INFLATION — 1992

SEPT. — DEC.

Signs augur well for decline in inflation

STAR 1/9/92.

(153)

By Sven Lünsche

While escalating food prices prevented a meaningful fall in the overall inflation rate in July, there are strong indications it could drop to about 12 percent by year-end.

The Central Statistical Service said yesterday the Consumer Price Index (CPI) showed a 14,6 percent rise from July '91 to July this year

In June, the inflation rate was 15,1 percent

On a monthly basis, the CPI increased by a seasonally adjusted 0,8 percent

Despite the surge in food costs, which make up about 20 percent of the goods that comprise the CPI basket, economists are confident that a further fall in inflation can be achieved

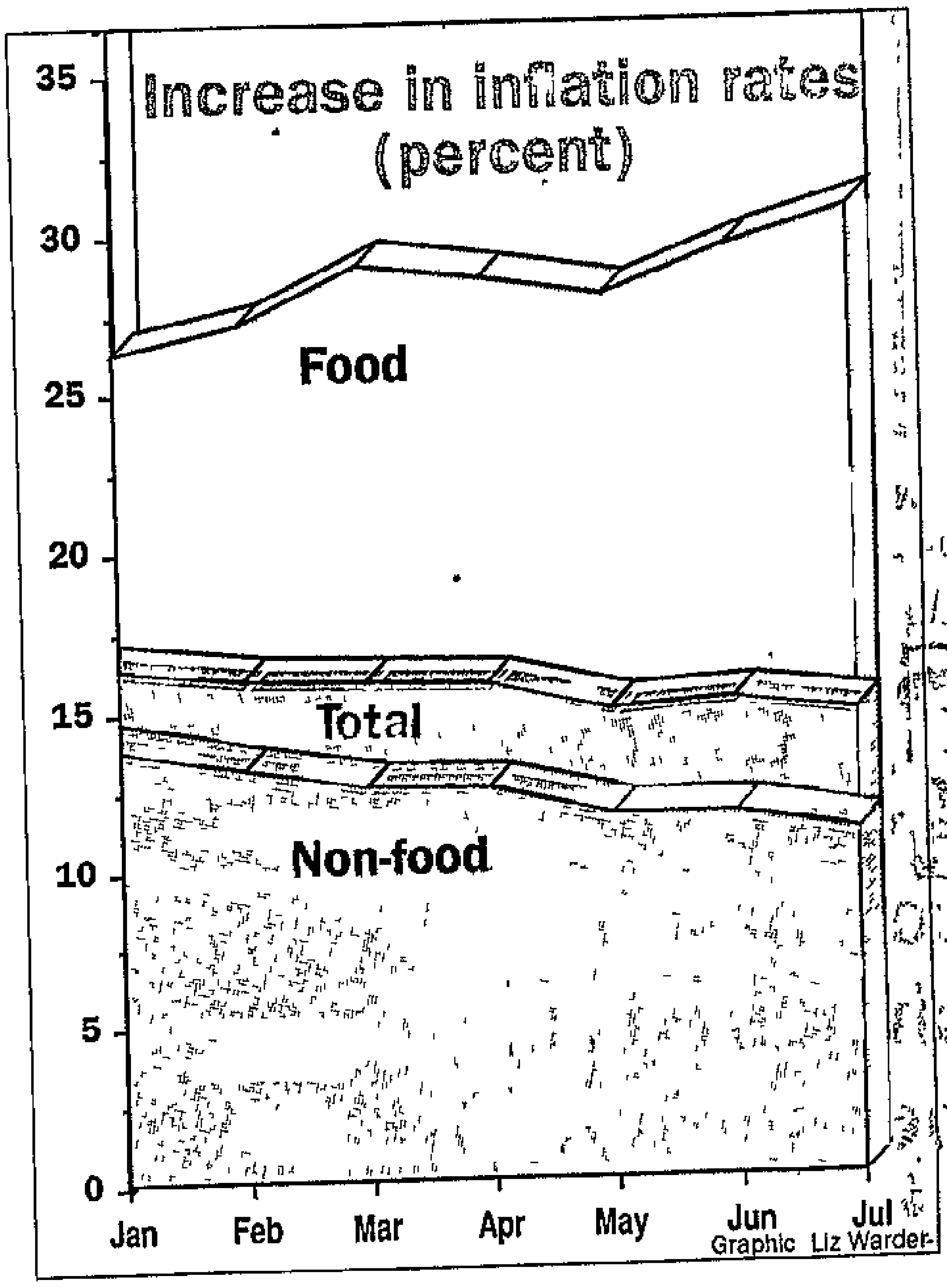
This is confirmed by analysis of recent CPI figures.

Excluding food — which rose by 30,4 percent year-on-year in July — the overall inflation rate would have recorded a more moderate 10,9 percent, compared with 11,5 percent in June and 13,7 percent in January this year

On a monthly basis, the total CPI so far this year has shown a mere 6,8 percent rise which, when annualised, points to a 11,7 percent inflation by December

In the Reserve Bank's recent annual report, Governor Dr Chris Stals said the quarter-to-quarter rate of the CPI had decelerated sharply recently — from 18,8 percent in the fourth quarter last year to a mere 12,8 percent in both the first and the second quarter of this year.

In October this year the CPI will also discount the impact of VAT, which was introduced in October last year.



Graphic Liz Warden

Apart from statistical factors, other economic developments could also have a favourable impact on inflation over the next few months.

Last month's cut in the bond rate by a 0,75 percentage point will further reduce the housing index of the CPI, which also has a weighting in excess of 20 percent

In July, the earlier one-percent cut in the bond rate contributed to a monthly 0,2 percent decrease in the price index for housing

Furthermore, producer price inflation has been running at around 10 percent since the beginning of the year, a trend which eventually should work its way through to the consumer level

"It would appear that the restrictive monetary policy of the past few years and the accompanying slowdown in general economic activity have contributed to a considerably slower increase in the price of non-food items," says Sanlam economist Johan Louw

Confidence dips again in August

B/DAY • 8/9/92. (153)

HILARY GUSH

POLITICAL uncertainty and the prolonged world recession continued to erode business confidence in August, the SA Chamber of Business said yesterday.

Sacob's business confidence index (BCI) — a short-term barometer of business mood — dropped slightly in August, by 0,1 of a percentage point, to 90 on the back of a deterioration in nine of its 13 sub-indices.

Sacob chief economist Ben van Rensburg said business mood was becoming progressively more brittle and there was a "growing danger that the economy's long downward spiral could accelerate".

The ANC's decision not to resume talks with government and the prospects of further mass action were likely to depress the business mood even further. A significant lull in the level of foreign business interest in SA in the last two months was likely to persist as long as there was political deadlock.

"The longer the political impasse continues, the greater the likelihood that foreign traders and investors will shift their attention to other economies, and the lower the prospects for increased foreign investment in SA."

There was, however, room for hope. "From the monetary point of view, the economy is well placed for a sustained upturn, and the recent decline in the official inflation rate should enable some reduction in interest rates within the next month."

Van Rensburg said real GDP could be expected to contract by between 1,5% and 2% this year.

While many economists looked to export-led economic growth in 1993, the fact that SA's major trading partners could only be expected to enjoy a moderate revival would make it difficult to raise exports sufficiently in the short term.

Sacob thus remained cautiously optimistic about the prospects for higher economic growth in 1993.

Keys and Stals to address World Bank suggestion on SA inflation

BDAY 11/9/92

GRETA STEYN

A CONTROVERSIAL suggestion by a World Bank economist that SA accept moderate inflation — up to 20% — is expected to feature in talks between SA and the World Bank later this month

The discussions will take place when an SA delegation, including Finance Minister Derek Keys and Reserve Bank Governor Chris Stals, attends the World Bank/IMF AGMs in Washington next week

The South Africans are expected to respond to suggestions on inflation and trade policy made in an unofficial World Bank report on SA

The suggestion that SA should "live with moderate inflation" was made by the World Bank's economist Michael Walton Although the report is not an official World Bank document, it was done for the bank's use The other authors were UCT's Michael Kahn and Abdel Senhadji from Pennsylvania University Walton was responsible for the work on inflation.

Stals declined to comment but noted the report was not an official document Sources said the Reserve Bank regarded the report as ambiguous in its policy conclusions

The report suggests meaningful reductions in inflation from present levels are unlikely "Its (the inflation rate's) invariance to macro-economic conditions in the 1980s indicates a high degree of inertia This is likely to remain a problem Radical disinflation may be costly and living with moderate inflation could be the best alternative until real recovery is under way"

It says international experience from Colombia to Spain indicates it is tough to break the dynamics of moderate inflation

"It has rarely been achieved without increases in unemployment. This is clearly not a desirable option in the transition in SA An appropriate stance could be to live with moderate inflation for the transition"

But the report warns against accepting rising inflation, saying there is an important difference between a persistent and accelerating inflation rate "Strong corrective action would make sense if the inflation rate headed up (above 20%) Whether this is driven by the deficit or by a wage-price spiral, the costs of a shift from moderate to high inflation are too high"

But the message becomes more ambiguous when the report says "the major risk of accepting moderate inflation is that it could so easily become high inflation"

It also believes that an independent central bank that dislikes inflation is a "healthy measure of security" against high inflation and notes in its conclusion that the continuation of an inflation-averse central bank remains essential

The report also suggests an undervalued rand as a trade strategy, but SA policy-makers have already indicated that rand devaluation is not being considered

'SA can live with 20% inflation'

CT 11/9/92

(153)

From GRETA STEYN

JOHANNESBURG. — A controversial suggestion by a World Bank economist that SA should accept moderate inflation of up to 20% is expected to feature in talks between SA and the World Bank later this month.

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It says international experience from Colombia to Spain indicates it is tough to break the dynamics of moderate inflation

ICI posts 5.2% ...

Tough times ahead as we all get poorer

STAR 12/9/92. (108) (88) (153)

AS SOUTH Africans continue to feel the pinch of the recession, the bad news is that it's not going to get any better in the immediate future. In fact, 1992 is likely to end up as one of the worst years for economic growth. MAGNUS HEYSTEK analyses the predicament SA finds itself in.

No end in sight to doom and gloom

MOST South Africans got a little poorer this week As they did the week before and the week before that as well And chances are that they will get a little poorer next week as well.

The year 1992 is likely to end up as one of the worst years for most South Africans in terms of economic growth, declines in wealth and standard of living since World War 2.

And the outlook is not likely to change before several positive factors fall into place

This week's wholesale sell-off of South African shares by foreign investors in the wake of the Bisho shootings further underlined the fragile investors' mood on the JSE

Dramatic

Since peaking early in June this year the three main indices on the JSE have recorded dramatic falls The overall market has declined nearly 20 percent, the industrial index by more than 15 percent, and the gold market 26 percent to a seven-year low this week

After initially being fairly guarded about the nature of the decline on the JSE, analysts are now openly describing the current bout of weakness on the JSE as a full-scale bear market

Unit trust investors have also borne the brunt of declining capital values, with most funds mirroring, to a lesser or larger extent, the downwards spiral in share values

The other investment area that traditionally has served to protect one's capital against inflation, the property market, is also now feeling the cold winds of the international recession blowing throughout the Western world

While property values have not started declining in both nominal and real terms as is happening in most other Western countries, notably the United Kingdom and United States, turnover levels in the industry have dropped by more than 30 percent

While the lower and medium ends of the residential property market have kept up reasonably well, the top end of the market has been badly bruised by a combination of financial pressure on the owners as well as lack of political confidence in the country's future

Events this week have done nothing to boost the flagging political morale of large sectors of South African society, mainly white

While cash might create a feeling of flushness, it certainly offers no protection against inflation and taxation

But for the time being, it is in many cases the only option

With the latest decrease in interest rates, savers with less than R50 000 now get a paltry 9,5 percent on average

Other types of instruments offer higher rates but in the retail market the highest rates generally on offer are not much higher than 13 percent

Against an inflation rate of 15 percent it stands to reason that capital values are under pressure here too

For most average working people, salary and wage increases this year are likely to be below the inflation rate — in some cases as much as 8 percent lower

In addition, many thousands of people have either been retrenched or retired prematurely This adds to the air of doom and gloom and also reduces the disposable income in the economy as a whole.

Internationally, South Africans are steadily getting poorer in line with the decline of the rand against all major currencies, especially non-dollar currencies.

This has had a catastrophic effect on the purchasing power of the rand, particularly in European countries

For both traveller and businessman this means that more and more rands are needed for the purchase of goods and services.

Last week the rand dropped to record lows against most European currencies, notably the pound, German mark and French franc

At R5,50 to the British pound, the rand today is worth only 18p Not many years ago the rand was worth the same as a pound.

Poverty

Against the US dollar the rand has been relatively steady, but only as a result of the sharp decline of the dollar against other major currencies.

The latest political developments have done nothing to offer hope for a turnaround in this precipitous slide into poverty.

In fact, it has added further momentum to it.

Being in Germany and Austria at around the time of the Bisho massacre, I had first-hand experience of the reaction of top businessmen to the bad news And, I'm afraid to say, the bad news was not conducive to further investments in South Africa

At this stage, top companies like BMW have no intention of pulling out of South Africa, but before the political climate improves there is no chance of further investments here

This makes us all poorer in the long run

NPI says it can get to roots of food inflation

CLAIRE GEBHARDT
Business Staff

THE National Productivity Institute (NPI) believes it has the expertise to get to the bottom of South Africa's pernicious food inflation

All it needs is the go-ahead from government to do the job

Mr John Parsons, NPI business development director, says the NPI could look at the entire food chain from the retailer down to the producer/farmer and come up with some answers within six months, given rapid access to data

The Board of Trade and Tariffs (BTT) has taken a year to produce a discussion document

Another commission, appointed to look at its initial suggestion that control boards be abolished, is due to report back only some time in October

Mr Parsons says price changes can easily be calculated using an internationally recognised productivity accounting technique

This technique, which looks at cost items such as raw materials, salaries and wages, company benefits and staff costs, electricity, water, transport and trade discounts, has been extensively used over the past 15 years by the likes of Eskom, Iscor and various others

The NPI looks at changes in profit and identifies how much is driven by productivity and how much by price recovery — basically output prices minus input prices

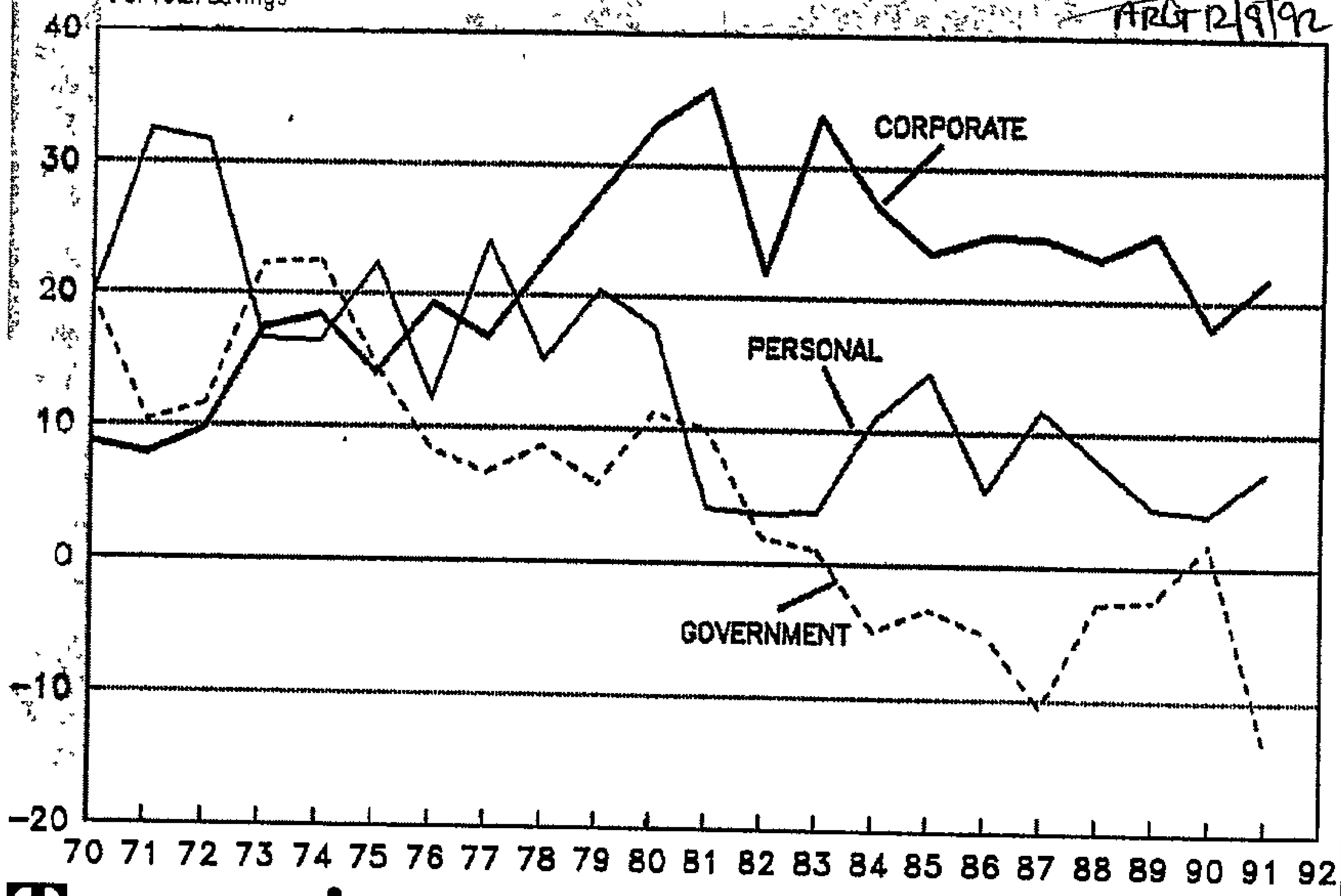
Mr Parsons says any investigation would need to take a fairly substantial sample of the food chain which could include wheat, bakeries, milk, fruit, vegetables and nuts

"We would start with the primary producers and work our way up with all the results expressed in rands and cents

"At each stage in the chain, given unfettered access to data, it would be possible to identify whether the farmer, producer, manufacturer or retailer are involved in an inflationary or deflationary pricing policy and whether there are productivity losses or gains

"You can have a five percent price increase which is inflationary or a 30 percent price increase which is deflationary, depending on what is happening to the price of your inputs"

COMPONENTS OF NET SAVINGS
% of Total Savings



ARGT 12/9/92

Tax, prices cut personal savings

ALIDE DASNOIS
Business Staff

SOUTH African households are saving less and less, says Boland Bank economist Louis Fourie — and the reason is not hard to find

Rising prices and particularly higher taxes are taking a bigger and bigger chunk out of most people's earnings

Total savings, expressed as a proportion of gross domestic product, have been fairly stable for 30 years In fact, says Mr Fourie in his latest Economic Review, the country's "savings effort" compares favourably with major industrial countries But less is coming from households and more and more from companies

In the Sixties South African households were spending 90 percent of their disposable income. By the first half of 1992 they were having to spend 97 percent to maintain real standards of living At the same time income was being redistributed to lower-income groups, who simply cannot afford to save

Big increases in direct taxes — which doubled from 6,8 percent of individuals' current income in 1971 to 13,5 percent in 1991 — have also put paid to many people's attempts to save

"Although, on the whole, the current income of South Africans has kept up with inflation during the Eighties, their after-tax income has not maintained the same rate of increase", says Mr Fourie "Individuals currently contribute some 40 percent of the government's total annual tax revenue through direct taxes, against 20 percent in 1979"

The main reason for this heavier tax burden, he says, is the sudden boost in government spending in the Eighties The government, which in the Sixties was saving up to 20 percent of revenue, has become a net borrower

The result is that personal savings — the difference between households' income and expenditure — have dropped significantly over the past 30 years While in the 1960s personal savings contributed 26 percent of total savings, by the end of the 1980s this had fallen to only six percent

Blacks 'worse off than last year'

By BARRY STREEK

CT 12/9/92

MORE than half of urban black families say they are worse off today than they were a year ago — and everyday meals and clothing are being hit hardest by the recession

This was established in a survey conducted in mid-August among 800 black women in the major metropolitan areas

The Research Surveys Omnicheck poll released yesterday found that 53% thought they were worse off than a year ago, 35% noticed no change and the living standards of only 11% had improved

Those in the lower income brackets had been harder hit than their better-off counterparts

The survey found that 62% of the respondents said their everyday meals had been most affected by the recession, while about three out of five claimed their purchases of clothing for adults and children had been affected

About a third said entertaining friends, travelling for weekends or short holidays, purchase of appliances and entertainment, such as going to movies and eating out at restaurants, had been affected

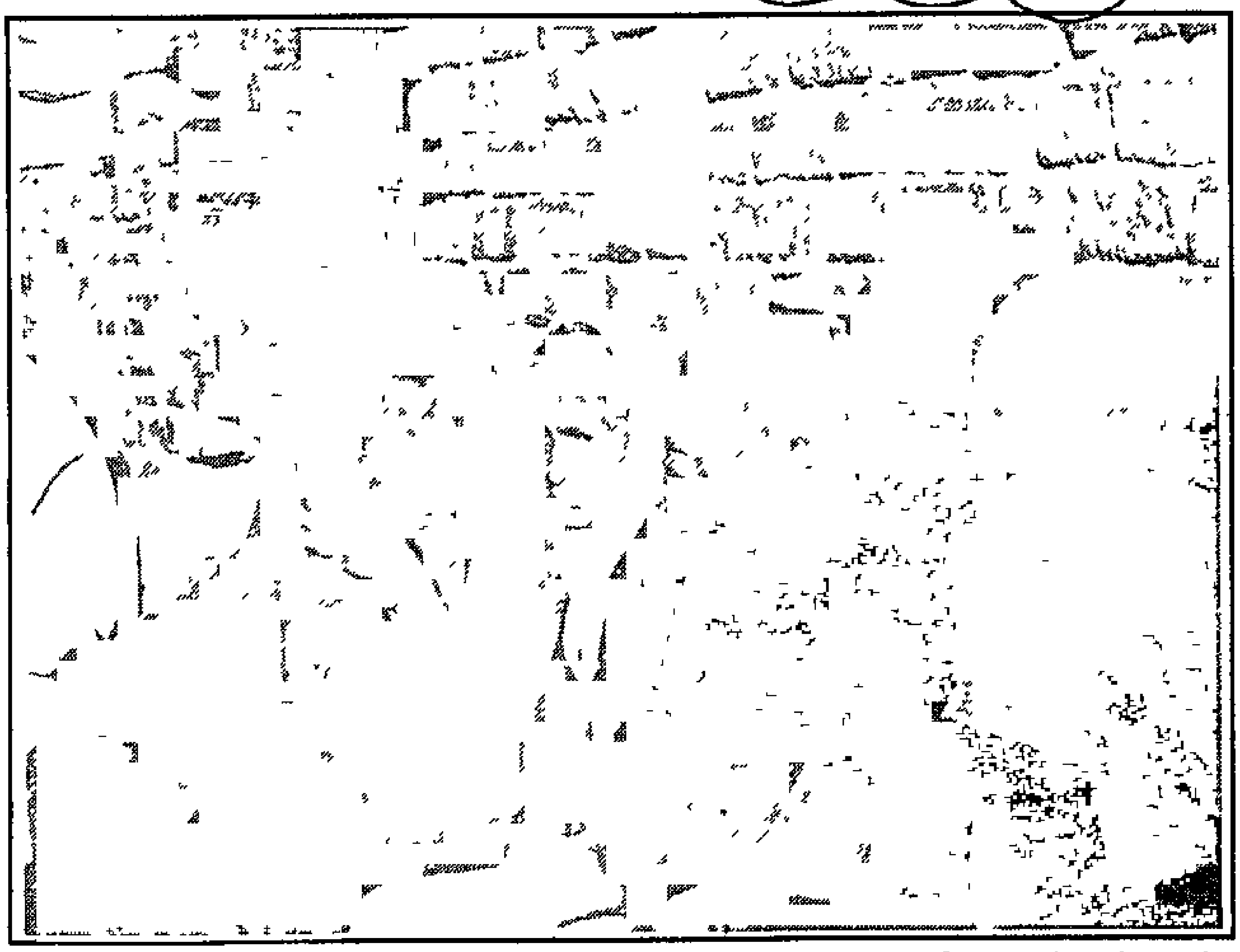
Almost three in five respondents would not hazard a guess at how long it would be before the economy improved, but 30% of the total sample thought it would be more than two years before an improvement took place

The survey also found the levels of optimism to be at their lowest ebb since February 1990 when the ANC was unbanned and Mr Nelson Mandela was released from prison

focus on Recession

Sowetan 15/9/92

The living standards of white South Africans used to be among the highest in the world. No longer, according to new comparisons of international price and income trends. The recession and inflation are to blame, reports *Sowetan* correspondent **Michael Chester**. 153



Living standards have dropped, as shown by this dejected group of unemployed people.

WHITE FAMILIES in South Africa, aboard a platform of affluence that floated above the black poverty all around them, used to enjoy one of the highest living standards in the world.

But not even the racial exclusivity that used to exist has been able to provide protection from chronic economic stagnation, sky-high inflation, the nosedive of the rand on international currency markets and the longest and deepest recession in decades

The gradual slide of South Africa in the league table of living standards around the world has been followed by annual surveys carried out by the Economic Research Department of the Union Bank of Switzerland (UBS)

Johannesburg is one of 48 major cities - from Los Angeles to Tokyo - which the researchers regularly put under the microscope to monitor trends in incomes and prices and work out shifts in comparative affluence or poverty

Since the surveys concentrate on "European consumer practices" to provide a common denominator in inter-city profiles and to level the playing fields of comparisons, the researchers have fastened attention mainly on the white population when bringing Johannesburg into the studies

Thus it becomes important to note that the results do not even pretend to try to reflect the enormous overall gaps in black-white living standards

Downward slide

Even so, the probe into comparisons of prices and incomes provides a fascinating insight into the relative downward slide in average living standards that has hit all population groups in South Africa in the past two decades

The UBS team has ironed out obvious wrinkles caused by exchange rates and laid out all of its comparisons in terms of US dollars (Here, to make it easier to follow, figures have been turned into rands using a rough current rate of R2,75 to the dollar)

The crunch comes when incomes are matched against consumer prices The researchers have used a huge mixture of goods and services to match prices with as much fairness as possible

Here, believe it or not, Johannesburg prices are shown as lower than in 34 of the 48 cities - little more than half the price levels in Zurich

The most expensive spots in the world are Norway, Japan, Finland and Sweden, with even higher prices than in Switzerland

You were correct if you suspected that London is now dearer than either New York or Paris - but will be surprised to learn that London prices have now been overtaken in Madrid, Copenhagen and Taipei

The cheapest cities are Bombay and Cairo

But how do prices look to the people who actually live in each city? How do they find the real purchasing power of their money? In short, how far does their cash go after paying taxes and social security deductions of all sorts?

Purchasing power

The actual purchasing clout of local salaries when it comes to buying local goods and services works out best in the European cities of Zurich, Geneva and Luxembourg, followed by Chicago and Los Angeles in the United States and Toronto in Canada

Poor Johannesburgers

The buying power of their pay packets is less than half that of their counterparts in Zurich They are slotted down in 28th place, in the bottom half of the global table

More and more economists believe the acid test comes when one analyses just how long one needs to work to buy a particular item

Actual family budgets face the flak when the researchers look at the cost of a whole basket of goods and services - 112 items that start with food products and include beverages, tobacco, clothing, household appliances and even electricity bills

The selection is based on the average consumer habits of a family of three

In Zurich, the basket costs R4 801 In Oslo, an even higher R5 544

That compares with R4 042 in London, R3 918 in Paris, R3 399 in Sydney and about R3 231 in Tel Aviv

So Jo'burgers should be able to find a little comfort - though it may be doubtful that they will - in estimates that the total cost here would be R2 453, only a fraction more than half the cost in Zurich

But the harsh realities about the relative decline in living standards in Johannesburg are spelt out in the analysis of actual purchasing power - the amount of goods and services that pay packets can buy

There's a list of no fewer than 27 cities around the world where wages and salaries have more clout when the household bills arrive and the family budget comes to the ultimate crunch

STALS EXPECTS INFLATION TO DROP BELOW 10% BY THE END OF 1993

PRETORIA — Reserve Bank Governor Chris Stals believes the coming year could pave the way for a return to single-digit inflation — for the first time in 20 years

Stals, who has made the taming of inflation his top priority since he was appointed to the job three years ago, said it was not beyond hope that annual inflation, running at nearly 15% a year now, could fall below 10% by the end of 1993

"I would say it would be possible, although I would not stick my head out and say it would happen," he said

Consumer price inflation was running at an annual 14,6% in July, and the central bank and independent analysts agree this should recede by year-end as once-off technical aberrations in the index, such as the introduction of a more comprehensive indirect tax system a year ago, fall away

Stals felt private sector predictions that consumer price inflation should fall to 12%—12,5% by the end of this year were "realistic"

He said it was possible to squeeze inflation further and faster with tougher monetary policy than pursued so far

For instance, people in the international monetary fund asked why the bank permitted annual money supply growth of up to 10% at a time the economy was not growing.

But the bank, which has come in for harsh criticism over the impact during recession of high nominal interest rates, had opted for what he called a relatively soft approach

"We are not going full out to get inflation down very quickly," said Stals, who acknowledged the hardship this could cause at a time or recession and growing unemployment

CT 15/9/92 (153)

"This means that you have to be more patient We're actually gnawing down on inflation all the time, little bites"

Also, with gold and foreign exchange reserves rising, why not accept an appreciation of the rand, which would make imports cheaper, promote more competition in the local market with imports, and reduce inflation, he asked

Nevertheless, it was vital that inflation ultimately be reduced as much as possible for SA to be competitive in world markets

Stals believes the latest annual consumer price statistics do not truly reflect progress over the past year in reducing underlying inflationary pressures in the economy

For instance the quarter-to-quarter rate of increase in the index, on a seasonally adjusted and annualised basis, had fallen from 18,8% in fourth quarter 1991 to 12,8% in both the first and second quarters of this year

And annual growth in the production price index, running at 9,2% in June, had stayed below 10% for eight months in a row

He appealed to business and labour to contribute to the anti-inflation fight by adopting a more conservative approach in setting prices and wage demands

With the economy gripped by its longest recession in 80 years and likely to shrink for the third year in a row in 1992, "we really have an opportunity now to break that long spell of double digit inflation," Stals said — Reuter

World economies hit by debt deflation as banks get cold feet

Star 16/9/92.

(153)

GENEVA — The world's economies are suffering under the spectre of "debt deflation" for the first time since the Great Depression, the UN Conference on Trade and Development (Unctad) says

The agency's 1992 Trade and Development Report says debt deflation is a downward spiral that occurs when banks get cold feet about lending.

The unexpected severity of the global recession reflects the presence of debt deflation in a number of industrialised economies and the United States, Japan and Britain are particularly hard hit

The result has been that individuals and businesses spend less, borrowers find it harder to take out loans and people lose confidence in the economy

The traditional way out of recessions is for businesses to borrow so that they can expand, but the global economy appears to be at an impasse, with the private sector in most major economies unable to take the lead in reigniting growth

The report recommends that governments in developed countries temporarily increase investment in public projects like highways — "areas that have been badly neglected, particularly in the three largest economies suffering from debt deflation"

It adds "Without a swift policy response, cumulative forces may be unleashed, damaging all countries"

Further cuts

Unctad also endorses further cuts in German interest rates Germany's short-term interest rates, which exceed nine percent, should move down nearer the three to four percent levels in the United States and Japan, it says

The high rates have pulled investments from the United States and Japan, strengthening the German mark to record high levels against the US dollar

The reports syas the current round of debt deflation began in the 1980s because of heavy lending for investments in commercial property This led in some countries to a "massive oversupply" of office space, followed by a sharp fall in prices

In the United States the savings and loan crisis was part of the problem

Savings and loans institutions, set up to help Americans buy homes at low interest rates, have suffered losses for a decade because of economic turmoil, uneven deregulation, sloppy government supervision and sometimes poor or fraudulent management

The scandal, which grew out of real-estate speculation in the 1980s, is costing the government billions of dollars

In Britain, Japan and the United States, banks have sharply curtailed lending for real estate because of their losses. This has forced companies that could not get loans to sell property they already had, driving down the market prices of the assets held by the banks still further

Home loans

The impact has also been felt by homeowners, many of whom are having trouble making payments on their home loans because their incomes have risen little or have even declined

The situation so far is "far from a full-scale debt deflation," the reports syas, but it warns that conditions could combine to prevent a sustained recovery

The report says the danger of debt deflation is that if it continues, recessions can be prolonged or even turn into full-scale depressions — Sapa-AP

Gold needs more than dollar run

STimes (B455) 20/9/92

By JULIE WALKER

A GENUINE bull market for gold requires the metal's price to run in currencies other than the dollar alone

In mark, yen, sterling and Swiss franc, gold has reached its lowest level since 1980, according to International Gold Mining Newsletter

When gold failed to breach $360/oz in its brief bull dollar run that started in May, speculative interest quickly disappeared. Fundamentals were unable to support gold at this price

Since May, the outlook for an improved supply and demand balance for gold has deteriorated because confidence of a move out of recession has been lost

Depth

The key factor for gold, ignoring possible central bank activity, remains the demand for gold jewellery

Anglo American's Clem Sunter says the corporation's gold strategy is based on a rise in jewellery demand supporting the gold price

The newsletter says that in turn jewellery demand depends on the length and depth of the world recession

Certain negative factors are coming to light, such as lower Japanese imports of gold and lower diamond jewellery sales

Dubai, China, Taiwan and Hong Kong are the only regions increasing gold imports But a clearer picture of 1992 gold jewellery demand will emerge in the next few months as the busy season in the trade begins

The prospect of declining gold supply remains The longer the gold price is low, the greater the number of mines likely to close

Hedging contracts — not much used by SA producers but which have undoubtedly led to the prolonged life of many foreign operations — are running out A declining contango on the gold price means that few contracts are being replaced at current levels Russian supply is also likely to fall

Reduced gold exploration expenditure will lead to a lack of replacement production, indicating a drop of supply in future But suspended operations at marginal mines could be resurrected

New projects are unlikely to go ahead — Anglovaal's shelving of the Sun prospect is used as an example and the political risk is highlighted

The newsletter says "To secure a long-term future, SA needs to be seen as a worthwhile safe investment for capital."

Mr Sunter predicts a decline in SA output, depending on the gold price At $400/oz he forecasts production at 500 tons in the year 2000, falling to 200 by 2017 At $500/oz, production would remain at 600 tons by 2000, falling to 375 17 years on

Mining Journal does not expect much of an improvement in gold until well into 1993, barring unforeseen circumstances

WEEK IN BRIEF

A SUMMARY of the week's corporate announcements.

MONDAY: Saampro to be delisted, members offered 100c by Saambou Frigate to be delisted, offer of 10c a share opens 2/10, closes 28/10 Hyperette warns. Racy calls off negotiations.

WEDNESDAY· Sage Financial Services changes name to Sage Group from 21/9 after members approve scheme of arrangement. Blue Circle to be suspended from 18/9, delisted from 30/10.

THURSDAY Randcoal, Rand Mines warn of restructure Holders of 100 Prefhold ordinaries to be offered 75 McCarthy. Junior and senior debentures to be converted one for one, but converted into 75 ordinary McCarthy for 100 debentures Pepkor, Pep warn of restructure of Ackermans

FRIDAY. Coronation Syndicate members offered 105,3c a share after change of control

Most pay rises below inflation

STimes B455

By ADRIAN HERSCH

20/9/92

A WAGE survey covering 72 major companies for the year to the end of August shows below-inflation increases — averaging 13%.

The survey by labour consultants Gavin Brown Associates found that the highest increases were in the food sector (14,8%)

Mr Brown says. "The relatively high pay increase in the food sector is not surprising due to the sector not being too depressed Obviously, the last thing people will cut expenses on in a recession is food"

He believes that below-inflation pay rises will continue in most sectors at least towards the end of next year

"Even if the economy turns around soon, there will be a 'lag effect' on wage increases of at least 12 months in most industries"

The survey shows increases firmly below inflation in chemicals (13,7%), commercial services (13%), clothing and footwear (11,8%) and parastatals (9,6%)

Bargain

Low pay increases in the metal industry, covering about 320 000 workers, are likely

Eleven out of the 12 trade unions in the metal industrial council have accepted pay increases of 9,1% on actual rates and have agreed not to bargain for more at plant level

The 11 unions are due to sign the agreement on Wednesday

Numsa, with about 120 000 members in this sector, wants a 9,5% pay rise on scheduled rates and to bargain at plants

But Numsa negotiator Les Kettledas says Seifsa's offer will be put to membership this weekend The outcome could be known tomorrow

The metal industrial council reports that 20 companies under its jurisdiction — but which are not covered by the national wage agreement — have settled for rises of between 6% and 11%

The 20 companies, which include Iscor, employ about 55 000 workers

FNB predicts inflation drop

3(152)

SHARON WOOD

FIRST National Bank is optimistic inflation could fall to single digit figures during the next year, meeting the target the Reserve Bank set for itself when it implemented its restrictive monetary policy over two years ago

In its latest Business Brief, the bank said inflation could decline by as much as 7%, down to 9% from the recent cyclical peak of 16% BDAY 21/9/92

A slowing in food price inflation to more "normal" levels could take 2% off the Consumer Price Index.

"To this must be added the "productivity bonus" of the first year of economic recovery," it added FNB predicted the recession would end within the next 18 months

Economic recovery always yielded productivity improvements, lessening pressure on price behaviour as profits started to improve, it said.

Lower inflation would allow a further easing of nominal interest rates following the reductions in March and June this year SA could look forward to a further 3% decline in short-term interest rates over the next 18 months to 15% in the second half of 1993, it added

Alleviating plight of casualties of recession

STAR 22/9/92

(153) (182)

By Stephen Cranston

More and more companies are restructuring, merging or offloading in South Africa's deepest economic recession for decades

In their wake they are leaving increasing numbers of redundancies of highly skilled management and technical staff to find new jobs and carve out careers in a shrinking market.

