, shortage of skilled manpower, flight of capital from the region due to the imposition of international sanctions and disinvestment, had added to the problems.

The political, financial and other major constraints that must be overcome to enable blacks to become meaningfully integrated into South African economy did present the country with problems of momentous proportions.

On the political front, some hopeful signs of possible positive changes in the near future were already beginning to emerge. One such signal was the candid acceptance, at long last by the South African Government, that apartheid was not only morally indefensible, but it also hung like "milestone around the country threatening to destroy its existence," he said.

"What is gratifying is the fact that new leadership of Mr F W de Klerk, has committed itself towards the total phasing out of apartheid and the creation of a new South Africa.

However, he said, on the economic front black entrepreneurs remained severely hamstrung and artificially restricted by discriminatory laws and regulations. He referred to the Group Areas Act, Land Act, Separate Amenities Act and others.

"The black entrepreneurs presently operates on the marginal fringes of the South African economy, largely as small retailers, manufacturers, peasant farmers and operators of various service industries.

Businessmen feeling the pinch

Star 26/5/90 153

DEREK TOMMEY

BUSINESSMEN are starting to ask when is the Government going to relax its current tight money policies High interest rates, high tax rates and curbs on Government spending have begun to hurtmany businesses

The 20 percent drop in new vehicle sales in April compared with April, last year, was just one sign that the Government's policies are starting to bite.

But other areas of the economy are also suffering. April was a bad month for business generally and May is unlikely to be any better.

Businessmen say unless the Government eases its tight money policies, conditions for the rest of the year will be grim.

For this reason there is a keen debate about what will be needed to make the authorities relax their policies.

The aim of the tight money policies, the Government has made clear, is to reduce inflation and to increse the foreign exchange reserves. The Reserve Bank has stated its intention is to double the size of the reserves. But it has not stated any target inflation rate that must be achieved. However, an analysis of recent price increase suggest that the tight money policy could continue to be enforced for some time.

There is no doubt that the squeeze is having some effect In the 12 months ended April consumer prices rose 14,5 percent. But in the past three months the annual rate of increase has been just over 13 percent and in April the annual rate was down to 12 percent.

But gratifying as these figures are, there is as yet no sign of the inflation rate dropping to anywhere near acceptable levels. Moreover, an analyis of the price increases since January shows that in spite of the Government's measures, disturbing inflationary pressures still remain in the economy

In February, March and April, the cost of education rose 18,6 percent, alcohol prices rose 12,7 percent, milk butter and eggs by 12 percent, furniture prices 10,6 percent, non-alcoholic beverage prices (which do not includes tea and coffee) 7,6 percent, household equipment 5,7 percent and household consumer goods 5,0 percent.

Multiply these figures by four to get an approximate annualised figure and the results are shattering. Admittedly, some of these increases may reflect a one-off annual price rise. The inrease in the cost of education probably does But even so the size of the single increase indicates that inflation pressures remain strong.

These and other price increases indicate that a tough monetary policy is still needed, and that it would be wishful thinking to expect any early relaxation in them.

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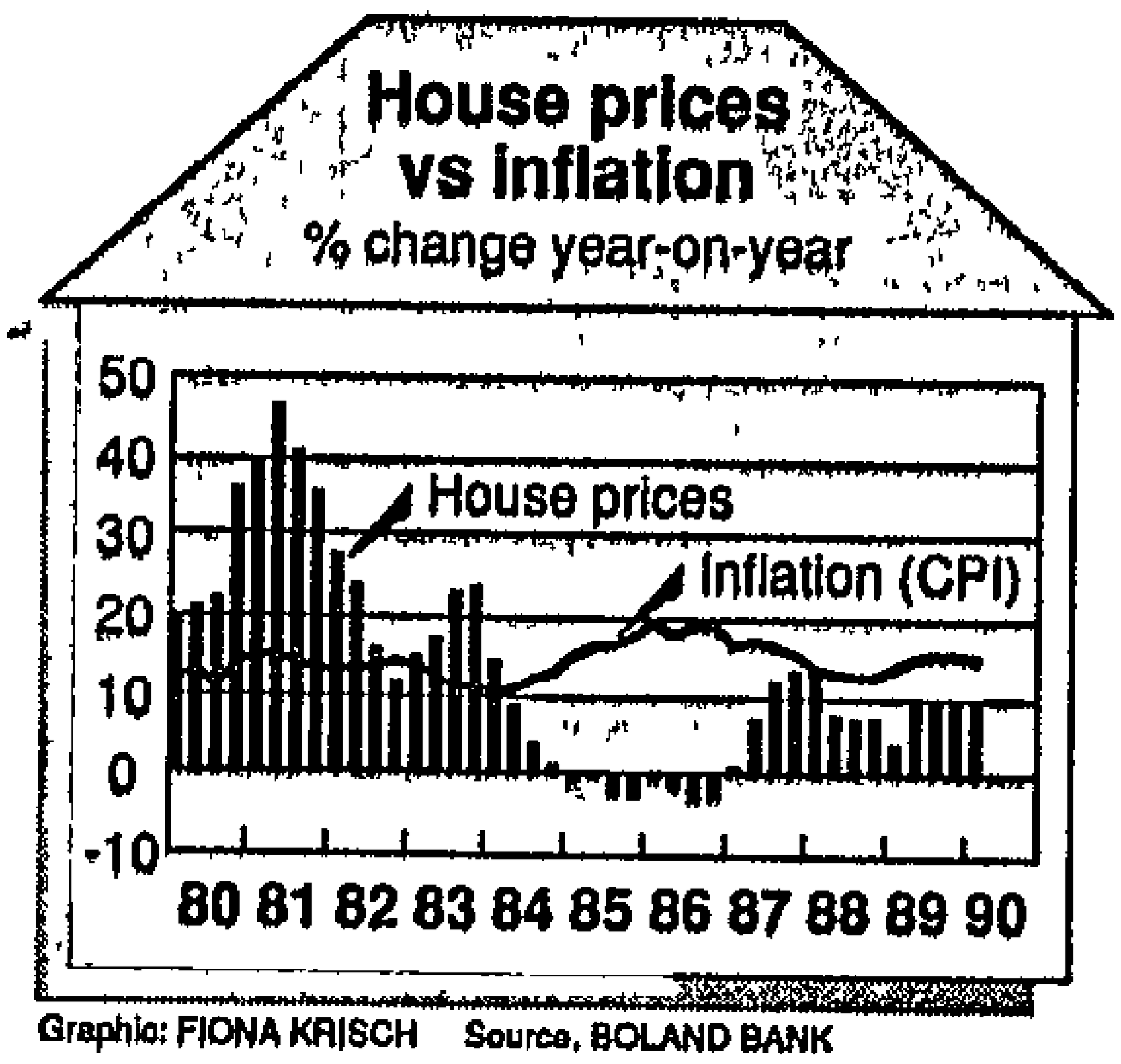
Inflation beating increase in house prices, says bank

B Day 29/5/90



Graphic: FIONA KRISCH Source, BOLAND BANK

ANDREW GILL

HOUSE price increases have been constantly outstripped by inflation since 1984, the latest issue of Boland Bank's property market focus has shown and, according to economists, short-term prospects for the market are not encouraging.

This is despite the market's economical revival of the past three years which saw house prices registering nominal growth but negative real growth.

Illustrating the trend Boland said a house bought for R70 000 in 1983 would fetch about R112 000 at the moment. To realise an inflation-linked growth, however, the house should fetch R180 000.

Property economist Neville Berkowitz said house price prospects were not expected to start realising real growth until at least late 1991. As soon as the Group Areas Act was abolished, he said, there would be a boom in the market.

"It is a case of increased demand and static supply which will obviously hike prices."

He said in the past 10 years real growth had been attained. With inflation running at 14,5% and a house price growth of 16,6%, a 2,1% real growth is realised.

His advice was to "hang in there" for a couple more years or even buy now if one had the money, as long as one was prepared to wait for a return.

UBS economics researcher Christo Luus said a negative real growth rate of about 3,5% was expected for 1990 and probably 1991 too, but an upturn was expected in late 1991.

He said a trend of 9% to 10% growth in the housing market was expected, against an average inflation rate of 13%.

Berkowitz said the exciting area of property investment was in gearing where one could write off certain charges and let out the property and eventually get good returns.

Outlook for foreign funding improving

Star 1/6/90 (153)

By Derek Tommey

South Africa has done much to regain the confidence of foreign investors, says the Governor of the Reserve Bank, Dr Chris Stals.

But he warns that it still had more to do — including reducing the inflation rate to well below the present 14,5 percent — before it could expect an inflow of foreign funds

Dr Stals said: "Re-access to the capital markets of the world will depend not only on the course of political negotiations but also on the state of the economy

"In the end, the bottom line is all that counts, and there is a new urgency for an economic policy based on the sound principles of financial discipline"

Addressing the Sandton Chamber of Commerce and Industry last week he outlined South Africa's successes in overcoming its foreign debt crisis, which he blamed partly on political factors.

He said that relative to most other countries with a foreign debt problem South Africa in 1985 had only a small amount of foreign debt outstanding. It also had the potential, given time and understanding of the normal business cycle developments, to meet all its international commitments.

The initial withdrawal of loan funds from South Africa and the disinvestment campaign and trade boycott actions were triggered by political motivations.

The situation had been exacerbated by the economic uncertainties surrounding the internation political developments

Most of the other countries with foreign debt problems were able to approach the World Bank and IMF for financial and technical assistance

But their doors were closed to South Africa and this country had no alternative but to tackle its problem the hard way.