But it's not only the recession that's to blame, says Barrie Jack, a director of outplacement consultants Career Transition International.

"The phenomenon is also part of a fundamental change in the way in which organisations are in general being restructured," he says.

"In addition, many organisations are shedding their peripheral activities and embarking on a route back to core business.

"As companies slim down, many take the opportunity to contract out functions previously managed in-house, resulting in better cost controls as services are only used when necessary"

Mr Jack forecasts that the trend will gather pace, even when the recession is past.

"More and more organisations will have fewer layers of management, together with less in-house support functions," he says.

"Merger and acquisition activity in the post-recessionary era will also result in retrenchment and redundancies as merged organisations slim down to maximise structural and cost savings made possible by their coming together"

Mr Jack says Career Transition International is working with a number of major organisations in South Africa and abroad on counselling casualties of the recession.

"Outplacement is not placement; it involves coaching those being released to rebuild their dignity and self-worth, together with training them in skills needed to start them in new careers."

It includes the coaching of managers charged with the stressful responsibility of handling the termination interviews so as to ensure the least amount of damage to both those being asked to leave, and those who survive.

Executive career development, together with rebuilding and revitalising organisations after significant restructuring, is a difficult process to manage.

Research has shown that the morale of the survivors of any restructuring is usually very low, as a result of lack of confidence both in themselves and the company.

Trust and open communication are among the first casualties of a retrenchment programme when key people among the survivors seek to relocate themselves away from what they perceive to be a threatening environment, says Mr Jack.

Bootstrap factor will soon lift SA out of recession

BIDAY 24/9/92.

MERVYN KING

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FROM the '70s, SA came to realise that the economy was becoming more and more dependent on a skilled and productive black labour force and on black buying power. Of expected retail sales of R82bn in 1992, 57% will represent black consumers.

SA is undergoing a dramatic change to democracy. And it is changing not because F W de Klerk is a good Samaritan or because Nelson Mandela is a forgiving man but because of economic realities. The process of change is irreversible, and there will be a transitional government in place in SA during 1993.

The political transition is taking place, firstly, in the context of the disintegration of the economies of SA's neighbouring states where socialist policies were implemented. SA is now surrounded by economies moving to multiparty democracies and free market principles.

Secondly, political change is occurring while the market-based economy and First World commercial structure remain intact.

Thirdly, with the end of the Cold War, African states lost their bargaining powers with the West and the East. Increasingly African states are now looking to SA as their main source for investment, capital, technology and expertise.

Fourthly, there is a lot of rehabilitation of infrastructures occurring in southern Africa — such as roads, rail lines, ports, energy supply, water supply as well as the beneficiation of raw materials.

With the collapse of socialism, the World Bank and the IMF are becoming deeply involved in infrastructural development in Africa, including southern Africa. There is $15bn a year of multilateral aid to Africa. This augurs well for SA business.

SA companies are already involved in some of these infrastructure programmes — for example, the Lesotho Highlands Water Project and the rehabilitation of Mozambique's Cahora Bassa hydro-electric project.

Construction companies LTA and Murray & Roberts are active in Botswana, Angola and Zambia, mining conglomerates Gencor and Anglo American are negotiating for a stake in the rehabilitation of Zambia's copper mines, Sasol is negotiating with Mozambique in regard to the exportation of natural gas deposits, and SA companies are involved in the rehabilitation of tourist projects in Mozambique and Zambia.

Fifthly, SA is the gateway to sub-Saharan Africa and perhaps to the whole of the continent. By world standards, SA's economy might be small, but by continental standards it is a giant.

New markets are opening for SA with the breakdown of sanctions. Angola and Kenya are obvious ones, followed by Nigeria. Zimbabwe is a long-established market. There are countries with different seasons to SA, such as Morocco and Egypt, which opens interesting possibilities with seasonal goods.

In the region SA has, geographically, a tremendous competitive edge. It has excellent transport logistics which will enable local companies to outbid European and US companies in regard to the transportation of goods, particularly in the rehabilitation of infrastructures. The weak rand also makes SA goods much cheaper for southern African countries than the goods of competitors with stronger currencies.

These are all good reasons why foreign investors should be curious about the possibilities of investing in SA. But there is a good reason why they should move from curiosity to actually pondering about investing.

The economies of the world are in recession and will remain so at least

□ KING

until 1994. Previously the SA economy in recession has only come out of recession when the world has moved out of recession — following in big brother's footsteps, as it were. But history will not repeat itself in the last decade of this century because SA will come out of recession before the world economies.

A bold statement. But if I am right, there must be bootstraps by which SA will lift itself out of its present recession ahead of the revival of the world economies.

What are these bootstraps?

The first is the transitional government. SA's economy has, for 40 years, been run strategically and inwardly because of the anticipation of sanctions. There was stockpiling and non-viable projects to produce essential goods.

Now, the US Congress and the EC have said that, when the transitional government is in place, hundreds of millions of dollars of development aid will become available. Much of the aid will be directed at capital projects involving, for example, housing and improvements to educational facilities.

The African Development Bank is wanting to invest R1bn annually after the transitional government has been installed. The World Bank is planning to open an office in SA.

When development aid comes in, it will be local companies which will supply the bricks, the mortar and do all the things necessary to fulfil the programmes. The building and construction industry is a primary one and is a generator for a turnaround in an economy.

The second bootstrap factor is Eskom which has agreed with the electricity authorities of Zaire, Zambia, Zimbabwe and Botswana on initial steps for a sub-Saharan power grid. There will be new stations and the grid will span Botswana, Zimbabwe, Uganda, Kenya and Angola. Studies have begun for a basis for Botswana, Zaire, Zambia, Zimbabwe and SA to share the supply of electricity. Work on supplying power to Zimbabwe and Zambia has commenced.

Simply put, Eskom will be buying gravity from countries such as Zaire, Zambia, Zimbabwe, Botswana and Malawi. That means rands in those countries — currency with which to buy SA goods. Eskom also predicts local electricity prices will be lowered through economies of scale.

Eskom also has plans to electrify 3-million low-income houses in SA in a three- to five-year multimillion-rand plan worked out with the ANC, and the World Bank has indicated its willingness to finance this massive project after the transitional government is in place. The project would create 500 000 jobs. Again, a primary industry that will generate the turnaround in the economy.

The third and final bootstrap factor which will lift the economy out of recession is SA's status as a member of GATT.

At the end of the First World War, Gen Jan Smuts was invited to admit SA as a developed country member of GATT. In 1953, when the NP government was invited to change that status to one of a developing country, it declined to do so. It is now clear that while SA has pockets of First World existence, it is mostly a Third World country.

Discussions are now taking place from government to government on the basis that SA should be a developing-country member of GATT with all the advantages that would hold for exports. It is argued that the probability is that other countries will not agree to SA changing its status at GATT, nor to it becoming a member of the Lomé Convention, because SA would suddenly become more competitive in First World markets than member countries.

What is probably going to happen is that First World governments are going to give preferential rights of entry for SA products. SA goods will enter free of duty. This is the other form of development aid which will come to SA after the transitional government is in place.

□ This is an edited version of an address delivered this week by Frame chairman King to a group of SA business executives at a Redelinghuys and Associates function in Johannesburg. It was delivered simultaneously on his behalf at an investment seminar in New York.

Prospects dimmer

POINTERS to recovery from one of the worst recessions of the century are diminishing and uncertain, says the Bureau for Economic Research (BER) in its survey of the manufacturing sector. (153)

The BER says domestic sales, new orders and unfilled orders in relation to sales have fallen from the previous mild positive expectations reported in the second quarter.

Stocks are still considered to be too high and there are indications of substantial spare capacity in the whole manufacturing sector. Production and employment are expected to remain under pressure, even after economic conditions start to improve. S/Times (BUSS)

There was also a significant rise in the number of respondents reporting the general political climate as a serious constraint — both on day-to-day business activity and fixed-investment plans. 27/9/92.

The BER says a downward spiral is identifiable because increased unemployment will have a negative impact on social unrest and political progress.

Business confidence suffered in the process and reached a new low in the third quarter, it says.

World Bank seeking to link cities

S/Times (BUSS) 27/9/92

By KEVIN DAVIE: Washington

WORLD Bank experts have begun a study on how to amalgamate SA's racially divided cities

They rank with those in the former Soviet Union as the most economically inefficient in the world

The Witwatersrand, Cape Town, Port Elizabeth and Durban will be studied in the first phase of a project designed to contribute to SA policy making

The study is intended to facilitate the process of urban reform, the bank being one actor in the process, says a bank source

The results of the study, which kicks off formally with the visit of a bank mission to SA in November, are intended to provide a technical tool for politicians, the source says

The study will include a full fiscal analysis of local government.

Conflict

It will consider housing strategies in the context of the overall urban economy

The study will include white local authorities, which are efficiently managed and largely self-financing, partly because they do not carry the responsibility for the low-income population as do most cities in other parts of the world

A World Bank position paper, Cities in Conflict, says an urban strategy for SA will need to be guided by three principles

Apartheid structures will have to be dissolved, decision making must be transparent and accountable and local governments must have the technical and financial ability to deal with inequalities in urban living conditions

Whites in the Pretoria-Witwatersrand-Vereeniging area, says the paper, enjoy an annual per capita expenditure of about $552 on the principal types of residential infrastructure

This is much higher than cities such as Stockholm ($223), Munich ($267), Hong Kong ($267), Melbourne ($335) and Singapore ($338)

Data for blacks, in contrast, suggests that more than 50% of them in urban areas are informally housed

About 40% of the land within a 10km radius of SA city centres — the focus of employment — is vacant.

This leads to real economic costs It increases transport, depresses the housing sector and labour market and contributes to the growing fiscal deficit It causes inefficient investments in bulk infrastructure

Urban transport subsidies are projected to cost R1,9-billion next year Black households will still spend more this year on transport than on housing, the paper says

The average distance travelled by urban commuters has grown from 24km 10 years ago to 37km

The paper says housing has been depressed by apartheid Housing investment at about 2,5% of GDP is much lower than the 4% to 9% in other countries at similar levels of income per capita

The paper says three policy archetypes typify the housing debate: huge government intervention in the provision of housing, enabling strategies which require the Government to play the role of facilitator of largely private-sector and community-based efforts to deliver houses, and enabling strategies accompanied by a targeted programme of subsidies for the most disadvantaged members of society

The paper says that international experience has shown that the first option does not work. In the US, for instance, it has been found that publically funded housing schemes lead to a decrease of privately funded ones There is little net increase in the overall housing stock

Demand

It suggests that the Government will need to intervene nonetheless to ensure the success of enabling strategies

"On the demand side there will need to be active intervention to increase the availability of housing finance, improve security of tenure and design effective subsidies

"On the supply side, government will have to ensure adequate infrastructure supply (including electricity, water, sanitation, drainage and water facilities), rationalise the legal and regulatory framework and foster a competitive building and construction industry"

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Kaye quits

LASER Transport managing director and executive chairman Dennis Kaye has resigned Peter Thomson will become executive chairman and Eric Puccini will fill in as managing director

Mr Kaye, who founded the company 23 years ago and took it to the JSE in 1986, says Laser has a competent management that can cope well without him He will retain his 56% shareholding

St Helena cut

GENGOLD's St Helena gold mine, near Welkom, will reduce its staff complement by almost a half before the end of the year

Staff numbers will be cut from 5 700 to 3 000 in two phases. In the first, 2 300 will be retrenched.

Ore production will drop by half to 50 000 tons a month and gold output will fall by about 250 kilograms a month to about 560.

Seeff's latest

PROPERTY investor Seeff Holdings has launched Seeff Projects for project-related townhouse and cluster-home developments

It starts with a R300-million residential property portfolio, half of which is in up-market development in the Western Cape.

Seeff Projects will offer developers a one-stop project marketing service, which includes site procurement, building design, financial and legal considerations as well as sales and marketing input.

M3 in tune

SOUTH Africa's broadly defined money supply, M3, showed a year-on-year rise of 8,72% in August, according to preliminary figures from the Reserve Bank. This is well within the bank's 7% to 10% guideline for 1992 and compares with a revised 10,11% for July.

S/Times 27/9/92

Overdraft rate 'may slide with inflation'

SHARON WOOD (153)

INFLATION should fall to 13% by October, making the real overdraft rate a healthy 5,2%, Martin & Co analyst Richard Jesse says in his latest quarterly banking review. BIDAY

"By that time even the most hard-nosed central bank governor should be happy to acquiese in an overdraft rate at least 1% lower than the current 18,25%," he says. 28/9/92

SA's real overdraft rate is not high by present world standards, but other countries do not have SA's perilous unemployment rate or political problems.

Retail bank rates continued to fall during the third quarter, with the average rate back down to 1988 fourth-quarter levels Average wholesale rates are bank to 1988 first-quarter levels.

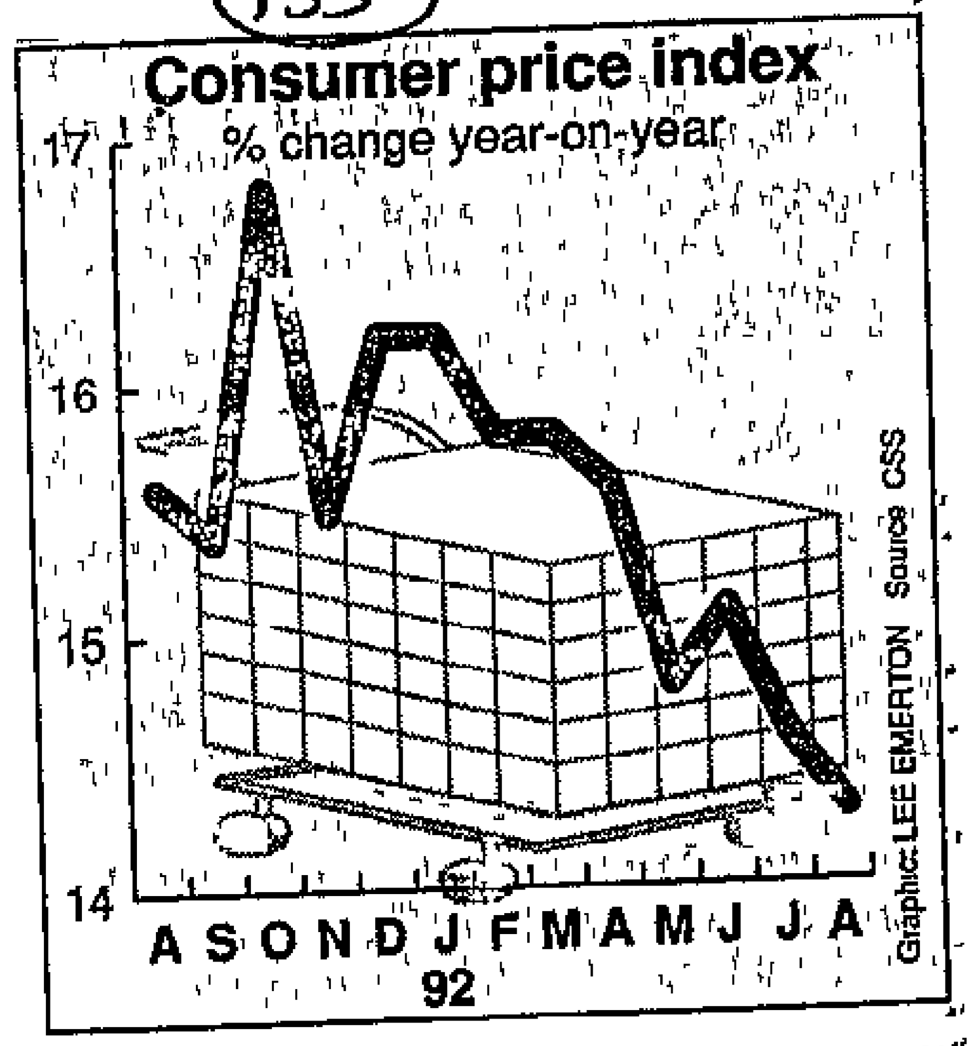
Wholesale margins during the quarter under review reached their highest levels since 1986. The bond rate margin was less spectacular in view of the recent cut to 17,25%, Jesse says.

The banks index fell 11% during the third quarter, as did the financial and industrial indices. However, it outperformed the all share index, which was down 15% during the same period.

Inflation slows, but rate cut unlikely

BDAY 1/10/92 (153)

HILARY GUSH



ALTHOUGH inflation slowed to a 17-month low of 14,3% in the year to August from July's 14,6%, a speedy cut in Bank rate is unlikely, economists say

While figures released by the Central Statistical Service (CSS) yesterday showed an easing in consumer inflation, economists said a "trigger" level of 14% was needed before another drop in the official interest rate could be expected

The CSS figures showed that food inflation for the year to August slowed to 28,5%, down from July's record 30,4%

As news of higher than expected inflation reached the capital market, gilts rates shot up. After tumbling to a morning low of 13,74%, the yields on the E168 and R150 quickly climbed to 13,89% in panic selling

Dealers said keen buying at these levels pushed rates back down to finish at around 13,76% from Tuesday's 13,84% and 13,83% on the R150 and E168 stock respectively

Some traders believed the recent bull run had ended, while others expected rates to remain steady at the lower levels

Old Mutual chief economist Dave Mohr said a Bank rate cut would be delayed until consumer inflation had fallen below 14%.

At 1,1%, the monthly increase in consumer prices was "fairly hefty" he said. Underlying inflation, however, continued to slow and the trend was downwards.

Although Mohr forecast an inflation rate of below 13% by year-end, there was "no hard evidence that inflation was heading

□ To Page 2

Inflation

BDAY 1/10/92 (153) □ From Page 1

for 10%, as many have predicted"

Reserve Bank Deputy Governor Jaap Meijer said he had hoped for a more dramatic fall in consumer inflation, and noted that before seasonal adjustment, inflation had accelerated in the month to August

Although a decision on a speculated Bank rate cut would be considered only tomorrow — when Bank Governor Chris Stals returned from abroad — Meijer said the latest inflation data was not a "push-over in favour of a drop in rates".

Rand Merchant Bank chief economist Rudolf Gouws said the Bank rate would not be cut solely on a lower inflation figure, but many economic factors pointed to a drop in the official interest rate within the next few months

"More evidence that the economy is slowing down, and the fact that money supply growth is steady in the Bank's target range suggest that a Bank rate cut of one percentage point would not be inappropriate in the next month or two."

Gouws was encouraged by slowing food price increases. "Food inflation has moderated to 1,4% in the month to August from 2,4% in July," he said

Excluding VAT, inflation slowed to 12,8% in August from 13,2% in July, the smallest rise since the tax was introduced

Gouws expected inflation to fall to "just above 12%" by December

The breakdown of food inflation at different retailers did not clearly blame either the larger chain stores or smaller food outlets for rocketing food prices

Since May food prices at chain stores — defined as having at least 15 branches — had jumped 5%. At smaller retail food outlets food inflation was 6,3%. This, according to the CSS, indicated annual rates of 22% and 28% respectively

Although the breakdown was welcome, economists said analysis was difficult as the data covered only three months.

● Comment: Page 6

BUSINESS

Third path to achieve equity in SA

W/Mail 2/10 - 8/10/92

'Growth with equity' sounds snappy and seems appealing. It glosses over conflicts of vested interests, but is a starting point, reports **REG RUMNEY**

ECONOMIC growth, social equity and democracy can be compatible in South Africa and are indeed interdependent, suggests a group of middle-of-the-road Stellenbosch economists

In an occasional paper on economic policy put out by the Stellenbosch Economic Project, professors Servaas van der Berg, Colin McCarthy, Ben Smit and Sampie Terreblanche add to the lexicon of South African economic slogans, suggesting "growth with equity", as a future economic policy is not only possible but advisable

Their focus is the familiar theme of balancing the demand of redressing apartheid's wrongs through redistribution and ensuring economic growth to achieve prosperity and make this sustainable

The paper's contention is that an emphasis on investment in human capital and the targeting of the disadvantaged will stimulate growth as well as enhance equity

Another measure, the authors believe, which will serve the demands of both equity and growth is the removal of discriminatory access to resources.

"The market mechanism can function optimally only if access to capital, land and jobs is not constrained by discriminatory measures. An important issue in this regard is the concentrated nature of ownership in the business sector, the question that needs to be addressed is whether market and ownership structures in South Africa form obstacles in access to resources."

However, the authors do not explore further whether South Africa's concentration of ownership is actually a problem or what to do about

They go on to point out social security and transfer systems need to be equalised. Because of the high unemployment rate (an estimated 40 percent of the workforce is not employed in the formal sector) a case can be made for special employment programmes

"But above all, equity will require that linkages be developed between the process of political empowerment and social equity, that is, equity must exist in the channels of communication or expression that give rise to the allocation and use of resources"

Much of what is argued is not, on the surface, particularly contentious. Few observers seriously doubt sustained high growth rates, well above the 2,3 percent population growth rate, are necessary to tackle poverty and unemployment.

Except for the far left, the need for macro-economic stability, including a stable currency, increased access to foreign markets, growing productivity, increased investment, an enhanced saving performance and an inflow of foreign capital will be broadly acceptable

It remains to be seen how a future government will deal with the need for labour productivity or institute an entrepreneurial, market economy as a way of ensuring efficiency and competitiveness

Many whites realise that some form of redistribution is on the way. The debate has been over how it can and should be done. The authors plump for restructuring of government spending rather than raising taxes, though this does imply trade-offs between growth and equity

Van der Berg rejects substantial increases in tax, along with nationalisation as a means of state intervention to achieve equity. Consensus is that a better route is spending more on social programmes and redirecting spending towards the poor

The present inequalities in social spending mean blacks get some R11-billion less in social services than their population share warrants. "If these inequalities in expenditure are eliminated during the next decade the total effect on black secondary incomes could indeed be enormous

"Admittedly there would be white opposition to reducing expenditures for their benefit, but racial discrimination in social expenditures is clearly unjust and cannot continue in a democratic dispensation"

Surely the implication of such redirection of social spending is equivalent to an increase in taxes for whites?

Other hints of some of the conflicts any future government will face in shaping its economic policy show through the optimistic gloss of the paper

South Africa, it is argued needs a competitive market economy, integrated into the world economy. This in turn requires a lowering of tariff barriers and other protection. The General Agreement on Trade and Tariffs almost certainly will require a lowering of present tariff barriers.

It is noted that caution will have to be exercised in lowering these barriers, because of the high levels of unemployment in our society

More likely there will be strong union and labour resistance to such change. Recently one local television manufacturer threatened to close down local production of TV sets completely because of the reduction of protection against cheap imports, implying that jobs would be lost as a result.

Nonetheless, the paper is an attempt to find a third way through the "growth through redistribution", "redistribution through growth" debate and bring us closer to the practical issues

Van der Berg, for instance, notes reshaped social spending should

- Contribute, as far as possible, to providing long-term assets and raising the long-term growth potential of the economy
- Be visibly just to achieve the legitimacy of a new political dispensation
- Go only on programmes where there is a demonstrable capacity to absorb it productively

'Education isn't top priority'

W/Mail 2/10 - 8/10/92

ANY future increase in social spending as a means of redistribution should not focus on education, despite the skills shortage and the legacy of apartheid education, argues Professor Servaas van der Bergh.

Van der Berg contends in an appendix to the Stellenbosch Economic Project's occasional paper that it takes a long time before the benefits of education are felt. Also, there may be capacity constraints on expanding education at the required rate (such as shortages of teachers and a deficient educational administration).

"Until these problems have been overcome, it may pay better dividends to increase expenditure on housing, special employment programmes, and perhaps nutritional interventions (for example special feeding programmes), if the administration of this appears feasible.

"Expansion of the pension system may have beneficial short-term impacts in that it is one of the few programmes that reaches the rural poor, but against this should be noted that such expenditure is mainly consumption."

BUSINESS BAROMETER

Inflation down slightly in August (153)

INFLATION, as measured by the Consumer Price Index slowed to 14,3 percent year on year in August. This is down slightly from July's 14,6 percent. Food price inflation came off its July high of 30,4 percent year on year but was still high at 28,5 percent W/Mail 2/10 - 8/10/92

A breakdown of food price inflation at larger chain stores and at smaller food outlets, supplied for the first time by the Central Statistical Services, showed the supermarkets only did marginally better at keeping prices in check. The breakdown over three months showed food price inflation since at May chain stores was 5 percent, against 6,3 percent at smaller stores

Standard sees modest growth in 1993

AFTER three years of decline a tentative upturn in the economy can be expected next year says the economics division of Standard Bank. But the 2 percent growth in the real, ie adjusted for inflation, gross domestic product will merely take the economy back to where it was in 1989

The key to the projected turnaround is a normal harvest next year, along with a moderate build up in inventory levels once companies expect better business conditions domestically and in the world W/Mail 2/10 - 8/10/92

Back to the Rubicon

BUSINESS conditions and confidence are on a level comparable to the trough of the previous recession in the third quarter of 1985, after PW Botha's famous Rubicon speech, according to the Stellenbosch Bureau for Economic Research

The BER reports in its survey of the manufacturing sector that general business conditions deteriorated considerably in the third quarter of this year, and expectations for the next 12 months became negative

W/Mail 2/10 - 8/10/92.

White living standards 'hit more'

Political Staff

WHITE living standards had declined more than those of black people in South Africa's metropolitan areas, according to a recent poll.

Almost two-thirds of white women said they were worse off than a year ago, while 53% of black women said they had experienced a decline in their living standards.

This was found in a poll conducted in August by the Omnichek division of Research Surveys among 800 black and 800 white women responsible for their daily household purchases.

Most of those who felt they had experienced a decline said their daily meals were most affected.

The buying of clothes — both for adults and children — had also been hard hit.

Almost half the white sample (45%) and one in three of blacks said their daily meals had been affected, while half the whites had cut back on buying clothes, as had 32% of blacks.

Altogether 83% of white women thought it would take longer than two years before the economy improved

(153) CT 3/10/92

Hidden threat to profits

ARCT 3/10/92

TOM HOOD, Business Editor

■ If companies take the bold step of taking inflation into account when assessing profits, it may be discouraging, but closer to the truth

PROFITS reported by many companies are fictitious and would turn into losses if they were adjusted for inflation in accordance with guidelines of the South African Institute of Chartered Accountants.

One of the few companies to go for full disclosure of information and exposure of their financial statements to the searchlight of inflation accounting is the country's largest clothing manufacturer, Seardel Investment Corporation This move has required courage at a time when the industry is in a severe depression

Seardel, now issuing a 72-page annual report covering the 12 months to end-June, has been placed consistently in the top 10 of the chartered accountants' annual financial statements reporting awards and has been the leading Western Cape participant since 1980

Like almost all clothing companies, Seardel with its 15 400 employees struggled to recover increased input costs "from the all-powerful South African retailers who because of their influence," says the report, "are in the main responsible for the erosion of margins"

Turnover grew to a record R1 billion, a nominal growth of 17 percent but this constitutes a drop of 1,9 percent if inflation is considered

Operating profit dropped from R76 million to R55 million

But operating profit, adjusted for inflation, worked out at only R19,4 million This was because depreciation took an extra R5 million and the cost of sales absorbed R30,5 million more

In addition, a financial gearing adjustment of R14 million wiped out the remaining profit and left a R3,4 million loss, which became a R10,4 million loss after tax

The bottom line was inflation turned earnings of 43c a share into a loss of 36c

Dividends of R2,2 million were paid on the basis of 9,5c a share and dividend cover of 4,6 times earnings. But dividend cover became a negative 3,8 times after an inflation adjustment

The return on total assets also dropped to 6,9 from 11,9 percent

However, some balance sheet ratios improved — the ratio of borrowings to group equity became 66 percent (74 percent), total debt to group equity improved to 174 from 196 percent and nett asset value per share increased to 735c from 655c

The value of shareholders' interest jumped to R172 million from R153 million and group equity was adjusted to R184 million from R164 million

Inflation boosted the value of fixed assets to R78 million from R63 million and stock valued at R220 million became worth R225 million

Another effect was to increase long-term borrowings of R122 million by R21 million

Urging more companies to disclose more accurate information by going for inflation accounting, Mr Issy Goldberg, chairman of the SA Shareholders Association, said

"Seardel is one of the few major companies that seem unafraid to highlight their results by commenting that the results without inflation accounting are certainly much better than if inflation is taken into account

"This is a brave step in these tremulous times and Seardel is to be complimented on its courage in adopting this revealing accounting experience"

Chairman Dr Aaron Searll comments that a strong vibrant economy is needed to provide the infrastructure to achieve even the minimum socio-economic aspirations of the vast majority of the population

"A stagnating economy is probably the worst catalyst in the current scenario of political manoeuvring and social unrest."

Dr Searll quotes Mr Paul London, economic consultant to the New York Times

"High interest rates and slow growth reduce inflation in the way that chemotherapy works on cancer It kills the good along with the bad cells and makes the patient dreadfully sick Physicians, to their credit, are trying to find therapies that will kill cancer cells without killing the patient But America's economic policymakers have not made the same intellectual leap"

Guide to beating the recession

South 3/10 - 7/10/92. 153

ONE OF the biggest headaches facing businesses of all shapes and sizes is coping with the seemingly never-ending recession

The founder and chief executive of the Progro Consultancy Group, Mr John Hendrickse, says business people need to "recognise that there will always be economic or business cycles, with good and bad times, upswings and recessions This means you have to plan your business to cope with both situations"

For example, a marginal business that just survives in boom times will surely fall in the doom times — so how do you ensure you have a recession-proof business?

Hendrickse says most battling businesses blame the recession for their struggling business

"But what's really happening is that the economy is reflecting the quality of collective business performance The question is Are you part of the problem or part of the solution?

"The solution does not lie in miracles or areas outside one's control It lies in basic business common sense"

Hendrikse has developed a seven-point action plan to help businesses deal with the recession

1. Focus on your core business:

Concentrate on the areas you know best and develop unique features and benefits Get your whole organisation fully committed to your core business

2. Start a customer care service·

Look after existing clients and customers Don't neglect captured business at the expense of new customers Get "close to your cus-

contact Improve your communication programme with existing clients

3. Get a commitment from all your employees

Encourage staff to put an extra bit of effort into everything they do This will be seen in customer service, productivity and quality of performance But it starts with inspired leadership — an example at the top that filters through the organisation Give the team a firm goal, such as service for survival and success

4 Control your information:

You need to know daily, as well as monthly, how your business is performing in all key result areas

You need to have an overview or "bird's-eye" view of your business in three areas

- Am I getting richer or poorer?
- Am I making profits or losses?
- Is my working capital improving or deteriorating?

Once you have achieved that, you need to have a "mole's-eye" view of the following

- What products/services/divisions are contributing to profits?
- How is my actual performance against budget?
- Which assets are under-performing or are idle?
- Which employees are ineffective and not achieving output targets?

5. Control your costs.

Every cost centre and cost element needs to be evaluated in terms of its contribution to profits It is easier to reduce overheads than to increase prices or sales in recessionary times Be ruthless about unnecessary waste and wasted costs Fight for better trade prices, trade discounts and cash discounts

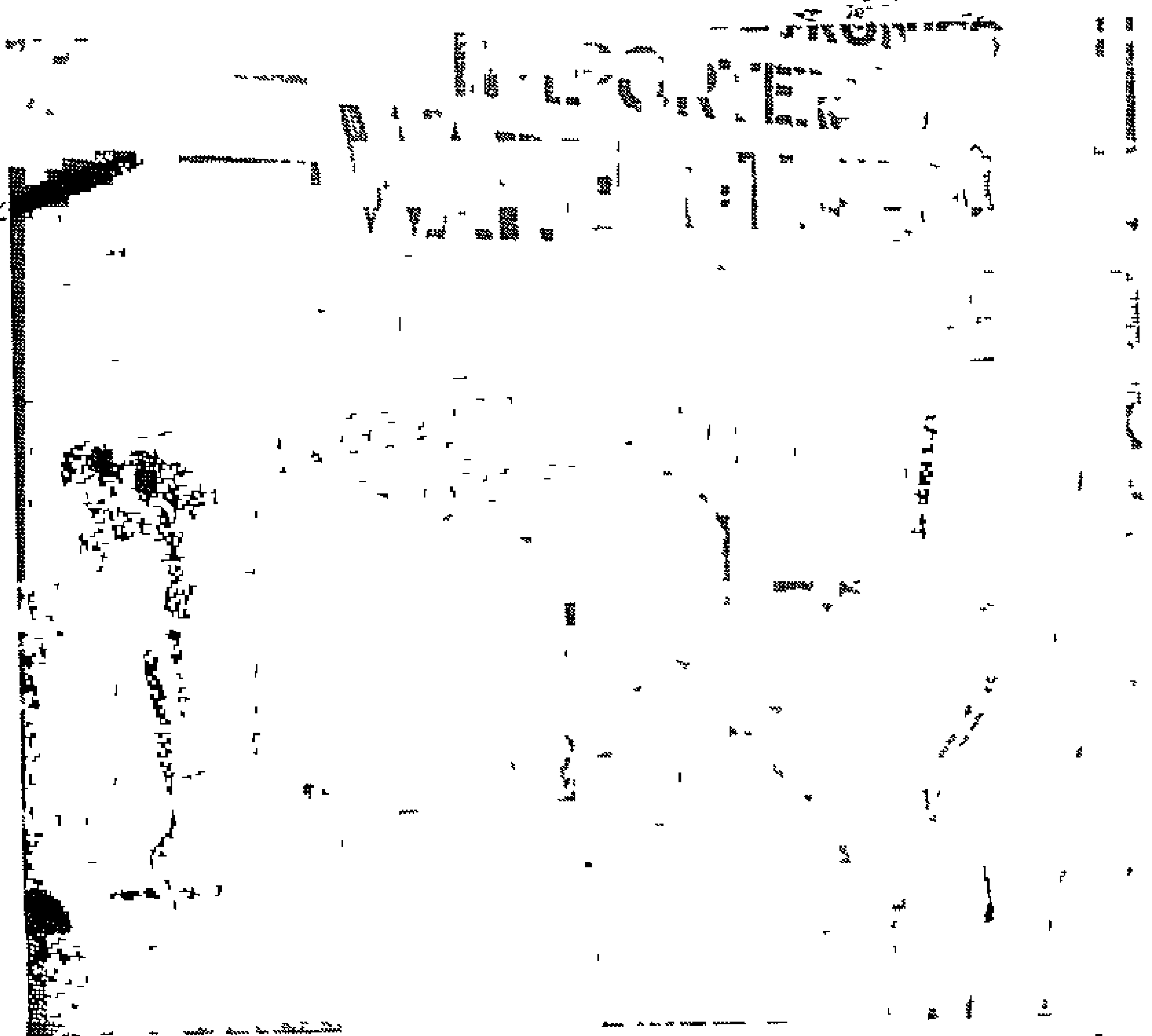
Start running your business on a cash basis This involves the following practical steps

- Determine your monthly cash overheads and commitments
- Determine your monthly cash break-even sale level
- Prepare a monthly cash flow forecast at the beginning of the month
- Prepare a monthly cash flow statement at the end of the month (actual versus forecast)
- Be tough on overdue accounts

Take personal-control over credit granted and collections of debtors due and overdue

7. Start managing yourself:

Survival and success begins with the boss How effective are you? When last did you evaluate your business, the organisation and its resources? Now is the time to tackle the problems head-on, not just the fragmented symptoms



CUSTOMERS: 'Don't neglect old customers for new ones'

Chamber calls for flexible approach in recession

153

Sault 3/10-7/10/92

AS THE recession bites deeper, greater flexibility is needed to help small and medium-sized enterprises stay afloat, reports the Cape Town Chamber of Commerce

According to the Chamber's human resources manager, Mr Charl Adams, 1992 has been "extremely tough" for small business.

The number of bankruptcies in the first nine months of the year is expected to be about nine percent up on the 1 764 during the same period last year

"This is all the more reason why there should be greater flexibility in dealing with small businesses, in providing them with protection and support services," Adams says

Small businesses are inherently at a disadvantage Labour legislation, for example, is geared towards big business, which has a highly organised and unionised workforce Many small businesses cannot afford to meet all the health and safety regulations or the minimum wages laid down by the industrial councils

These councils often throw the book at small businesses instead of understanding their circumstances and being more lenient They should not let all standards go, or allow workers to be exploited, but should adapt the regulations to the needs of small businesses

The Chamber would like to see a "sliding scale" of legislation for the small business sector, which should also be represented on the National Manpower Commission (NMC)

A NMC report on this issue will be released shortly, but it is understood that the Chamber's recommendation has not been heeded

Adams says this negative approach to the small business sector springs from the fact that "big business still calls the shots, despite the fact that over 80 percent of our membership are small and medium-sized enterprises"

There should be a happy marriage between the two, but small business remains the abused partner. Although government could act as a marriage counsellor, it is not doing so

Instead, the Chamber is acting as a surrogate counsellor and 1992 has been one of the busiest yet for Chamber staff, who are dealing with more and more enquiries from members on how to deal with the difficult times

Unfortunately, at a time of rising unemployment, many of the calls from businesses seek advice on retrenchments to cut overheads If labour laws were relaxed, these overheads could be cut without losing jobs

"Ways of allowing people to move into self-employment have therefore become more important — entrepreneurship has become the name of the game

"But we are falling behind in this and we need to do much more to inculcate the ethic of entrepreneurship, from school level onwards Difficult times call for creative approaches," Adams says

Other problems that continue to plague small businesses include their difficult access to loans because of a lack of collateral

Banks are obsessive about minimising risks, and the small business sector is undoubtedly risky But, again, innovative approaches are called for and some are now being pioneered by a few banks in association with stokvels, hawkers' associations, the Small Business Development Corporation and others.