South Africa had to negotiate with with its creditors for time to pay. It also had to make extremely painful internal economic adjustments which affected the country's economic growth potential But throughout these difficult times, the South African approach was to retain good relations with its foreign creditors

Dr Stals said that between 1985 and 1989 South Africa reduced the outstanding amount of its repayable foreign debt from $25,2 billion to $18,2 billion. In the same period more than $5 billion of short-term debt was converted into loans with maturities of up to 10 years and more than $600 million of debt was converted into equity invstments through the financial rand.

"The management of the foreign debt, and especially the relatively large redemptions made over the past five years, demanded sacrifices from South Africa, especially in the form of economic growth foregone and lost for ever."

But the country became less vulnerable to foreign pressures and now had a foreign debt profile which places South African borrowers in a favourable position for a return to the international capital markets."

But it would still be advisable for South Africans to remain modest in their expectations of new capital inflows

Though political negotiations in South Africa may open the way to foreign investors, their decision would be based on a basic analysis of financial and economic fundamentals Political attitudes towards South Africa may be easing, but private investors are interested only in the bottom line

"They want to know how safe their money will be and what yield they will get on their investments

Dr Stals said that South Africa was still faced with several basic problems which could deter foreign investors

These included.

- Foreign exchange reserves which were not sufficient to cover six weeks' imports?
- An inflation rate three to four times the average of its major trading partners?;
- The fact that the major soure of finance for development is the creation of new money instead of real savings out of real earned income?
- White collar crime which was approaching unmanageable proportions
- Increasing labour unrest, declining productivity and excessive wage demands which threaten to erode the country's international competitiveness; and
- Ever-increasing pressure for urgently needed social upliftment programmes that affects the ability of the government to control its expenditure

Thousands face repossession threat

Homeowners' debt soars to new peak

Star 5/4/90 (153)

By Michael Chester

Threats of house repossessions by banks and building societies have reached record levels as more homeowners are overwhelmed by inflation and high interest rate bond repayments.

The Information Trust Corporation, which runs a national network of computer systems to keep track of trends, reports that

● The number of debt judgments handed down by magistrates' courts over arrears on mortgage payments has almost doubled compared with only a year ago

The May 1989 total of 872 soared to 1 577 last month, equal to an annual figure of almost 19 000 The mountain of debts to be settled from court actions last month alone climbed from R44 million to more than R82 million

● Debt judgments in the Supreme Court, the last leg before actual repossession by sales in execution notices, jumped from 260 to a record 892 Amounts to be cleared rose from R16,5 million to R45 million

ITC chairman Paul Edwards said the toll of repossessions was now the worst on record

Black families

"What is becoming of increasing concern," he said, "is the number of black families who purchased homes of their own for the first time in the past couple of years

"They were encouraged into home ownership and now find they do not have the experience to have allowed elbow-room to cope with changes in interest rates and changes in circumstances with their personal finance"

Black families in the lists of sales in execution announced every week were of particular concern

Mortgage Lenders' Association president Bob Tucker said the catastrophe was spread across high and low-income families alike

The association compiled no precise breakdown of repossession statistics, but there was grave concern about the scale of the problem

"We are now seeing the tragic aftermath of the house-buying spree in the mid-1980s when thousands of families were tempted by low interest rates to buy houses far beyond their means," he said

"The casualties are home-buyers who made the mistake of thinking that interest rates were going to stay down at 12,5 percent for the duration of their mortgages The climb in rates to around 21 percent has crippled many budgets

"Yet even when a sale in execution goes out, it may still not be too late to mount a rescue operation Battling homeowners should explain their plight to their bank or building society It may still be possible to avert catastrophe with a package of compromises," said Mr Tucker

Endangered species? Justin Wills (6) and his sister Nadine (8), of Sundowner, Randburg, n investigate and conserve marine ecosystems

Gold's slump puts industry in cr

Star 5/4/90

By Magnus Heyst
and Peter Fabricius

The crisis in the gold mining industry is deepening as the gold price continues its weak performance on international markets

Gold shares took a hammering on the Johannesburg Stock Exchange yesterday, with the all-gold index dropping by more than 5,7 percent (93 points) to 1 517

Uncertainty over Soviet gold sales pushed the price down to an eight-month low of $356,05 yesterday afternoon in London, down from Friday's close of $363,45

It recovered slightly in New York to close at $358 and opened at $359,75 in Hong Kong today

The slide in gold share prices pulled down the overall index by 42 points to 3 126, but the industrial sector held firm as selected buying of blue chip shares pushed the index up 18 points to 2 978

Gold's slide is placing the gold mining industry in severe jeopardy Already the Cabinet has to make a decision on whether to increase its aid to the troubled ERPM mine on the East Rand

An announcement expected last night has been postponed for at least a week while additional contingency plans are considered

ERPM has made a last-ditch effort to raise capital, ıı ing its slimes dumps Boksburg properties

Money raised by thi however, not reduce R300 million debt, but operating capital for a

Without continued ERPM is faced with tain closure, with abo losses Once closed, th not be reopened as th rapidly fill with water,

Between 11 and 16 also face uncertainty v price at current level they earned about R foreign exchange last y

B Day 6/6/90.

Average pension payouts devastated by inflation

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ALAN FINE

WHILE close to 90% of SA's formal sector employees now enjoyed retirement fund membership, the average monthly pension payout has been ravaged by inflation — dropping by about 60% in real terms in the past 17 years

These are among the findings released yesterday by the Mouton Committee investigating the retirement fund industry and charged with making recommendations on a future system

Committee secretary Reg Munro told Business Day the committee was making public the results of its exhaustive research — with some initial diagnoses of problems — to open public debate on the matter

The committee has been asked by Finance Minister Barend du Plessis to submit at least an interim report to him by November

Committee research has disclosed that by 1988 more than 6-million South Africans were retirement fund members, more than four times the number in 1970

The establishment of a provident fund for black mineworkers last year — with a potential membership of 500 000 — would have increased that figure substantially, Munro said

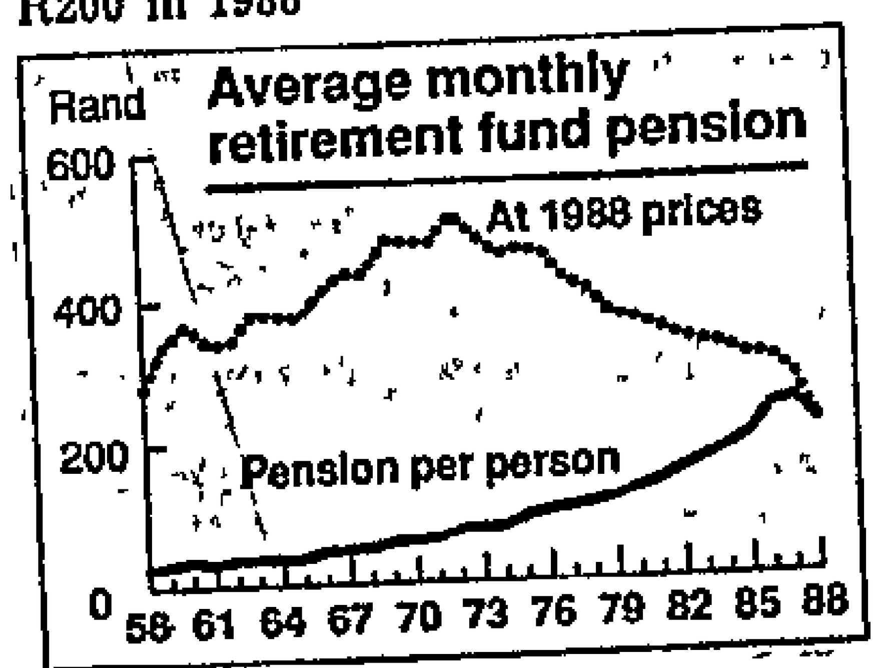
Since the bulk of the formal sector work force was covered, a national contributory pension fund would not achieve much, Munro concluded

He said there were serious problems in drawing the informal sector into the retirement benefit industry

"Incentives are tax-driven, and the informal sector does not pay tax," he pointed out Another problem related to ensuring regular contributions

Munro said committee research showed while the retirement fund industry had done a good job in drawing people into membership, and had achieved reasonable returns on investment despite the prescribed asset regulations, it had done poorly in ensuring pensioners' payouts kept pace with inflation

After a steady climb in real average pension payouts until 1972 (about R500 a month when converted to 1988 prices) the figure had fallen to about R200 in 1988



Graphic: FIONA KRISCH Source: MOUTON COMMISSION

This, said Munro, was a result of inflation and the first large group of unskilled, low-paid black workers reaching retirement age after a relatively short period of fund membership

Inflation remained a problem More recently black unions had initiated a trend towards provident, rather than pension, funds "Provident funds expose beneficiaries to inflation badly I do not know whether they have got to grips with the problem of using lump sum investments to provide returns which take account of inflation," Munro said

A further problem, he said, was transferability Today less than 10% of people changing jobs transferred accumulated benefits to new funds

But, he added, his view was that imposing a law making transferability compulsory was not the answer