The banks realise that today's small business can develop into the big businessesces of tomorrow — and need help But much more needs to be done **Lynda Loxton**

THE WEEK AHEAD

by Simon Willson

Advantage of a strong rand becomes clear

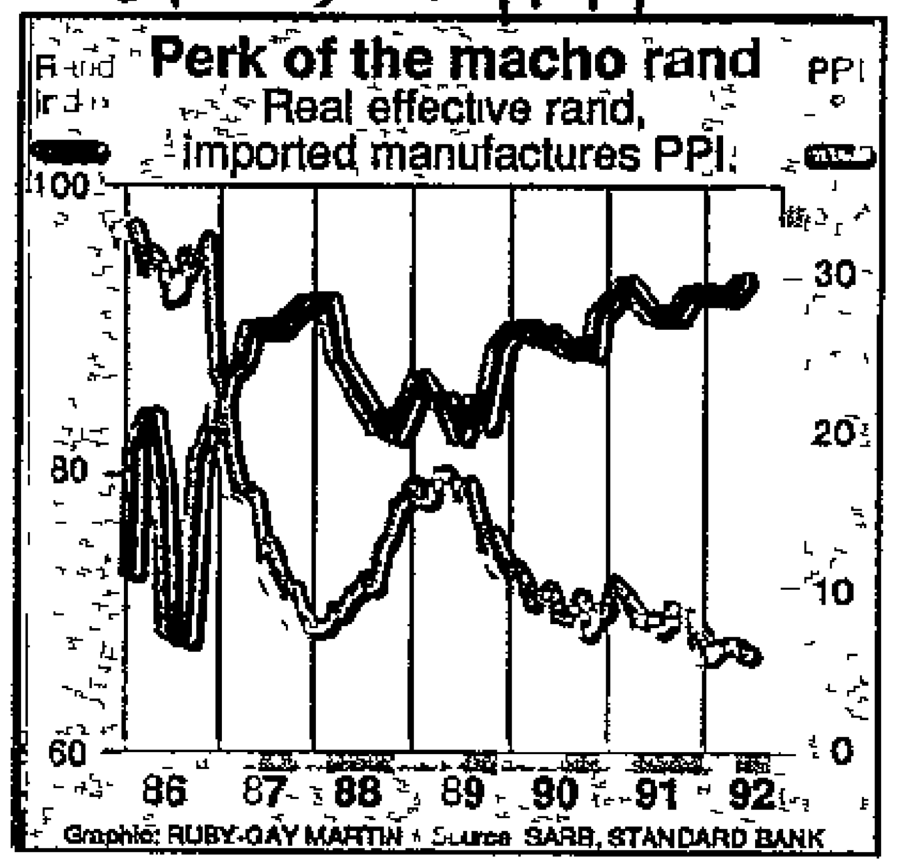
BDM 12/10/92

BENEFITS from the authorities' strong rand policy are never as visible as the drawbacks of a weak rand, but one of the advantages of a steady currency should become apparent this week when the producer inflation rate for August is published.

The behaviour of the producer price index (PPI) is a good indicator of what effect the exchange rate is having on the economy and, in particular, on prices This is because a fifth of the weighting of the sample items measured in the PPI basket is devoted exclusively to imported goods — that is, goods bought with foreign currency which, in turn, had to be bought with rands

Depicting the rand as a strong currency two days after yet another increase in the petrol price, blamed in part on the weakness of the rand, may seem a mite perverse But the rand is strong when expressed not against a single currency such as the US dollar, but against all of the currencies SA has to buy to pay for imports Thus the rand's weakness against the dollar, cited as a cause of the petrol price rise as crude oil prices are quoted in dollars, is often neutralised by offsetting strength against, currently, sterling and the lira

The effective rand — the rand measured against a basket of trading partners' currencies — is falling by less than the inflation differential between SA and its major trading partners. This is the source of most of the pressure on the Reserve Bank to devalue the rand to stimulate an economic recovery. the rand is not falling rapidly enough to cover the increase in domestic costs facing SA exporters.



If the effective rand is not falling by enough to compensate for the rise in domestic costs then the real effective rand — the rand adjusted for SA's inflation differential with major trading partners — is rising. The chart shows the steady rise in the real effective rand since mid-1989, here is the strong rand that is so unpopular in certain sectors of commerce and industry But the chart also shows part of the positive spin-off from the strong rand the steady and inversely correlated slowdown — over exactly the same period — in the rate of price rises of imported manufactures.

This is no coincidence. It is what makes Reserve Bank officials stop up their ears and sit patiently through the swelling chorus of recent calls to devalue the rand It is what made the UK government hurl £15bn of hard-won reserves into the currency market three weeks ago to try to avoid a sterling devaluation

Price increases in the headline imported component of the PPI were mainly responsible for producer inflation edging up to 9,3% in July from June's 9,2% But this headline rise in imported producer inflation to 7,5% in July from 5,9% in June covers the volatile prices of foreign raw materials, and masks a more subdued contribution from manufactured foreign inputs. These are the goods whose prices reflect most closely the relative inflation rates of exporter and importer, and whose price rises are most curbed by the strong rand

Twelve months ago, the price rises in imported manufactures were galloping along at 8,8% In July, the rise was less than 7%; in June it was barely 6%. These are the low-profile perks that come as part of the strong rand package. But their contribution to lowering the consumer inflation rate is no smaller for being time-lagged relative to shelf prices and overtly detectable only by obscure charts The Reserve Bank, for one, is taking a lot of flak in defending and preserving favourable, exchange rate-related inflation signals such as these

Internationally, Britain will this week be able to look at a few more lingering statistical benefits of its own strong exchange rate policy. Keeping the pound in the European exchange rate mechanism (ERM) for two years imposed the same disinflationary disciplines on the UK economy as those causing such indignation in parts of SA industry. Although sterling is now floating, the benefits of its ERM stint will show through in figures for a good few months yet

Tomorrow the UK's producer inflation rate for September is released and is set to fall again from August's 3,3%, which was the lowest rate since 1968 Lower raw material and wage costs have enabled producers to skip traditional price increases, and the negligible 0,1% August increase in the UK's output PPI is set to be repeated for September, bringing the annual increase down to 3% or lower.

On Wednesday it is the turn of US producer inflation to go on display as the figure for September emerges Even though the US imports-to-GDP ratio is only about a third of the European average, extended dollar weakness may already be propping up US producer inflation The annual rise in the US September PPI may stay at August's restrained 1,5%, but the rate was below 1% throughout the eight months to May this year

The costs to the UK real economy of its relative financial rectitude will be on show on Wednesday, when British industrial production and manufacturing output for September both look primed to give negative monthly readouts On Thursday the bleak practicalities of UK disinflation are likely to be reinforced by another rise in the number of unemployed in September The rate was already at 9,9% in August and may, therefore, hit double digits this week

But reassurance about longer-term British economic prospects should also emerge on the same day when UK average earnings for August are released At 6% in the year to July, UK wage growth is at a 25-year low which, in view of falling consumer inflation and the tough labour market, bodes well for the competitiveness of British exports already poised to benefit from sterling's effective devlauation of around 10% since leaving the ERM

On Thursday the US September consumer inflation rate is due and, following the 3,1% rate in August, should continue the pattern already estblished this year of straddling the 3% level.

Inflation 'to fall to 11,8% next year'

CT 16/10/92

Own Correspondent

JOHANNESBURG — Consumer inflation could be expected to fall to around 11,8% in the next six to 12 months and a two percentage point drop in the Bank rate "would not be unjustified", Afrikaanse Handelsinstituut (AHI) chief economist Nick Barnardt said yesterday.

Speaking at the launch of the AHI Inflation Barometer — a quarterly indicator of the prospects for consumer inflation in the year ahead — Barnardt said the expected dip in inflation would prompt a further relaxation of monetary policy.

Guideline

"The declining trend in the Barometer during the past year, together with the fact that the latest reading is appreciably lower than the latest CPI inflation figure, points to the prospect of a perceptible further decline in the CPI inflation rate during the year ahead."

He said 11,8% inflation would be a reasonable guideline for price, wage, investment, budgeting and monetary policy decisions for 1993.

Of the 17 indicators which made up the barometer, those with the highest weighting included private sector credit extension, inflation expectations — according to the Stellenbosch Bureau for Economic Research — the effective rand exchange rate, private sector wages and salaries, unit labour costs and long-term interest rates.

Barnardt stressed the barometer did not attempt to compete with the official CPI, nor question any existing measurement.

INVESTMENT (153)

Keeping pace

FM 16/10/92

Inflation-linked bonds could become an alternative for institutions looking for new investment opportunities. Investors are faced with a shortage of local bluechip scrip on one hand and exchange controls, prohibiting foreign investment, on the other. And yields on fixed-interest bonds are often outpaced by inflation.

Richard Jesse, of brokerage Martin & Co, proposes a listed inflation-linked bond: a bond issued with a payout which escalates annually in line with inflation The instrument would generally be irredeemable.

From an investor's (holder's) viewpoint, the p:e ratios of sought-after shares are becoming relatively high, with ratios of over 20 becoming increasingly common. As a result, Rembrandt, SA Breweries and Liberty are offering dividend yields of 1,3%, 2,4% and 2,3%

Take the case of a company issuing paper yielding, say, 4% annually initially — similar to the yield on bluechip equities Assuming a

Continue →

FM 16/10/92 (153)

R100 issue price, the return in the first year will be R4 and, taking a 10% inflation rate, a payment of R4,40 will be made in the following year The investor thus receives an annual cash flow which is constant — and this is important — in real terms

As interest received is not taxable in the hands of an institution, the paper would be attractive to institutions

Investors should also benefit by capital gains, as the price of the paper will increase in line with the higher interest payouts This is based on the same principle as equities, where share prices rise in line with increased dividend payouts.

From an issuer's viewpoint, this instrument reduces the cost of capital For instance, companies could replace bank debt, currently costing around 18%, with this paper, reducing their cost of capital by 14%

In fact, the after-tax cost to a local company issuing a 4% bond is 2,1%

This paper also has the advantage that no voting rights need be attached to it.

However, the proposed instrument ties a company down to ongoing nominal payout increases (assuming inflation) — awkward if revenues and profitability do not increase at the same rate

Also, in certain circumstances, this type of financing may prove more expensive than bank borrowings, where slack monetary policy results in a move from positive to negative real interest rates.

Inflation-linked bonds were introduced in the UK some years ago without success However, this was because the country, under then prime minister Margaret Thatcher, entered a long disinflationary cycle, something unlikely to occur in the new SA ■

AHI predicts inflation drop

BDay 16/10/92 (153)

HILARY GUSH

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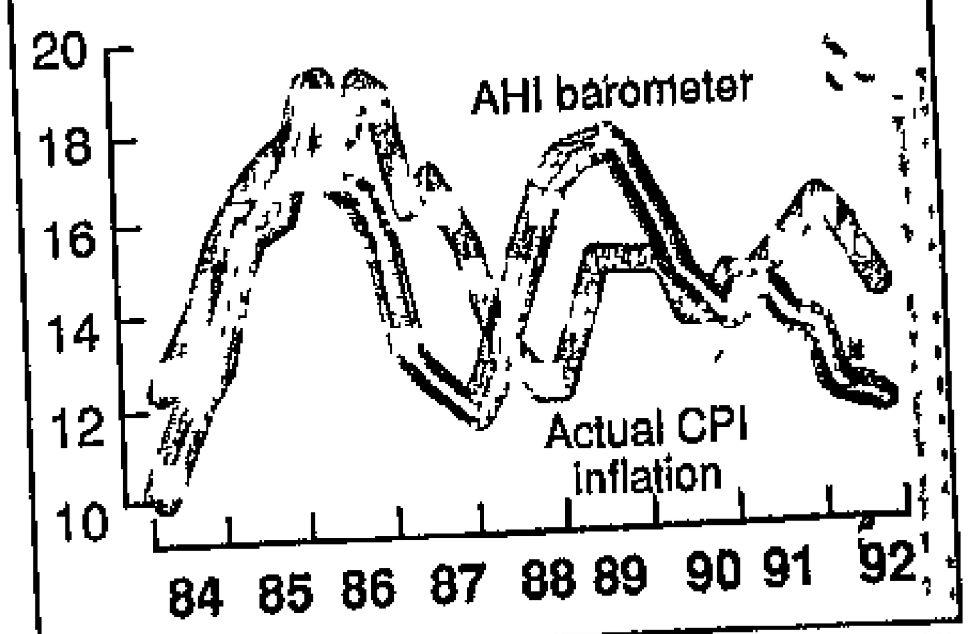
Barnardt stressed the barometer did not attempt to compete with the official CPI, nor question any existing measurement

Considering the influence inflation and interest rates exerted on the business cycle, Barnardt said the barometer could serve as both a "significant pointer to medium-term business cycle and economic growth prospects"

However, it should not be seen as an attempt to forecast future CPI inflation with 100% accuracy, but it would serve as a good guideline for the probable inflation trend up to about a year ahead

It could also be of interest to foreign investors and certain international financial and economic organisations

AHI barometer vs CPI
(Quarterly data, year-on-year % change)



Graphic LEE EMERTON Source AHI

Salaries not keeping abreast of inflation

B/DAY 22/10/92

153

IN SHARP contrast to two years ago, salaries in the information technology field have been lagging behind inflation

The PE Corporate Services data processing salary survey 1992, done in conjunction with personnel firm CPL, evaluated salaries in 300 companies, most of which had large computer departments.

PE Corporate Services director Jon Cole said salaries were failing to keep pace with inflation because there was no longer the scarcity of skills of a few years ago Also, hardware and software were becoming more user-friendly so demand for high-level skills was not as high.

Information technology workers were, however, probably faring better than those in many other industries, Cole said.

Higher-level skilled staff, such as project leaders and systems analysts, as well as software developers, were less affected than other workers because software and services were growing at a faster rate than hardware sales.

Staff turnover had dropped considerably, with people holding onto their jobs. In 1990, the turnover rate was 21%. It dropped to 14% last year and in the latest survey was at 9%

He advised those interested in entering this job market to look at areas such as software programming, and advised them to gain sufficient business skills to become competent analysts.

"Many people wanting to enter the industry or to move up the corporate ladder do not have sufficient business skills to do so; it's becoming more important for them to be able to relate computer systems directly to the way businesses work," he said.

Cole declined to give details on how far behind inflation salaries were actually lagging. He said figures published in the past had caused problems in some companies which were noit keeping up with the industry's averages

Productivity is the best weapon against inflation

B|DAY 28|10|92 **JOHN PARSONS** (153)

THE entire food chain price debate is at a stand-off. Every participant in the chain effectively stands accused by every outside stakeholder Confusion reigns supreme as accusation is relentlessly followed by counter-accusation But it is like poking one's finger into a huge sponge Nothing is concrete

A key to getting to the root of the matter is the concept of inflationary versus deflationary price changes An inflationary price increase is one that accelerates the inflation rate — when selling price increases exceed the overall rate of increase in the prices of all resources purchased to produce and/or market the product. A deflationary price increase winds down the inflationary spiral.

So if the producer's internal inflation rate (the aggregate price change for all resources consumed) is 4%, then a 5% increase in selling prices is inflationary Conversely, if the internal inflation rate is 32%, then a 30% increase in selling price is deflationary This does not mean that 30% price increases are socially acceptable or that there is no problem. It simply says, for a solution, rather look at what is driving the 32% increases in resource prices

Another common misconception is that profitability and changes in profitability immediately say something about inflation Of course there is a connection — but it is not a direct one and simplistic interpretations are dangerous

Any hint of high profit levels or increases in margins is quickly accompanied by cries of profiteering and, by implication, inflationary pricing This need not be so Similarly, low and/or declining margins cannot be used to fend off accusations of inflationary pricing.

Productivity is the wealth creating mechanism. The way in which the pricing system distributes the wealth determines who gets rich and who gets poor Thus if R100 worth of wealth is created by a producer through being more productive in the use of resources, and R50 is used to increase profits then the other R50 is being used to hold down selling price increases

This is a positive position since the wealth created through the productivity process is being shared between producer (improved financial returns) and consumer (inflation is being absorbed and the spiral is being wound down) Only possible, of course, if productivity is improving.

Consider another scenario — where productivity is dropping The lower performance puts pressure on the bottom line and the response is to increase selling prices faster than the prices of the resources employed. This restores the margin (say) almost to previous levels.

However, what has occurred is a destruction of wealth through declining productivity, partially compensated for by inflationary pricing. And the inflationary pricing is neatly camouflaged by the lower profit margins An example at retail level would be inflationary pricing to offset shrinkage (productivity loss)

Inflationary pressures can arise from within the food chain and from outside it. Pressures from within could arise from price movements for the merchandise and the intermediate services (control boards, distribution)

However, in many instances, although the material inputs (the merchandise and other ingredients) represent a significant proportion of the total resource base, what is happening to the prices of the other resources also has to be considered. These would include wages, salaries, and benefits; electricity, rail, and communication tariffs; and rentals, interest rates, and replacement prices for capital equipment.

Much of the hot air surrounding the debate has focused on price statistics. The pitfalls of drawing conclusions (especially judgmental ones) about the causes of inflation from mere examination of the statistics have been alluded to already. Another dimension to arguments about statistics is can they be believed?

It is possible that the CPI and the PPI are sufficiently accurate and robust indicators of food price change. And the Central Statistical Service should continue to review the basket, the base year, the weights, and all the statistical methods currently being employed. But, when all is said and done, it is the producers who supply the data and there is no substitute for good data.

Only one small piece of the sponge has been rigorously addressed so far. This covered the maize milling, eggs, and animal feeds operations of Tiger Oats A study covering a five-year period to September 1991 showed productivity gains had been consistently used to absorb inflation while maintaining bottom-line returns to the shareholder The implicit benefit to Tiger's customers was R20m.

The study also indicated that the average price increase ex-factory for maize, eggs, and animal feeds over the five years was less than 10% This happens to coincide pretty much with the PPI

Productivity is the key to controlling inflation. It has advantages over monetary policy since the effect of productivity improvement is to stimulate economic growth through lowering the real cost of production. Reducing the money supply to control price increases works in theory, but it is just as apt to cause a reduction in the level of economic activity while prices continue to rise unabated. Less food at higher prices also balances the equation!

Long-term productivity growth will occur only under conditions where management and labour are meaningfully engaged and the wealth created is distributed well. In the meantime, it is absolutely vital that we properly understand what is happening in the food chain, and where and by what mechanism inflation is being created.

The sequence must be. firstly, analyse precisely what is going on, secondly, investigate and uncover the underlying causes, and thirdly, formulate an action plan that will secure a desired solution.

Mostly, we are spending our time with steps two and three, and emotionally at that. It is reminiscent of the Queen of Hearts in Alice in Wonderland when she said. "No, no! Sentence first, verdict afterwards!"

The approach used on Tiger Oats, which provided the first independently derived piece of hard evidence, is a form of productivity accounting Because it can disentangle the effects of productivity and pricing on a company's or an entire industry's financial performance, it offers distinct advantages over alternative methodologies What is more, little or no reliance is placed on the use of published statistics — so the argument over their accuracy is irrelevant.

Even in a canning plant making a dozen different varieties or a supermarket trading in several thousand different items, productivity accounting will reveal whether productivity gains or losses are occurring, and with respect to which resource categories (materials, capital, labour), and how much wealth is being created (or destroyed) in the process

It will indicate, unambiguously and non-judgmentally, whether the pricing policies being followed are neutral to inflation, deflationary, or inflationary and the extent to which these policies are causing a redistribution of wealth All these effects are quantifiable. This would enable productivity and price changes throughout the entire food chain to be addressed — no more sponge!

Productivity accounting has been used to disentangle complex situations before — in SA and overseas Together with an accompanying investigation of the causalities it provides the best, if not the only, option It will not be easy, co-operation would be a prerequisite, and it will not be cheap But time is running out!

☐ **Parsons is NPI business development director.**

SPOT DESK

Work page (53)

Technikon Witwatersrand (53)

Bridging courses are assisting the disadvantaged

B/DAY 30/10/92 (53)

THE technikon's community college offers bridging programmes to prepare educationally disadvantaged matriculants for tertiary study and employment.

About 95% of the community college's students are black, says Doug Hearne, GM of the Centre for Career Development (CCD), under whose auspices the community college falls

The seeds of the community college were sown in 1988 when the technikon was still classified "white" and there were relatively few black students The CCD, believing the technikon had a responsibility to the broader community, recognised the tremendous need for a bridging programme

Building on the best bridging concepts available, the CCD developed its Nexus programmes

They are divided into two streams, the first preparing matriculants for tertiary study, the second preparing them for employment.

In the tertiary study stream, called the T-route, technikon faculties handle applicants who have not been successful in gaining entry to national diploma courses, but who are seen to have potential

About 100 students a year have been admitted to this programme, from potential engineering students to those wanting to study at the hotel school The employment preparation stream has so far been offered on a limited scale

In both streams a foundation of knowledge and psychological skills is laid

Problem

A holistic approach makes the Nexus course different from the enrichment courses offered by other institutions "We try to get to the real problem and not just address symptoms," says Hearne

This is done by dealing with three areas

☐ Life skills Hearne says educationally disadvantaged students are usually also socially and economically disadvantaged, so students' broad needs must be addressed This part of the programme covers topics such as self-image, leadership, assertiveness training, creative thinking, time management and business etiquette Study skills are also covered,

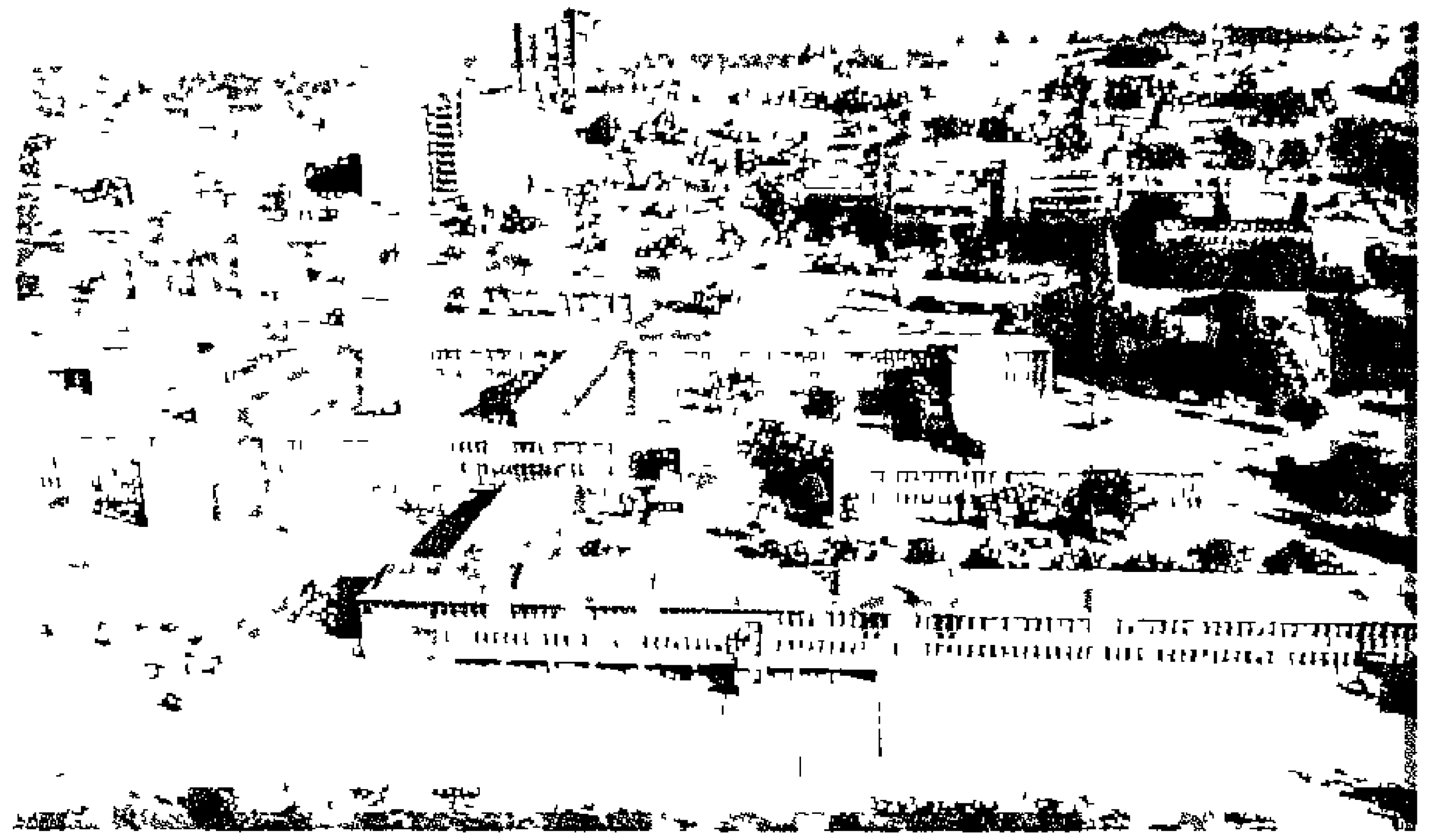
☐ Language and communication skills, and

☐ Foundation subjects These provide the knowledge and skills foundation for specific study or employment fields

Nexus course fees are about R3 000 a year, covering only about half the actual cost The balance comes from sponsorships

The community college is working on a series of employment preparation programmes These are one-year full-time courses aimed at providing matrics with the skills to improve their chances of securing jobs The college is also looking at entrepreneurial courses for the formal and informal sectors

Hearne says the community college would like to prepare 500 students a year for further study, but many technikon faculties are oversubscribed He is nevertheless optimistic that the Nexus programmes will continue to grow and produce about 1 000 students a year within the next two years



Auckland Park campus

Engineers have a crucial role

(53) B/DAY 30/10/92

THE School of Engineering is one of the fastest growing at the technikon, reflecting the needs of industry

SA Association for Consulting Engineers president Peter Thomson said recently SA would be woefully short of engineers

There were only 35 engineering students per 1-million people in SA, compared with Japan, which had 460 engineering students to every million people

The technikon's engineering school, which becomes the Faculty of Engineering in January, obviously has a crucial role to play in trying to minimise this huge imbalance

The school offers national diplomas in architectural technology, building, chemical engineering, civil engineering, construction management and quantity surveying, electrical engineering, mechanical engineering, metallurgial engineering and town and regional planning

Architectural technologists are equipped with expertise in construction methods and materials, surveying, office management, site supervision, and learn building regulations

They study full-time in their first and third years, working for an architectural firm and studying part-time in their second year

The national diploma in building provides students with a general education in building sciences, with an option to specialise in quantity surveying or construction management at the higher diploma level

Chemical engineering students study at the technikon for four semesters before working for a year at a chemical company They can then opt for another year's study

Mechanical engineers cover subjects such as thermodynamics, fluid mechanics, strength of materials, mechanics of machines, electrotechnology and mechanical engineering design Career paths open to mechanical engineering diplomates range from management and quality control to research

Revitalising a half-empty white college

B/DAY 30/10/92 (53)

TECHNIKON Witwatersrand is to take over the Goudstad Teachers' Training College campus in Auckland Park from January and use it as a business school

Negotiations to procure the campus — which started in 1991 when government announced the college's closure as part of a teachers' training college rationalisation scheme — were finalised in May

The technikon will spend R32m resettling the business and communication technology schools at the campus, says vice-rector development and planning Gert Benade

Transfer of the college to the technikon means it has not been lost as an educational facility, as has so often been the case when government has closed educational institutions

It will be transformed from a half-empty college exclusively for white students to a fully utilised technikon for the entire community

Benade says the new campus is a unique opportunity for expansion at minimum cost

It would have cost between R160m and R200m to build — money which would simply have been impossible to find

"With the prevailing economic climate, it is unlikely that any new technikons will be built in the foreseeable future," he says

Acquisition of the new campus takes the pressure off the technikon to further develop the incomplete Doornfontein campus The business school especially would have needed more space and development, being one of the fastest-growing faculties

From next year about 4 000 students will attend lectures at the Auckland Park campus About 900 students will be accommodated at its three hostels

The new campus will has the technikon's first proper sports complex, with an athletics stadium, three rugby fields, a cricket ground, pool, squash, tennis, volleyball and badminton courts, hockey fields, a gym, and an indoor shooting range It also has a theatre and an amphitheatre

Benade says the campus will allow the technikon to provide full high-quality student life

The move to Auckland Park will have a spin-off for the Doornfontein campus, as space vacated by the business school will allow for replanning and expanding remaining schools

The intake of engineering students will be increased from next year, and the mining and health technology schools will be enlarged in the longer term

Another longer-term project is the eventual move of the hotel school to the new campus However, this will require industry support

In the short term the technikon will put more than R10m into adapting the college's facilities to meet technikon requirements

Preparing tomorrow's health workers

(53) B/DAY 30/10/92

TECHNIKON Witwatersrand is the only SA institution to offer a four-year programme in podiatry

On completion of the course, students hold a national higher diploma and have specialised in podopaediatrics, sports podiatry, podogeriatrics and research methods

Other courses offered by the technikon's School of Biological and Health Technology are ambulance and emergency care, beauty technology, dental technology, radiography, food technology, environmental health, microbiology and medical technology

In January the school will become the Faculty of Health and Biotechnology

The dental technology course also takes four years, during which students learn the practical and theoretical sides of prosthetics, orthodontics and crown and bridge technology Radiography students spend about two days a week at the technikon and the rest gaining experience at an approved X-ray department

The three-year ambulance and emergency care diploma prepares students for careers as paramedics A fourth-year in an approved emergency service entitles diplomates to register with the SA Medical and Dental Council

The technikon's beauty technology diplomates have a combination of practice and theory

There is increased interaction between beauty technologists and related paramedical and even medical professions, including plastic surgeons

Beauty technologists can also work with dermatologists and gynaecologists

Environmental health students train to be health inspectors in government and private institutions

'We cannot exist without private sector'

B/DAY 30/10/92 (53)

THE technikon's intimate relationship with the private sector is nowhere more evident than in fundraising.

Commerce and industry are not only called on to donate money but are actively involved in raising funds and deciding how donations will be spent.

The Technikon Foundation — the technikon's fundraising arm — is a nonprofit organisation through which all donations are channelled. It is assisted by 10 development committees made up of key private sector figures.

"They help open doors for us, market the technikon and spell out its ideals and needs," says foundation director Ronnie Van Niekerk. The technikon's reliance on commerce and industry for funding has grown as the state's subsidy has dwindled.

The annual state subsidy is worked out according to a formula which is supposed to cover 85% of the technikon's bill for equipment, buildings, capital projects and remunerations. However, in real terms, the amount is much less, says Van Niekerk.

The main areas for which money needs to be raised are physical development, bursaries, equipment, and the community college, which receives no state assistance.

Thankfully, Van Niekerk says, there has been no drop in backing from the private sector However, donor companies have become much more specific about how their money is spent. In 1981 about 80% of donations were general

By 1991 only 15% were unspecified

Since 1981 about 560 companies have made donations to the foundation, 250 of them regularly

The foundation is controlled by a board of trustees — highly influential figures in commerce and industry — who decide how unspecified donations should be spent

The current chairman is Siemens joint MD Johan Trotskie

"The private sector is integrally involved. We cannot exist without it," says van Niekerk.

whole page (53)

Channel T is SA's only legal private station

B(DAY) 30/10/92 (53)

CHANNEL T, the technikon's radio station, is making waves as the only legal private radio station in SA

While broadcasting waits impatiently for Codesa's revival so the Viljoen task group's report on broadcasting can be implemented, Channel T is up and running as a working example of the practical approach inculcated in Technikon Witwatersrand students

While other campus radio stations locked horns with government over licences, Channel T took a different route

The country's youngest station, it began in 1988 as a typical "cubby hole" radio operation

A year ago, station manager Andrew Bond approached CFK Communications, the suppliers of transmitters to Johannesburg's drive-ins, and commissioned them to build a limited frequency "leaky feeder" transmitter This was delivered in March, complete with a licence

The new station was launched in June It can be picked up within a kilometre radius of the Doornfontein campus — reaching 5," he says, confident that students at the Eloff Street and Hotel School campuses and nearby flats

Bond adopted the station as his third-year marketing practical, with public relations, marketing and the technical detail all taken care of by students

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Training and aiding entrepreneurs

B(DAY) 30/10/92 (53)

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One of these courses is the unique one-year Nexus Entrepreneurial Programme, aimed at aspirant entrepreneurs needing business skills

Other courses will supplement skills of those with existing operations. A panelbeater, for example, might need accounting skills, says CCD GM Doug Hearne

Considering IBM and ISM's obvious interest in computers, courses will make extensive use of PCs as business tools.

The CCD will also establish an entrepreneurial centre in the Johannesburg CBD, to provide a low-cost business infrastructure for the small entrepreneur who cannot yet afford equipment

The centre will have secretarial services, telephones, fax and answering machines, word processing and copying equipment, offices and meeting rooms with a physical and postal address.

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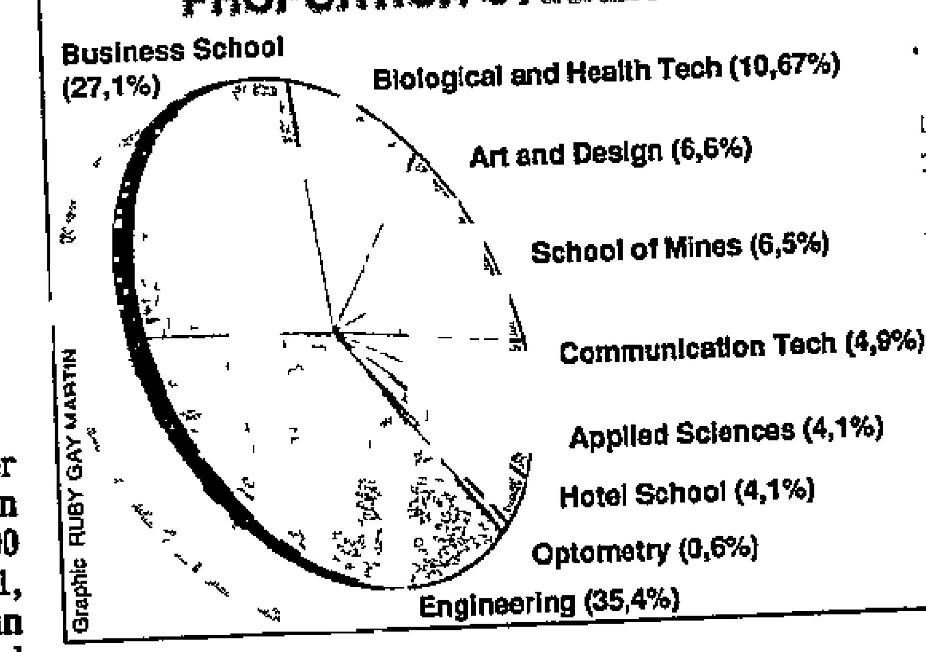
PROPORTION STUDENTS 1991



Practical bent to all part-time informal courses

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The CCD was formed in 1987 when all nonformal part-time courses offered by the technikon's schools were centralised. They have been extended dramatically since then

In five years the number of student hours has grown sevenfold from about 40 000 in 1987 to 280 000 in 1991, indicating an increase in the number of students and that more, longer courses are being offered

Last year the CCD, which receives no state subsidy and only limited technikon funding, generated more than R4m in income

Students include school leavers, workers who need additional career skills and those who want to enhance technical knowledge with managerial skills

Hearne says the CCD draws at least half of its lecturers from commerce and industry

The shortest courses involve a total of 25 hours, the average last 50 hours, and the longest 200 hours Typically they are held on weekday evenings

In many cases the CCD acts as an education agent for industry institutes or private companies

Hearne says the increasing number of firms "privatising" their training is indicative of the tight economic climate

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A history of training for industry

(53)

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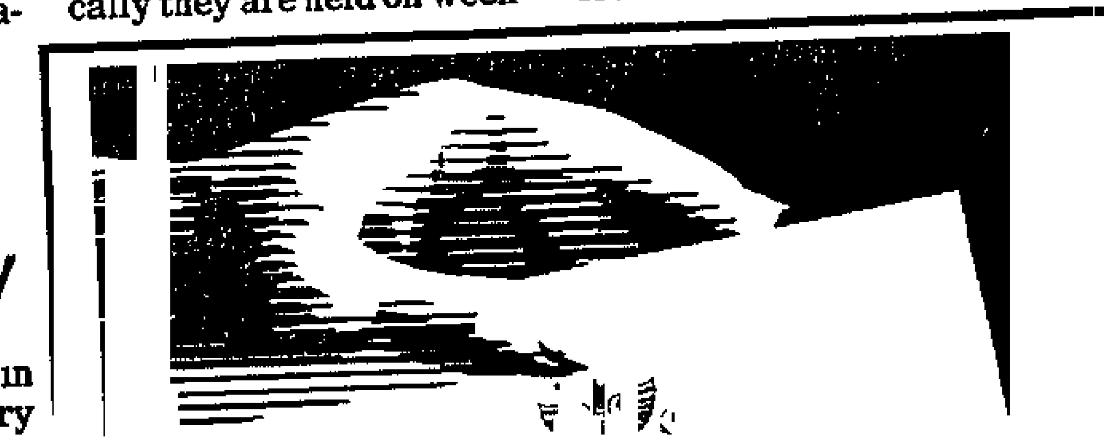

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ity makes it a hot seat to handle But, when it comes to things like education, job training housing, health and recreation, Genmin doesn't take a back seat for anyone.
Take housing for example. Today, there are more proud homeowners in Genmin than there are houses in a city the size of Pietermaritzburg Or education, where Genmin supports nineteen nursery schools in Soweto alone. Every year, 7 000 people learn how to read and write at Genmin's training centres.

whole page (53)

Channel T is SA's only legal private station

B/DAY 30/10/92 (53)

CHANNEL T, the technikon's radio station, is making waves as the only legal private radio station in SA

While broadcasting waits impatiently for Codesa's revival so the Viljoen task group's report on broadcasting can be implemented, Channel T is up and running as a working example of the practical approach inculcated in Technikon Witwatersrand students

While other campus radio stations locked horns with government over licences, Channel T took a different route.

The country's youngest station, it began in 1988 as a typical "cubby hole" radio operation

A year ago, station manager Andrew Bond approached CFK Communications, the suppliers of transmitters to Johannesburg's drive-ins, and commissioned them to build a limited frequency "leaky feeder" transmitter This was delivered in March, complete with a licence

The new station was launched in June It can be picked up within a kilometre radius of the Doornfontein campus — reaching students at the Eloff Street and Hotel School campuses and nearby flats.

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CORPORATE IMAGE

congratulates

A history of training for industry

(53)

TECHNICAL education in Johannesburg was industry orientated from the very beginning

B/DAY

The Transvaal Technical Institute was established in 1903 to serve the mining industry For most of its existence it was housed in the Tin Temple — temporary wood and tin houses on the corner of Rissik and Plein Streets

30/10/92

Wits and Pretoria Universities came into being when the institute diversified its activities

In 1923, Parliament made provision for non-university technical training, and the technikon was born as the Witwatersrand Technical Institute

The first classes began in 1925 In 1930, the institute became the Witwatersrand Technical College

It took over the Transvaal University College building campus in Eloff Steeet in 1933, becoming the Witwatersrand College for Advanced Technical Education in 1967 and the Technikon Witwatersrand in 1970 The Doornfontein campus was opened in 1986 Next year the technikon, renamed TWR, moves to the Goudstad Teachers' Training College campus

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ADVERTISING - PROMOTIONS

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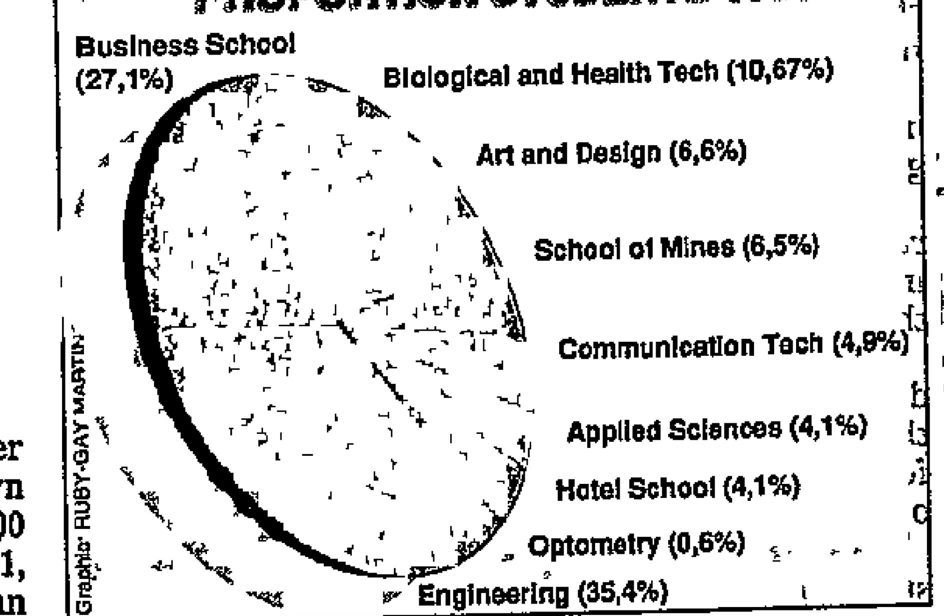


Graphic RUBY-GAY MARTIN

Interest rate cut seen as inflation rate drops

Business Staff (153) ARG 30/10/92

THE inflation rate fell to its lowest level in two years in September, fuelling speculation that a cut in interest rates is imminent.

Central Statistical Services said yesterday the year-on-year increase in the consumer price index (CPI) dropped to 13,5 percent last month, compared with 14,3 percent in August.

On a monthly level, the CPI showed a modest 0,7 percent increase between August and September, although food price rises at a year-on-year 28 percent remained disturbingly high.

Inflation has been declining steadily since it hit 16,8 percent in October last year, when the introduction of VAT put upward pressure on consumer prices

A further drop in inflation is expected in October simply because the impact of VAT will have been aborbed by the inflation figures.

Finance Minister Derek Keys said yesterday that by year-end inflation could be as low as 12 percent.

A significant slowdown in the rate of consumer price rises has been mentioned by Reserve Bank Governor Dr Chris Stals as one of the crucial pre-conditions for lowering Bank rate from its current 15 percent.

The other pre-conditions are softer international interest rates, a further slowdown in money supply and control over domestic credit extension.

In all four areas significant progress has been achieved.

Figures show that that year-on-year growth in the broad money supply measure, M3, eased to 8,88 percent in September from 8,99 percent in August and stayed well within the Bank's guidelines

Furthermore, demand for credit by the private sector remained flat in August this year, increasing by 9,57 percent on the August 1991 level.

Interest rates among South Africa's major trading partners have fallen steadily since the turmoil in financial markets earlier this month and could recede further if the German central bank lowers its rates.

Inflation itself is expected to continue its downward trend over the next few months, given that producer price inflation has stayed below the 10 percent level since November last year.

In a speech to the FM investment conference yesterday, Dr Stals said "The economy is moving in the desired direction and some relief could already be justified over the past year"

Prizes for big spenders

South 31/10 - 4/11/92

153

When companies start trying to lure consumers to buy video recorders, cars or TVs by offering free air tickets, huge cash prizes or free portable TVs for each item bought, then you know the recession's bad.

And this is exactly what several companies have been doing recently. While few consumers will have the ready cash to shell out R4 299 to buy a video recorder, for example, so that they can get a free return air ticket from Cape Town to London, this is a clear indication that even the relatively well off are having to be persuaded much more these days to part with their cash.

This is borne out by Sanlam's latest economic survey, which found that real private consumption spending, which makes up almost 60 percent of total spending on goods and services, is falling for the first time since 1985.

Spending on durables, for example, has fallen 11 percent, which explains all the freebies being offered to those buying cars or TVs.

Sanlam said this fall in consumer spending was largely due to the sharp reduction in the real disposable income of households.

The continued deterioration in consumer confidence, particularly as a result of unstable political and social conditions, was "undoubtedly also playing a significant role in the unwillingness of consumers to spend".

"Other factors, such as the size of consumer debt, high interest rates, the continued high inflation rate and the increasing tax burden, have contributed to the further erosion of consumers' real prosperity and the restriction of their spending power."

Even more disturbing, however, was the fall in real fixed investment, which Sanlam said held "serious implications for future economic growth."

The private and public sectors are spending less on new buildings (including houses), roads, dams, transport equipment and machinery. This was due to several factors, including the drought, unused production capacity because of the recession and general uncertainty and lack of business and investor confidence.

"It is clear that there will be no meaningful recovery in economic activity without a visible de-escalation in violence, a return to political stability and — in the longer term — the elimination of structural shortcomings in the economy," said Sanlam.

"In addition, foreign investors will be attracted to South Africa only if they can earn a satisfactory return on their capital. To effect this, the whole-hearted co-operation of labour, employers and the government is essential. In fact, what the whole country needs is individual as well as community commitment to sustained high economic growth. Only then can South Africa prosper."

Despite its generally gloomy outlook on the economy, with growth expected to fall for the third year running, Sanlam does have a little bit of good news. Inflation is expected to ease from about 14 percent to 12 percent by the end of the year and interest rates could move to as low as 15 percent over the next six months.

But the bottom line is that belt-tightening will be the order of the day for some time yet — and so will all those "freebie ads".

Lynda Loxton

MONEY MARKETS by Hilary Gush

Surprising response to low inflation figure

153

RATES in the rumour-driven capital and money markets reacted contrary to broad market expections after Thursday's release of a lower consumer inflation figure for September BDAY 2/11/92

While rates in the money market remained fairly static, gilt rates swung widely as the weekend neared

On Friday, yields on long-dated gilts increased to a day-high of 14,44% from an overnight close of about 14,20% Traders who were geared for a Bank rate cut on Thursday sold off stock on an indication from Reserve Bank Governor Chris Stals that official interest rates would not be dropped in the short term

Reports that SADF troops had been deployed in Angola spurred negative sentiment and increased stock sales Dealers said the upward movement constituted a severe correction within the framework of a bull market. They expected rates to remain steady at the higher levels this week, before the November 5 option close-out.

If one of Stals' prerequisites for easing interest rates is that inflation fall to below 14%, then everything should have been in place for a cut in Bank rate last week

Surprisingly, news that inflation had fallen to 13,5% did not force bulls back into the market. Word from Stals that there would be no change in tight monetary policy may have hindered a rise in bullish sentiment.

By Friday afternoon many dealers had postponed hoping for a Bank rate cut before month-end, while others were convinced official interest rates would be dropped soon after the market closed for the weekend

"Stals is full of surprises — he'll cut it when we least expect," a dealer said

The rate on the weekly three-month Treasury Bill (TB) was changed slightly from the previous week. Bids totalling R294,27m were received for the R200m on offer. These were allotted at an average rate of 12,02% from 12,03% the week before A total of R200m was received for the R50m in six-month TBs on offer These were issued at an average rate of 11,08% — 14 points below last week's rate of 11,22%. Dealers were surprised that rates had not come off further — particularly in light of persistent expectations of a Bank rate cut

Speculation that a drop in the prime overdraft rate would pre-empt a cut in the Bank rate was rife last week Both the money and capital markets are characterised by uncertainty and speculation The immediate direction in which rates will move is anyone's guess

Inflation down to 12 percent by year-end, expert predicts

Business Staff

(153) ARGT 2/11/92

JOHANNESBURG — Inflation will fall to 12 percent by year-end, predicts Standard Bank chief economist Nico Czypionka

But because of the high cost structure of the economy and expansionary fiscal policy he does not expect inflation to fall to single-digit figures next year.

Speaking at the Financial Mail investment conference here, Mr Czypionka said a sharp decline in producer price pressure, weak domestic demand, the technical effects of a further 1 percent cut in prime and bond rates, and the effect of the elimination of VAT from the inflation rate would all lead to a further fall in inflation

The progressive moderation in inflation would mean room for a further 2 percent cut in prime and bond rates in 1993, though interest rate relief alone would not be enough to eliminate risk of bad debt and business failure.

Mr Czypionka said summonses for debt had increased to 90 000 a month this year from just over 70 000 in 1989. Judgments for debt had increased to R250 million a month from R50 million in 1985.

He said that thanks to falling credit demand, money supply growth was well within its guideline range.

There was an absence of meaningful new investment, stock reduction had reduced the working capital requirements of the commercial sector and individuals either attempted to consolidate debt into home loans or they were no longer credit-worthy

He said government finances were out of control Mounting pressure on the government to meet social backlogs has led to expenditure overruns exaggerated by recession.

South Africa had experienced stop-start growth since the mid-Seventies and the object of the present monetary policy was to reverse this by creating a stable financial environment, he said

Imports had become more expensive relative to exports and the recent progress made in exporting manufactured goods must be enhanced.

He said an outward looking maufacturing sector could protect the balance of payments and provide the investment funds to revive the economy

South Africa suffered from an investment shortfall of R18,8 billion and government and foreign savings would be needed.

He said foreign investors wanted limited government prescription in capital markets and bold moves to abolish exchange controls

There would need to be a major cut in the size of the public service, an overhaul of the tax structure to make it simple and spread the burden

250 000 jobs lost due to recession

(153) DUMA GQUBULE (355)

THE country's longest recession this century has resulted in more than 250 000 retrenchments in the non-agricultural sector since September 1989, Central Statistical Service employment figures show

Hardest hit was the mining and quarrying sector, where employment levels plunged by 100 000 to just over 600 000.

However, employment levels in the retail and financial sectors increased by 40 000 over the past three years.

Manufacturing employment dropped by 67 000, construction by 42 000 and electricity by 6 000, for a total of 115 000 jobs, pushing total employment in these sectors down to 2,42-million. B/DAY

In the wholesale, retail and motor trade and hotels category, employment dropped by only 11 600 to 719 500, due to a 14 300 increase in employment in the retail trade. Hardest hit in the category was the wholesale trade where 19 500 jobs were lost.

However, employment at banking institutions has increased by 18 600 since the beginning of the recession. 2/11/92

Analysts said yesterday banking and insurance institutions had been growing over the past three years due to a proliferation of new financial products.

The CSS data accounts for a total of 3,3-million people in the formal sector of the economy However, major sectors — like agriculture and domestic services, which together employ over 2-million people — are excluded.

THE WEEK AHEAD by Simon Willson

Producer inflation rise expected

BDAY 9/11/92. (153)

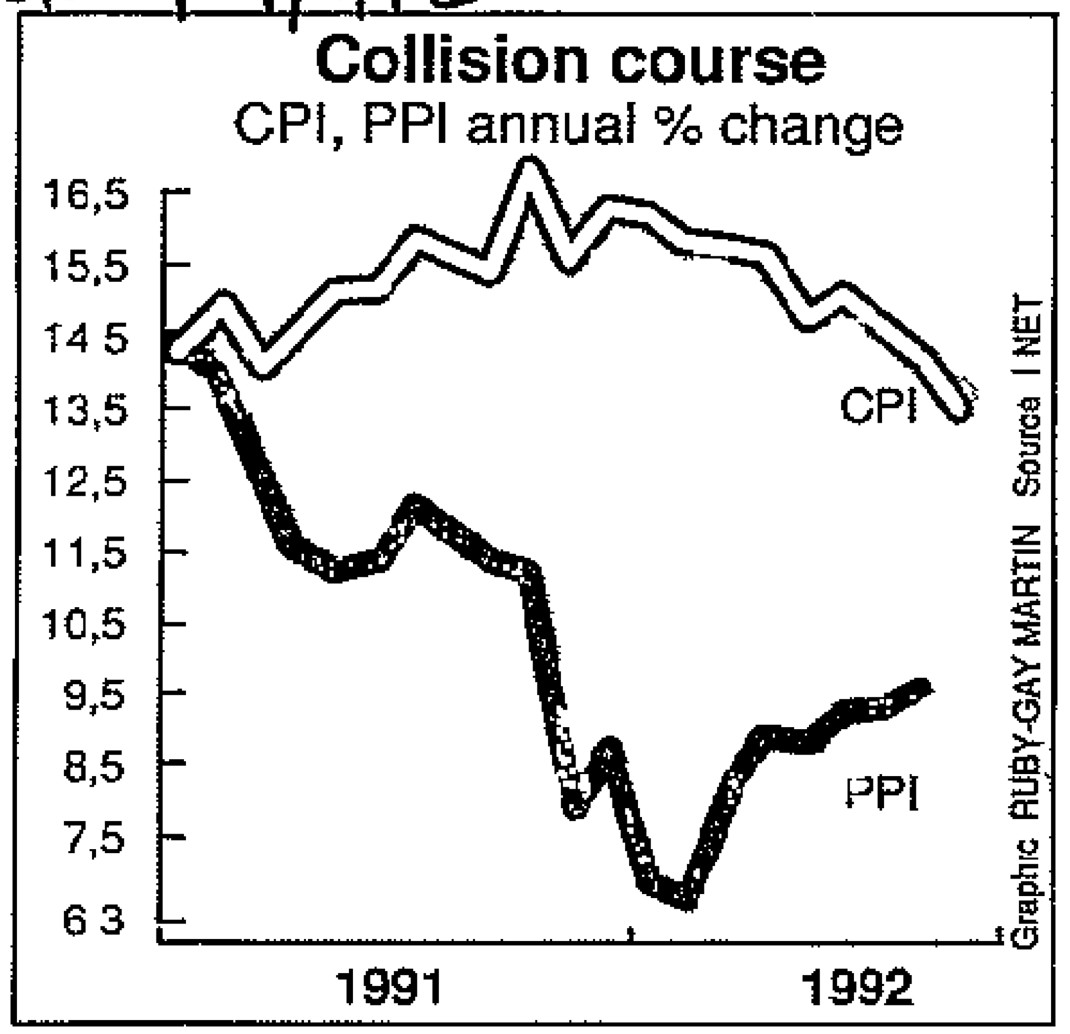
ANOTHER close encounter with a return to double digits awaits producer inflation when the September rate is released this week

Since bottoming out at 6,7% in January and February this year, the annual increase in the *producer price index* (PPI) has risen steadily to 9,5% in August and seems poised shortly to test the 10% level last topped 13 months ago

The rebound in PPI inflation from its first-quarter lows will probably be muted, however reflecting the stable real effective exchange rate of the rand, soft international oil prices and stagnation in the domestic economy If the rate does hit 10% over the next few months it is, while these influences continue to apply, unlikely to rise much above it

For now, though, producer inflation is on a collision course with its consumer price index (CPI) counterpart As the chart shows, the two inflation rates are navigating to cross each other's paths again for the first time since January last year It is the CPI side of the pincer that is closing the most rapidly — a pace that should accelerate still further when the October CPI is published at the end of this month

This week's PPI outturn could show an upward bulge in the rate of imported inflation, first because the world benchmark crude oil price jumped above $20,50 a barrel during September (it is now more than a dollar lower) An additional boost to the imported component of the September PPI will be the 0,6% fall in imported producer prices in September 1991, which gives the year-on-year change in the index this September a markedly lower base



The annual rise in the imports PPI could therefore be higher than August's 6,3%, and possibly more like July's 7,5%, which means there would have to be unusual moderation in the domestic component of the PPI to bring the headline rate down from 9,5%

Internationally, the landmark of the week is probably the continuing decline in British inflation When the rate of *UK consumer inflation* for October emerges on Friday it is likely to show another dip from the 3,6% rate posted for September

Although currently still above its most recent lows of 2,4% in mid-1986, UK inflation is expected to approach the 2,5% level at the end of next year Meanwhile *UK producer inflation* for October, out tomorrow, is also likely to edge down further from September's 25-year low of 3,2% although it is set to rebound early next year following the fall in sterling over the last two months

Both measures of US inflation are also scheduled for uneventful release this week *US producer inflation* for October, published tomorrow, is likely to be steady at around its September level of 1,6% with the help of the rallying dollar while October's *US consumer inflation*, out on Friday, is also set steady at September's 3% — a reflection of the sluggish activity of the US consumer

Also on Friday, members of the Clinton administration-in-waiting get an early look at the problems awaiting their attention in January when *US retail sales* for October are released A hesitant 0,3% rise in sales in September — arising mostly from post-hurricane refurbishment in the southern US rather than from new consumer demand — did nothing to help the Bush re-election effort

The grim state of the British economy will be underlined on Thursday when the October level of *UK unemployment* is published In September the headline jobless rate rose to 10,1% — exceeding 10% for the first time in five years Manufacturing employment fell by 51 000, the largest recorded monthly drop

Overshadowed by the bleak jobs outlook, *UK average earnings* growth dipped to a 25-year low of 5,75% in August The September figure, due on Thursday, could show another quarter-point drop as uncertain workers put job security before pay rises

Report predicts longer recession

BDAY 17/11/92 (153)

PETER DELMAR

THE current recession is set to surpass even that of 1904 to 1908 for longevity, the Bureau for Economic Research (BER) has warned.

The bureau's latest Economic Prospects outlook on economic activity for the rest of this year and next notes that the previously longest downturn in the business cycle this century lasted 48 months and the current one already stood at 40

Unlike its previous outlook, completed in May, which was "decidedly bullish", the latest one is described as being bearish

This was the result of factors including the delayed world recovery, drought and a deterioration in the political climate

Assuming the installation of a transitional executive and constituent assembly elections next year, the report nevertheless cautions that uncertainty will remain high

"It would appear that the events around Bisho have brought the moment of truth closer for the political heavyweights in SA

"It was noticeable that a feeling began to arise in foreign circles that SA should possibly just be written off like the rest of the Arica.

"The attitudes of foreigners towards SA have hardened after the collapse of Codesa and the subsequent increase in violence. This implies that it is becoming more difficult for loans to be rolled over, and the willingness of foreigners to invest in SA must be close to zero"

The report said the effects of the drought were far more serious than previously anticipated, cutting GDP by 1,8%

The drought would cause a drop of 0,5% in real consumption expenditure and cut real disposable income by 1,8%. It was expected to cost 69 000 jobs and boost imports by at least R500m, while reducing exports by about R700m CPI could be almost 1% higher than would have been the case during a normal rainfall year

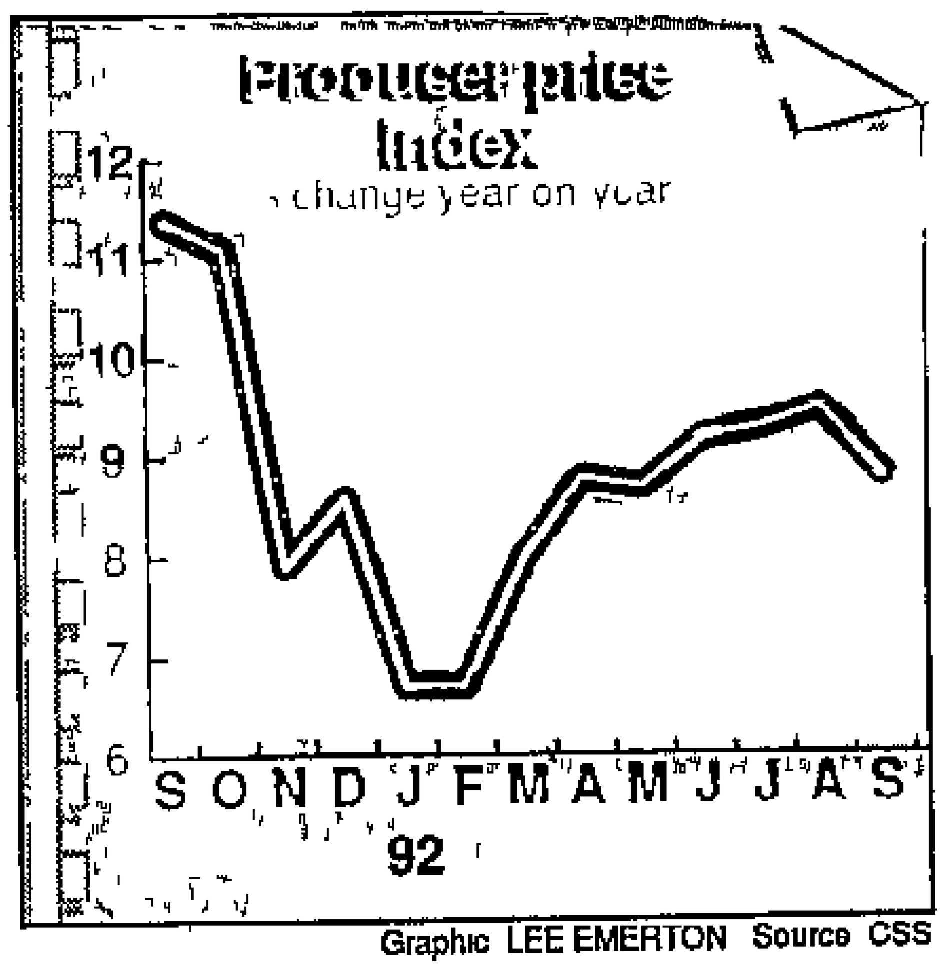
Although assuming that the next agricultural season would be normal, a return to normal conditions could take three years, the BER said.

It said the lower than expected world recovery, particularly in the developed economies was bad news for SA, particularly as an improvement in South African export generally lagged a year behind a world upturn

"As a result of the prolonged effects of the drought, a hesitant recovery in the world economy and, in particular, adverse political condition, it now seems unlikely for clear signs of an economic recovery to come to the fore before well into calendar 1993.

"The outlook for an economic recovery has indeed suffered a setback by Finance Minister Derek Keys' statement that he planned to cut consumption expenditure by 3% in real terms during the current year

"Not many economists will argue against the merits of this intention Quite a few, however, are likely to question the timing of this intended action," the report said



Graphic LEE EMERTON Source CSS

Drop recorded in producer inflation

B/DAY 17/11/92

HILARY GUSH

153

PRODUCER inflation dropped to 8,8% in September from the 9,5% posted in August, according to Central Statistical Service (CSS) figures released yesterday

Seasonally adjusted monthly growth in the producer price index (PPI) slipped to 0,3% from August's 0,9% increase.

Old Mutual senior economist Rian le Roux said the figure showed inflationary pressures were easing "Producer cost increases are subdued and rises in labour costs are coming off," he said

He was optimistic that producer inflation would remain in single digits for the rest of the year

The CSS data showed agricultural food inflation at the producer level far outstripped increases in manufacturing food price by an annual 23% to 7,4% Le Roux said this reflected the effect of the drought on prices and the poor level of consumer demand "Manufacturers are having to absorb a large portion of these cost increases because of weak consumer demand — a result of declining disposable incomes"

The annual rate of increase in prices of imported commodities rose 7,1% from the 6,3% increase recorded in August, while the price increases of locally produced goods ebbed to 9,2% from 10,3%.

Absa senior economist Christo Luus said as the rand had depreciated against the dollar and most of SA's trade was dollar-denominated, an uptick in the imported component of producer inflation could be expected in the next few months. "On the other hand if rain continues to fall over the interior, the price of food and locally produced goods could tend downwards."

Pay rises drop below inflation

268 153

LLOYD COUTTS

AVERAGE wage increases have dropped below the inflation rate for the first time since 1986, with the recession forcing trade unions to settle for single-digit increases or no raises at all. BDAY 18/11/92

According to the latest wage settlement survey by Andrew Levy & Associates, the average level of settlement for 1992 dropped to 12,6%, almost three percentage points lower than the average inflation rate of 15,07%.

Levy said the average could drop another half a percentage point by year-end, and predicted that wage levels would continue to be depressed in 1993. Wage settlements were unlikely to catch up with inflation, even if the CPI did drop to a predicted 11,5% by the end of the year

Unions were maintaining moderation and realism in wage demands — even though the average 56,4% demand was higher than the 47,8% for 1991 — and this was being reciprocated by realistic opening offers from employers.

Industrial action this year would account for the loss of more than 4-million man-days Wage-related industrial action was still showing a downward trend, despite protracted Numsa and Nehawu strikes

The level of industrial action in support of wages in the private sector — especially the metal industry — would probably be depressed in 1993 But the public sector could expect an increase in industrial action, with the lifting of restraints on collective bargaining in this sector.

Industrial action was a feature in only 23% of the wage negotiations surveyed

No hard and fast rules on the final cut

BDAY 19/11/92 153

EDWARD OSBORN

GRETA Steyn concludes that "while the deficit is no reason to further delay a cut in the Bank rate, it is undoubtedly a reason why the next cut should be the last or close to the last" (Business Day, November 10)

By her reasoning, Tuesday's announcement would represent this final cut. But this presupposes that the upswing is near to starting and when it does the combined pressure of government expenditure, unless severely constrained, and capital investment expenditure will be strongly demand inflationary. This is the reason for Reserve Bank Governor Stals sticking with the same song of resistance

But it also presumes that the antidote to fiscal excess is monetary restraint or, alternatively, we cannot have both lax fiscal behaviour and easy monetary policy at the same time

Neither proposition is a truism or preordained verity; witness the US today. The situation in SA next year could conceivably justify the latter combination should there be continuing lack of consumer demand and investment confidence. On the other hand it might not. The point is it cannot be assumed to be an iron rule at this juncture

However, there is the compelling argument to restore fiscal balance through a combination of expenditure constraint and enhanced revenues because of the Gadarene slide into the public debt trap that actually started about 1989. Any cock-eyed notion of clawing our way out of the present recession through fiscal means must be firmly resisted. The economic effects, although unpredictable, would be ephemeral, and there would be an acceleration down the slope.

The fiscal problem is essentially one of severe structural imbalance, exacerbated for the moment by the collapse of revenues because of the recession And, furthermore, it is one that needs to be resolved on the revenue side, notwithstanding all the nice supply side arguments. Despite any Herculean attempts on the part of Minister Keys to reduce expenditures, it would be naive to expect anything other than a steady rise in expenditure levels as we go into our New World.

But it would also be disastrous for this country if the monetary authorities are going to see their role as attempting to negate fiscal imbalance through tight monetary policy on a permanent basis For one thing it is vainglory, and for another it will be inimical to growth.

In a country where the wage rate has chronically outstripped production prices (395% as against 312% in manufacturing since 1980) and has not been compensated for by any improvement in productivity, the return on capital is attenuated. Rates of interest have to be low and credit readily available to induce productive borrowing — and especially low in a climate of low confidence

And what's more, investment activity will only take place for reasons of perceived market opportunity. In many cases these can be of consumption in nature, and the present odium attached to consumption is just bad economics

The recession, broadly speaking, has had two streams of causality, the external and the internal. The external, through a combination of reduced commodity prices and real effective exchange rates, has forced rationalisation and retrenchment. The internal, affected initially by the externally induced retrenchments and the sharp decline in investment activity because of poor business confidence, has also gone through rationalisation and retrenchment. And the process has fed upon itself.

Part of the problem for the mainly internally oriented manufacturing sector has been the financial stress on it Surely in a constrained situation of reduced turnovers and financial burden there has to be only one way out for survival and that is through employment shedding

One of the saddest indicators of the recession's depth has been the growth of the money supply restricted to about 9% This is indicative of the fact that borrowing has not been related to productive investment, but simply for survival, in many cases using established facilities to cover interest due. Talk to anyone toiling in the banking vineyard

Frankly, like Oliver, I see every reason to keep asking for more in present circumstances. Obviously, not in order to provide monetary stimulus to the economy which it would not, but rather for the alleviation of financial distress and stopping any further job shedding due to this factor

☐ **Osborn is Nedbank chief economist.**

REVIEW

Recession has not yet bottomed out, Sanlam warns (153)

BIOM 20/11/92.

LINDA ENSOR

CAPE TOWN — All indicators pointed to another year of sluggish growth for the economy in 1993, Sanlam chief economist Johan Louw said in the assurer's latest Economic Survey.

"An analysis of various economic indicators shows that the lower turning point in the downswing has not been reached," Louw said, adding that a significant upswing could not be expected before late 1993

A 0,6% growth in real GDP in 1993 was forecast, compared with the estimated 1,7% decline this year and the falls of 0,5% in 1990 and 0,6% in 1991

Louw gloomily forecast a further increase in unemployment, a weakening in the financial position of consumers, disappointing company profits and a listless stock market However, interest rates should drop and real fixed investment should decline at a slower rate

Suppliers of durable goods such as cars, furniture and domestic appliances would continue to face difficulties next year, while building and construction companies could only expect a noticeable improvement in conditions in 1994.

Louw noted opportunities for passing on higher costs to consumers would be limited and businessmen would have to ensure cost escalations remained as low as possible

The economic recovery of SA's major trading partners would be more sluggish than expected, while continued political uncertainty and low levels of business and consumer confidence in SA were not conducive to an upswing.

"We expect the most important industrial countries to show a more synchronised recovery late in 1993 The expansion, however, will remain relatively mild It therefore does not appear that the SA economy will be able to rely on a strong injection from abroad," Louw said

It was unlikely that fiscal action would stimulate the economy

The forecast decline in real government consumption expenditure next year for the first time in many years would not support an economic recovery. Furthermore, there was unlikely to be tax relief in the March 1993 Budget — in fact, tax increases were almost unavoidable given the unfavourable state of government finances Louw said it was likely certain indirect taxes would be raised and he expected the Budget to promote fixed investment

"What is more, we think government will maintain its policy of keeping the real external value of the rand on a weighted basis relatively stable Bearing in mind the expected firming of the American currency, we believe the average rand-dollar exchange rate will be around 3,13 for 1993, against an estimated 2,84 for 1992."

Louw's other projections included a stagnant private consumption expenditure after an estimated 3,3% decline in 1992, a 1,5% fall in government consumption expenditure; a 5% decline in public sector gross domestic fixed investment, and a 1% rise in private sector investment to give a total decrease in investment of 0,7%

The current account on the balance of payments would reflect a surplus of more than R6bn in 1993, compared with the estimated R5bn in 1992, and there was the possibility of an improvement in SA's foreign reserves Non-gold exports would rise marginally, though net gold earnings would increase, there would be a moderate growth in the volume of merchandise imports and a larger net payment for foreign services and transfers

A prime overdraft rate of banks of 16% by mid-1993 was forecast as against the current 18,25%.

The 1992 inflation rate was estimated at 14,3% dropping to an average of about 11%-12% next year

The average remuneration for workers outside agriculture was expected to rise by 12% next year against an average 14% in 1992 This would mean little change in real wages and consequently a bleak outlook for consumer spending

The Bundesbanker in Pretoria

Brian Kantor is professor of economics at the University of Cape Town

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FM 20/11/92

All Germans may not believe in God but they all believe in the Bundesbank. They have every faith in its protecting them from the curse of inflation This support gives Bundesbankers enormous authority over governments If the government wants to spend more and tax less, a natural inclination, the Bundesbank puts up interest rates and the politicians cannot escape the consequences

We have a Bundesbanker in Reserve Bank Governor Chris Stals Even if we lack the same horror of inflation, and do not fully believe in what he is doing, we would do well to understand that he is determined to deliver German-style central banking and no politician or pressure group is going to deflect him from his goal of very low inflation His determination is without qualification, unless qualification is measured by a gradual but consistent decline in the rate of growth of the money supply Some would argue that going cold turkey by freezing money supply is the surer method

Economists have a theory that links changes in output and employment growth not to inflation but to unexpectedly high or low inflation. Economic actors — firms, households, unions and government departments or enterprises — build inflation into their budgets If inflation turns out as expected, nothing much changes in response to higher or lower inflation

However, if inflation is higher than expected, because demand for goods and services is higher than expected (the result of money supply growing faster than expected), the firms and other decision-makers respond as if their budget-beating sales and prices and what are assumed, falsely, to be improved margins, were the result of their own superior efforts in marketing or production In response, the firm expands production and employment When, however, monetary policy is tougher than expected, and price increases and revenue growth that were planned for do not materialise, the firm reacts as if all this were its own fault and cuts output and employment In this way, unexpected inflation has real effects

The extraordinary feature of SA inflation since 1975 has not been its average, but its stability An unlikely coincidence of policy reactions and oil and food price and exchange rate shocks have kept inflation within a tight range of about 14%. As a result, inflationary expectations have become entrenched about this level and budgets are made accordingly

There is thus a theoretically respectable argument that monetary policy should have lived with these expectations After all, it is unexpected inflation that has real effects, and everyone, including long-term borrowers and lenders, had had ample opportunity to build expected inflation into their contracts Furthermore, breaking such well-entrenched beliefs about inflation would prove particularly costly, in output lost as a result of unexpectedly low inflation

Stals will have absolutely none of this argument For him the only acceptable rate of inflation is no inflation His intuition is not that of the modern economist but of the latter-day central bankers for whom inflation is public enemy number one Stals is fighting inflation with all the weapons at his disposal interest rates, exchange rates and even exchange control

Relieving such controls, which must be to the longer-term benefit of the economy, would interfere with the low inflation objective in the short run if it meant a weaker rand exchange rate and higher import prices The fate of the financial rand and the offshore market in SA securities, battered as it was recently by extra supplies of rands sold to pay for direct SA investments abroad, is, it would appear, of much less importance

Whether Stals is right or wrong in his intuition, and whether his goal for inflation is too ambitious for a poor country already carrying a comparatively heavy burden of welfare and taxation, is irrelevant The reality is that he is pursuing his anti-inflation goal with determination Which is why, like the Bundesbanker, he keeps up short-term interest rates because the fiscal deficit has widened appreciably in recent months as the weak economy erodes tax revenues

Many would regard the larger fiscal deficits as a welcome relief for the economy Not Stals Either the deficit comes down or interest rates stay up and the onus is put very much on the Treasury to limit the deficit One only hopes that Finance Minister Derek Keys will cut spending rather than raise taxes because it seems perfectly clear that raising tax rates at this stage is likely to produce less rather than more revenue

The economy will recover when businesses and unions take into account fully the determined onslaught against inflation Businesses and unions would do well to plan their costs (including especially the salaries of senior management), prices and wage demands next year as if inflation would be no more than 5% Assuming any more than that is bound to lead to costly disappointment for them and the economy

CoL dives

CT 21/11/92

Inflation rate hits 8-year low

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By ARI JACOBSON and ANDRE KOOPMAN

THE inflation rate plummeted to its lowest level in eight years to 11,7% this month — while spiralling food prices have finally been brought under control.

In good news for the hard-pressed consumer, the food price inflation rate dropped from over 30% for the year to July, and now stands at a shade over 21% for October

Excluding food prices, the official inflation rate was in single digits at a 9,3% rise — the lowest level since 1978

This is according to the latest consumer price index (CPI) figures

A small 0,3% increase in a basket of foodstuffs was recorded for the month of October showing that food price increases are being curtailed

The sharp fall in the CPI — a 1,8% drop from the 13,5% increase for the year to September, caught economists and even the SA Reserve Bank governor Dr Chris Stals by suprise

Dr Stals said in an interview yesterday "We are finally seeing some results If this continues we should see further falls in interest rates"

However, Dr Stals warned that an acceptable inflation rate by world standards was between 5% and 7%

"Now is an opportune time to get the rate down to these levels," he said

Food prices have been soaring because of the drought and a lack of competition in food industries. Also blamed for high food prices was alleged control board involvement in agriculture

Mr Jan Cronje of the Consumer Council welcomed the decrease in the CPI as "excellent news"

"For the first time we are now really moving in the right direction. Of course it is most wonderful news that the food inflation rate is dropping and is not as high as was expected"

A decrease in food prices had been noticeable in the last few months, he added

Food price probe

Mr Cronje said that news about the declining inflation rate would have a very significant effect on people's expectations which would serve to boost the economy

Also of great importance was the rain which has been falling on drought stricken areas

Mrs Sheila Baillie, national vice-president of the Housewives' League (HWL) welcomed the news but was more cautious about the effect, saying "It is good news to hear that food price rises may be slowing."