"We are looking for a holistic solution," said Munro

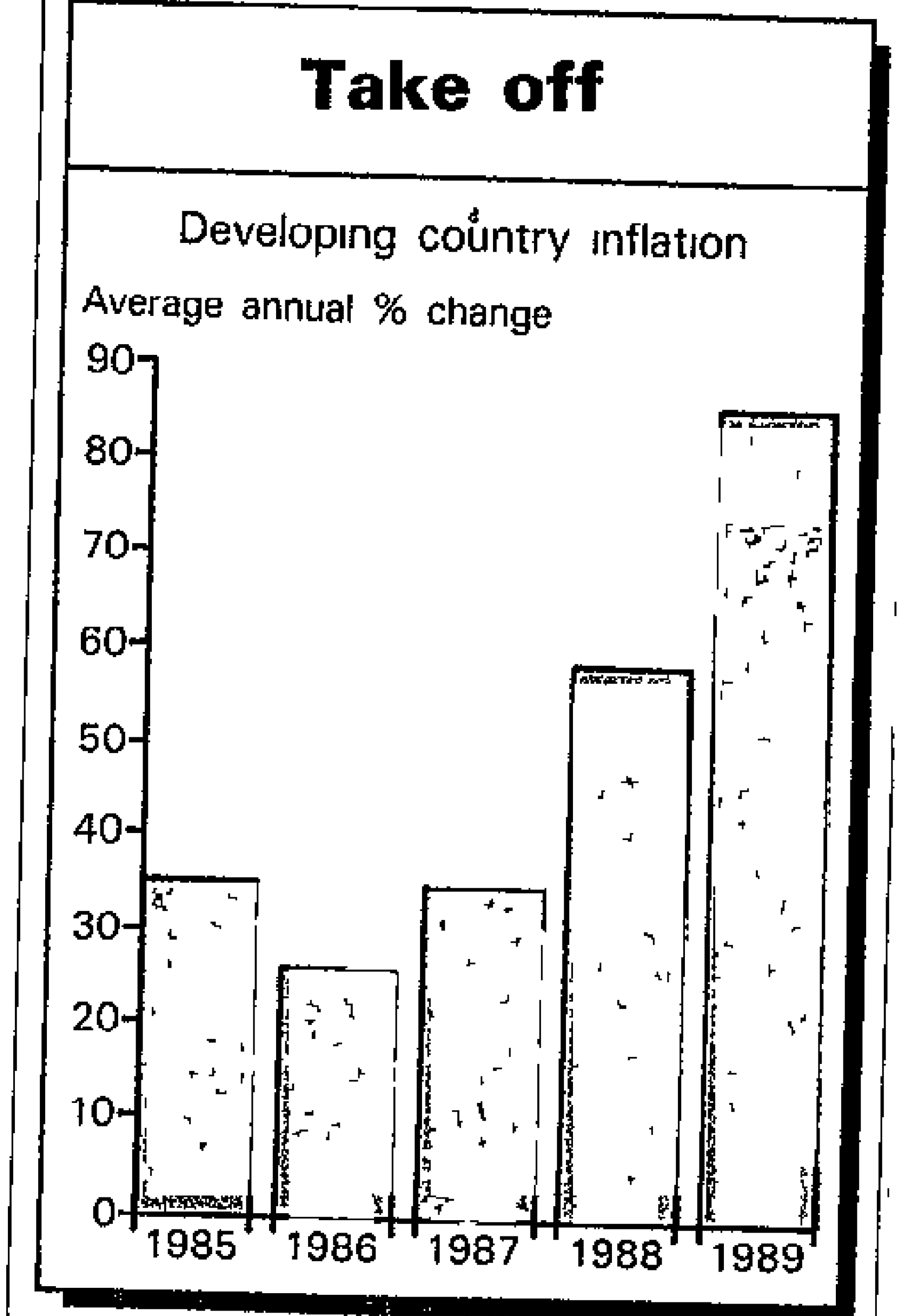
One positive development, in so far as retirement fund contributions were seen as deferred pay, was that the interest payable on withdrawal benefits was increasing mostly, he believed, because of union pressure

While in 1985 96% of people withdrawing from funds earned less than 6% on contributions, this figure had fallen to 54% by last year In 1985 1% earned more than 10% interest, the number last year had risen to 5%

INFLATION F/M 8/6/90 (153)

Wide discrepancies

A rapidly rising rate of inflation in developing countries conceals wide discrepancies between them IMF statistics show the overall increase in their consumer prices, which



FINANCIAL MAIL JUNE 8 1990

F/M 8/6/90 (153)

have already been reported for 1989, was 86,3% It was 59,5% in the previous year **(see graph)**

Largest increases were in eastern Europe and the western hemisphere (South America and the Caribbean) With Nicaragua still outstanding, the steepest rise was in Peru, nearly 3 400%, followed by Argentina, more than 3 000%, and Brazil, 1 287%

Yugoslavia achieved four-digit status with 1 240% after 1988's 194,1%

At the other end of the scale was Chad with deflation of nearly 5%

The rate in industrial countries was 4,5% (3,4% in 1988), while world inflation was 18% (13,4%)

Among developing countries inflation was down in Asia at 10,2% (11,8%), up in Europe at 232,3% (80,1%) and the western hemisphere at 350% (218%) A figure for Africa is not yet to hand

The latest available for the Middle East is for 1986 when consumer prices rose 11,8% (1985 14%)

8153

Star 9/6/90

Inflation killing the golden goose

DEREK TOMMEY

THE drop in the dollar gold price this week to its lowest point for four years has plunged the gold mining industry into a crisis - and raises the spectre of hard times for South Africa

This is because the gold mining industry is still the main generator of prosperity in South Africa The serious plight in which it is now could have unpleasant repercussions for everyone.

Dealers point out that most attention has been centred on the plight of the extreme marginal mines such as ERPM.

But this has concealed the fact that up to two-thirds of the country's mines are in slight or severe trouble as a result of the recent gold price drop

An analysis of the March quarter gold mine returns shows that only 11 of the 31 gold mines which are members of the Chamber of Mines are sufficiently well-placed to weather a $353 (or R940) an ounce gold price.

The plight in which the gold mining industry now finds itself is not new The industry has been under pressure for several years However, this has been partly concealed by the relatively unchanged and even at times rising rand gold price.

But all the time inflation has been steadily reducing the value of the money the mines have been receiving for their gold

In real terms the gold price has fallen 40 percent since 1985

What this means is that the mines today are receiving just over half what they were getting in 1985 for their gold They have managed to keep going and more or less maintain dividends, but the Government has been a major loser with its tax revenues dropping sharply

In 1987 this amounted to R2,7 billion It dropped in 1988 to R2,4 billion and last year to R1,5 billion

The latest annual report of Freegold, which was formed in 1986 out of the merger of the Anglo American Free State gold mines, shows how the industry has been hit.

This is the largest gold mine in the world, employing 107 000 people and producing some R3,6 billion worth of gold.

In 1986 Freegold milled 21,7 million tons of ore and had a gold profit of R1,19 billion In the year ended March this year, Freegold milled 26,1 million tons of ore — a 19,8 percent increase on 1986 — and had a gold profit of only R639,9 million.

This profit looks like deteriorating further this year and could even disappear altogether

But of course this will not happen Freegold will cut costs, increase its milling grade and continue to show a profit.

But there will be a cost. Freegold's life will be shortened.

What can the industry do about its present plight? One obvious move is to give its full support to the government's anti-inflation drive This will ensure that it will retain at least the full benefit of the present gold price.

It can also hope for a higher gold price This could happen this year or next year but it is not a certainty and some contingency plans would seem to be needed to assist those mines in the greatest difficulties

Mining industry officials suggest that mines in trouble should be divided into three categories

Those which can remain profitable at the present gold price with only slight assistance should get immediate help

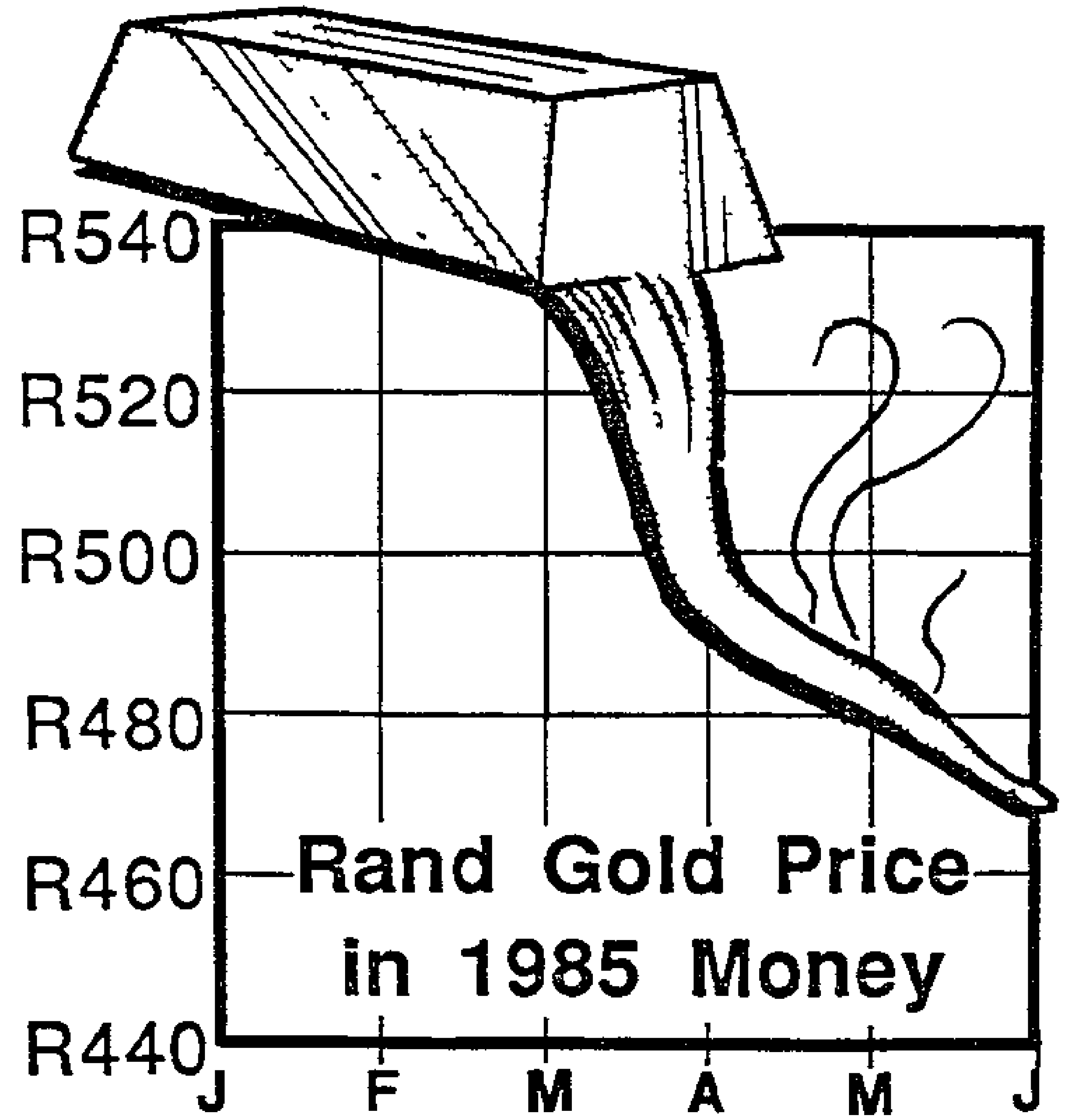
The second category is those which have large reserves of marginal ore which would be profitable at say $500 an ounce These mines should be allowed to close down but kept on a care and maintenance basis so they could quickly be re-opened when the gold price recovers