She said the HWL had been investigating food prices during October last year and October this year to guage the effects of VAT — introduced last

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From page 1

October — on prices

Old Mutual's economist Mr Johann Els praised Dr Stals, whose tight monetary policy — keeping interest rates high — had reined in inflation (152)

"We have at last stabilised inflation, perhaps not by First World standards but certainly by African and Latin American standards"

Sanlam's chief economist Mr Johan Louw added that "the tendency towards lower inflation is promising but the big test will come once the upswing begins — probably in mid-'93"

Southern Life's chief economist Mr Mike Daly was impressed by the decline in food price inflation CT 21/11/92

He said that consumer inflation could fall to about 10% by the end of next year if VAT and petrol price hikes were not used to raise government tax revenues

"Its a gamble for the government but, with no increases in VAT or petrol prices, inflation could fall further, bringing interest rates down"

This should help stimulate the economy next year and in this way allow greater tax revenues to be collected in the future

award for teen hero

Recession tips for small businesses

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South 21/11 - 25/11/92

SMALL business operators have to be extra careful and super-alert if they are to survive in these tough times

At a recent meeting of the Cape Town Chamber of Commerce's Small Business Forum, a panel of experts gave sound advice to small businesses Some examples of the questions and answers included:

Question: How can I survive the recession?

Answers

- Do not deviate from what you are good at Stick to what you do and do it well.
- Identify your mission and the steps you are going to take to achieve it. Never lose sight of your target.
- Improve your efficiency.
- Collect your debts faster and beware of extending credit to unreliable people.
- Take stock of your income and expenditure often Have systems in place where simple records can be checked weekly to give you an idea of where you stand.
- Beware of spending money on "nice to have" improvements or equipment, and concentrate on "need to have" goods.
- Split your business between large and small customers so that if a big customer withdraws, you are not left high and dry
- Do not take too much money out of your business for personal use

Question: In a recession, should I go on advertising my business?

Answers:

- Yes You must continue making customers aware of your product, but advertise as cost-effectively as possible. Make sure your adverts are reaching your target market.
- Any business should have a marketing plan, goals and objectives.

Question: Should I cut my prices to stay in business?

Answers.

- Rather than cutting your prices, try to distinguish your product from that of your competitor to justify the price difference.
- Allow for a margin of flexibility and try to introduce a "win-win" situation.

For example, you could agree to give a five percent discount if the customer pays within 30 days, or if he places an order for two months instead of one.

Question: How can I save on labour costs?

Answers.

- Scale down your staff if necessary and make sure than salaries and wages are in keeping with the jobs being done.
- Consider employing people on short-term contracts. This will save the cost of retrenchment packages But be sure that the letter of appointment is drawn up properly

There is a distinction between employing someone on probation, which is regarded as permanent employment, and employing someone on a three-month contract.

Death by diktat

S Times (Buss) 22/11/92.

CHRIS Stals's refusal to print money to treat the ailing SA economy is exposing its many deficiencies. But the cry is still for treatment of the sympton rather than the disease. Comment by KEVIN DAVIE

A SPECTRE often raised is that a new government will introduce minimum wage legislation like Robert Mugabe did in Zimbabwe, bringing new inefficiencies, slowing economic growth and killing jobs.

But take a close look at South Africa and you will find that such legislation is alive and well and destroying jobs.

As we report today, an industrial council and wage board system sets minimum wages and regulates much of the formal economy.

Hundreds of thousands of South Africans are prevented from working for less. Regulation of the labour market kills jobs, lowers output and pushes up prices

So only the informal sector has experienced any growth in recent years

Regulation suffocates the labour market It prevents people from working for their social cost.

It leads to idle hands and hungry stomachs, fuelling the violence which is keeping investors at bay.

Where people are prevented from earning a living they have to turn to the State for support or to another well-entrenched SA institution, theft

Subsidies normally go hand in hand with regulation. So a growing lobby of economists and unionists want a public works programme subsidised by the taxpayer to provide hundreds of thousands of jobs for the unemployed.

This is the South African way: first regulate and then bill the taxpayer for the costs which flow from the inefficiencies which regulation brings.

Then, as the system begins to strangle itself, cry for cheaper money. It is easier to print money than tackle vested interests which are artificially boosting prices in the first case.

Reserve Bank Governor Chris Stals says the restrictive monetary policy is exposing the numerous deficiencies of the economy

He says distortions stem from the fact that the economy is overly protected from foreign competition

(153)

High tariffs on imports, unrealistic regulation in labour and other markets, exchange controls and monopolistic practices all put pressure on prices

These deficiencies have led SA to be one of the few remaining countries in the world which has unacceptably high inflation

Simply put, SA becomes less and less competitive every year Key industries, says Dr Stals, could disappear in about three years

He noted in a recent speech that little progress has been made in the past year in freeing SA markets.

He has also said that the IMF believed that South Africans did not have the will to restructure. Dr Stals believes that a country which has the courage to create a new nation could also reform its economy

Drastic economic reform will come. Whether it comes from domestically produced consensus and on SA's terms, or on IMF-imposed conditions when overregulation has strangled us near to death, remains to be seen

Way clear for cheaper money

By TERRY BETTY and ZILLA EFRAT 153

INFLATION dropped to an eight-year low in October — surprising economists and Reserve Bank Governor Chris Stals and opening the way for more interest-rate cuts

Dr Stals says if inflation continues to fall, interest rates could fall again next year Other factors, however, could bring them down earlier

AHI senior economist Nic Barnardt says this is the first time inflation has fallen below pre-recession levels

"The pain has not been without gain"

He cannot remember when there was last such a large month-on-month drop.

Economists were stunned by October's figures which show consumer inflation is increasing by 11,7% a year Most had forecast a rise of between 12% and 12,5%

The big surprise was food inflation which increased by 27,6% in September compared with only 21,2% last month

Slower increases in food prices contributed to the year-on-year consumer inflation fall of almost two percentage points in October to 11,7% — the lowest since 1984

Non-food inflation was 9,3%, hitting single-digit figures for the first time in at least a decade It was helped along by lower housing inflation, which showed a year-on-year decline

The October CPI is down on September's 13,5% and an average of 15% from January to July, according to Central Statistical Service (CSS)

S1 Times [Buss] 22/11/92

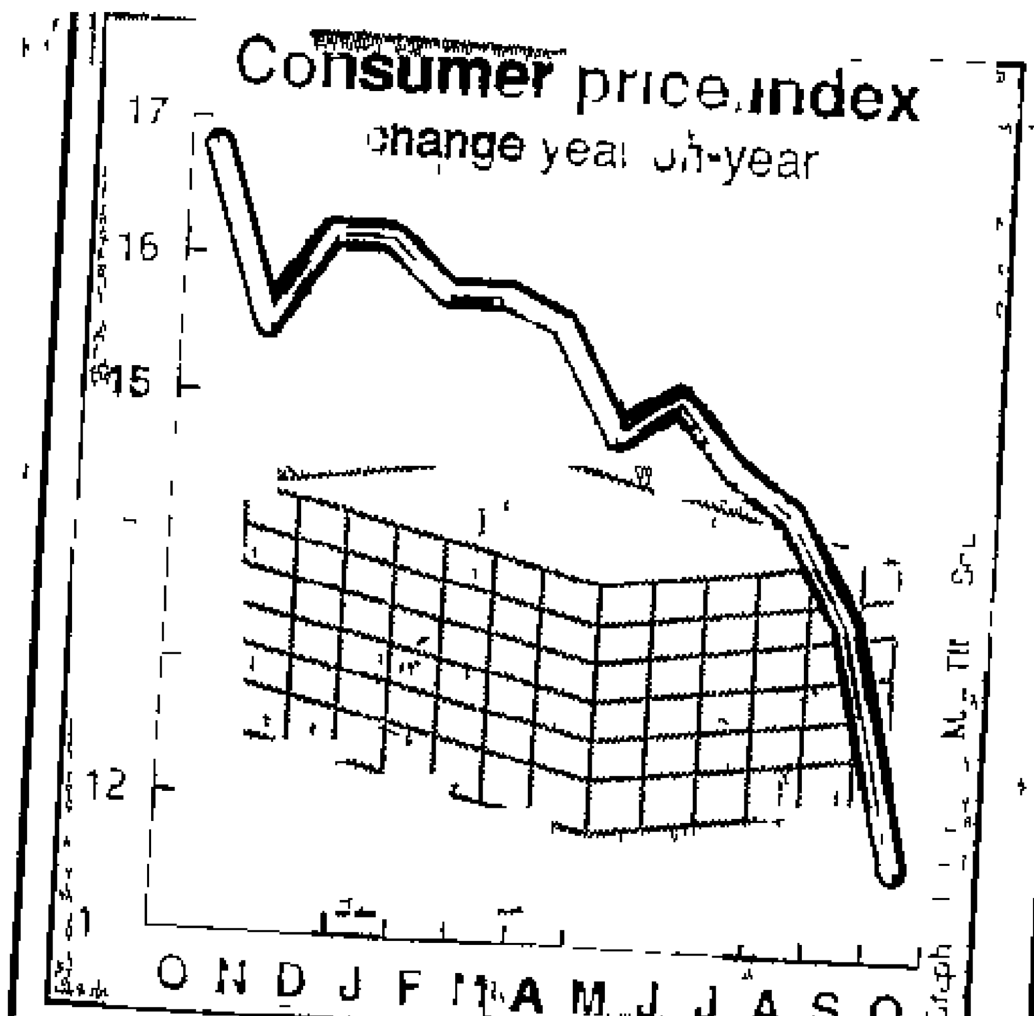
Apples

Dr Stals says that the latest figures show that the decline in inflation is more than technical Apples are being compared with apples because VAT was in place in October last year

Econometrix director Tony Twine says the slower CPI rise follows a lower-than-expected PPI for September of 8,8%, reflecting poor demand in the economy

Absa senior economist Pierre Morgenrood expects inflation to fall to 10,9% in November and 10,6% in December, giving an average for the year of 14,1%

October's fuel-price increase is expected to be reflected in November's CPI



11,7% CPI rise 'lowest in years'

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HILARY GUSH

THE early release of much lower than expected consumer inflation figures for October stunned economists at the weekend.

B/DAY 23/11/92

According to Central Statistical Service data the increase in consumer prices of 11,7% in the 12 months to October was the lowest in more than eight years

Economists said some of the fall in the annual inflation rate could be attributed to technical factors, as the October 1991 introduction of VAT meant that October 1992 inflation was measured from a high base.

However, the drop in inflation was much greater than expected, reflecting an easing of underlying inflationary pressures. Excluding food — the inflation bugbear — the consumer price increase was 9,3%, in single digits the first time in a decade.

Boland Bank group economist Louis Fourie said: "October inflation is much lower than expected. We forecast a rate of 12,4%, but must have overestimated food price increases."

Annual food inflation was 21,2% in October — the lowest rate in more than a year

Declining bond rates and a stagnant housing market had helped reduce the housing price index 1,1% year-on-year.

Fourie predicted that inflation would remain at less than 12% until year-end, but warned that an increase in the VAT rate could push consumer price increases up by about one percentage point next year. He did not expect inflation to rise much above 13% for 1993

Given the sharp fall in inflation figures,

☐ To Page 2

Inflation

B/DAY 23/11/92 - 153

☐ From Page 1

another Bank rate cut could be expected

Old Mutual chief economist Dave Mohr said the food and housing indices' combined weightings of about 40% explained the low monthly increase.

He expected inflation to remain close to the 11% mark until early next year. However, an increase in the VAT rate, expected in April, would push inflation beyond 12% in the second quarter

Southern Life economist Sandra Gordon said she had dropped her year-end inflation forecast to 11,4%

She attributed the slide to the drop in food inflation, particularly in the price of meat, which had declined 0,5% month-on-month and which accounted for almost a third of the food index. Vegetable prices — a major culprit behind rocketing food prices — had fallen 2,5% during the month

Provided VAT was not increased, her end-1993 inflation forecast was 10,6% However, given the high government deficit a hike in VAT was likely — and would push inflation to more than 12% next year.

● See Page 3

Inflation will be in single digits soon, says Keys

BDM 23/11/92

PARIS — While drought and problems like the hijacking of food delivery lorries have forced up food prices in SA, inflation will drop to single digits soon, Finance and Industry Minister Derek Keys says

He told business executives in Paris on Friday that overall inflation had been brought down to 13% from about 16% at the start of the year

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"We can look forward to further falls in inflation into the single-digit range and accompanying declines in interest rates," he said

Keys was visiting France during a tour of European capitals to meet industrialists and bankers interested in doing business with SA

Keys said slack consumer demand and low investment because of the uncertainties hanging over SA's political future had helped put a damper on most inflationary pressures. Money growth was under control. "Money policy is, I suppose, apart from the consistently good trade surplus, about the only policy really working in SA," he said

Food prices were a problem. Deregulation of bread supply and removal of subsidies had helped push bread prices up 35%. In addition, drought had hit food supplies, and food prices were also being forced up by the hijacking of delivery vehicles, plus big wage awards in the distribution sector.

He was optimistic the present political deadlock could be broken, and said he hoped the future shape of the economy would be tackled during the talks.

While investment had been stifled by uncertainty since reform began, "we have a very robust economy, still performing in spite of all the difficulties and misguided energies", he said Since 1986 SA's external debt had been reduced to $6bn from $14bn, wholly by the country's own efforts, not debt reduction deals. — Sapa-Reuter

● Comment. Page 8

Bank optimistic on interest rates

BDAY 24/11/92. (153)

HILARY GUSH

EXPECTATIONS of below-12% inflation for the rest of the year gives hope for a further easing of interest rates this year and in 1993, says the latest Nedbank Economic Profile

However, the bank report cautions "SA is rapidly approaching a situation of balance of payments considerations taking precedence over inflation in maintaining a restrictive policy, as the political log-jam continues ahead of the expiry of the debt standstill agreement in 1993"

In the light of low levels of foreign exchange reserves in the late '80s and the "abnormal" foreign debt repayments falling due in the following years, the report says, the primary objective of restrictive monetary policy — introduced in the second half of 1988 — was to maintain surpluses on the current account of the balance of payments

As political perceptions of SA started to improve and pressure on the balance of payments to ease from the beginning of 1990, fighting structurally rooted inflation took precendence over the protection of the balance of payments

Although inflation has eased considerably in the past few months, the report says political stability and balance of payments considerations may prevent a further relaxation of monetary policy in the short term

"The foreign exchange reserves position is still far from comfortable and could well come under pressure in the months ahead due to higher food imports and weak commodity prices suppressing export growth."

As a result, the monetary authorities could face a dilemma of whether or not to relax monetary policy

"Without significant progress on the political front, monetary authorities will be compelled to maintain their restrictive policy, notwithstanding an average lower inflation rate in 1993"

The report says if the trend of declining GDP continues into the fourth quarter — it fell by an annualised 5,7% in the third quarter — a real shrinkage of at least 2,5% for 1992 could not be ruled out

"In this context the recent widespread rains provide hope of some alleviation of the economic ills being experienced by the country"

Financial Mail

INFLATION

FM 27/11/92

The turning point?

153

The 13% decline in the annualised rate of inflation between September and October is a palpable advance in price stability after years of anguished failure

It could be a critical turning point If it is, the rise in the consumer price index will be in single figures by early next year

Common experience abroad has been that once money supply growth has been suitably arrested in an inflationary economy and interest rates have been positive for long enough, there is still a substantial time lag before domestic demand declines sufficiently to curb inflationary pressures But once that happens, progress towards price stability is usually swift

The conventional economic indicators suggest markedly that the domestic economy could be at that crucial point now For the past two years, the commercial rand has been relatively firm against most other currencies, reflecting in part the surplus on the current account of the balance of payments The more recent weakness of the financial rand has been brought about by factors not directly related to this phenomenon.

The Reserve Bank has, with disciplined endeavour, made sure that interest rates have remained positive — that is, above the prevailing inflation rate — and money supply growth has been within the predetermined limits

Of course, weighing against these favourable developments have been the detrimental influence of the severe drought on agricultural output, government's persistently high consumption spending and various tax adjustments None can prevail indefinitely against sound money

Whether our money has been all that sound is questionable Its growth has certainly been reined in, but even at 8% it is too high by European standards against nil or negative growth in GDP

There has, however, been another strong curb on demand in recent months That has been the combination of extreme violence in the townships, the breakdown of constitutional negotiations and, even more recently, the revelations of widespread and deep-seated corruption This combination has, for the moment at least, created such dismay and consequent inertia that demand was tipped in the right direction

The danger is that dismay could just as easily contain the seed of profligacy, as those in despair begin to spend while their money still has some value That could force us ultimately towards even greater austerity

Government needs to keep that in mind, not only in the preparation over the next three months of next year's Budget, but also in its endeavours to negotiate a new constitution, curb violence and eradicate corruption They are all capable of adverse reflection in business activity, job creation and price stability ■

INFLATION AND INTEREST RATES

FM 27/11/92 (153)

Great expectations

The fall in official inflation in October (see p36) reveals an underlying trend, concealed by technical factors and distorted by temporary forces for more than two years The fall exceeded expectations and signalled that consumer resistance and close scrutiny of distribution mechanisms have finally braked food inflation

If summer rains continue and a normal agricultural season follows, the prospects for overall inflation could improve dramatically

But economists fear that VAT will be increased next year and the petrol levy raised — in view of the huge deficit building up on the State Exchequer Account Old Mutual economist Rian le Roux estimates that, if VAT and the petrol price are unchanged and no disruptive events take place, inflation could touch 10% by the end of next year However, an increase in VAT to 13% and an increase of 25c/*l* in the fuel price would push the year-end rate to 13% Other economists are making similar predictions

An unexpectedly positive feature is the sharp deceleration in wage and salary increases Reserve Bank Governor Chris Stals recently referred to "a continued rise in average salaries and wages in the first half of 1992 at a rate in excess of the rate of inflation, despite increases in unemployment "

But figures provided by Andrew Levy & Associates show the average level for the year to mid-November declined to 12,6% — almost three percentage points lower than the average inflation of 15,07% — and suggest it may drop another half a percentage point by year-end Stals refers only to negotiated wage settlements, while Andrew Levy refers to total remuneration — but the trend is clear and accelerating

Andrew Levy's Pat Stone says "Increases are averaging below the inflation rate for the first time since 1986 and unions have been forced to settle for cuts in earnings, in real terms " Stone says in the past six months the trend has been towards single-figure settlements

Stone believes wage settlement levels will continue to be depressed in 1993, "particularly in the first half of the year and single-figure increases will become more common " So, whatever the outcome with petrol and VAT increases, the inflationary outlook is better than expected

A best-case estimate from Standard Bank group economist Nico Czypionka is that, given the lower wage increases and assuming no increases in VAT and the petrol price, the rate could fall to 10% as early as April

It is important to keep the dangers of the two expected changes in perspective If their potential impact is overestimated, a far bigger inflationary threat will emerge — in the shape of expectations Says Bank economist Bernie de Jaeger "Past inflation serves as a basis for expected inflation but a wage contract relates to the future So we need to change the way expectations are formulated, encouraging people to take all information into consideration "

That is why it is important not to exaggerate unfavourable developments

This is relevant to business pricing decisions Food retailers' contribution to the food inflation rate emerged when consumer and producer price figures began to diverge dramatically last year

Now, at long last, the interchange of expectations between employers on the one hand and producers, distributors and retailers on the other, is working constructively It is crucial the balance is not tipped the other way, triggering an inflationary spiral

The role of expectations has been vividly demonstrated since July 1990, when inflation bottomed at 13,3% It was restimulated when Saddam Hussein invaded Kuwait in August and sent the oil price soaring to $40/barrel Though the war and the period of high oil prices was short-lived, inflationary expectations were not As fuel-related price rises subsided, retail food prices started climbing towards 30%, long before the new tax replaced GST in October 1991 (*Leaders* April 10) Two sets of statistics added to pessimism about inflation

- Mistakes in the producer price figures corrected only in August 1991, and
- Money supply figures artificially boosted until February this year by technical factors

We must not fall into a similar trap If exogenous events do force up prices, let us not multiply the effect with inappropriate responses Trade unions and businesses must realise that short-term gains are soon lost in rising costs Consumer bodies must evaluate developments before issuing public statements The media must analyse the underlying issues before reporting on them Politicians must support sound monetary and fiscal policies And everyone must recognise that restraint, not hype, is the antidote to inflation

Given the prospects for inflation and provided nothing jolts it in the other direction, the medium-term outlook for interest rates is better than we have dared hope ■

Inflationary pressure off

(153)
CT 28/11/92

JOHANNESBURG — Underlying inflationary pressures in the economy are fast subsiding, the Afrikaanse Handelsinstituut's fourth quarter inflation barometer reading of 11,2% shows.

Although the country can look forward to inflation levels around 11% halfway through next year, the spectre of the government's mounting deficit and efforts to deal with it could push inflation up by 4%

AHI chief economist Nick Barnardt says the government's deficit of R23bn or 7% of gross domestic product is the single largest threat to lower inflation

He estimates that for the government to increase its low levels of revenue through indirect taxes to meet spending requirements next year, the VAT rate would have to be raised from 10% to 15%

However, this would fuel inflation Instead of inflation around 11% next year, rates of between 15% and 16% would be unavoidable

Other inflationary pressures in the economy are, the ongoing double-digit increases in wages and salaries, the rising share of consumption in the total economy, and the upward pressure on fuel prices

Although there was a declining trend in wage and salary increase, it was still too high, says Mr Barnardt

The wage-price inflationary spiral had to be arrested through an agreement of intent between business, labour and government

"Ideally wage settlements should be somewhere between the anticipated guidelines for money supply growth of 5-8 per cent for next year"

On the other hand, positive contributions to lower inflation pressures were as a result of low credit extension, the balance of payments surplus, single digit producer price index inflation, and the subdued level of inflationary expectations as surveyed by the Bureau for Economic Research — Sapa

R23-bn deficit poses inflation threat — AHI

(153)

CT 28/11/92

JOHANNESBURG — Underlying inflationary pressures in the South African economy are fast subsiding. This is evident from the Afrikaanse Handelsinstituut's (AHI) fourth quarter inflation barometer reading of 11,2 percent.

Although the country can look forward to inflation levels of around 11 percent halfway through next year, the spectre of the government's mounting deficit and efforts to deal with it could push inflation up by four percent.

AHI chief economist Mr Nick Barnardt said the government's deficit of R23-billion, or seven percent of gross domestic product, was the single largest threat to lower inflation.

He estimated that for government to increase its low levels of revenue through indirect taxes to meet spending requirements next year, the VAT rate would have to be raised from 10 to 15 percent.

But this would fuel inflation. Instead of inflation of around 11 percent next year, rates of between 15 and 16 percent would be unavoidable.

Other inflationary pressures in the economy are the ongoing double-digit increases in salaries, the rising share of consumption in the total economy, and the upward pressure on fuel prices. — Sapa.

Hope of moderate interest rate fall

S/Times Buss J 29/11/92

By ZILLA EFRAT

UNDERLYING inflationary pressures in the economy will probably show an accelerated decline in the next six to 12 months, says the Afrikaanse Handelsinstituut's inflation barometer

Its fourth-quarter reading of 11,2% is down from 11,8% in the third, 11,9% in the second and 12,1% in the first quarter of this year

AHI economist Nick Barnardt says this points to a moderate cut in interest rates next year

He says that in the absence of major changes in factors like VAT, a consumer-price index rate of 11% in the second half of 1993 is a strong possibility It would be the lowest since the first half of 1984

Moves to counter the Government's growing deficit, however, could send inflation rates soaring again next year

Mr Barnardt says the AHI's barometer combines 17 variables which, in one way or another, reflect underlying inflationary pressures It provides useful guidelines for price, wage, Budget, investment and monetary policy decisions in the coming months

The stongest positive contributions to lower inflation at present are low credit extension, the balance of payments surplus, single digit producer-price index inflation and subdued inflationary expectations

The greatest threat, however, on the inflation front for 1993 is SA's large fiscal deficit. It could exceed R23-billion, or 7% of gross domestic product.

Other unfavourable factors include double-digit increases in wages, salaries and labour costs and the upward pressure on fuel prices

Mr Barnardt says it will be virtually impossible to drastically reduce the fiscal deficit in a single year

Any attempt would require such a large tax rise and spending cut that the recession would most probably degenerate into a full-scale depression

The tax base would shrink further, resulting in an even larger decline in State revenue

Mr Barnardt says the recession and its lagged negative impact on tax revenue imply that the State's real income at unchanged tax rates is due to fall further in the next fiscal year

This will result in an even bigger fiscal deficit, even if State spending shows no increase in real terms.

Mr Barnardt says the only realistic solution would appear to be gradual deficit reduction through a three-year plan Even a modest reduction to 6% of GDP next year would require drastic tax and expenditure measures

Fruits

For example, if real spending were left unchanged, it would require a rise in the VAT rate from 10% to 15% This would raise inflation by about four percentage points, resulting in a CPI inflation rate of about 15% by the end of 1993 as opposed to the prospect of 11% suggested by the barometer

Mr Barnardt says this would once again deny the economy the opportunity of enjoying the fruits of a lower CPI inflation rate, even after suffering a recession of more than four years

The AHI believes that the reduction of the fiscal deficit should be achieved as far as possible by limiting State consumption spending, and that tax increases should be avoided or kept to an absolute minimum

Mr Barnardt says the Economic Forum could be the ideal place where the Government, labour and business could reach some agreement which would help to curb the price-wage spiral This would result in a rapid decline in inflation

De Beers to shed 20% of staff at SA mines

S/Times Buss J 29/11/92.

Business Times Reporter

DE BEERS is to lay off 22% of its workforce in South Africa as a result of the sharp decline in the international diamond market

Industrial relations manager Steven Lenahan says that at least 3 000 hourly paid and managerial workers will be asked to leave unless some accept voluntary retirement The current staff complement is 13 500

Retrenchments are being discussed with the National Union of Mine Workers (NUM)

Discussions are also taking place with the Mine Workers Union of Namibia about possible retrenchment of some of the 6 000 workers at Consolidated Diamond Mines

No lay-offs are planned for the 5 500 workers at the Jwaneng and Orapa mines in Botswana

Mr Lenahan says that although the retrenchments are regretted, "it is a step that had to be taken to ensure the survival of operations"

The first cutbacks will be made at the Kimberley and Premier mines. Discussions are taking place at other mines

The NUM was successful in negotiating a 10% wage increase on November 6, taking minimum pay to R959 a month

The union initially asked for an "above-inflation" increase and an "agency shop" agreement in which all workers would contribute to a fund to help pay for collective bargaining

Mr Lenahan says no agreement was reached on the agency matter, but it could be discussed in the future

Victory for Afbank two

TWO former African Bank employees have won a small victory in their quest to recoup around R50-million forfeited to the SA Reserve Bank

On Friday the Pretoria Supreme Court ruled that they could amend their claim for the return of this money, but the Bank was awarded costs

The men — Alan Young and Henry Harper — were found guilty of fraud and foreign exchange contraventions in 1988 and sentenced to 14 years' jail

The two men, released in a general amnesty last year, are taking legal steps to claim back a share of R100,4-million in profits they allege they made while working for Afbank from September 1985 to May 1986

The Bank alleges that the profits were made by contravening exchange control regulations

By TERRY BETTY

POSITIVE political sentiment helped the JSE end on a high note on Friday, with the indices showing a rise across the board — the all-share index rose 1,16%.

The gold index showed the most sparkle, rising 25 points or 3,08% on Friday, even though the gold price came off slightly. Analysts say the index lifted on the back of a weak rand which was trading just over R3,00 at the end of the week.

Political developments such as the ANC-IFP meeting, and the State President's intention to have minority rule voted out before April 1994, were responsible for the shine on the rest of the JSE indices.

It is also suggested the market is more upbeat because of the likelihood of a greater than expected drop in interest rates next year, and the prospect of a turnaround in the US economy.

Analysts say everything was extremely well bid, and all stock on offer was taken up easily "But it would have been even better had most of our clients not been at the cricket."

It would seem ABSA results, due in about two weaks, are going to be better than expected, as the share price has started to firm. It has risen to R9,00 from at a low of R7,75 in mid-October

Richemont, which reported disappointing results on Wednesday, lifted its share price as people were picking up scrip after going short ahead of results

Sorry plight of million whites hit by recession

S1 Times 29/11/92

By SHARON CHETTY

ALMOST one million white South Africans are living below the breadline — more than during the Great Depression in the 30s.

These poor whites are only part of the nine million people being assisted by the government because they have no "visible" means of livelihood

According to a deputy director of the Department of Health Services and Welfare, Mr J Pienaar, 912 746 whites are economically inactive or have an income of less than R7 000 a year, and the numbers are rising

Mr Pienaar says that in the 1990 census, 1 962 658 whites were listed as having no income But of these, 1 464 076 were below the age of 19 — leaving a total of 498 582 adults with no income at all.

A further 414 164 have an income of less than R6 999 a year

According to the census, the total white population of South Africa was 4 521 000.

The University of South Africa's Bureau for Market Research says the minimum living level for an average family of five is R650 a month.

With unemployment rising as a result of the recession, Mr Pienaar says the number of whites who approached his department for assistance increased from 29 701 last year to 46 034 by March this year

The nine million destitute catered for by the government's National Nutrition and Social Development Programme include all race groups as well as people living in the TBVC homelands

The programme, which is co-ordinated by the Department of National Health and Population Development, funds non-governmental organisations or local authorities which have feeding and nutrition programmes

It has a budget of R440-million for the 1992/1993 financial year.

Dr Joos Hattingh, NNSDP programme director, said about 35 percent of the total black population was experiencing "social need"

According to the 1990 census, there are 17 973 320 black people in the country.

Between April 1 and November 21 this year, 1 368 organisations received money from the NNSDP.

Operation Hunger director Ina Perlman said her organisation's feeding and self-help projects catered for over 2,1-million people — 100 000 of whom are white.

She added that the unemployment rate in the rural areas was about 50 percent over the past two to three years, but had risen to 70 percent in 1992

Further fall in inflation possible, economists

(1523) 30/11/92 B/DAY

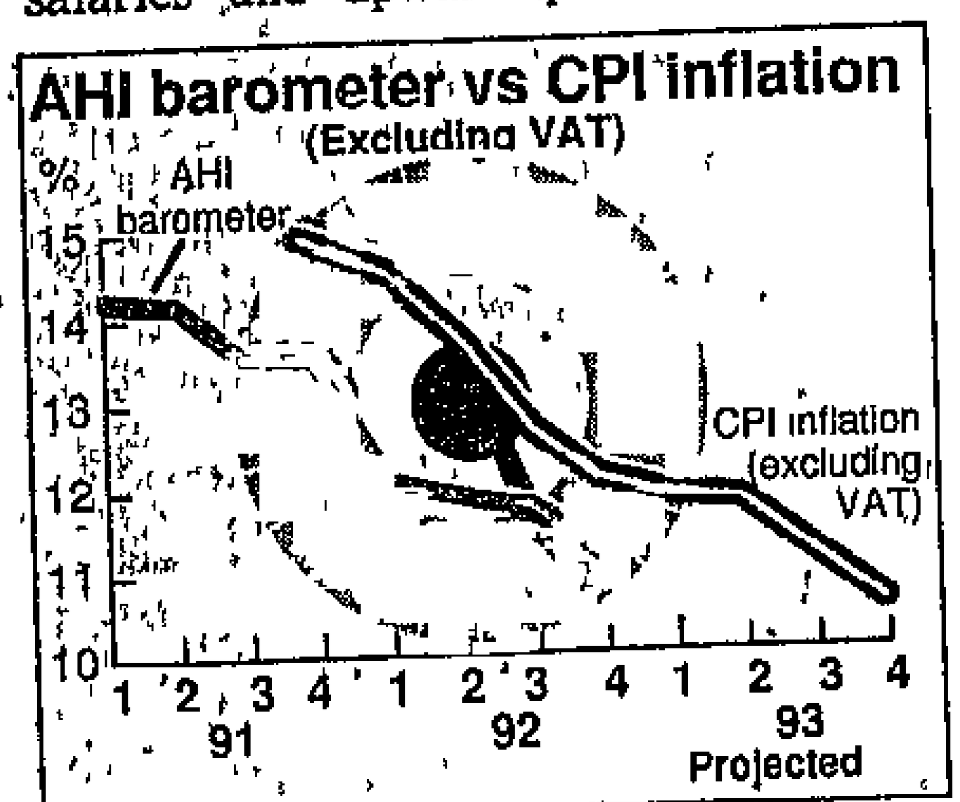
HILARY GUSH

BARRING a significant hike in the VAT rate next year, consumer inflation can be expected to fall to levels last seen in early 1984, says Afrikaanse Handelsinstituut (AHI) chief economist Nick Barnardt

Releasing the AHI's fourth quarter inflation barometer at the weekend, Barnardt said underlying inflationary pressures in the economy were fast subsiding and an inflation rate of around 11% could be expected in the second half of next year.

Those factors which contributed to lower inflation pressures were low credit extension, the accompanying balance of payments surplus, single-digit producer inflation, and subdued inflationary expectations as found by the Bureau for Economic Research survey

However, a ballooning government deficit, double-digit increases in wages and salaries and upward pressure on fuel prices presented the biggest potential stumbling blocks to further declines in consumer inflation



Graphic LEE EMERTON Source AHI

FNB chief economist Kys Bruggermans said a decision by the Minister of Finance in the March Budget on whether or not to raise indirect taxes would be instrumental in determining inflation next year.

Interest rate movements and the weather would also play important roles in determining inflation "Provided the Minister of Finance does not hike indirect taxes to a considerable degree next year, the progress achieved so far (in reducing inflation) will continue," he said

The latest Investec Focus on the Economy was more bullish on inflation, saying that the fundamentals supporting a decline in inflation to 10% were largely in place "The foreign balance is in a healthy position, the exchange rate is stable, and the depressed economy and rising unemployment are limiting wage awards to single-digit figures"

The report said the main impediment to lower inflation was the rate of food price increases. "Should the drought be broken meaningfully, the rate of food inflation could be deflationary in the year to come"

However, the report cautioned that inflation inertia was still critical, thus limiting chances of inflation falling to 10% next year "Further out, the pressures for massive social spending do not augur well for inflation or interest rates"

Stals seeks 'overall strategy'

IS3 Own Correspondent

PORT ELIZABETH — Reserve Bank Governor Chris Stals yesterday called on unions and big business to help in the fight against inflation

Speaking at the Economics, Business Economics and Manpower research conference, Stals said using monetary policy alone against inflation could succeed, but it would not be tolerated in a democracy

He said while monetary policy could curb inflation, it was nevertheless advisable to have a comprehensive strategy BDAY 1/12/92

"Such an overall strategy must include big business, unions, government and the central bank."

He said persistent inflation confused the signals of relative price changes. The consumer price index rise caused by higher food prices in the wake of the drought was perceived as higher inflation

"And yet, it represented a normal market reaction to a reduction in the physical supply of an important consumer commodity. Because of inflation, the signal of the rising prices partly failed to convey its important message to consumers — to temporarily tighten belts on the consumption of freshly produced foodstuffs

He said the perverse reaction of a major part of the community was to claim for compensation in the form of increases in salaries and wages.

● See Page 11

SPOT DESK

Independent Bank key to fighting inflation

BDAY 2/12/92 (153)

SIMON WILLSON

JUNE 1974 Willie-John McBride's British Lions were rampaging unbeaten through SA's rugby stadiums The dams were brimming The national speed limit was 80km/h Inflation was 11,2%. And the rand was floated

When inflation heads lower in economies with floating exchange rates, the task of keeping it down without the discipline of a fixed-rate currency becomes a stern one After sterling's recent tribulations, the UK is about to discover this After the events of June 1974, so is SA

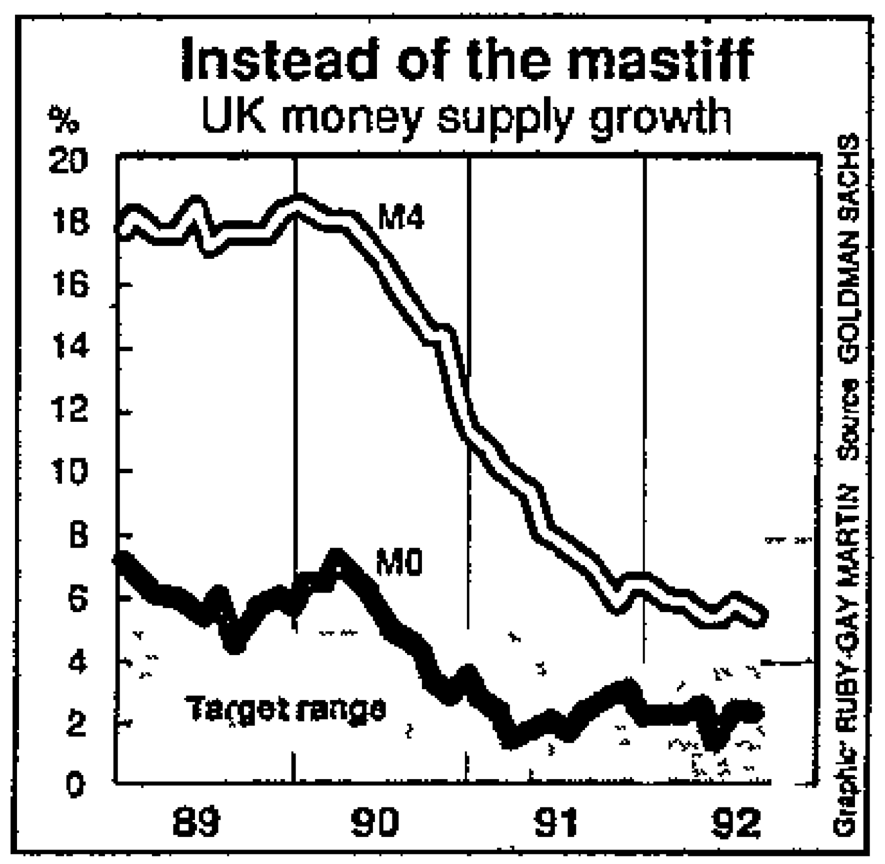
Since its withdrawal from the European exchange rate mechanism (ERM) in September sterling has been floating, and the Bank of England must now try to keep British inflation low and under control without the discipline of a fixed exchange rate Britain's once-fearsome inflation guard dog has been retired to stud, what will replace its menacing and distinctly persuasive presence?