Finally mines which are completely marginal should be allowed to close without any tears being shed.

The end result would be a smaller more efficient and more profitable gold mining industry.

Some people oppose the Government's use of taxpayers money to support marginal operations. But the industry points out that state help for the mines could generate tax revenues far larger than that help would cost the State

One, admittedly very rough, calculation suggests that ERPM is indirectly contributing some R81 million to the Treasury by way of GST, duties, income and company tax.



REAL VALUES: The nominal rand gold price has remained relatively steady in recent years. But the 'real' price (the rand price adjusted for inflation) has been dropping steadily.

KaNgwane Chief Minister Enos Mabuza will be at today's welcome-home rally for senior ANC legal expert Matthews Nakedi Phosa at the Lekazi Stadium, Nelspruit.

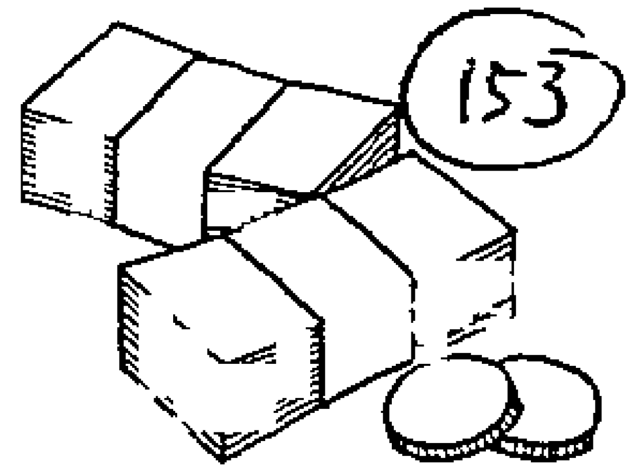
Press People's Diary is Thursdays at 3pm. Phone the News Desk at (011) 402-1632

sport, academic achievements, community service and occupational or professional life Inquiries may be made to Dr JFJ Hattingh at phone 012-325-5100 ext 264 or Private Bag 63,Pretoria

Bondholders hard hit by recession

Citizen 10/6/90

153



MONEY TALK

THE recession our economy has moved into is now beginning to hit businesses and the man in the street where it hurts most: directly in his pocket

Figures released last week show the number of businesses going bankrupt is rising rapidly. This, of course, translates directly into people losing their jobs or having to accept work at less pay.

The chain reaction is spreading to building societies and banks, which are repossessing the properties of homeowners who are unable to meet monthly instalments A new factor that has emerged is that some of the houses being sold to repay loans belong to blacks. The reason is, of course, the increase in home ownership in black communities since the eighties

What are the reasons for the bad state of the economy?

There are basically two reasons for this. The first is that the enormous pressure the repay foreign loans is pressuring our foreign exchange reserves. As a result of sanctions new loans are difficult to obtain. South Africa has no choice but to dig into its meagre reserves to repay the rich nations.

Our reserves are, of course, used to buy foreign goods. In view of the fact that we have to use the reserves to repay the loans, our economy must be curtailed to ensure sufficient foreign currency to pay the creditors.

The second reason is the high inflation rate.

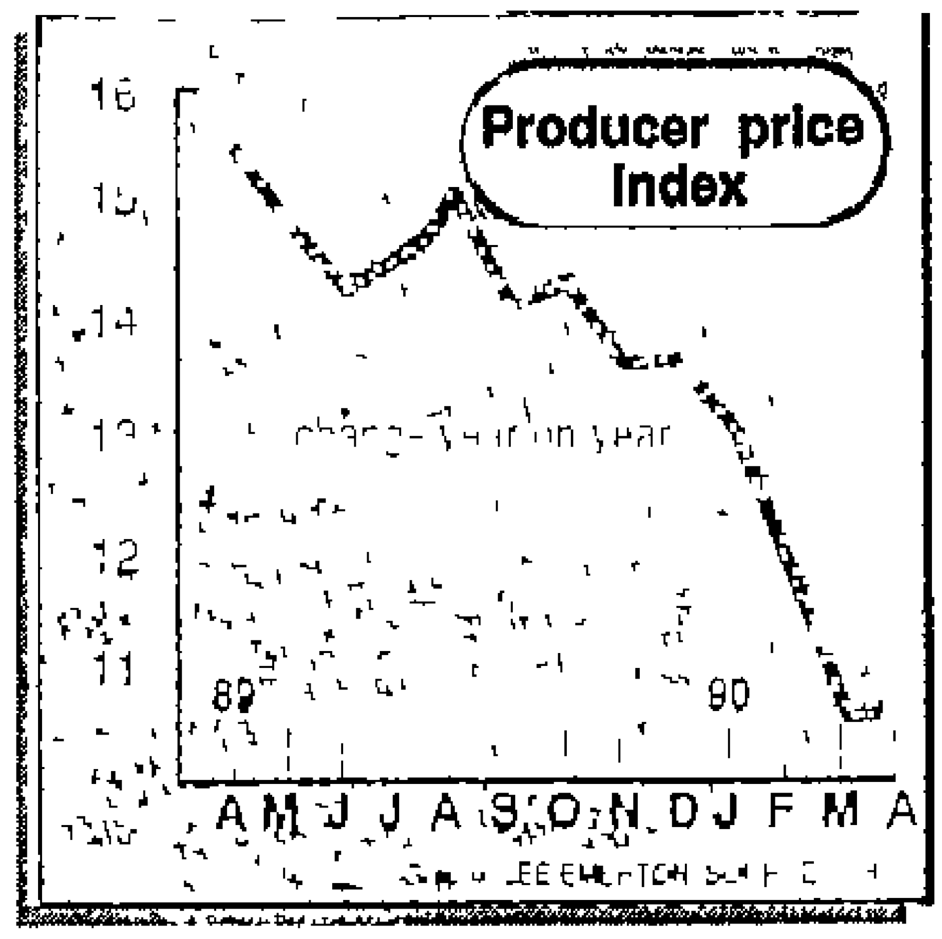
We simply have to get the inflation rate down if we want to survive in a very competitive world. Part of the remedy is to keep a tight rein on the amount of money that is available for consumer expenditure

If you own a home and land in difficulties, try at all costs to keep up the instalments at the bank or building society If you land in difficulty, go and see your bank (or building society) manager immediately

There is nothing in this world that annoys a financial institution more than having to pursue a person who owes them money. Remember, they hold a bond on your property and can sell it, whether you want to co-operate or not.

Co-operate by going to them and explaining your difficulties The chances are that they will go out of their way to work out a plan for you before your difficulties become too severe

The current difficult position will not last forever. Once the economy turns up again, the value of your property is likely to increase rapidly.



Sharp increase in producer inflation

(153)

ANDREW GILL

LATEST statistics show that year-on-year producer inflation is unchanged, but month-on-month there has been a sharp increase. B/Day 12/6/90

The annual rate of increase in the Producer Price Index (PPI) levelled off in April at 11,6%, the first time since October 1989 the rate has not fallen, Central Statistical Service (CSS) figures show.

But for the first time in six months the month-on-month increase was above 1% — at 1,6% — mainly as a result of locally produced commodities recording the highest month-on-month increase since May 1986 at 2,1%, compared to March's marginal 0,1% increase.

The largest monthly increases were in the coal sector, which shot up 14,3%, and alcoholic and non-alcoholic beverages, which were up 11,3%. Other increases included tobacco (9,3%), ferrous basic metals (5,4%) and wood products (5%).

The year-on-year increase of locally produced commodities was 12% compared to March's 11,3%.

Economists said the scenario could have been worse had it not been for actual deflation in the imported commodities sector. It fell 0,3% on a month-on-month basis and slowed to an annual 10,1% rate of increase compared to March's 12,5%.

Trust Bank economist Nic Barnardt said the high monthly increase in locally produced commoditites was merely a hiccup and the overall trend was still downward.

He said the increase was probably technical after March's minimal increase and

☐ To Page 2

PPI

B/Day 12/6/90 (153)

☐ From Page 1

said the consumer inflation rate would not suffer, predicting it would reach 14% by mid-year, 13% by year-end and 12% by mid-1991

Nedbank's Edward Osborn agreed the import decrease was hopeful

However, he said the sharp local increase was "not pleasing" after the long string of marginal increases and said it was an indication that inflation would remain at a fairly strong rate

Econometrix chief economist Azar Jammine said the overall trend was still downward but admitted it was a significant rise in the local sector

He said deflation in imported commodities was most likely due to the rand's relative strength against the yen and pound

Benefits to be reaped in changing Bank's policy

(153) ANDREW GILL (639)

MODIFYING the Reserve Bank's current forward exchange arrangements would reap benefits in the form of more effective control over domestic money supply, the Bank of Lisbon said in its latest Economic Focus.

Other benefits would be more realistic exchange and interest rates, which, it added, could become exceedingly volatile if the Reserve Bank did not disengage from the forward cover market

Real domestic interest rates were not unduly high by the standards of major industrial countries, and keeping them at suitably high rates would lead to the reduction of forward cover losses

It said the "other assets" item on the Reserve Bank's balance sheet, which stood at R17,5bn in October 1989, mainly reflected losses incurred from forward exchange operations, which had increased from 21% of total assets in 1981 to 60% in October.

This was a major reason for the increase in the money supply last year, which in turn boosted the inflation rate and further depreciated the rand

A "pernicious spiral of forward cover losses and currency depreciation" could be set in motion unless the Bank drained liquidity from the banking system, the report said Bday 14/6/90

The Bank's withdrawal from the market would lead to higher interest rates and stricter monetary policy A combination of these would lead to successful control of the money supply and an improved budgetary position for government, the report said.

The rationale behind the Bank's present policy of gradually withdrawing from the forward market was that an abrupt withdrawal would lead to a sharp fall in the rand's external value, complicating the lowering of the rate of inflation. However, losses incurred by the Bank under present arrangements had inflationary implications, "and this impetus to inflation would be removed if the bank withdrew from the forward market"

Retail giants will lose cash cushion with VAT

Star 15/6/90 (153)

By Tom Hood

CAPE TOWN — Cash flows of supermarket chains will be hard hit, forcing a new round of price increase, when the new value added tax (VAT) replaces general sales tax in October 1990

Retail giants will lose millions of rands a year they earn from interest on sales tax collected from their customers

This tax money can earn the companies betweem 18 and 20 percent for the first 20 days of the month until it gets paid to the Receiver of Revenue.

"This could have a massive effect on cash flows and profit margins," said Mr David Clegg, chairman of Cape Town Chamber of Commerce's taxation committee.

"Although this income from interest was taxable, it helped retailers to keep prices down and companies will now be sitting on a much smaller pile of cash at the end of the month.

"In most cases their margins won't be able to absorb the shock and retailers will have to raise prices However, if it amounts to a cent or two an item, it will hardly be noticeable"

Pick n' Pay financial director Chris Hurst said. "GST has always worked to our advantage. On average we have held 35 days' money If you allow for 20 percent interest and it is taken away, you have to find it somewhere else."

However, any loss would depend on how retailers were going to pay over VAT

"I am hopeful we will do it on a quarterly basis as in Europe Small businesses there have the option to pay it in six months"

Overall, VAT could make a limited impact on inflation, said Mr Clegg.

Its effect will be tempered by some benefits, such as ending double taxing, which could lead to considerable savings on what industry paid in GST and help companies to stave off price increases.

A company would no longer have to pay sales tax on a R4 million piece of equipment.

However, the building industry, which paid sales tax only the materials aspect of a contract, would have to pay VAT on the labour component as well

Discussing the government's VAT proposals, Dr Org Marais, deputy minister of finance, said yesterday "If there are no exemptions from the tax there will be no increase in inflation.

"If we can keep the tax rate below 13 percent we may succeed In not having a big jump in inflation"

Inflation continues its downward trend

BDay 22/6/90 (153)

ANDREW GILL

INFLATION, as measured by the annual rate of change in the consumer price index, dipped below 14% for the first time since March 1989 to 13,9% in May, latest Central Statistical Service figures show

The drop in the year-on-year rate, from 14,6% in April to 13,9% in May, has exceeded many economists' expectations and has been welcomed as "good news" for the SA economy.

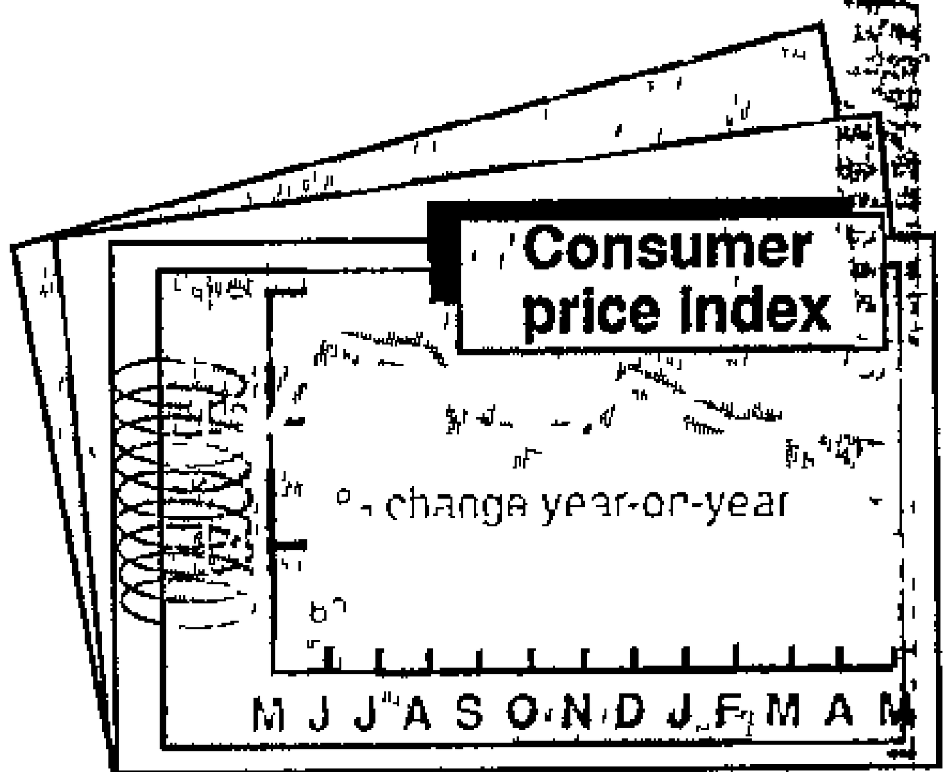
The monthly increase in the index was a relatively high 1,1%, up from April's 1%, and Sanlam economist Pieter Calitz warned the drop in the annual rate could be statistical as last May's monthly increase was an exceptionally high 1,8%.

He said the drop was nevertheless surprising and should remain at about 13,9% for June He predicted a possible year-end figure of below 13%, well below many recent predictions that put the rate at above 14% until at least next year.

He said it was a sign the economy was slowing considerably and that many sectors were now showing recessionary tendencies.

The economy was expected to cool further until a turning point in the business cycle sometime next year, he said, and we would just have to "bite the bullet" until then

Calitz said he did not expect interest rates to drop until the last quarter of the year and that single digit inflation in the near future did not seem likely.



Graphic LEE EMERTON Source CSS

Nedbank economist Edward Osborn said the drop was significant but the continuing high rate of food and low-income group inflation were disturbing.

Low-income group inflation was 14,8%, down from last month, but 0,9 percentage points higher than the all-income group inflation rate.

The annual rate of increase in the food price index was 15,6%, well down on April's 16,8% but registering a 1,6% monthly increase in the index

The transport sector made the largest contribution to the 1,1% monthly increase with its highly weighted index increasing by 1,6% on a monthly basis.

'Govt has goal to bring down inflation to 10%'

153

CAPT TIMES 22/6/90

THE government would have succeeded in its goal if the inflation rate was brought under 10% by the end of next year, the Minister of Administration and Economic Co-ordination, Dr Wim de Villiers, said yesterday.

He told a special session of the President's Council that this was his personal view, but that there was a very strong determination in the government to make the fight against inflation a success

It was only through this that jobs could be created for South Africa's fast-growing population

Circumstances in South Africa were highly favourable for combating inflation The roll-over debt had been dealt with, and there was lessened sanctions pressure

Asked by Mr Peter Marais (LP) whether the fight against inflation might not lead to a higher unemployment rate, he said that if one did not break inflation, the country would not be in a position to compete in international markets.