Monetary targeting is the fancy electronic alarm system the British have substituted for the slathering ERM mastiff to deter rising prices

The UK government has added a broad-money M4 target to its existing target range for the narrow, cash-only M0 money measure High-tech monetary aggregate analysis is replacing the uncomplicated brute force of a pegged pound in the remorseless effort to subdue inflation

As the first chart shows, recession has dragged UK M0 nicely into its current target range of 0%-4%. Thanks also to the pervasive effects of the British recession UK M4, too, is comfortably in the new 4%-8% range set for it last month

The key question for British policymakers is whether these targeted aggregates will behave quite so placidly when recovery stirs in the UK economy Once demand reignites, what will stop inflation jumping from its present level of 3,6% to the 10,9% of two years ago, the 18% of 12 years ago or the 24% of 17 years ago? With sterling in a free float, only the ability of the non-independent Bank of England to enforce its monetary targets stands between the UK and the bad old days

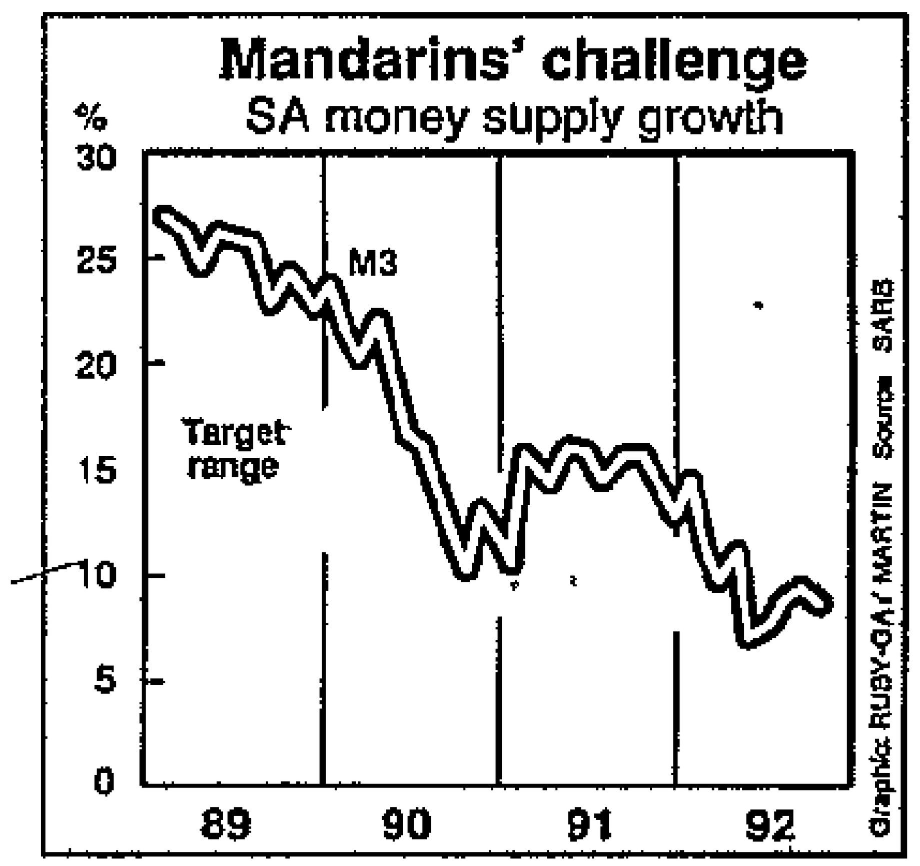


But the angst gripping the UK authorities could shortly be felt in SA too. As SA inflation drops, as it almost certainly will, to new lows in the months ahead, the mandarins in the Reserve Bank and the Finance Ministry are going to be faced with the same challenge can inflation be kept at low levels without the discipline of a fixed exchange rate?

When SA inflation last posted a single-digit average in a calendar year (9,5% in 1973) the rand was pegged to the US dollar, and the greater discipline and certainty that came with the link to the world's principal reserve currency helped restrain domestic prices But in June 1974 Finance Minister Nico Diederichs formally adopted an independent, managed float for the rand

"Under the new policy," Diederichs said, "the monetary authorities will not necessarily peg the rand to any weighted average value of all other currencies In other words, there will be no firm commitment . to avoid any effective appreciation or depreciation of the rand in terms of all other currencies " The new flexibility and relaxation of exchange rate discipline in that resonant phrase "no firm commitment" led, among other things, to annual average inflation rising into the double digits (11,6% in 1974) it has never since left

Judging by his recent statements, Derek Keys is apparently confident that he will shortly be the first Finance Minister since Diederichs to preside over sustained single-digit inflation But Keys, like Owen Horwood and Barend du Plessis before him and like the UK authorities today, lacks a fixed exchange rate to help enforce low inflation So how will the monetary discipline of 1973 be replicated 20 years later? Also by monetary targeting



The second chart shows how, with the help of recession, SA's broad money growth has been pummelled into conformity with progressively lower and narrower guideline ranges for M3

As in the UK, however, the true test of targeting will come with recovery will the money growth guidelines still be observed when demand is expanding again?

Although Keys lacks the fixed exchange rate that Diederichs had to help maintain monetary discipline he has, instead, an ally that Diederichs, Horwood and, until the last part of his tenure, Du Plessis all lacked an independent Reserve Bank As SA moves from recession to recovery, and from political instability to consensus, having a monetary authority separate from the executive branch of government could prove a more effective anti-inflation weapon than the pegged rand ever was

LETTERS

FM 4/12/92.

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MONEY SUPPLY

Looking for omens

With hindsight, it is easy to see that growth in money supply is a useful indicator of future economic activity — as well as inflation However, it is more difficult to predict events by looking at monthly or quarterly growth in the various money supply aggregates The figures require constant smoothing and can only be viewed over a long period because there are

☐ Unpredictable lags between money supply growth and changes in the level of economic activity, and

☐ Technical distortions which do not reflect economic fundamentals

Basing forecasts on these movements is further complicated by debates over which is the best monetary measure to use Growth in M1A is an early sign that people are preparing to spend This measure consists of money and coins in circulation plus cheque and transmission deposits Money supply figures for September show that 12-month growth in M1A was 23,55%, compared with 10,27% the previous month, monthly growth in the measure was 6,7%

This sharp upkick was also seen in M1 This consists of M1A and other demand deposits The rate at which it is increasing was sharply up at 23,15%, from 14,92%, in the month it grew 4,7%

However, growth in M2 (M1 plus other short- and medium-term deposits) and M3 (M2 and term deposits longer than six months) was only 12,77% and 8,73% This was little changed from the previous month And monthly growth was only 1,4% and 1,2%

These figures show a shift out of longer-term savings and into cash and short-term or balances As interest rates on call money remain below those on longer-term deposits, this does not seem to be simply a shift in personal portfolios If the trend persists, it will be a signal that consumer confidence is improving and economic activity is about to increase This is good news

If money increases out of all proportion to the country's ability to increase output, however, it begins to lose its purchasing power Because of this inflationary potential, the Reserve Bank sets guidelines for M3 — currently 7%-10% When decisions are made about changes in interest rates, the performance of money supply growth in relation to the target range is a major factor

Though not as early an indicator as the narrower measures, M3 does not reflect shifts within portfolios and is, therefore, more reliable, says a Reserve Bank spokesman

Growth is measured from the base of the target year, which is mid-November, and then seasonally adjusted and annualised and measured against the guidelines For most of the current target year, it has been safely within the guideline range The figure for September is 9,33% to a seasonally adjusted R195,2bn A provisional figure for October shows growth of 9,14% to a seasonally adjusted R196,3bn

Figures on the monetary base, M0, are not published but are available on request This consists of cash and coins in circulation (which are reflected on the central bank's books) and the cash reserves held by the banking sector at the Bank They show growth of 18,5% to September and a provisional 18% to October But these figures are inflated by changes, effective from July, in the level of cash reserves banks are required to hold against their short-term liabilities

Figures on credit aggregates show

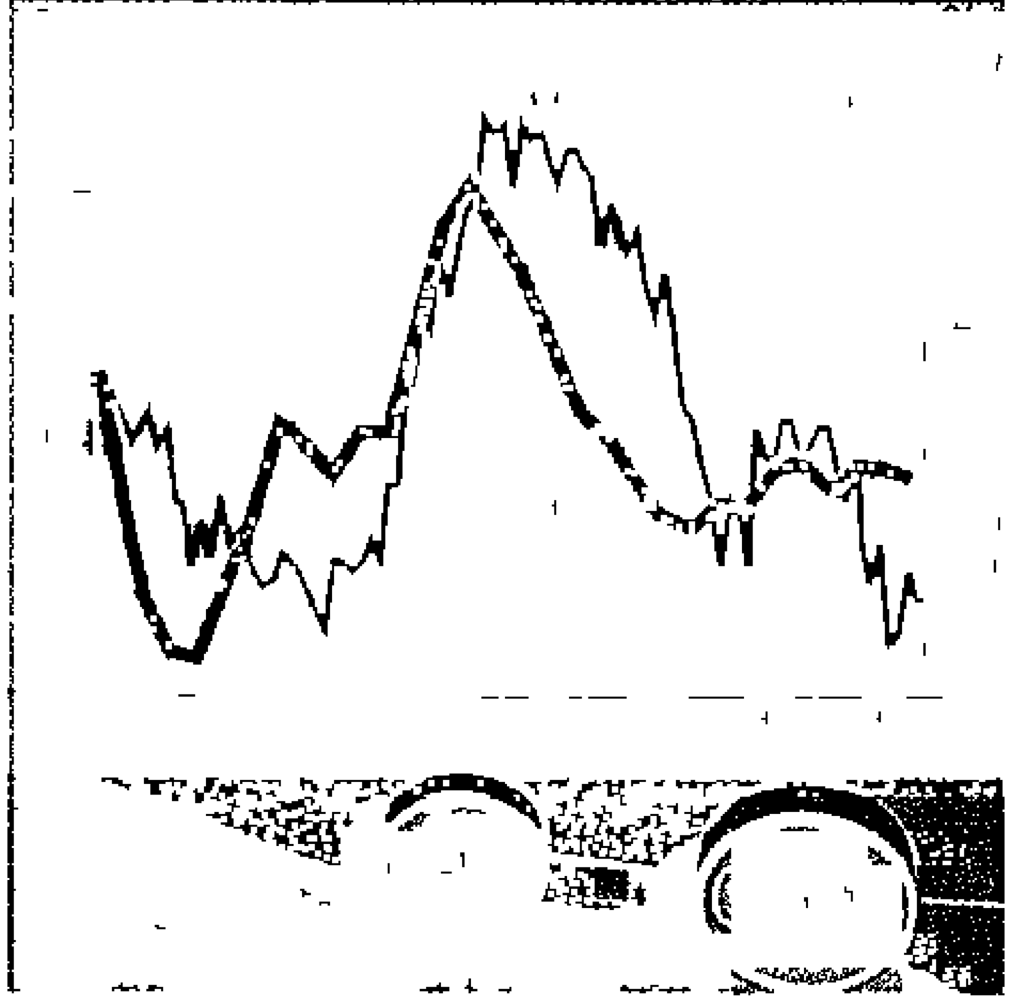
☐ Claims on the domestic private sector grew 8,61% year-on-year to R204bn, 1,52% in the month,

☐ Net claims on the public sector were up 2,8% year-on-year to R2,5bn, this represents a decline of 50% in the month, and

☐ Total domestic credit extension grew 8,53% to R206bn, 0,28% in the month ■

Setting the pace

Spending vs M3 money growth



SMALL BUSINESSES: *Keep tabs on cash flow*

Budgeting gives a firm direction

Star 5/12/92 . 153A

LEIGH HASSAL continues her series aimed at guiding new entrepreneurs through the hazards of going it alone in the world of commerce.

IMPROVING sales and profit growth are the usual financial goals of the small-business entrepreneur, yet the lifeblood of the business, cash, often gets less attention than it deserves

One of the common causes of small-business failures is the entrepreneur's lack of financial expertise

A fundamental financial tool seldom used by the small business is budgeting and, in particular, cash-flow budgeting

A budget is a financial plan for the business, detailing expected levels of income and expenditure Budgets are usually prepared at monthly intervals and should, ideally, cover a period of three to five years

Yardstick

A major advantage of the budgeting process is that it forces the entrepreneur to spend some time on assessing what his financial goals are and, importantly, to plan how to get there

Another common cause of business failure is lack of detailed planning An advantage of the monthly budget is that it provides a yardstick whereby the entrepreneur can measure his performance This comparison of actual to budgeted performance is an extremely useful control measure as it allows differences to be investigated and corrective action taken

The budget could also act as a motivating tool for the entrepreneur "Going it alone" in a small business can be a lonely venture and a monthly budgeted turnover could act as an incentive

The extent of budgeting is determined by the size and complexity of the business. Larger companies might have a detailed budget for each major division as well as for different accounting areas such as raw materials and sales However, the small business will suffice with a monthly income statement, cash flow budget and year-end balance sheet

The current recession is causing many small business to experience cash flow shortages A monthly cash budget should therefore be regarded as a necessity by the entrepreneur This budget is different from an income statement in that it is based on the expected cash inflows and outflows on a monthly basis It ignores non-cash expenses such as depreciation and caters for the fact that all debtors do not pay in 30 days

The easiest way to prepare a cash-flow budget is to convert the monthly income statement budget into cash amounts which slot into the period in which they are to be paid or received.

The prime advantage of a cash-flow budget is that it provides advance warning of a cash-negative month and allows timeous action to be taken The entrepreneur's banker is far more likely to grant temporary loan facilities on the basis of a timeous request, supported by a well-planned cash budget than on a last minute cry for help.

A cash-flow budget will also reduce the likelihood of the business exceeding its overdraft limit and possibly incurring a much higher interest rate than that charged for the overdraft limit

The budget allows for efficient cash management A month-end cash surplus can be put to work in a higher interest-earning account instead of sitting in a low-interest current account

Harry Rubin, partner of Ernst & Young's Business Services Group, provides a number of pointers on the cash budget "It is common-place for bankers to require a cash-flow statement and it is also common-place for the entrepreneur to submit an overly optimistic statement

"A far better relationship with your banker will develop if your cash budget is realistic"

Expenses

Rubin points out that many small-business entrepreneurs forget to budget for their individual provisional tax payments This results in the business being hit with an abnormally large cash requirement two or even three times a year Rubin suggests that a monthly amount be put aside for the tax charges

"December and January should be regarded as 'expense months' for most businesses Not only will year-end bonuses have to be paid out, but these months are traditionally quiet months," he adds

Budgeting is a useful tool for the entrepreneur However, it must be used on a regular basis and not filed away "for future reference"

W Cape exports to lead recovery

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By JEREMY WOODS

THE Western Cape is set to lead South Africa out of recession, probably by the middle of next year.

"The Western Cape's strength in exports will cause the region to lead the country out of recession, says Dr David Bridgman, executive director of Wesgro, a leading source of economic and business information on the Western Cape

"Traditionally, a rise in the gold price has been the trigger to lead South Africa out of a recession, but I doubt that will happen this time," Dr Bridgman said yesterday

The outlook for the gold price is pessimistic Low growth in the world economy saps demand for the metal and make it an unattractive investment.

"Most of the country's metal and heavy mining exports are centred around the Johannesburg area because that's where the mines are Over the years the Western Cape has concentrated on products it can produce and has been very successful in exporting these," Dr Bridgman said

"The Western Cape is a big exporter of commodities like fruit, wine, vegetables, clothing and light engineering Its export markets are established and as the world economy picks up, so will it export into the demand."

STimes (Cape Metro) 6/12/92

Drought

Another heavyweight economist confirmed this week that the economy in the Western Cape was in better shape than that in the rest of the country — and was poised to lead the way out of the recession

Mr Johan Louw, chief economist at Sanlam, said. "The Western Cape is less affected by the recession because it is not dependent on minerals, nor does it have to contend with the effects of drought.

"With its export potential, it is well placed to lead the rest of the country in any upswing

"It is too early to say we are coming out of the recession yet. The latest statistics from the Reserve Bank are still telling us we are in recession

"By the middle of next year we should be able to see the end of the recession as a country"

By then, interest rates should be lower and, it was to be hoped, inflation would have declined further

"For the man in the street, I think it will be the second half of the year before he starts to feel any of the benefits."

High inflation rocks labour boat

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S/Times (Buss) 6/12/92

By DUNCAN INNES

THIS YEAR produced some fascinating developments on the labour relations front, providing a complex mix of both positive and negative tendencies

The year started by looking as though it might be quiet This was largely because of the harsh recession It tended to make militant activity dangerous for workers because demand for labour fell In the first half of 1992 the number of mandays lost to strike action was only 340 000

However, by the end of September the labour relations arena was seething with strike action — in spite of the recession The number of mandays lost soared to more than 3-million compared with 2-million for the first nine months of 1990

What caused this remarkable turnaround?

Undoubtedly, the high inflation rate — and especially soaring food prices — played a key role Most strikes were triggered by wage disputes

However, strikes that take place in recessionary times inevitably meet a tougher response from employers

Seifsa and Toyota, which were hit by major strikes by metal union Numsa, both dug their heels in, forcing the union to accept defeat

However, the hospital strike conducted by the National Education, Health and Allied Workers Union (NEHAWU) was far more successful But the issue went beyond wages to include demands that formal bargaining procedures be established for the sector Not only did the union win pay increases, but it gained an agreement for the establishment of such procedures and the reinstatement of most of the 7 000 workers dismissed in the strike

Although some unions concentrated on strike action, others sought to develop in a different direction by forging more harmonious relations with employers

JEOPARDY

In the forefront of this movement was the National Union of Mineworkers (Num), which signed some landmark agreements during the year

Another Cosatu union, the South African Clothing and Textile Workers Union (SACTWU), involved itself with employers in discussions aimed at restructuring the troubled clothing and textile industry It agreed to discussions about productivity in the textile industry

Significantly, the more co-operative approach exhibited by SACTWU and Num occurred in industries whose future is in jeopardy Although unions and employers have strong differences, when the future of their industry is threatened, co-operation can occur The question that hangs in the air, of course, is why do both sides have to wait until the 11th hour to work constructively together?

But perhaps the high or low point of the year (depending on your point of view), involved Cosatu's mass-action campaign

Cosatu gave ample warning of its intention to call for mass action Having rejected the State President's March referendum as "irrelevant", Cosatu announced a set of demands which, if not met, would lead to mass action

They included the establishment of an interim government by June 1992

Not only did June come and go without an interim government being set up, but to make matters worse, Codesa II collapsed in July Consequently, Cosatu launched its mass action campaign with the ANC in tow

In spite of the Government's predictions that the campaign would never succeed, it proved to be spectacularly successful from the organisers' point of view, delivering another body blow to the staggering economy

The stayaway forced the Government to make some important political concessions that it might more usefully have made at Codesa However, it also spurred Cosatu to take the mass-action campaign a step further, launching a campaign to boycott Paye

But like the proverbial boxer who never knows when to retire, Cosatu had gone a step too far Confronted by firm opposition from both the Government and employers and a marked reluctance for further mass action among its own affiliates, Cosatu wisely withdrew its demand

WEALTH

Since then, there has been a new round of promising developments on the labour front The National Economic Forum has been established with participation by the Government, employers and trade unions

A restructured National Manpower Commission has been set up, also with tripartite involvement

An historic agreement has been reached between Cosatu and the Government on extending labour legislation to farm and domestic workers

However, the gap between business and labour on the economic front remains wide, with Cosatu formally committed to "the principle that nationalisation is one of the legitimate vehicles to redistribute wealth"

But with the ANC moving ever further away from nationalisation as a realistic prospect, Cosatu is finding itself increasingly isolated in this demand

SPOTS

As far as 1993 is concerned, agriculture could become a focus of trouble as the South African Agricultural Union (SAAU) digs in its heels in the face of Cosatu's agreement with the Government to extend labour legislation to this sector

Continued differences on VAT and the slow progress in political negotiations are also potential trouble spots

At present, the trade union movement stands delicately poised between two paths: one leading to constructive engagement by both the State and employers, and the other along the more familiar path of conflict and industrial disruption Although the former is likely to prevail over the longer term, the short-term future will not be without serious conflict

■ *Dr Innes manages The Innes Labour Brief, a research-based consultancy service*

David Lapin argues that South Africans need greater cultural empathy

Here's to gaining a new perspective

STAR 9/12/92 153A

ADAPTATION to the New South African environment means more than learning to share our resources and our power It means learning to understand each other too.

The latter is the harder process, for we will fail if we persist in interpreting the actions of others only from the perspective of our own cultures We need to enter into new worlds of perspective before we can formulate our response to actions initiated by people of other cultures Our new understanding might not alter the way we respond, but will alter how we communicate our responses

Take the National Taverners' Association/SA Breweries dispute I have a hunch which I would like to share, but first here is a brief glance at some cultural differences among our peoples

Imagine two extreme opposite cultural environments — Northern European and African The former is highly mechanistic in the style of its human relations Perfection and excellence are valued in the object Perfect machines, perfect business systems, perfect laws and social regulations. In Africa, on the other hand, excellence is measured in the sensations created by the quality of relationships, not in the quality of objects and structures.

Of course I am oversimplifying, and of course most people contain something of each culture within themselves But let us apply those two perspectives to a simple business deal

I go into a shop to make a purchase I ask for a discount The shopkeeper tells me his prices are fixed and standard for everyone

If I belong to the North European culture, I admire the equity of the shopkeeper's system It appeals to a certain sense of fairness and justice within me It is almost aesthetically pleasing to me Even if he tells me that he has a sale on and everything is reduced by 10 percent for the month, I feel comfortable. I, in fact, do not feel comfortable when I find that all of his prices are always negotiable I do not appreciate the haggling, it offends my sense of order.

If however, I come from an African culture, I find the shopkeeper's refusal to accommodate my request for a discount as cold, uncaring and impersonal If he says there is a 20 percent sale on, I don't feel any better But if he takes out a calculator and scratches his head for a few minutes, and then offers me "a special price just for you", I feel special even if the discount is less than the 20 percent! It is not the amount, it is the relationship I feel singled out as a valuable customer

This is my hunch Is it possible that the NTA aren't only arguing about money? Is it possible that they want to feel recognised as human customers, important and valuable to the SAB giant? Aren't they asking for a "special" deal — just for them, different (although not necessarily substantially more favourable) than any other SAB customer? Might they not be looking for a uniqueness in their relationship with the beer giant?

Might the SAB not be responding "We have standard pricing policies for everyone, anything else will offend the North European sense of balance and justice of many of our shareholders and other customers"

Perhaps if the deep cultural issues were better appreciated on both sides, better communication would result The small cost of time and money invested in this learning process would in this case alone save SAB shareholders substantial amounts of money It would also give the taverners their beer without leaving them feeling like the insignificant anonymous customers that we all feel like when we deal with large mechanised inhuman conglomerates

Let's not compromise our North European efficiency But at the same time, let's learn from Africa how to make the people we deal with feel like the important people they really are □

● *The writer is director of the SA Institute of Business Ethics*

Lower food inflation rate on the cards

Business Staff (153) ARG 10/12/92

THE food inflation rate should fall to 15 percent over the next few months and down to 10 percent in the foreseeable future, says Premier chairman Peter Wrighton

He says it was found by the Food Forum that the excessive inflation in food prices had been caused mainly by the drought, responsible for an eight percent hike, and by the imposition of VAT on formerly GST-exempt products, which added six percentage points.

Processed basic staple foods had not been subject to inflation in excess of the consumer price index (CPI).

Premier Food's own basket had produced an inflation rate of less than 11 percent for the year to September

This could come down further as the government had been persuaded to make available R200 million out of the profits it was making on wheat imports to stabilise the wheat price.

The bakery bread price had increased by only 6 percent in November and flour by less than 4 percent

The recommended retail price was now R1,75 a loaf for white bread, and R1,50 a loaf for brown bread

Mr Wrighton says that in the developing deflationary climate, which puts margins under considerable pressure, it will be difficult for management of food companies to produce the same increase in profits as in the past

Gluckman: My office bugged

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ARGT 12/12/92

THE offices of top Johannesburg pathologist Dr Jonathan Dr Gluckman had been extensively bugged with sophisticated equipment, he has confirmed.

■ Dr Jonathan Gluckman, whose claims that police were killing prisoners in their custody have been challenged by the state, says his offices have been bugged

Political Staff

Dr Gluckman, who called in technical experts because he suspected he was under surveillance, received numerous anonymous death threats following his allegations five months ago that police were killing prisoners in their custody

He said bugs were found on his private line and in the main switchboard at the office. Others were in the ceiling, in the lights and in the skirting boards

This week, responding to Dr Gluckman's allegations, Law and Order Minister Mr Hernus Kriel criticised the Johannesburg pathologist and released statistics showing only a handful of cases in which police could be implicated

Mr Kriel provided a detailed police report with a breakdown of 118 cases obtained from Dr Gluckman's offices, and said only 34 of these people had died in police custody

According to Mr Kriel

■ In two cases, police members were found guilty of criminal actions and, in two cases, they were not guilty,

■ Two cases were still pending,

■ Six cases were suicides, according to inquests, and eight cases were still under investigation,

■ There were 14 cases in which inquests already had been finalised and in which the police had not been found responsible by the courts,

■ In another 14 cases, the named people were not dead

In reaction yesterday, Dr Gluckman accused Mr Kriel of trying to discredit him and said the implication that he had performed autopsies on 14 people who were still alive was "the most bizarre charge" ever levelled at him in a long career

He said the allegation repeated by Mr Kriel yesterday had been made first in an Afrikaans Sunday newspaper on November 29

He said that since he had spent most of yesterday giving evidence in a murder case, he had not been able to ascertain the full extent of Mr Kriel's remarks

Dr Gluckman said a woman police constable who had arrived at his office had collected records of consultations which had nothing to do with deaths in custody

"I await, with interest, details of the rest of the Minister's statements, as well as the report on which they were presumably based, all of which I assume his office will supply to me in time

"In the meantime, I continue to nurse the concerns that prompted me to write to the State President That almost every week people die while in the custody of those whose duty it is to protect life," said Dr Gluckman

Although he said the perception that detainees in police custody were murdered or were dying in large numbers was false, Mr Kriel also announced measures to prevent deaths in custody, including the formation of a board — to be chaired by a judge — which would investigate suspected criminal actions

He said even one death in detention due to criminal behaviour was one too many, and that it was for this reason that 20 retired generals had been appointed to conduct surprise visits to police stations In addition, 12 retired magistrates were acting as inspectors of people in custody

Mr Kriel said the International Red Cross also had been given permission to visit prisoners without warning, and that an investigation was being conducted to see how suicides could be prevented.

Police also would consider going through police cells to remove any object which could be used to carry out a suicide, said the Minister.

Dr Gluckman, who believed he was on the receiving end of a campaign by the police and the government to discredit him, said the bugging seemed "to fit in well"

Apart from confirming the bugging, Dr Gluckman declined to comment further or answer any other questions

● Sapa reports from Johannesburg that the African National Congress has described Mr Kriel's response to Dr Gluckman's claims as "bizarre and reflecting a determination to cover up police malpractice at any cost

"Rather than utilising the state's resources in tracking down the criminals responsible for the murders, Dr Gluckman has been targeted in an attempt to discredit him or otherwise tarnish his reputation," said the ANC in a statement in Johannesburg

They said Mr Kriel still had not explained inaction on his and President De Klerk's part after the report on Dr Gluckman's views

The organisation said 43 more deaths in police cells had been reported since the pathologist made his claims

"That Dr Gluckman's office and phones were found to be bugged is indicative of the attitude government has adopted towards an eminent pathologist who has brought to light a matter of grave public concern"

Wednesday, Dec 9 quotations for unit trusts

	BUY	SELL	YIELD
General Equity Funds:			
ABSA	133,53	124,91	5,92
BOE Growth	143,51	134,08	3,78
Community Growth Fund	112,07	106,16	NA
Fedgro	121,59	113,56	5,08
CU Growth	109,84	102,65	4,63
Guardbank Growth	2416,86	2250,91	4,74
IGI	128 52	120,41	3,56
Momentum	227,20	212,72	4,65
Metfund	176,38	163,86	4,67
Metlife	113 65	106,20	7,44
NBS Hallmark	900,67	841,07	5,43
Norwich	329,64	307,81	4,35
Old Mutual Investors	2551,18	2378,57	3,76
Sage	2309 19	2156,21	4,20
Sanlam	1568,73	1469,51	3,52
Sanlam Index	1193,05	1117,31	4,12
Sanlam Dividend	434,86	407,90	4,93
Southern Equity	196,96	184,33	4,36
Standard	1155,28	1085,93	7,38
Syfrets Growth	276,70	259,07	4,62
Syfrets Trustee	115,22	107,91	4,71
UAL	1973,64	1853,64	5,21
Specialist equity Funds:			
ABSA Industrial	127,79	119,53	4,42
Guardbank Resources	129,25	120,49	6,22
Guardbank Industrial	120,83	113,25	5,88
Sage Resources	94,40	88,20	6,46
Sanlam Industrial	1018,49	953,71	3,12
Sanlam Mining	239,00	223,76	6,12
Southern Mining	113,60	106,38	5,83
Southern Pure	113,97	106,73	NA
Standard Gold	135,74	127 29	9,26
Standard Industrial	111,66	105,34	na
Standard International	99,23	93,05	NA
UAL Mining and Resources	321,86	301,48	4,95
UAL Selected Opportunities	1770,54	1655,95	4,11
Old Mutual Mining	205,37	191,32	5,80
Old Mutual Industrial	338,12	315 00	4,34
Old Mutual Gold Fund	84,27	78,54	7,13
Old Mutual Top Companies	235,47	219,53	4,14
Income/Gilt Funds:			
Metboard Income	109,64	108,49	13,89
Guardbank Income	124,71	122,16	14 82
Old Mutual Income	111,85	110,63	12,98
Standard Income	94,56	93,57	14,00
Syfrets Income	110,90	109,71	14,44
Syfrets Gilt	1107,94	1096 86	NA
UAL Gilt	1192,83	1180,90	13,13

Politics holds the key to economic recovery

South 12/12 – 16/12/92. (153)

The recessionary conditions in the South African economy, which started early in 1989, continued unabated during the year, and the current recession is now officially the longest since the four-year recession between 1904 and 1908.

The debilitating drought resulted in a sharp fall in agricultural production and has contributed to 1992 being the worst year of the recession thus far.

Other factors that contributed to the continued decline in real economic activity include:

- a further tightening in consumer finances due to the continued retrenchments and decelerating salary adjustments
- a further cutback in real fixed investments by both the public and private sectors (the latter largely a reaction to worsening demand prospects
- static demand due to the sluggish growth in the world economy.

The weakness of the economy, together with a deterioration in the political environment, resulted in the local stock market coming under severe pressure during this year. This is reflected in the 22 percent fall of the JSE All Share Index from its 1992 high in early June, when the Codesa talks broke down, to its low point reached during October.

By the end of November, the market had recovered by some 8 percent from its low point, but still stood 8 percent below the level at the beginning of the year. The recovery can, to a certain extent, be attributed to the improved prospects of talks early in 1993.

It also illustrates the volatility inherent in the stock market in such uncertain times and how quickly investor sentiment can change. However, a rising trend in share prices is only likely to be sustained if the economy is seen to have reached, or be nearing, its turning point. Despite the prevailing weakness in the real economy, Old Mutual believes that a number of factors should aid a bottoming out of the recession and bring about a moderate recovery in 1993. These include:

- the gradual relaxation of monetary policy will continue for some time, providing relief to highly-indebted individuals and support to company earnings.
- although world growth will remain subdued next year, some external stimulation to the local economy is still possible.
- the rate of inventory depletion appears to be slowing.
- the expected decline in inflation will ease pressure on the financial position of consumers.
- a normal agricultural season is expected.

The length and strength of the next economic growth phase is likely to be determined largely by developments in the political arena.

THE WEEK AHEAD by Simon Willson

PPIs to show impact of exchange rates

BDay 14/12/92. (153)

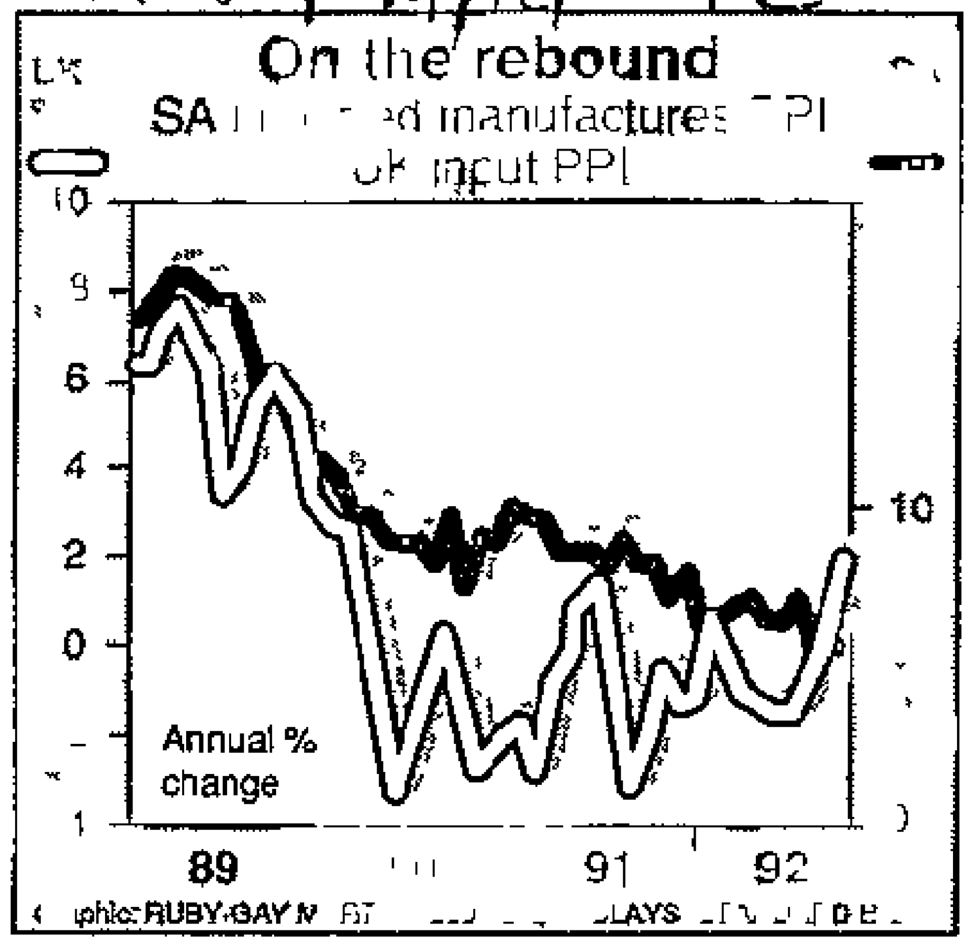
A SALUTARY lesson on how a lower exchange rate quickly generates inflation, and how a steady currency helps prevent it, will be on view this week with the release of the **SA and UK producer inflation rates**

The UK producer price index (PPI) for November will be published tomorrow, and SA's October PPI is due out early this week — possibly today UK PPI inflation, at 3,3% in the year to October, is appreciably lower than SA's 8,8% to September

But the figures should quickly establish the impending cost in higher inflation the UK will have to pay for sterling's fall over the past three months Simultaneously, they should show how the rand's contrasting overall stability is contributing to the reduction of inflationary pressure in SA

It is in the breakdown of the SA and UK PPIs that the influences of sterling and rand strength can best be discerned The headline rates of the two countries' PPI inflation rates quoted above mask the underlying, exchange rate-related trends in both sets of indices To get at the PPI component most influenced by the exchange rate the domestic parts of the index have to be stripped out, as far as possible

In the case of the UK, it means zeroing in on the input price indices of the PPI These cover the costs of the mainly imported fuel and raw materials that British manufacturers have to bear in their production processes The UK PPI also singles out output prices, but these apply to goods leaving rather than entering factories and so include domestic costs



Since SA is chiefly an exporter of raw materials and an importer of manufactures, the exchange rate-sensitive part of SA's PPI breakdown is the imported manufactures component The chart shows how, from their different highs during 1989, the rise in input prices in the UK PPI and in imported manufactures prices in the SA PPI declined and then steadied in the almost four years to October this year

Driving UK input price hikes lower was chiefly the strength and stability of sterling that led to the currency's insertion into the European exchange rate mechanism (ERM) at DM2,95 in October 1990 Forcing SA import price increases down at the same time was the spirited defence of the rand's external value mounted by the Reserve Bank from the end of 1989

But, whereas the real effective exchange rate of the rand continues to firm under the Bank's careful management, sterling crashed out of the ERM in ignominious circumstances in September The effects of these diverging currency fortunes are starkly apparent in the chart, as SA's imported manufactures price increases stay — by SA standards — low, while UK input prices shoot up again after falling in 1990 and 1991

It takes at least two calendar quarters for UK input price increases to feed through into PPI output prices and then into consumer prices But feed through they will as almost the only inflating part of the UK economy, since demand is flat, money supply is under control and earnings growth is historically low Meanwhile SA's consumer inflation rate should have a relatively small contribution from the imports PPI, allowing the holy grail of single-digit inflation to come ever nearer

Internationally, there are two influential US data releases on Wednesday November's housing starts and industrial production Buoyed by mortgage rate cuts, **US housing starts** rose in each of the three months to September but fell 1,1% in October as the mortgage rate stimulus petered out With no additional rate cuts since, any further pick-up in starts will require higher confidence and bigger disposable incomes — both incipient recovery signals

After declining in three of the four months to September, and helping the Republicans lose the White House, **US industrial production** moved ahead by 0,3% in October Over the past month or two continuing falls in unemployment, rising consumer sentiment, better factory orders, higher spending on durables and buoyant retail sales all suggest that industrial production should now perk up

The week's other foreign data highlights come from the UK On Wednesday **UK retail sales** for November are released Despite gloomy surveys of consumer confidence, sales edged up 0,1% in October and, together with an uptick in narrow money supply growth were seen by some as a harbinger of recovery This week's figure will confirm or contradict this view

UK unemployment in November is due on Thursday, having risen to a 5½-year high of 2,9-million in October and, in Britain's current economic stagnation, heading inexorably higher UK average earnings growth, also out on Thursday, is likely to have dipped again in October below the 25-year low of 5,5% set in September

Recession forces 12 000 job losses on Barlow Rand

(153) STAR 15/12/92.

By Stephen Cranston

Barlow Rand's primary duty to SA is to maintain and grow its companies so that they continue to provide employment, goods and services for the benefit of society as a whole, says MD Derek Cooper in the annual report to end-September.

Cooper says the group will be able to enhance the quality of its earnings and its asset base in four sectors.

One is selected commodities to ensure that Barlows shares in the cyclical upturns characteristic of these businesses without becoming unduly affected by downturns

Another is consumer products with strong brand names, which represent an important element of growth as SA continues to urbanise.

A third is capital goods, which provide stimulus in times of increased fixed investment.

Fourthly, Barlows will benefit from export earnings and profits generated overseas, using its South African skills base.

Capital expenditure was up 33 percent to R1,839 billion, of which 35 percent went on industrial companies, including R98 million on a new beverage can plant in Springs, 43 percent in food and pharmaceuticals, with R209 million on a new maize mill in Maritzburg, and 23 percent on mineral resources

Another R1,75 billion has been earmarked for the year to September 1993.

During the year Barlow Rand retrenched 11 700 people, which chairman Warren Clewlow attributes to the need to downsize some companies because of the serious effects of recession

Warren Clewlow .. need to downsize some companies

He says it is a sad reflection of our times that a group such as Barlows has to shed so many people, some possessing special skills.

He says the cost of recession is far worse in terms of human suffering. The cost is measurable not only in jobs, lost but in jobs not created.

Clewlow says about 6 million people, representing some 40 percent of the workforce, need work.

He says the national Budget for many years hence will have to cater for large-scale employment schemes in order to get people off the streets and into productive work.

Clewlow says there is an urgent and immense challenge of uplifting the population in areas such as housing, healthcare and education

Substantial funds have already been made available through various forums to launch this effort, but the unstable environment has undermined the ability of those charged with this responsibility to impact significantly on these problems.

Clewlow says SA needs to be better plugged in to the changing global environment by promoting a significant increase in foreign investment to bring in capital and skills and by bringing SA up to international standards in its working, living and educational environment.

The task will not be easy, but "we have an incredible opportunity to meet the challenge that time and circumstances have placed at our door and turn it to good account"

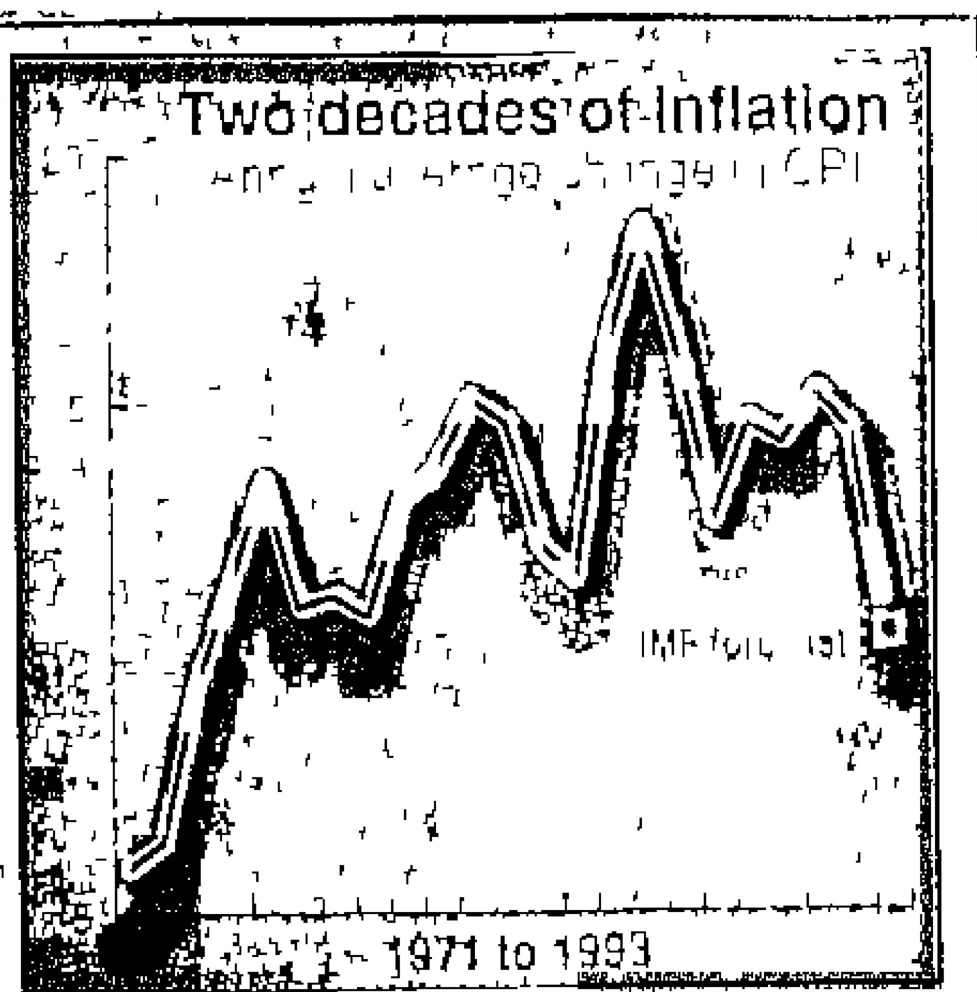
"The alternative is an ongoing slide into increasing poverty, marked by squabbles and skirmishes and watched with detached concern by a world that has lost interest."

Cooper says the group has worked hard at accenting training in the direction of developing programmes for black employees with the ability to rise to management level

Barlows has spent R80 million on training and development.

The social investment programme is focused primarily on enabling people to take part in the process of increasing the natiion's wealth

It has placed the major emphasis of its social investment programme on funding external education, training and development at the primary, secondary and tertiary levels



Graphic RUBY GAY MARTIN Source IMF

IMF says inflation to average 10,5%

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GRETA STEYN

THE IMF projected an average inflation rate of 10,5% for SA next year in its report on the SA economy, noting it was "somewhat more optimistic" on that score than the Reserve Bank. B/DAY

According to the report, the Bank's projections are for an average inflation rate of 11%. The Bank does not usually release its forecasts, and the figures became available for the first time when the IMF report on SA was released this week.

Economists said the projections were possible only assuming no big increase in the VAT rate. Every one percentage point increase in the VAT rate would add 0,6 percentage points to the inflation rate, taking the IMF's conservative estimate further out of reach. An increase in the fuel levy would provide further upward pressure on the rate. 18/12/92.

The IMF cited unrealistic trade union wage demands as an important reason for the stubbornness of the inflation rate in spite of a long period of tight monetary policy. It recommended that an informal income policy agreement be used as part of the strategy against inflation. Another inflationary factor noted in the report was lack of competition, with the IMF calling for deregulation and opening up of SA's markets to foreign competition.

The IMF projected GDP growth of 1,5% for next year after a decline of 2% this year. Economists' growth estimates for next year vary between 0,5% and 2%, but they have increasingly been scaling down their projections.

On the outlook for the medium term, the

☐ To Page 2

IMF

BDAY 18/12/92 153

☐ From Page 1

IMF said a major domestic savings effort was needed to attain even moderate average growth of 3,2% a year for 1993-2000.

A more determined savings and investment effort was needed than the IMF envisaged in 1991, stemming from the "significantly worse conditions from which one would now be starting".

Even if these targets could be attained, the black "underemployment rate" would still be 43,6% at the end of 2000, compared with the present estimate of 48%.

The rate of gross domestic investment would need to rise from its present level of around 17% of GDP to an average 23% over the medium term or to about 27% by the end of the projection period.

IMF projects 10,5% inflation rate for SA

CT 18/12/92 (153)

From GRETA STEYN

JOHANNESBURG. — The IMF projected an average inflation rate of 10,5% for SA next year in its report on the SA economy, noting it was "somewhat more optimistic" on that score than the Reserve Bank.

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On the outlook for the medium term, the IMF said a major domestic savings effort was needed to attain even moderate average growth of 3,2% a year for 1993-2000. A more determined savings and investment effort was needed than the IMF envisaged in 1991, stemming from the "significantly worse conditions from which one would now be starting".

Even if these targets could be attained, the black "underemployment rate" would still be 43,6% at the end of 2000, compared with the present estimate of 48%. The rate of gross domestic investment would need to rise from its present level of around 17% of GDP to an average 23% over the medium term or to about 27% by the end of the projection period.

- SA faced conditions which argued in favour of supplementing monetary policy with a form of incomes policy, the IMF report said.

It said that the authorities felt that once political circumstances permitted, the role of monetary policy could be furthered by some form of incomes policy which moderated wage demands.

- In terms of SA's economic growth path, the report recommended the authorities "liberalise the trade regime" and curtail government's spending.

Movement to a more outward looking trade policy would hold clear benefits for the SA consumer by exposing the country's "cosseted and concentrated domestic industrial structure" to international competition.

In addition, the control of the burgeoning deficit in a downwards direction would improve prospects for sustained growth and enhance political credibility in the markets.

FM 18/12/92.

INFLATION

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Believe it or not

IMF research shows that hyperinflation is easier to tackle than chronic inflation because of public perception and its effect on price-setting behaviour A review of nine hyperinflationary episodes shows that price stability was achieved almost overnight by exchange rate stabilisation

This involves fixing the value of the domestic currency in terms of gold or a foreign currency The costs of stopping hyperinflation in terms of lost output were relatively small

The episodes were in

- □ Austria (October 1921-August 1922),
- □ Germany (August 1922-November 1923),
- □ Hungary (March 1923-February 1924),
- □ Poland (January 1923-January 1924),
- □ Russia (December 1921-January 1924);
- □ Hungary (August 1945-July 1946);
- □ Greece (1946),
- □ Taiwan (1945-1949), and
- □ Bolivia (April 1984-1985)

Also reviewed were 10 episodes of stabilisation in situations of chronic inflation in

- □ Argentina, Brazil and Uruguay in the Sixties,
- □ Argentina, Chile and Uruguay in the late Seventies, and
- □ Argentina, Brazil, Israel and Mexico in the mid-Eighties

The IMF found.

- □ Inflation converged only slowly to the rate of devaluation of the domestic currency,
- □ There was a sustained real appreciation of the domestic currency,
- □ The current account and the trade balance deteriorated; and
- □ Real activity rose at the beginning of the programme but later contracted

Researcher Carlos Vegh argues that, if all price-setting behaviour had been forward looking (in other words, if the public had believed the reduction in the rate of currency devaluation was to be permanent), inflation would have fallen instantly without any output costs

However, in the event, the rate of devaluation was not credible — people expected the higher rate of devaluation of the past to resume in the future

"The fall in the nominal interest rate that results from the lower devaluation rate is thus viewed as temporary Consequently, the opportunity cost of holding money in the present declines relative to the future

"Hence demand for all goods increases, resulting in a consumption boom and a current account deficit The slow convergence of inflation to the rate of devaluation results in a sustained real appreciation of the domestic currency which ultimately results in loss of output "

This produced a boom-recession cycle and U-shaped curves for inflation and the real exchange rate During hyperinflations, the role of perceptions is more positive

Vegh explains that, during hyperinflations, there is an absence of "backward-looking price-setting behaviour, (so) prices become indexed to rapidly changing indicators such as the foreign exchange rate Moreover, stabilisation attempts are usually more credible in hyperinflationary situations than in situations of chronic inflation " ■

Tuesday, Dec 15 quotations for unit trusts

General Equity Funds:			
ABSA	133,67	125,04	5,91
BOE Growth	143,93	134,46	3,77
Community Growth Fund	111,61	105,53	na
Fedgro	120,52	112,56	5,13
CU Growth	110,05	102,74	4,62
Guardbank Growth	2393,62	2229,36	4 78
IGI	125,63	117,81	3 64
Momentum	225,58	211,33	4 68
Metfund	175,99	163,54	4,68
Metlife	112,95	105,54	7 49
NBS Hallmark	894,32	835,16	5,47
Norwich	329,54	307,71	4,35
Old Mutual Investors	2517 75	2347,41	3,81
Sage	2274 87	2124,13	4,26
Sanlam	1555,67	1457 21	3 55
Sanlam Index	1182,08	1107 10	4 15
Sanlam Dividend	434 60	407 75	4,93
Southern Equity	197 12	184 55	4,35
Standard	1148 93	1080 04	7,42
Syfrets Growth	277 79	260 06	4,60
Syfrets Trustee	114 48	107 22	4,74
UAL	1956 41	1837,43	5,25
Specialist equity Funds:			
ABSA Industrial	127,99	119,72	4 41
Guardbank Resources	128,42	119,63	6 26
Guardbank Industrial	121,41	113,78	5,84
Sage Resources	92 78	86,72	6,57
Sanlam Industrial	1018 62	954 02	3,12
Sanlam Mining	235 53	220 52	6 21
Southern Mining	112 15	105,02	5 90
Southern Pure	114 14	106,87	na
Standard Gold	132 59	124 35	9,48
Standard Industrial	111,30	105 03	na
Standard International	98,81	92 68	na
UAL Mining and Resources	315,02	295,10	5 05
UAL Selected Opportunities	1767,13	1652 64	4 12
Old Mutual Mining	204,43	190 45	5 82
Old Mutual Industrial	341,31	317,97	4 30
Old Mutual Gold Fund	82 16	76,57	7 31
Old Mutual Top Companies	234 44	218 58	4 16
Income/Gilt Funds:			
Metboard Income	109 16	108 02	13 95
Guardbank Income	124 22	121 68	14 88
Old Mutual Income	111 15	109,94	13 06
Southern Income Fund	510 70	500 49	na
Standard Income	94 80	93 81	13 96
Syfrets Income	110 03	108 92	14 55
Syfrets Gilt	1092 05	1081 13	na
UAL Gilt	1183 94	1172 10	13 22

Falling inflation will end interest rates cuts

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Soalt 19/12 — 13/1/93.

The recent official lowering of interest rates was made possible by a lower inflation rate. Since October last year, when a rate of 16,8 percent was recorded, inflation has tended to decrease and in September this year it stood at 13,5 percent Since interest rates were lowered, inflation has dropped further to 11,7 percent in October.

However, other factors also played a role in bringing about lower interest rates Growth in the money supply and in credit extended remained low over the past three months, while increases in factory prices were also subdued.

The recession also deepened considerably during the third quarter The economy shrank at a rate of minus 5,7 percent, mainly as a result of a sharp fall in agricultural production due to the effect of the drought on the maize harvest However, the recession is not limited to agriculture and most other sectors also display negative growth

While there is a link between all the above factors - for example, a low and decreasing level of economic activity will cause the growth in the money supply and credit extension to drop and inflation pressures to decrease - the most important indicator that will determine the future course of interest rates still remains the inflation rate

An inflation rate of lower than 12 percent is now possible by year-end, and it could be even lower in 1993. Some analysts even maintain that the magical level of single-digit inflation can be attained Interest rates should reflect the downward trend in inflation by decreasing a further percentage point or two in the course of next year

It is therefore clear that a disappointment on the inflation front will serve to limit any future decreases in interest rates

The VAT rate, for example, may be raised because the government's income shows a shortfall at present. This will have a direct effect on the measured CPI inflation rate Other increases in indirect tax such as the fuel levy and excise duties will also limit the drop in the measured inflation rate Inflation will then at best maintain the year-end levels of 1992 during the course of 1993

In such a case, the Reserve Bank can be expected to be more circumspect about lowering interest rates Some of the other factors that are favourable for lower interest rates at present may also change The economy can start growing - in reaction, among other things, to the present lower interest rates - and this will prevent further falls in interest rates

OLD MUTUAL

Helping you make the most of the Stock Exchange

STAR 23/12/92.

State staff levels still rising

(153)

By Sven Lunsche

While private sector employment has fallen sharply during the current recession the public sector has continued to increase its staff levels

The Nedbank Economic Unit says in its latest monthly bulletin that from the beginning of the recession in June 1989 until June this year public sector employment increased by 15 000 to 1,224 million In the three years prior to June '92 an additional 147 000 had been employed

In the past two years the contraction among local authorities of 24 000 was more than offset by growth in the self-governing states of 20 000 and in the central government and provincial authorities of 19 000 (These figures exclude the TBVC countries)

The salary bill in general government was R32,4 billion in the year to end-June.

Turning to the outlook for 1993 Nedbank says hopes of an economic recovery are squarely placed on an improvement in the agricultural sestor as well as a general recovery in the world economy

The government, already under severe stress, was unlikely to provide any stimulus for the recovery and expected tax increases could have an adverse effect on consumer demand.

This was most evident in the trend in spending on durable goods, which had declined by 10 percent in real terms in the first half of this year. As a result consumer spending on durables could fall from nine percent of total spending this year to just under eight percent next year

The BER expects spending on services and non-durable goods to show a slight improvement.

"An overall growth of two percent is forecast for the year, taking the economy back to where it was in 1991," Nedbank says

The bank's economists still optimistic that inflation could fall to single-digit levels early next year, however, a possible rise in VAT and higher fuel levies will put renewed upward pressure on the rate later on.

Inflation inevitable in new SA, study shows

BDay 23/12/92 (153)

LINDA ENSOR

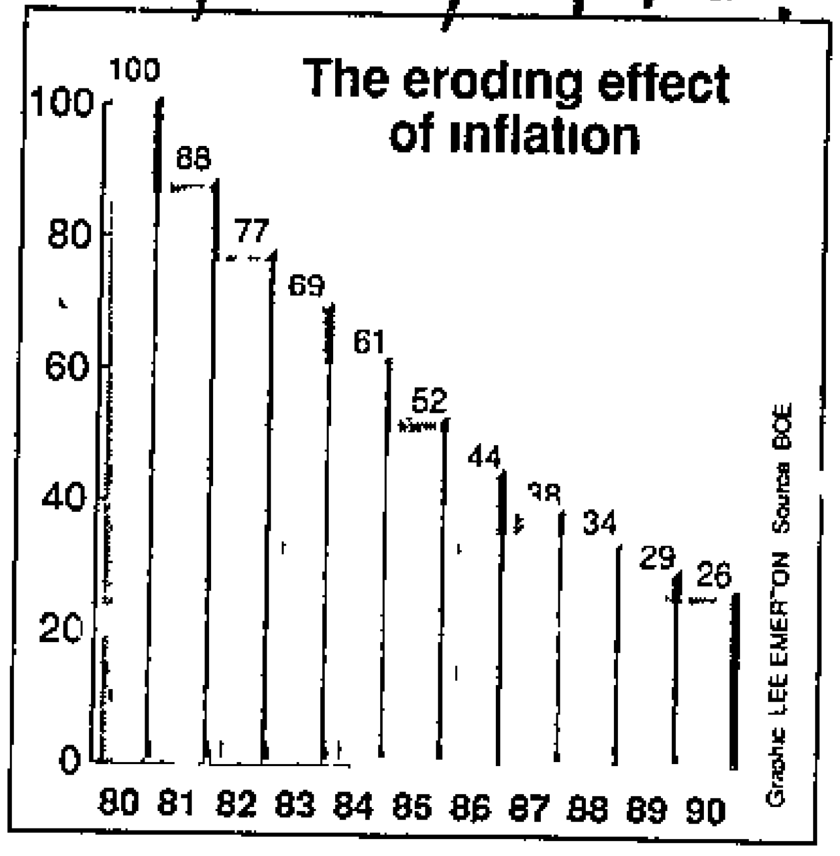
CAPE TOWN — Inflation had to be accepted as inevitable in the new SA and equities were the safest form of investment, Board of Executors (BoE) Cape regional director Tom Boardman said in the institution's quarterly newsletter, The Wale Street Journal

BoE analysed future socioeconomic and political trends from the findings of three major scenario planning exercises — Clem Sunter's high road/low road scenario plan for Anglo American, the Old Mutual/Nedcor scenario and the Mont Fleur scenarios.

The aim was to determine the implications of the projections for the management of investment assets in the new SA.

"One conclusion of the BoE scenario analysis was that South Africans would probably have to live with an element of inflation, even on a high road scenario, as a new SA government attempts to get to grips with socioeconomic backlogs and underdevelopment," Boardman said

"Even the World Bank has argued that SA may have to continue living



with a moderate level of inflation of between 15% and 20%"

South Africans rightly fear the eroding effect of inflation which saw the value of the rand fall to such an extent that R100 in 1980 was worth R26 in 1990

But, while the inflation rate was 14,8% in the decade to end-1991, the annual average combined return on share investments in this period based on the all share index was 25,1% "This compared very favourably with other forms of investment, such as the property trust index which achieved a return of 18,6%, fixed deposits with a return of 14,2% and gilts with a return of 14% and justifies a long-term faith in equities," Boardman said

He noted that over a period of 32 years between 1960 and 1991, the all share index generated a return of 20,6%, fixed deposits 13,8%, gilts 7,1% and inflation averaged 9,6%

BoE researched the performance of equities in the hyperinflationary conditions which existed in Germany during the period 1918-23, in Israel during 1975-84 and Brazil in the years 1983-92

It again found that equities outperformed the inflation rate in all these countries

"So even if we slip down the low road with its high inflation implications, it is still best to invest in shares as stock markets discount the hyperinflation," Boardman said

The fundamental fact was that share prices were determined by earnings which would rise in tandem with the rise in inflation

"The rise in earnings will be reflected in share prices and at the very least the investor should be able to maintain the value of his money," he said

Growth rate at 2% next year

(183) CT 24/12/92

By AUDREY D'ANGELO
Business Editor

SA will achieve an over-all growth rate of 2% at best in 1993 — taking the economy back to where it was in 1991, Nedbank economists say in their monthly Economic Profile.

They forecast an average inflation rate of 10[illegible] for 1993 [illegible] 1994 and [illegible] in 1995 compared with 14.1% for 1992.

And they expect the producer price index (PPI) to [illegible] 10[illegible] for the next three years.

[illegible] in the private sector will reach an average of 10[illegible] in 1993 and [illegible] the following years as the economy strengthens.

They expect the trade balance for 1993 to be [illegible] up from R1[illegible]bn this year [illegible] in 1994 and R21bn in 1995.

They also expect the gold price to rise [illegible] $350 an ounce in 1993, $367 an ounce in 1994 and $3[illegible] in 1995.

But they forecast the rand will [illegible] against the US dollar.

They expect it to [illegible] R3.1[illegible] to the dollar in 1993, R[illegible] to the dollar in 1994 and R4.05 to the dollar in 1995.

They also expect the DM and yen to strengthen against the rand over the next three years.

And although they expect the British pound to drop to [illegible]

Inflation to slide to 10,5% in 1993

[illegible] R[illegible] the [illegible] 1993 [illegible] R[illegible] in 1994 [illegible] R[illegible] in 1995.

They forecast that [illegible] and imports will both [illegible] in 1993 [illegible] GDP and private consumption expenditure [illegible]

They think [illegible] investment will [illegible] only [illegible]

They expect prime [illegible] to be down to 16[illegible] [illegible] 17.2[illegible] [illegible] 14[illegible] by the end of 1993.

They think [illegible] 1[illegible] by the end of [illegible] and 11[illegible] by the end of 1994.

[illegible] look [illegible] placed on an improvement in the [illegible] recovery in the world economy, particularly the industrial economies.

"The fiscus, already under severe [illegible] is unlikely to provide [illegible] for economic recovery.

[illegible] the economy [illegible] point out, anticipated [illegible] to reduce the large [illegible] are likely to push up the and [illegible]

[illegible] indicators suggest that [illegible] has resumed economic recovery.

However, [illegible] of a [illegible] recovery in Europe [illegible] fading as European [illegible] are troubled by higher interest rates, particularly in Germany, and turmoil in exchange rate markets."

[illegible] that commodity [illegible] unlikely to be significantly [illegible] 1993 than in 1992.

[illegible] in political climate [illegible] and a disturbingly high [illegible] all of which affect [illegible] confidence and foreign investment [illegible] will continue to obstruct [illegible] potential for achieving [illegible] economic growth rates in 1993.

[illegible] single [illegible] during the course [illegible]

[illegible] the [illegible] and a higher fuel levy, together [illegible] ed [illegible] s on alcohol and tobacco in 1993, will put [illegible] on the inflation rate."

Scramble to supply hawkers hots up

Sowetan 24/12/92 (153A)

By Mzimkulu Malunga

■ **NEW DEAL** Chinese to sell goods to Achib members at lower prices:

A TRADE WAR is looming between Taiwanese businessmen and local Indian traders as the scramble to supply hawkers with products hots up

Local hawkers presently buy most of the products they sell from Indian wholesalers But a deal between the African Council of Hawkers and Informal Business (Achib) and the Chinese Business Association (CBA) threatens this relationship.

Once the deal becomes operational, hawkers will buy directly from the Taiwanese manufacturers

Indians as middlemen

Indian businesses have acted as middlemen for manufacturers and street vendors for years.

"If the hawkers do a good job, I will take business away from the Indian traders," said Chuchent Kan, BCA's president

Kan is also chairman of the Taiwanese Industrial Association representing over 200 Taiwanese manufacturers in South Africa.

In terms of the deal Achib will establish a distribution centre buying directly from the Taiwanese factories and selling to the hawkers

"The prices will be much cheaper In fact, they will be the cheapest in South Africa," said Kan

Although the Taiwanese will initially supply hawkers with textile goods, they have not ruled out the possibility of providing other products

Also the Taiwanese would set aside a certain amount of cash to boost hawker training programmes.

Achib president Lawrence Mavundla says hawkers would gain substantially from the agreement as they would, for the first time, buy directly from the manufacturers and not wholesalers "This will drastically bring down the prices," Mavundla said

According to him, Indian shops collectively pocket over R6 million every month from their major customers - hawkers However, they have given nothing in return to the vendors

Mavundla dismissed speculations that the Achib-BCA deal would marginalise domestic manufacturers

"Many of the hawkers' suppliers buy from Chinese factories themselves but do not pass the low prices down to the hawkers In most instances they sell products at twice the price," he argued

The two sides do not want to admit that the whole saga began when hundreds of Chinese vendors surfaced in central Johannesburg last year selling products at prices which none of the local hawkers could match.

Tension between hawkers

This sparked tension between the Chinese and the local hawkers. Despite the fact that almost all of them could not speak any local languages - including English - the Asians were too competitive for the locals

Because many of them are said to be from China and came into this country through Lesotho where there had been anti-Asian riots, the Taiwanese diplomats in South Africa turned their backs on the Chinese vendors

But as tension mounted with Achib's anti-Chinese campaign, the Taiwanese intervened, mainly as mediators

Lawrence Mavundla ... hawkers will gain.

Hence the deal is seen from various circles as a gesture by the broad Chinese community in South Africa to allay the tension

There is already concern among the Indian business community who compete among themselves and have no organised movement representing them

Darmesh Patel of Patel Brothers, a wholesale cash and carry based in Fordsburg, said the market of many Indian traders will undoubtedly be eroded by the hawkers-Chinese deal

For the time being, Patel won't be affected because he sells mainly groceries to the hawkers

BIDAY 24/12/92

EC inflation dips

AVERAGE year-on-year inflation in the EC dipped to 3,8% in November, the lowest in more than four years, the EC's statistical office Eurostat said in Brussels yesterday

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By comparison, Eurostat said, the corresponding November rate was 3% in the US and 0,7% in Japan.

REPORTS Sapa-AFP-Reuter

WORLD ECONOMIC OUTLOOK

FM 25/12/92

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Light on the fringes

Growth predictions are constantly revised as the world battles stagflation

Such bright lights as there are in prospect for the world economy in 1993 flicker clearest on the fringes, like candles around a stagnant pool — in China, the "tigers" of the Pacific Rim and south-east Asia, India, Argentina and Chile

For the rest, accounting for 80% of global GDP, emergence from the quagmire will continue to be a leaden, uneven lurch, notwithstanding drooping inflation Twelve months ago, the Organisation for Economic Co-operation & Development (OECD) revised downwards its projections for the 24 leading industrial nations and postponed real recovery from 1992 to 1993

In July, it again dampened expectations but chirpily maintained that next year would see the OECD economies lift GDP by 3% Now the December issue of the bi-annual *OECD Economic Outlook* warns of "relatively sombre" short-term prospects for the 24 economies as a whole — and something probably worse in the Commonwealth of Independent States (the ex-USSR)

Growth is projected at a feeble 1,9% (see table), a full third slower than foreseen six months earlier, and instead of falling to 6,5%, unemployment will leap to 8,2% — 34m in total

It will stay close to that level even though the revival once scheduled for 1992 *may* arrive in 1994 — for which the OECD has pencilled in growth of 2,9%

The OECD was also quick to admit it could be wrong again America's unexpected third-quarter bounce "might" presage a return of consumer confidence which could add half a point to US GDP next year raising it by nearly 3% instead of 2,4%

Equally, however, the drab overall outlook for the coming year may be worse OECD forecasters were surprised by the sharp declines in Japanese and German output

The *Economic Outlook* had barely been printed when the leading Munich research institute Ifo warned of a full-blown recession

West Germany's economy will contract by 0,5% in 1993 and while the eastern *laender* will show growth of 8%, the total impact will be zero — not the 1,2% formally posited by the OECD which conceded, after publication, that the out-turn could be only 0,7%

The grim prospect is that next year there could be 3,4m Germans looking for jobs, said the Ifo, but added it would be "wrong to get into a panic now"

Stronger language emanated from IBM, Ford, Volkswagen and Daimler Benz, all of which announced substantial retrenchments in Europe VW, slashing capex by DM3bn, forecast a fall of 20% in its domestic market next year after a slump which started "suddenly and dramatically" at the end of September

IBM had a similar tale to accompany its 12% workforce layoff in Europe "Our European business declined precipitously and unexpectedly since the beginning of October," said IBM chairman John Akers Daimler chairman Edzrad Reuter, presiding over 12 500 car job losses at Mercedes, with more to come in 1993, was explicit "The German economy has burst like a soap bubble"

Accounting for 30% of the EC's GDP, Germany is to Europe what the US is to the world — only more so The pan-European growth rate, historically, is identical to Germany's The portents bode ill for the whole continent as it opens up into the great single market from January 1

Leaving aside the chaos in Russia and the other newly independent ex-Soviet States — where output fell 20%, inflation hit 2 000% in 1992 and the OECD will not even hazard a guess about the future — Europe is the sick man of the international economy

Germany's reunification hangover and the Bundesbank's tight monetary policies to counter inflationary pressures caused mayhem in currency markets The break-up of the exchange rate mechanism (ERM) of the European Monetary System followed, with the UK and Italy pulling out while Spain and Portugal devalued within it

Real short-term German rates are 5,3%, keeping up the pressure on economies which stayed linked to the D-mark via the ERM French inflation is the lowest in Europe at 2% yet holding the franc's parity means real short-term rates of 9% The same is true for Spain, despite devaluation, and for temporary outsider Italy

The Irish, with unemployment heading for 20%, are sweating on 14% and even EC aspirant Sweden, which floated the kroner after being forced to give up its attempt to track the D-mark, has to maintain real rates at almost 10%, despite 2% inflation and facing the third year of negative growth

"Escape" from the ERM enabled the British to chop the costs of short-term money to 7% — from 15% a year earlier — and real rates are now down to the 4% mark But sterling's devaluation is already stoking industrial input prices while wages continue to rise faster than inflation — despite the rise in unemployment — which will threaten the competitive edge given to exports

That will also inhibit interest rate cuts and consumer confidence remains battered by job losses, which will lift unemployment to 11%, and the blight of the property slump Even though mortgages are the cheapest for 20 years, private residential investment will drop again next year after a cumulative 35% decline from 1989 levels

But if Germany stumbles, the export performances of the UK and all European economies will struggle Hence the urgings of the OECD, reinforced by the International Monetary Fund, for an early relaxation by the Bundesbank, even if disinflation is not fully under way

Even when it does no dramatic impact is expected The OECD is looking for German rates to notch down by only three points to 6,5% over the next two years as inflation (for the combined country) eases slowly from 5,5% to 3,3%

Fiscal assistance is ruled out for Germany and all other big economies apart from Japan which has already launched its US$86bn spending plan, 2,3% of GDP, in harness with lower short-term interest rates Germany's federal deficit is expected to slip below 3% of GDP but the OECD points out that off-Budget borrowing to fund the eastern states' reconstruction will continue to balloon

Japan has other problems After the bursting of the "asset bubble" has come the sight of the "bicycle economy" — which runs smoothly at speed but wobbles when it slows — and the second consecutive quarterly slip in output, bringing it down by 6%, was the first since the oil crisis recession of the Seventies

In addition, consumer caution has flattened demand even though housing starts picked up and inflation, thanks to the strong yen, was a mere 1% and producer prices fell by 1,3% Apart from property and finance sectors, Japanese industry has a healthy balance sheet but the dash for market share around the world has increased cost gearing from 75% to 88% of sales

The volume downturn of the last three years in export markets has slashed profit margins this year, corporate Japan's profits will fall by another 20%, losses are rising, bankruptcies among manufacturing companies are up 47% on 1991 and the net return on fixed assets has more than halved to little over 5% since 1989

And the cost of capital — negligible when

TAKING A BREAK

This is the final issue of the *FM* for 1992 — our next magazine will be dated January 8 The Editor and staff wish our readers a peaceful festive season and hope, with you all, that 1993 will be prosperous

Tokyo equities were more than 120% higher than now — has risen US companies can raise equity capital at least one percentage point cheaper than the Japanese

"Risotura" (restructuring) is now the buzzword in Japanese industry with big corporations hacking investment, cutting product ranges and costs and the once sacred concept of "jobs for life" is being challenged — even though unemployment will not rise above 2,4%

Anecdotal evidence is ample Toyota estimates domestic car sales growth will be less than 2% over the next five years and has put back its 1995 ambition to be selling 6m vehicles worldwide until 2000

The OECD projects that while private residential investment will recover from the 13% drop of the past two years, industry's spending will show a further slide after 1992's minus 2% Tokyo economists believe manufacturers will pare spending plans back by 10%-15% next year Mergers and rationalisation are widely forecast The number of manufacturing firms could shrivel by 20% over five years

The official forecast for growth next year is 2,3% after 1992's weak 1,8% but private economists doubt whether Japan will be able to achieve that

Alone among the industrial majors, the US has a more promising aspect following the first real signs of vigorous recovery above the sluggardly pace set since the recession bottomed

Though still highly geared by comparison with the start of the Eighties, household debts are levelling off and the burden reducing with the help of the Federal Reserve's monetary relaxation Investment in housing recovered from the falls of the previous three years, rising by more than 12% and projected to stay in double figures

Corporate balance sheets have been helped by the stock market's buoyancy and ability to raise $100bn in new equity — though this compares with $650bn in equities lost through borrowing-financed takeovers during the "leverage boom"

Bank lending has fallen throughout 1992, partly due to reduced consumer instalment debt, though business investment resumed modest growth of 2,3% this year It is expected to top 6% in 1993 and more than 9% the year after

No danger of a resurgence of inflation is foreseen The OECD projects price rises retreating from 3% to 2,3% in the coming 24 months while the reshaping of industry and higher productivity reduces the increase in labour unit costs to only 1,7% from 4,2% last year

Increased US competitiveness and the subdued dollar should lift export growth from 2% this year to 6% next and 7,5% in 1994, says the OECD But the improvement in demand will mean higher imports and the current account deficit, which was only $4bn last year, soaring to $56bn in 1992 followed by $75bn

America's perennial difficulty is the budget deficit despite falling government consumption, chiefly lower defence spending The inexorable growth of non-discretionary payments — such as Medicare — will continue to outpace GDP The Office of Management & Budget in Washington puts next year's deficit at $342bn — up $52bn — which will underpin long-term interest rates and continue to crowd out private-sector investment

President-elect Bill Clinton's expected fiscal stimulus — investment tax breaks which could add half a point to GDP and infrastructure spending — could be harmful, even though he has undertaken to reduce the deficit Lifting the economy when it is on the up risks distortions which may need action bringing the recovery to a premature end

On balance, the OECD finds that "the negative risks" are worrisome in the near term, especially in Europe and Japan

It has fewer doubts about the rapid growth economies in the East China led the pack with GDP expansion of 11% this year after the triumph of the reformers over the diehards at the top of the Communist Party

The new political climate pulled in a surge of foreign money which helped to finance a 30% increase in fixed investment and the October trade pact with the US "removed a potential obstacle to continued double-digit growth in 1993," it says, though 10% inflation in the industrialised cities is of concern

The dynamic four — Korea, Taiwan, Hong Kong and Singapore — saw collective growth slip by a point to 6,5% this year but are projected to climb back to 7% by 1994 Rapid export increases by Thailand helped it expand by 7% which should improve to 8% while Malaysia sustained 8% for the fifth year in a row

Indian reforms and devaluation of the rupee should push its rate above the 3% achieved in 1992 but the external deficit amounting to 2% of GDP and inflation are potential stumbling blocks And in Latin America, with Chile and Argentina reaching 7% output increases, the debt and economic stabilisation measures "raise hopes for future widespread progress For the region as a whole growth in 1993 is likely to accelerate slightly from the 3% recorded in 1991 and 1992"

As for the "partners in transition" in central Europe — Poland, Hungary and Czechoslovakia — the OECD predicts that the period of contraction in the adjustment to market economies is over and the first shoots of the harvest should appear in 1994

The Commonwealth of Independent States remains in turmoil The OECD sounds a note of despair "Even illustrative projections for output and inflation are impossible under existing conditions" ■

Which way out?