Combating inflation by monetary measures would lead to unemployment

"But this is a short-term effect The longer-term stability that results will enourage employment"

He also said the government was updating its economic development programme "right now"

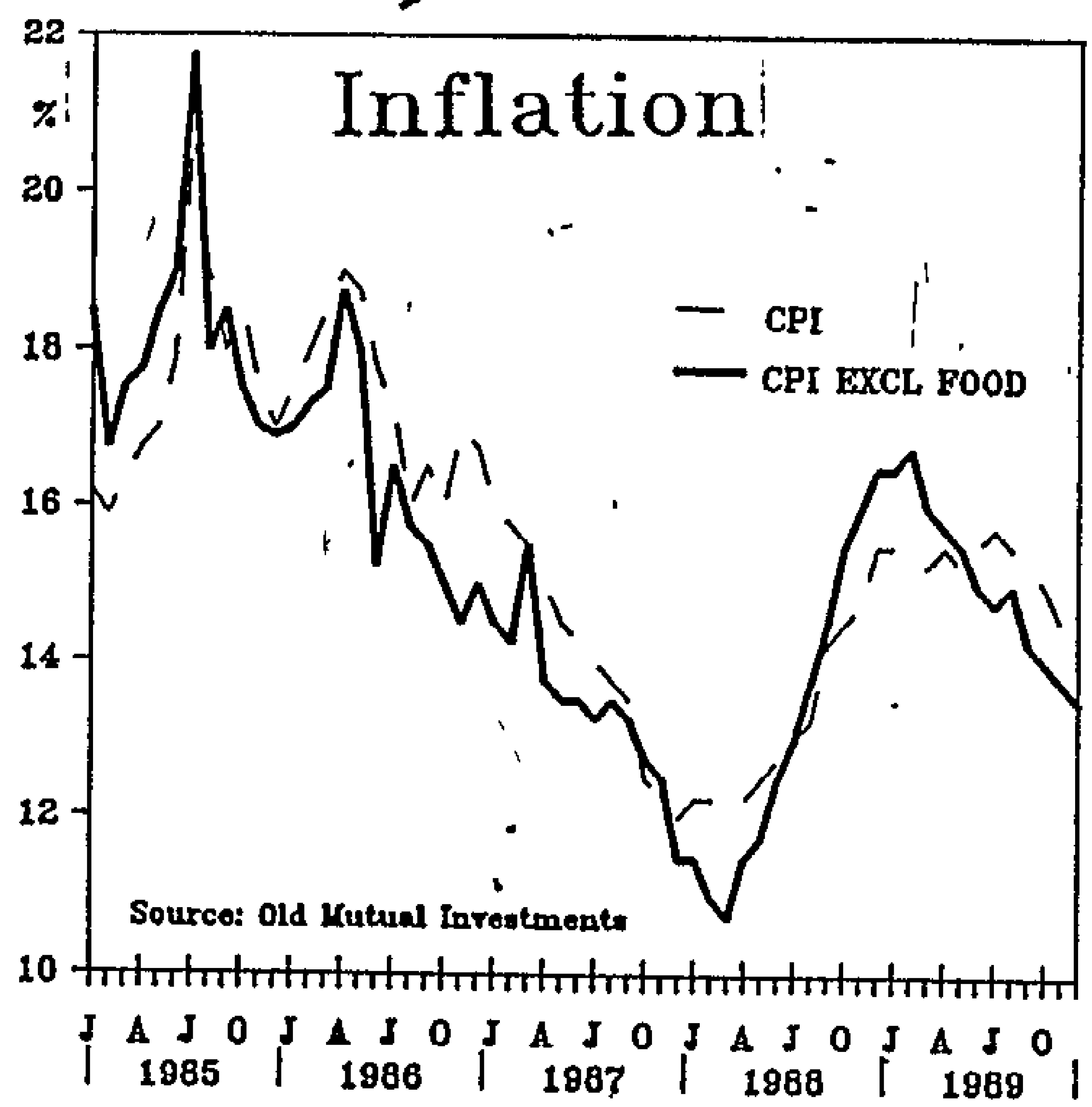
"It will take some time to make it available, but work is going on at high speed so we can start making it available for people to know where they are going," Dr De Villiers said — Sapa

Despite higher food prices . . .

CPI drops to 13,9%

22/6/90

By ARI JACOBSON



Food price rises added 0,5% to the consumer price index's (CPI) 13,9% year-on-year gain in May — a major obstacle in the monetary regime's fight against inflation.

MONETARY policies adopted to stabilise the economy have started to register significant gains on the authority's prime target, inflation, as measured by the consumer price index (CPI).

Inflation figures for May slowed to a 13,9% year-on-year increase against April's annual rise of 14,6%

Economists welcomed the success of the stringent measures "as an on-going process of progress" against a backdrop of declining money supply growth in a shrinking economy and aligned with a stable exchange rate

At this pace said Trust Bank economist Nick Barnadt, the inflation rate should drop below 13% by the year-end.

Southern Life's economist Mike Daly said the declining trend in inflationary growth was motivated by the fall in producer price index (PPI) increases — a leading indicator of the future CPI path

"However, May is a low inflation month, with the small 1,1% month-on-month rise between April and May — maintained over the last five years "

Daly pointed out that the food component of the CPI had prevented a sharper decline in the growth of the consumer-related index

"Another negative factor halting progress, in the fight against inflation, was the low gold price which would force the rand to devalue moderately over the next few weeks "

But a slight weakening in its value would be insufficient to impact on local prices, although halting an accelerating drop in the growth rate, he said

Old Mutual's economist Ursula Maritz said food inflation has rocketed from a 7,7% year-on-year increase in April 1989 to an annual rise of 15,6% in May this year.

But the underlying momentum in food price rises had slowed, pointing to the average 1% monthly gains over the last three months — well down on the 1,6% average in the previous quarter

"If food had been excluded from this month's CPI, the index would have dropped to 13,4% — a clear indication of the rapidity with which inflation can come-off with the slowdown in food price rises."

Nick Barnadt enhancing on the optimism surrounding the latest CPI figures said a continued decline in the growth of this index would help interest rates off its peak before the year-end.

Inflation rate drops

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Citizen 22/6/90

By ARI JACOBSON

THE consumer price index (CPI) — a yardstick of yearly price rises in a bundle of consumer goods — came down from a 14,6% annual increase in April to register a 13,9% rise for May.

The CPI had been held back from a larger percentage price decline in May by the food component which dragged the index to 13,9% — excluding food, May's CPI rise would have been 13,4%.

Economists welcomed the tell-tale signs of successful government policies which had brought this about, forecasting an inflation rate, at this pace, of under 13% by year-end.

● Govt's goal on inflation — Page 5

Economy is cooling faster than foreseen

CAPE TOWN — Some sectors of the economy are experiencing full-scale recessionary conditions, says Johan Louw, chief economist of Sanlam 157

According to the latest available information the economy is cooling considerably faster than was foreseen just a few months ago Star 23/6/90

He says, in the company's latest economic review, that the world economy's growth is decelerating, but there are no signs of a severe recession

As far as South Africa is concerned, he expects total real domestic spending on goods and services to decrease between 2 percent and 3 percent this year

"Although this points to a marked weakening in general economic activity, the downturn will not be as severe as in 1985, when real gross domestic expenditure fell by almost 8 percent"

He also believes that the foreign sector (exports less imports) will perform so well that 1990 should still yield a small positive real economic growth rate of approximately 0,5 per cent He adds "We expect the downturn in the economy to continue until about the middle of 1991"

As regards inflation, Mr Louw envisages that the year-on-year increase in the total consumer price index will gradually tend lower

Changes in food prices could have a seriously disruptive effect on the inflation rate — mainly owing to the weight of food in the consumer price index and the large dependence of food on favourable climatic conditions

"In our opinion, the inflation rate, with the exclusion of food, therefore, gives a more accurate indication of the underlying inflationary pressure in the economy This rate has already declined from more than 17 per cent in the middle of 1989 to 13,9 per cent at present."

Mr Louw believes the inflation rate has further downward potential.

South Africa's inflation rate is still about two and a half times that of countries of the OECD This, he says, naturally has an adverse effect on the external value of the rand.

"We expect the scenario will improve gradually as South Africa's inflation rate tends downward in the next year or so and those of the OECD countries rise slightly as a result of capacity problems, tighter labour markets, etc At this stage we doubt, however, whether the ratio will be much lower than 2 1 in the foreseeable future"

In view of the high priority that the government and the SA Reserve Bank place on the reduction of the inflation rate, and the current weakening of the gold price, it is clear that interest rates will probably be kept high longer than necessary simply to bring about the desired cooling of the economy — Sapa

fund dilemma

Money

unfounded perhaps, that tracing the beneficiaries of a pension

Start of a new era for the part bond industry in SA?

The new era of real interest rates under the governorship of Dr Chris Stals could herald a boom-time for the participation mortgage industry in South Africa

Real interest rates, coupled with absolute security in a stable investment environment, would be attractive to most investors

Like all other fixed-income investments, the returns on part bond investments during the last ten years have been negative for most of the time

Negative

When compared to alternative investments like unit trusts or shares themselves, part bonds have performed poorly

But this was a direct result of the undisciplined monetary policy followed for most years of the '80s On the whole, interest rates — which ultimately are controlled solely by the Central Bank — were negative when measured against inflation and taxation

The tax regime followed during this time was also highly in favour of life insurance companies, with most investment products being offered by such companies receiving favourable tax treatment

This has led to a huge misallocation of investable funds during the '80s, with banks, building societies and other traditional investment offices losing out heavily to the life insurance industry

But all this is about to change, if Dr Stals proceeds with his current policy of high and real interest rates Although many homeowners and businesses are hurting from this tough stance, savers are seeing real returns on their investments for a change

Most part bond companies are currently paying interest varying between 19 and 20 percent This provides a real return of between 5 and 6 percent on the current inflation rate of under 14 percent

However, with the exception of the first R2 000, investors are still are liable for tax on the interest earned, which places them at a disadvantage against dividends on equity investments

But even this might change, if rumours in financial circles are accurate

According to these rumours, Government is considering far-reaching proposals regarding tax on investment income This includes an upfront 10 percent withholding tax on all investment income from traditional investments, like fixed deposits and part bonds, with the rest tax-free in the hands of the investor

Security

This will even more level the playing field between the various types of investments and is bound to increase the attractiveness of part bond investments

Given real interest rates, part bonds are attractive investments for certain types of investors, notably pensioners and retired people who need absolute security and a steady income-stream from their investments

Part bond investments, which are tied up for at least five years and in many cases offer a floor rate (currently around 13 percent) offer great security and ease of handling

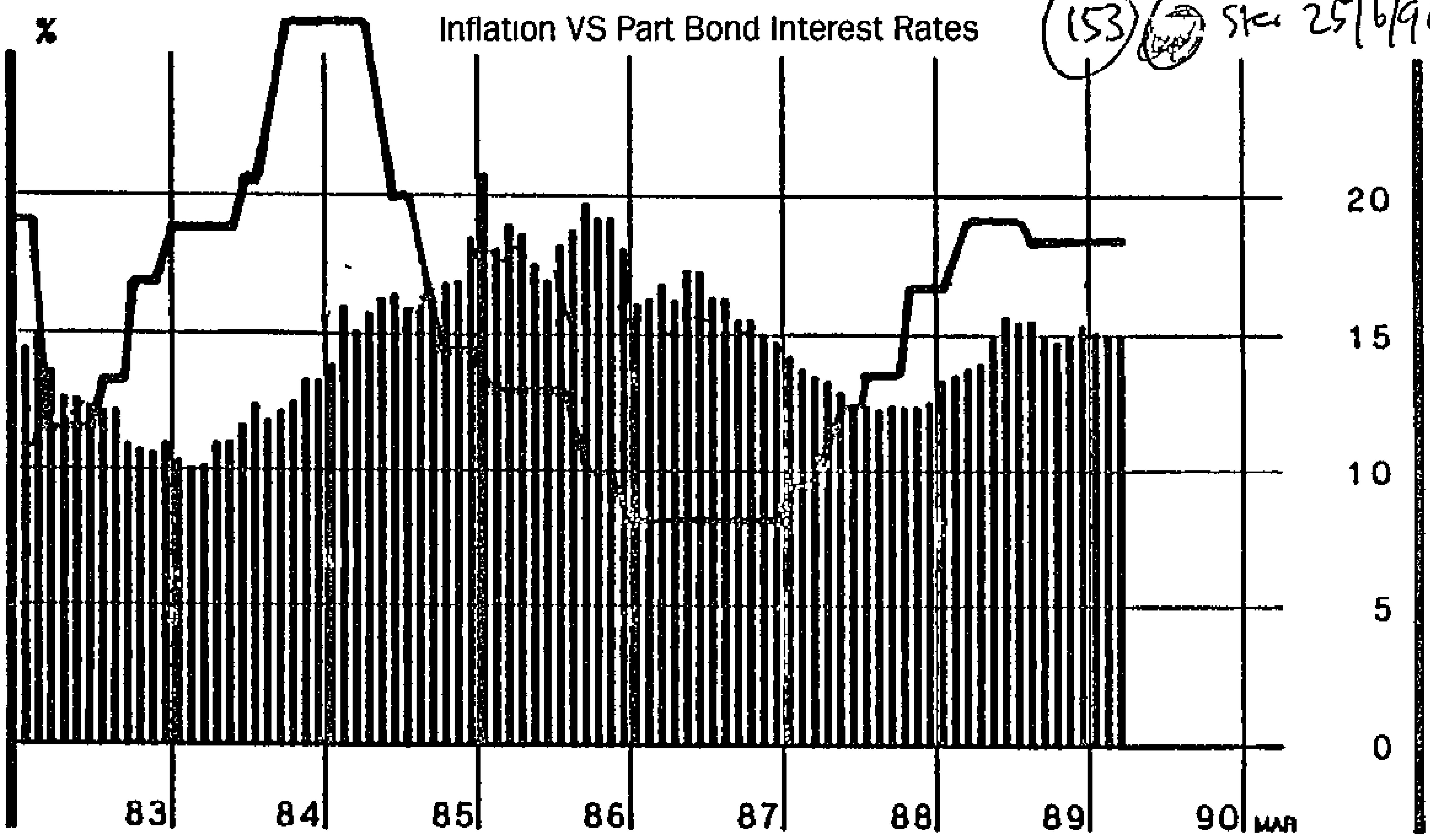
With the choice of interest being earned either monhtly, quarterly or half-yearly, it makes for sound financial planning for investors

Believe it or not, but despite the obvious advantages of equity investments over the last fifteen years, there are still many people who prefer stable investments with guaranteed returns

Many people baulk at the prospect of tying up their money for five years, the current minimum period allowed by law

But, in some instances, tying up your money with a guaranteed rate of return (coupled with a floor rate) when interest rate are high could work in your favour should interest rates drop during that period

(153) Star 25/6/90



Investors in participation mortgage bonds are currently earning a real rate of interest on their investment when compared with the inflation rate This compares with long periods when inflation was higher than interest on savings The introduction of an upfront witholding tax on savings will further increase the real rate of return on fixed investments.

Sharp drop in the buying power of the rand

If ever you had doubts about following an active investment programme to protect yourself against inflation, look at what the domestic purchasing power of the rand is today, compared with only 18 years ago

Do you still remember what happened in 1970? The Americans were on the moon once more, petrol was 25c a litre and a medium-sized motor car cost about R3 000

But, due to South Africa's high level of inflation since then, the rand's purchasing power has dropped from 100c in 1970 to a paltry 11c at the end of last year and is set to drop even further to 9c at the end of this year

This 91 percent drop means that someone earning R425 a month in 1970 should now be earning at least R4 860 a month just to be "treading the water"

In a survey of the rand's purchasing power, the Bureau for Economic Research at Stellenbosch used 1970 as the base year — when a rand was still considered a rand But going back even further to 1910, the researcher estimates that the rand's value dropped back from R3,95 then to R1 in 1970

As we all know, pensioners and people living off fixed-incomes have been hardest hit An investment of R1 000 in 1970 would today be worth only R110 on the assumption that the interest was not reinvested However, this excludes the effect of rising taxation, depleted purchasing power even further

Despite a welcome drop in the inflation rate to its current levels, now under 14 percent, South Africa's inflation rate is still three times that of most major countries

Not only will this serve to undermine the purchasing power of the rand even further, but it is bound to lead to further downward pressure on the foreign exchange value of the rand — which, in itself, again is considered highly inflationary

With inflation reaching towards the twenties again, South Africans will be hard-pressed to find investment avenues that outpace inflation

While part bonds, like all other fixed-interest-type investments, have not been able to provide investors with real rates of returns after tax and inflation, this is changing

The monetary authorities have long been worried about the crippling effect of the joint effect of high inflation and artificial low rates of interest

As it reported elsewhere in this survey, the Government is seriously considering a once-off witholding tax, reported to be between 10 and 12 percent, on all bank, building society and other fixed-investments, including part bonds

The after-tax effect of such a move on overall returns will be startling, especially for investors paying a marginal rate of 44 percent on investments

(153) Star 27/6/90

Pension funds make more provision for inflation

By Sven Lünsche

Greater provision is being made by pension funds for inflation-related increases in payments

This is one of the key findings of Sanlam's biennial survey of South Africa's pension funds, which also reflects a marked change in average retirement age

The survey, released today, covers more than 350 funds in all the major industry sectors

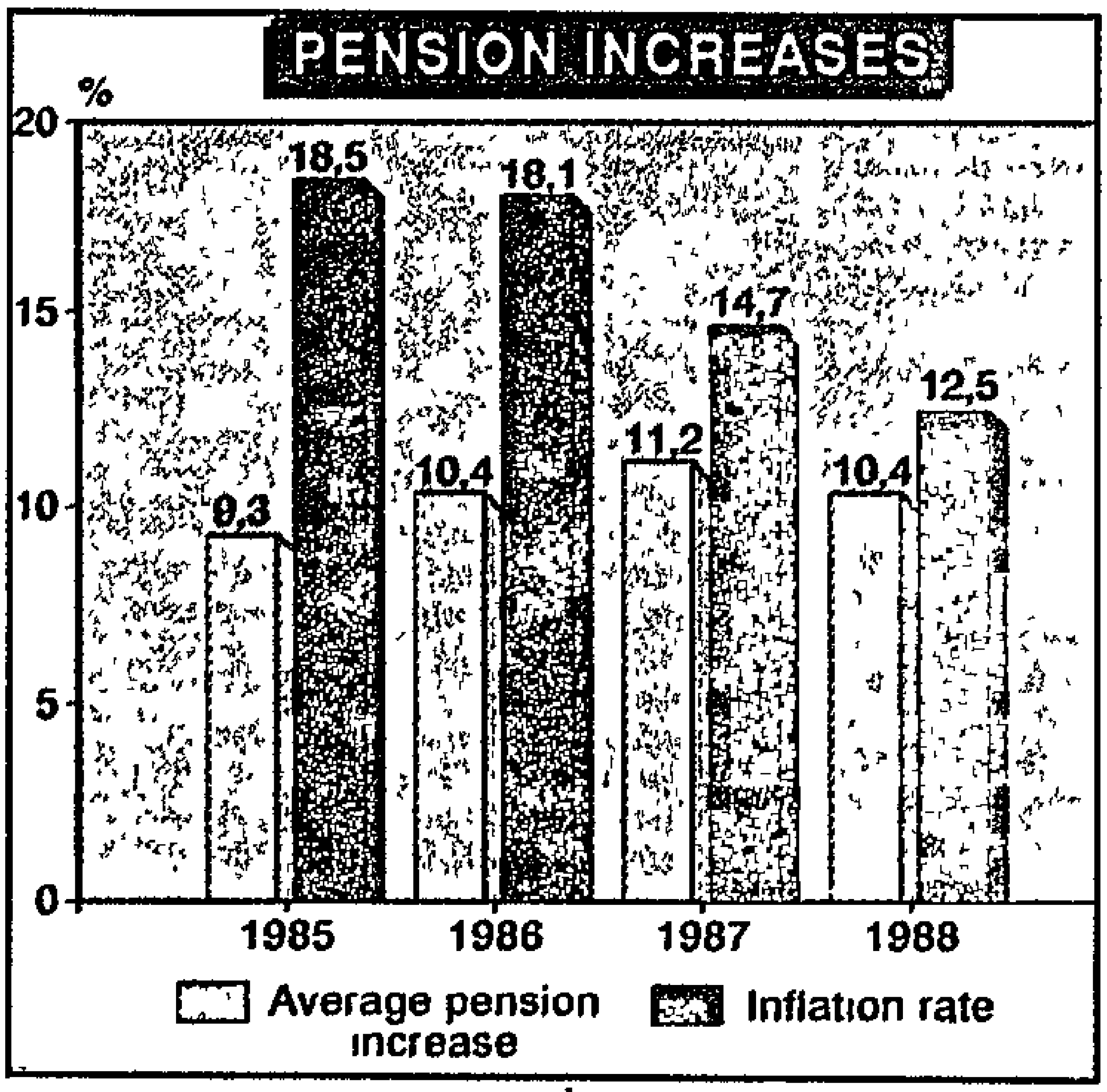
Since it was first run in 1981, Sanlam's senior general manager Walter Scheffler says increases received by pensioners have not kept pace with inflation

However, the difference between the inflation rate and average pension increases has declined

In 1985, with inflation running at 18,5 percent, pensioners received only 9,3 percent higher pension payments.

In 1988, the respective figures were 12,5 percent and 10,4 percent (see graph).

Mr Scheffler says this is partially due to the decline in inflation, but that it also reflects a general improvement in pension benefits.



Average provision

"Some 59 percent of the participants in the survey indicated that their funds provide for increases of three-quarters of the rise in the inflation rate

"The average provision was equal to 70 percent of the increase in the year-on-year inflation rate," Mr Scheffler says

Sanlam's senior GM, group benefits Chris Bosenberg, says there has also been a noticeable trend to equalise the retirement ages of men and women

"For example, in 1985 about 77 percent of the funds had a retirement age of 65 for males, while only 40 percent of the funds had this retirement age for females.

"By 1989, 46 percent had brought the retirement age from women in line with that for men

"This has resulted in the average retirement age for females increasing from 61 in 1981 to 63 last year. By contrast the average age for males has decreased marginally from 64,3 in 1985, and 64,2 in 1987 to 64,1 in 1989," Mr Bosenberg says

"The increased participation of women in the workforce, the increasing recognition of women as self-sufficient individuals, their increased contribution to the family income and the removal of some discriminatory work practices have resulted in this trend," he says.

According to Mr Scheffler, though, the most significant trend evidenced in the survey has been the interest addition to contributions payable on withdrawal from the fund

"Almost 50 percent of the funds now provide compound interest payments of six percent or more, compared with only three percent in 1985 and 28 percent in 1987

"Some funds add a percentage for each year of service at withdrawal," Mr Scheffler says

Withdrawal benefits of provident funds and the interest payment are also markedly higher that the average benefit provided on withdrawal by pension funds.

The most popular averaging period on which pension fund payments are calculated remains the last three working years

But, according to the survey, there is a significant trend towards shortening this period, with the averaging period reducing from 2,9 years in 1985 to 2,4 years in 1989

Other important findings of the survey include

- Surviving member pensions are becoming more popular
- Most funds now provide a two percent or better scale of benefits on retirement
- Most funds are now providing disability income benefits based on a percentage of salary, rather than past or potential service

Rand's outlook reviewed

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NEIL YORKE SMITH

BDay 27/6/90

LOWER inflation and high interest rates could lend some support to the rand exchange rate, but the gold price and strength of the US dollar would remain crucial in determining the value of the rand, Senbank's latest currency review said.

The gold price was unlikely to strengthen in the short term, but "no dramatic weakening in the value of the rand is expected", it said.

"Notwithstanding clear signs of a sharp drop in economic growth and inflation, interest rates will remain high as a result of the low gold price and a relatively high level of imports."

The dollar, however, was likely to remain under pressure in the short term as American economic figures indicated slower economic growth and reduced inflation which removed upward pressure on interest rates, it added.

Continued firmness of the British pound would result from high interest rates, normalisation of the political situation and rumours that Britain would soon join the EMS, it added

The Deutschmark (DM) was likely to maintain its recent strong performance, the review said However, it cautioned that uncertainties surrounding a united Germany could still cause large fluctuations in the value of the DM in the short term

Favourable Japanese economic factors continued to support the yen, the review said

"Either a softening in US interest rates or a possible increase in Japanese interest rates could contribute to a further firming in the value of the yen in the longer term," it added.

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Inflation beats pension increases, says Sanlam

LESLEY LAMBERT

CAPE TOWN — Sanlam's biennial survey of pension fund benefits shows that while benefits have improved over the past decade, annual increases received by pensioners have lagged behind inflation.

The survey also indicates that the benefits and interest payments provided by provident funds — which participated in the survey for the first time this year — are markedly higher than the average benefits provided by pension funds.

Parity

After analysing data provided by 350 funds of a targeted 785, it shows that over the past five years, annual increases in pensions moved closer to the rate of inflation. During the two-year survey period, the average annual increase amounted to 70% of the consumer price index, while 59% of funds provided for 75% or more of CPI

But the trend towards parity with inflation had more to do with the decline in the rate of inflation than the growth of the annual increases

The survey shows that while 95% of pension funds provided retirement benefits as a percentage of salaries paid in the final years of employment, provident funds were based largely on a defined contribution structure.

Salaries paid to employees during the last three years of employment remained the most popular basis for calculating their retirement pensions. But the number of funds which reduced this to the final year of service, doubled during the survey period. The average period was reduced from 2,9 years in 1985 to 2,4 years in 1989.

The survey also showed that most pension funds now provided a 2%, or greater, scale of benefits on retirement.

One of the most significant trends to emerge during the survey period was the addition of interest to contributions payable on withdrawal from a fund. The percentage of pension funds which provided compound interest of 6% or more increased from 3% to 48% between 1985 and 1989. There was also evidence that the percentage of interest increased. Most provident funds, on the other hand, provided interest of 12% and more.

Another significant trend was the shift in the basis for the provision of disability benefits from past or potential service to members' salaries.

Popularity

According to the survey results, 92% of the participating funds provided retirement benefits based on a fixed formula. Most of the funds were administered in-house with 55% relying only on the investment services of life assurance offices.

The survey also showed an increasing trend towards parity between the benefits received by men and women and indicated increased popularity of spouses' pensions

The Ups and Downs of business

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ECONOMISTS use all kinds of fancy words to explain what is going on in the economy

Graham Bell, director/ economist - Ivor Jones, Roy & Co. Inc.

One phrase that often crops up is the business cycle" Although the business cycle can be complicated in practice, the principle is simple All economies experience a cycle which consists of an upswing phase and a downswing phase

Why is there this cycle? The reason is that each upswing creates in itself a situation that leads to the next downswing, and vice versa

During the upswing, business activity picks up, new jobs are created, people buy more goods new factories are built, new shops open up

In an upswing, confidence in the economy improves and both individuals and companies are more willing to borrow money from the banks

Also, the increase in economic activity creates rising demand for goods from overseas picks up

Once the economy is really humming, certain shortages develop Banks are forced to increase interest rates as demand for bank loans rise and money becomes tight The exchange rate of the rand (against the dollar or other currencies) begins to weaken because imports have to paid in foreign currency

Skills

In many industries, there are not enough skilled workers to meet the extra demand for goods: this causes salaries and wages to rise.

Eventually, the pressure of rising interest rates, falling exchange rates and rising wage rates act together to slow the economy down

At the beginning, the downswing is hardly noticeable But gradually it picks up steam. Jobs are lost, factories and shops close down. The borrowing from banks falls off and imports decline.

This leads to lower interest rates and a higher exchange rate while the growth in salaries and wages slows down too

Inflation

So far, I have not mentioned one critical factor that we all experience daily inflation When the economy swings up, inflationary pressures increase

At first, people have more money so they are not too concerned about rising prices. But, as prices rise faster and faster people are discouraged from buying. So, once again, the upswing sows the seed for the next downswing

As the economy cools again, prices rise more slowly and inflation comes down

Right now, the SA economy is in a downswing It started slowly last year and is getting worse It is only likely to hit bottom during the second half of next year. In the meantime, things are going to get tougher

The business cycle in SA is affected a lot by movements in the gold price It is unfortunate that the price of one single commodity can have such an important influence on us

In the years ahead it will be very important to reduce our reliance on gold and produce a much wider range of goods