Summary of projections

Seasonally adjusted at annual rates	1992	1993	1994
GDP			
% change from previous period			
US	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]
Germany*	[illegible]	[illegible]	[illegible]
OECD Europe	[illegible]	[illegible]	[illegible]
Total OECD	[illegible]	[illegible]	[illegible]
Inflation			
%			
US	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]
Germany*	[illegible]	[illegible]	[illegible]
OECD Europe	[illegible]	[illegible]	[illegible]
Total OECD	[illegible]	[illegible]	[illegible]
Unemployment			
% of labour force			
US	7,4	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]
Germany*	[illegible]	[illegible]	[illegible]
OECD Europe	[illegible]	[illegible]	10,5
Total OECD	[illegible]	[illegible]	[illegible]
Short-term interest rates			
%			
US	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]
Germany*	[illegible]	[illegible]	[illegible]
Major four European countries	[illegible]	[illegible]	[illegible]
Government budget balances			
% of GDP			
US	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]
Germany*	[illegible]	-3,2	-2,7
OECD Europe	[illegible]	-5,4	-4,8
Total OECD	[illegible]	[illegible]	[illegible]
Current balances			
$ billion			
US	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]
Germany*	[illegible]	[illegible]	[illegible]
OECD Europe	[illegible]	[illegible]	[illegible]
Total OECD	[illegible]	[illegible]	[illegible]
World trade			
% change from previous period			
	[illegible]	[illegible]	[illegible]

Assumptions

— no ch[illegible]

— [illegible] exchange rates from 3 November 1992

— Dollar price for internationally traded oil of $18 per [illegible]rrel for 1992, and constant in real terms thereafter

Business urged to fight price increases

LINDA ENSOR

CAPE TOWN — The Cape Town Chamber of Commerce has urged business to take a tough stand against product and labour price increases

In its latest bulletin the chamber said despite bitterly harsh recessionary conditions, inflationary pressures continued to remain high

"Indications are that wage and salary increases for next year will be well below the current rate of inflation and the first priority must be to ensure that labour increases are not allowed to fuel the inflationary spiral," the bulletin said.

The chamber urged businessmen not to accept any price increases on their inputs which exceeded the inflation rate and said they should negotiate hard to reduce input cost increases to the very minimum.

"Finally, business people should avoid fuelling inflationary expectations by producing prognostications in marketing their goods/services that develop a psychology of acceptance of the fact that high inflation is inevitable," the chamber said.

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2/10/88

THE WEEK AHEAD by Simon Willson

Local figures call for a toast

BDAY 28/12/92 153

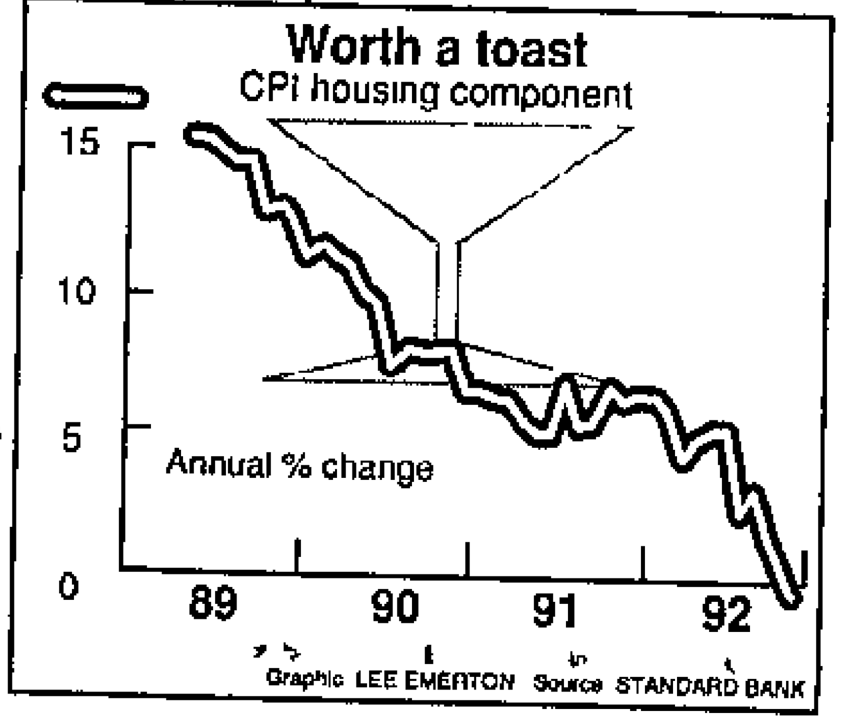
DOMESTIC data released this week can expect little reaction other than a stream of ribald invective from beneath some streamer-strewn, alcohol-soaked dealing console in a deserted CBD. The local figures, however, will almost certainly deserve a more appreciative reception.

The November inflation rate is due by the end of the week and should, in contrast to last year's Christmas time inflation news, be worth a prolonged toast from the nearest vessel of festive spirits. The 11,7% headline inflation rate posted for the year to October was the lowest in eight years and should herald a period of further decline towards that elusive single-digit level.

It is a sign of the progress made in subduing inflation that at this time last year the market was still wincing from the VAT-boosted, four-year inflation high of 16,8% recorded for October 1991 At 15,5%, inflation 12 months ago had still to absorb the drought-related surge in food prices.

This week's inflation rate should be at least four percentage points lower than it was last Christmas and — more importantly — should be heading still lower The chart depicts one of the most potent disinflationary influences on the consumer price index (CPI), and one whose contribution to lower inflation is not yet fully spent

As the chart shows, housing costs have been one of the principal performers in leading the change in the CPI to lower levels But it is particularly helpful to the low-inflation cause if the CPI's star performer also holds the biggest weighting in the index. Happily, that is the case in respect of housing costs



Not only are housing costs currently the only main CPI component in year-on-year decline — down by 1,1% in October — but they also wield the biggest weighting in the index at 20,5% of the 1990 basket, ahead of food's 18,6% and transport's 14,4% This formidable combination is helping to drag inflation lower, and could explain Finance Minister Derek Keys's notable public confidence that the inflation rate will be in single digits "soon"

The November money supply figures are also due this week, but M3 growth has tamely conformed to the Reserve Bank's 7%-10% guideline range for so long now that the element of surprise has effectively been removed from the data October year-on-year M3 growth came in at 9,3%, which translated into 9,1% from the base of the guideline year

Internationally, US December consumer confidence will be the first prominent statistical release to emerge after the festive weekend when it is published tomorrow The confidence index jumped 10,9 points to 65,5 in November, reflecting the end of the presidential election campaign and the dollar rally that followed The index looks set to test its 1992 high of 72,6 hit in June.

On Wednesday the US leading indicator for November is released and, since it projects economic activity six to nine months off, should begin a series of positive outturns after a dodgy third quarter October's 0,4% rise ended a run of two monthly falls, and anecdotal evidence points to a uniformly positive fourth quarter

As the French authorities continue the battle to keep the franc above its floor in the European exchange rate mechanism (ERM), France's economic fundamentals now have a higher profile in the market than previously The final French November inflation figure, due out in mid-week, is one of the French indicators currency traders will be watching

The preliminary figure issued a fortnight ago put the rate at 2,1% against October's 2,4%, giving France the third lowest inflation rate in the G-7 after Canada and Japan Confirmation of the 2,1% rate this week will help to solidify franc sentiment and thus stabilise the ERM, particularly in view of Germany's latest inflation rate released last week — 3,8% in November

☐ **Money Markets will resume after the festive season**

Inflation steadies, food prices rising

Business Staff 153

GOOD news for South Africa's struggling consumers is that the inflation rate steadied at 11 percent a year in November. But the bad news is that food prices are still rising at more than 21 percent a year.

Central Statistical Services figures show consumer prices rose 0,4 percent in November for the second month in a row.

The lower-income group is still the hardest hit — the consumer price index for this group rose 12,3 percent in the year to November, compared to 11,6 percent for the middle-income group.

ARG 29/12/92

Investors turning pessimistic — FNB

STAR 29/12/92.

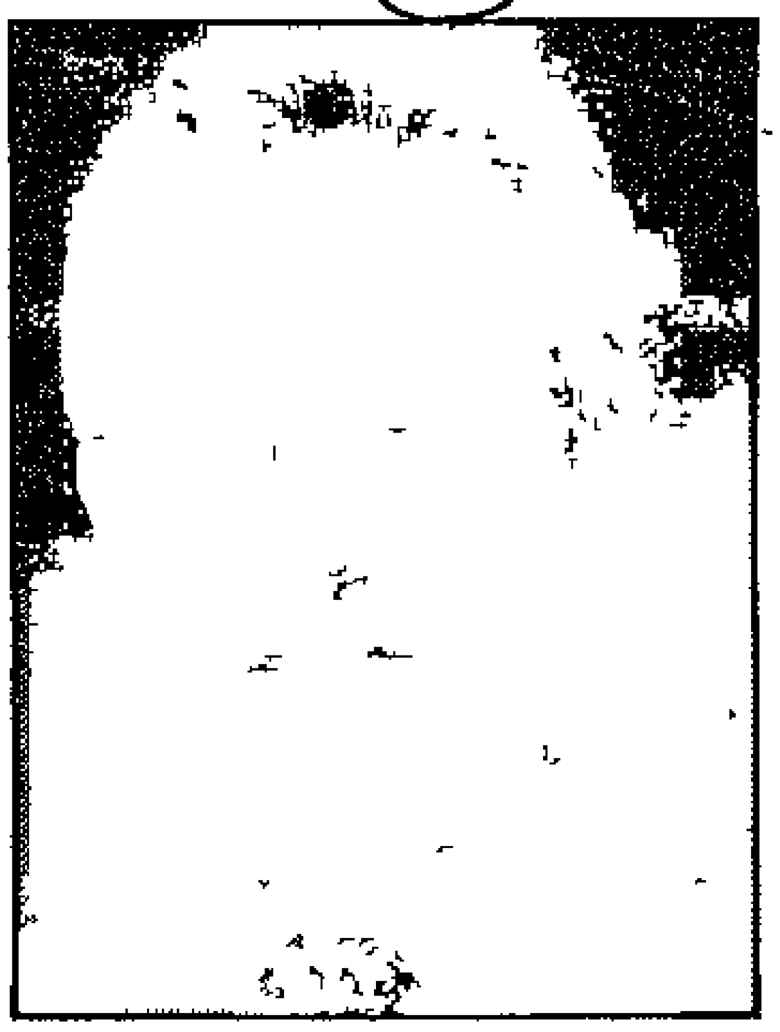
153

By Stephen Cranston

Both local and overseas investors are generally pessimistic about South Africa in the wake of a barrage of negative indicators, says First National Bank MD Barry Swart.

He says in the annual report for the year to September that given the worldwide recession, the tight monetary policies in South Africa, coupled with political uncertainty, it will be difficult for FNB to achieve significant growth next year

Fortunately some pre-conditions for recovery have become apparent Inflation has slowed, manpower costs are easing, there has been a marked improvement in the balance of payments, monetary policy has softened and interest rates are declining.



Barry Swart . difficult to achieve significant growth next year

Independence

FNB expects a further decline in short-term rates by the end of 1993 and a current account surplus of R4 billion to R5 billion

The greater independence of the Reserve Bank in recent times has resulted in the start of what FNB expects to be a continuing decrease in the rate of inflation and a weakening of money supply growth to within the seven to 10 percent guideline

FNB lends support to the Reserve Bank's policy to maintain positive real interest rates and its commitment to the stability of the rand exchange rate.

The Reserve Bank has been willing to reduce nominal interest rates, but only to the extent of the small declines in the inflation rate

Swart says he supports the Reserve Bank's independence and it is vital that the maintenance of the rand both internally and externally be divorced from direct political pressure.

The country should not rely on a depreciation of the exchange rate of the rand to provide protection against inherent weaknesses in the production structure, just as the country should not look to a large-scale injection of new money to stimulate growth.

It is up to the private sector to stimulate business, economic activity and employment, while the public sector should focus on incentives or encourage individuals to save and invest, helping to generate capital

The two sectors between them should create opportunities for people to acquire and improve their skills and so become more productive.

A more relaxed political attitude towards South Africa has been experienced internationally There is a positive willingness of the international community to do business with SA once again

FNB has achieved its objectives of Africanisation so far with the establishment of a subsidiary in Botswana and a joint venture finance company in Malawi

Devaluation

The Malawi operation is performing better than projected in both income statement and balance sheet terms, although the value of the investment has been adversely affected by the devaluation of the Malawian kwacha.

The points mechanism on short-term forward cover has put both volumes and margins in offshore funding under pressure.

The pressure will continue and, in conjunction with the entry of foreign banks on the local market, will force more innovative international banking products to be developed.

The newly acquired Henry Ansbacher Holdings, based in London, is well placed to offer convenient, cost-effective and flexible offshore facilities for single or multi-centre trust and corporate structures.

It has a significant presence in the Caribbean and Channel Islands and offices in Zurich and Monaco

Inflation's new low of only 11%

CT 30/12/92 (153)

By ARI JACOBSON

A DRAMATIC decline in food prices triggered a further drop in South Africa's inflation rate to 11% for the year to November against the 11,7% reported in October, according to figures released yesterday.

This allowed the consumer price index (CPI) to remain at an eight-year low for the second consecutive month and highlighted the stability returning to the official inflation rate.

SA Reserve Bank deputy governor Mr Jaap Meijer said yesterday that "it now looks good for single digit inflation in January or February".

The CPI dipped into single digits once in 1984 — and before that 14 years ago in 1978

Food inflation has shown a dramatic decline, plunging from a 30% rise over the year to July and to a 17% increase for the year to November.

Old Mutual economist Mr Johann Els said food prices were under control and were the driving force behind November's lower inflation rate.

Mr Els pointed out meat prices, which had increased by over 35% for the year to January, had by November dropped to a meagre 4% increase.

Vegetable prices dropped from the 88% increase for the year to July, to a 43% gain in November.

Mr Meijer said the November rate was impressive as it included the October 10 petrol price increase.

The stable trend in the CPI was further confirmed by the 0,4% monthly gain in the CPI for November.

First food price fall in years

Inflation drops to 8-year low

STAR 30/12/92. (153)

By Magnus Heystek and Paula Fray

The annual inflation rate measured by the consumer price index dropped to an eight-year low of 11 percent in November — and prospects are good for further decreases this month and next month.

A rate of 10 percent during 1993 is now well within reach, economists say

While welcoming the drop in inflation, consumer groups yesterday vowed to keep a watchful eye on price increases during 1993 — especially now that the drought appears to be losing its grip.

Figures released by the Central Statistical Service (CSS) yesterday show a major contributing factor to the steadily decreasing growth in inflation was the surprising monthly drop of 0,3 percent in the food price index in November — the first time in many years that food prices had declined on a year-on-year basis

This was mainly the result of a drop of 6,4 percent in the price index for vegetables

Increases in the price indices for grain products (1,3 percent), meat (0,6 percent), fruit and nuts (0,7 percent), and coffee, tea and cocoa (1,3 percent) offset the lower vegetable prices.

While food became marginally cheaper last month, the annual rate compared with November last year is still high, at 17,2 percent — but substantially lower than the 30 percent increase earlier in the year

If the price of food is excluded, inflation drops to 9,3 percent

On a yearly basis, inflation for lower-income groups (which spend proportionately more on food and basic commodities) was 12,3 percent in November For the middle-income group the rate was 11,6 percent and for the higher-income group only 10,2 percent

Impact

The CSS calculated that without the impact of VAT on prices, the average inflation rate would have been even lower at 10,8 percent.

Economists say the falling inflation rate could lead the way to lower interest rates early in the new year.

One economist yesterday indicated that the prime interest rates could drop by another percentage point early in the new year, to be followed shortly by further drops in bond rates

Consumer Union chairman Lillibeth Moolman attributed the drop in fresh produce prices to the good rains. However, while welcoming the lower food inflation, Moolman said her union looked forward to the day when it was in single figures.

"As food price increases are a contributory factor to inflation, a single-figure food inflation rate will mean a much healthier economy for 1993," she said

However, she cautioned that only copious rain, good farming and healthy economic conditions would result in a further drop in food prices. Moolman noted that certain areas were still not getting their desired rainfall.

The Consumer Union, said Moolman, would be watching agricultural prices carefully to see whether there would be any drop in prices in the long term.

"It will have to be in the long term as these things are seasonal We are still dependent on importing wheat and maize and on the kind of prices which will be negotiated on the international market"

Housewives' League vice-president Sheila Lord — who oversees the organisation's food price surveys — said there had been a "steadying off" of price increases in the league's supermarket survey of an average basket of food

CPI falls to eight-year low

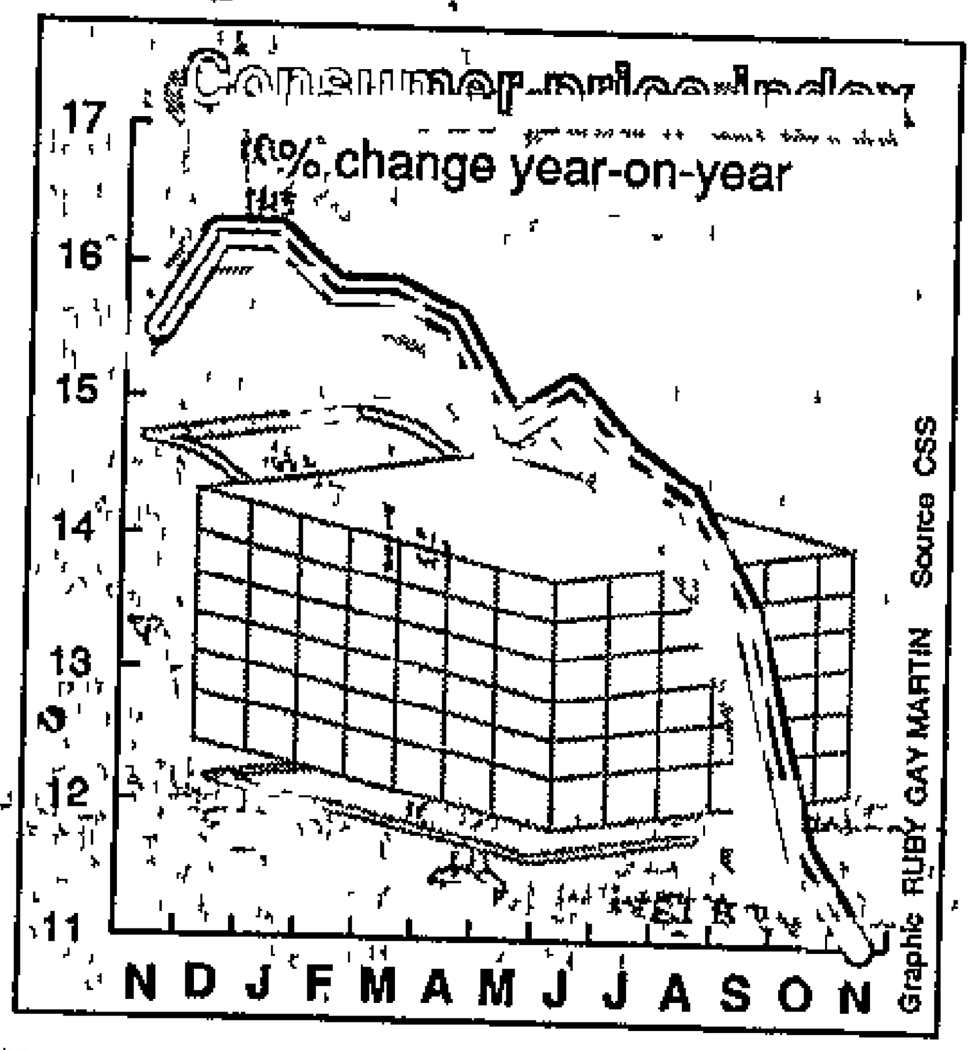
Slowed food price hikes curb inflation

BDay 30/12/92 (153)

GREETING STEYN

INFLATION defied economists' expectations for the second consecutive month in November, falling to 11% from 11,7% because of a dramatic slowdown in food price increases

Central Statistical Service (CSS) figures released yesterday showed inflation, as measured by the annual rate of change in the consumer price index (CPI), was at its lowest level since April 1984 Economists were surprised at the sharp slowdown, saying it raised hopes of a cut in interest rates They said the target of single-digit inflation was now within reach and next year's average inflation rate should be at the lower end of the range of predictions from 10,5%-13%.



Economists were astonished that food prices fell between October and November. This brought the annual rate of increase in the food price index down to 17,2% for the year to November, representing a substantial fall from the levels around 30% experienced earlier this year. The annual rate of increase in food prices was last at November's rate in July 1991 The main reason for the positive developments on the food price front was a significant fall in the price of vegetables in November from October (6,4%)

Sanlam economist Eric Coetzee said recent food price developments suggested Reserve Bank Governor Chris Stals might have won the war on expectations.

"The sharp focus on food in the battle against inflation is making it more difficult to charge excessive prices," he said He added the recent rain could also have played a role, but it was too early to tell

Sanlam had expected only a slight fall in inflation in November, and Coetzee was "pleasantly surprised" by the decline. He said it was a bullish sign for an interest

□ To Page 2

Inflation

BDay 30/12/92 (153)

□ From Page 1

rate cut, but noted that Stals might be concerned about losing some ground in the battle against expectations if he moved too soon on the interest rate front.

Absa economist Pierre Morgenrood said if the trend of the past two months continued next year, the average inflation rate would be 10,6% This could be achieved even if VAT was raised to 13% and there was an increase in the fuel price. He saw 12% as the "worst case" average inflation rate for next year

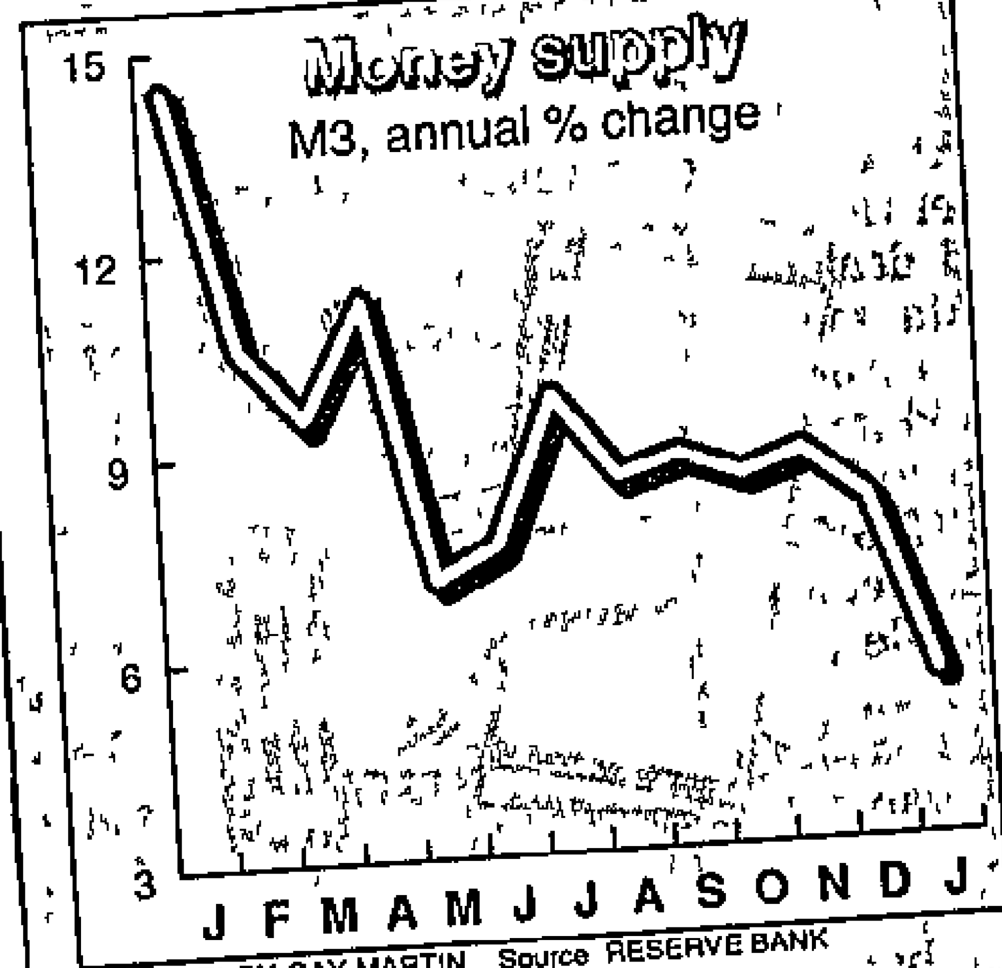
Morgenrood noted a major reason for the recent slowdown in the rate of increase in the CPI was that the housing index had been falling After an average annual increase of 5% in the first six months of this year, the index had decreased by 1% in October and by the same percentage in November Morgenrood said the reason for the fall in housing prices was mainly the mortgage rate decline but the severe depression in the housing market also played a role The component had fallen even though municipal tariffs had risen.

Transport costs in November rose by 0,3 of a percentage point, reflecting the hike in the fuel price The October increase was reflected only in November, as the CPI is calculated based on the prices of the first week of every month

Housing was the main factor for inflation excluding food being only 9,3% The CSS release also showed inflation for lower income groups still higher than those for higher income groups — 12,3% compared with 10,2% Inflation excluding VAT was only 10,6%

● See Page 5

INFLATION — 1993



Graphic RUBY GAY MARTIN Source RESERVE BANK

Money supply growth shrinks

153

TIM MARSLAND

GROWTH in the broad money supply in January was below the guideline range set by the Reserve Bank for 1993, figures released yesterday show.

Year-on-year growth in M3 — cash in circulation and all deposits with banks — shrank to 5,4% in January from December's 8%. Growth from the guideline year base (the fourth quarter of 1992) plunged to -4,51% from 11,29% in December.

The Bank last month set its new guidelines for acceptable growth in money supply at 6-9% At the time it said it took into account the need for an increase in the money supply to support an expected rise in real GDP.

BIDAY 2/3/93

Nedcor Bank chief economist Edward Osborn said the data reflected the "absolutely stagnant state of the economy". Had the economy been in an upturn, the growth rate would have been significantly higher. While the low growth indicated there was some room for the Bank to cut interest rates, it was unlikely to do so as it had other problems to deal with — poor foreign exchange reserves and the balance of payments position Osborn said interest rate cuts also depended on inflation Official inflation was running at 9,7% in January, but underlying inflation was 12,8% He said the latest figure did reflect the stability in the Bank's monetary policies

Star 3/3/93

153

100 000 manufacturing jobs lost in the recession

By Sven Lünsche

Employment in the manufacturing industry has plunged by about 100 000 since the beginning of the recession, the Industrial Development Corporation (IDC) says.

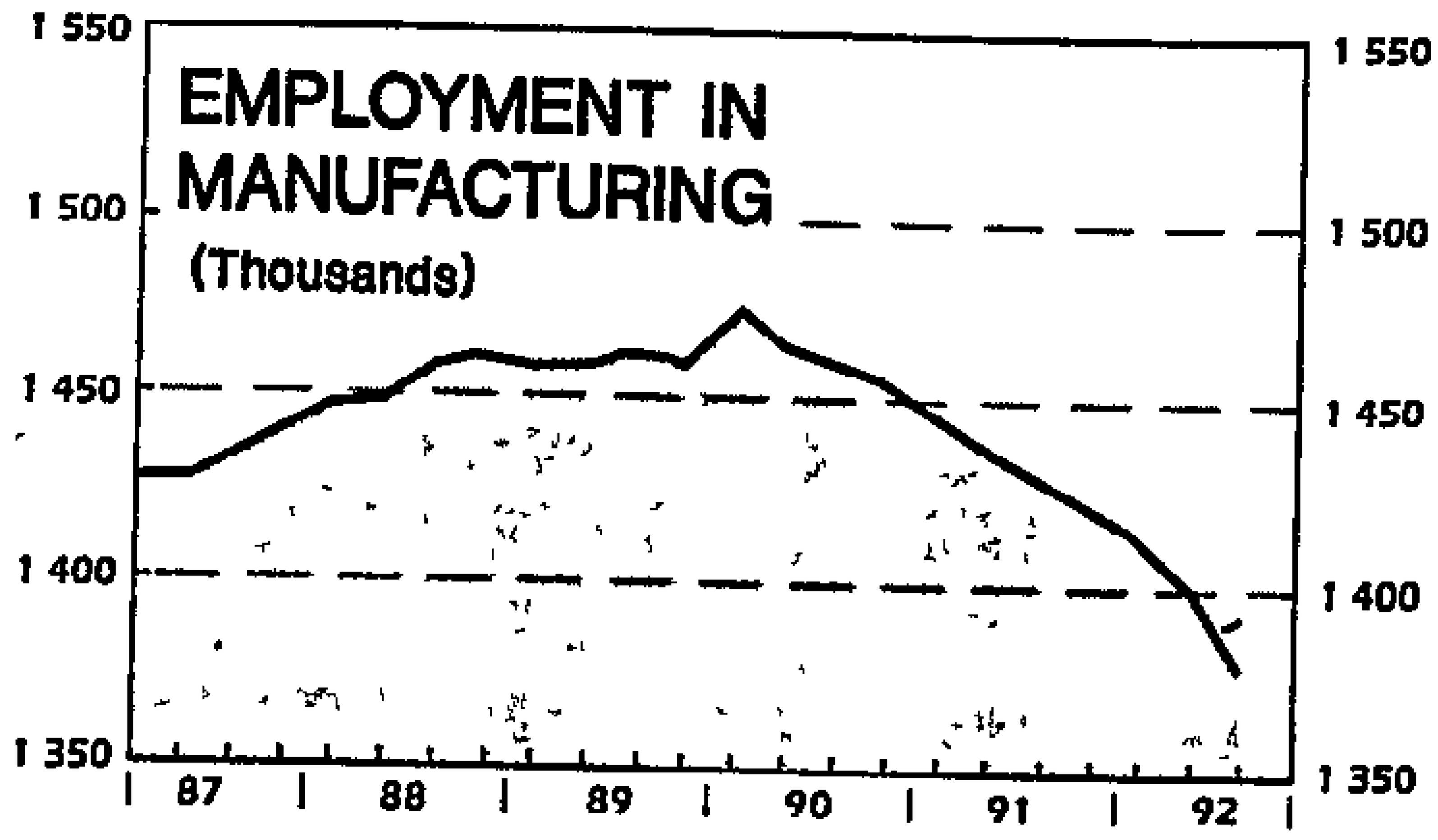
In its quarterly release on economic conditions in the manufacturing industry the IDC says that from January 1990 to October last year employment levels fell from 1,47 million to about 1,38 million.

Retrenched

In the 12 months to end-September 1992 alone about 20 000, or three percent of the workforce, were retrenched.

Employment levels are not expected to recover substantially this year as, according to the Bureau for Economic Research, manufacturers generally forecast the low level of economic activity to continue for some time.

A rise in employment will be limited as most companies in the industry have sharply reduced the production capacity levels since the beginning of last year — the utilisation of production capacity dropped to 77 percent in August from 82 percent in January.



High labour costs are also making capital investment a more attractive option. According to the IDC figures, the labour cost per worker during the third quarter 1992 was on average 14 percent higher than a year ago.

The fall in employment is a direct consequence of lower production levels in the industry.

The IDC says manufacturing production in the third quarter last year was four percent lower than in the same quarter in 1991.

"Lower production occured in all sectors of manufacturing, the exception being production of rubber and plastic products.

"Production in the automotive and furniture manufacturing industries increased in the second half of the year, albeit from very low levels."

A noticeable trend in the in[illegible] was that imports of [illegible]ured goods in the last qua[illegible] 1992 actually increa[illegible]three percent on the prece[illegible]ree months.

Over the same periods manufacturing exports showed a slight decrease.

Recovery

The IDC expects a mild recovery in economic growth this year on the back of lower inflation and interest rates, while better international economic conditions should improve the prospects for exporters.

The manufacturing sector should receive a further boost from investment spending on mega-projects, which should improve business conditions for the construction industry and suppliers of capital goods, and the commissioning of Mossgas, which will lead to increased production and import replacement.

The growth rate, however, could be limited by government measures to reduce the budget deficit, the IDC says.

INFLATION FM 5/3/93

Measuring down (153)

While movements in the consumer price index track inflation, the AHI's latest inflation barometer identifies underlying pressures which will affect future prices. It is based on a composite of 17 variables — including credit extension to the private sector, gross foreign reserves, unit labour costs and expectations about inflation

A figure of 10,8% for the first quarter of 1993, following 11,2% in the last quarter of 1992 and 11,8% in the third quarter, shows the trend is certainly downwards

However the level is higher than the official inflation rate of 9,6% for December and 9,7% for January AHI chief economist Nick Barnardt says this is because the barometer takes into account adverse influences on future prices

These include the fuel price under-recovery, the large fiscal deficit which could force increases in Vat and other indirect taxes, the recent depreciation of the rand against the US$ and yen, and the deficit in the balance of payments in recent months which could bring further pressure on the exchange rate.

The fall in official inflation in the last four months of 1992 was partly due to technical factors such as the sharp falls in the food and housing indices, as well as unusually low profit margins recorded by the private sector over that period "The CPI may be underplaying the basic inflationary forces in the economy," says Barnardt

□ The AHI says the net deficit in the balance of payments in the last nine months, and particularly the drop in foreign exchange reserves in that period, will dampen any growth possibilities in the coming year. It predicts real GDP will fall by up to 0,5% this year. ■

NEWS FEATURE *High rate of unemployment caused by inflation, state of the economy*

Finding a job is more difficult now

Sowetan 9/3/93 (153)

By Ike Motsapi

■ ***MASS RETRENCHMENTS** The recession bites deeper in the economy:*

The ranks of the unemployed are growing.

ARE YOU THE right person for the job? But of course one could turn it around and say "Is this the right job for you?"

These seem to be the dominant questions when a person applies for a job. The recession is biting deeper and deeper into the economy and the prospects of finding employment has become virtually nil.

With the recent mass retrenchments in various business sectors, the future looks gloomy for prospective job seekers.

Jobs are scarce while at the same time many people are being retrenched on a daily basis, swelling the ranks of the unemployed.

The Government has also announced that all its departments will be restructured meaning that there will be staff cuts.

In the health sector alone instructions have been given to heads of departments to cut staff by about 8 000 by the end of this month.

Packages

Retrenchment packages have been offered to those who want early retirements but there is also forced retrenchment for those who are sick and are unable to work or those who are nearing their pensionable years.

These people will add to the already high number of the unemployed.

Corneille Barnard, spokeswoman for the Department of Manpower, said the figure of about 318 732 unemployed people was recorded as at December 31 1992.

Barnard said this figure did not represent the total number of unemployed people.

She said: "This figure represents only 5 2 percent of the workforce according to a survey done by my department.

"The survey excluded domestic workers and garden workers employed by the private households as well as agricultural employees," Barnard added. The high rate of unemployment is caused by inflation, the state of the economy and how businesses operate.

Mr Peter Mogoanyaneng is a father of six and has been battling to find a job for the past six years.

He said: "I have been going to the city every day to look for work with no success.

"This has however not made me feel despondent because I believe that one day luck will be on my side.

"I have a family to support and this is one of the many problems that I have to overcome.

"Luckily my wife is working and she is supporting all of us," Mogoanyaneng said.

Mrs Pontsho Dikwankwana, a widowed mother of three, said she lost her job last year and has been battling to find employment although she is a qualified receptionist.

"Things are bad," she said.

Dikwankwana said she had lost hope of finding a job because of some companies are closing shop while others are retrenching their staff in large numbers.

"The future looks bleak and one has to wait and see what is going to happen," Dikwankwana said.

Unemployment is caused by a number of factors which includes inflation, retrenchments and the state of business operations in the country.

This is the view of labour expert Mr Keith Rosemann who is also an industrial psychologist attached to the community development section of the Institute for Personnel Management.

He said the high rate of unemployment was mainly caused by the present bad state of the economy with a high inflation rate.

Rosemann said the unemployment crisis was further fuelled by recent retrenchments in various business sectors. Hardest hit were the mines where there have been mass dismissals and retrenchments. About 160 000 miners have lost their jobs since 1987.

The informal sector also experienced a lot of job cut backs.

He said the reason for this was that many companies were finding it difficult to operate in the present economic climate. "Some companies have closed shop while others are trimming their business operations," Rosemann said.

He said companies were using terms such as restructuring, down scaling, repositioning and right positioning which all meant they were in fact cutting down the cost of their business operations. "In the end the people who suffer are the employees who eventually lose their jobs," Rosemann said.

"Some companies however have been looking at different ways of implementing this process," he said.

The new approach taken was to re-train their employees in various skills they lacked as part of their retrenchment packages. "These skills will put these people in a better position to get jobs easily once the economy recovers."

People looking for work in Johannesburg

Recession loses grip

SOWETAN 9/3/93 (153)

SOUTH Africa's longest economic recession since the thirties may be nearing its end, says the director general of the South African Chamber of Business (Sacob), Mr Raymond Parsons. In a Sacob's monthly Business Confidence Index (BCI) briefing yesterday, Parsons however warned that a lot of caution has to be exercised because a lot of things could still go wrong both in the economic and political spheres. Contrary to speculation, the forthcoming Budget would not be as bad as expected.

Budget will determine the future

Sowetan 11/3/93.

153

FURTHER PLUNGE Recessionary conditions may be prolonged unless there are positive signs from Keys:

By Mzimkulu Malunga

WHAT comes out of the Budget next Wednesday will determine whether the recession ends or is prolonged, says the director general of the South African Chamber of Business (Sacob), Raymond Parsons

During a briefing on the organisation's Business Confidence Index (BCI) for February, the Sacob chief said the economy had reached the lowest possible point and could not plunge further. Any improvement depended on positive signals from the Government when Finance Minister Derek Keys presents his Budget

Increased confidence

Business confidence last month increased by 1,3 percent to 94,2 percent. Some of the key factors that modestly boosted morale in February were manufacturing production, the number of passenger vehicles sold in January, share prices on the Johannesburg Stock Exchange (JSE), the rate of unemployment, as well as the performance of the financial rand against the US dollar.

"While these developments are encouraging, we should be cautious because a lot of things can still go wrong, both on the economic and political fronts," said Parsons.

However, the commercial rand con-

Derek Keys

tinued to perform poorly against the dollar, while the volume of exports declined and the inflation rate increased to 9,7 percent

Good rains which have fallen in many drought-hit parts of the country have improved prospects of better harvests this year — meaning that the country will not have to import grain and other agricultural products

Lasting cofidence

Prospects for the resumption of multiparty talks strengthened the positive mood in business circles, though only "tangible progress" could bring about lasting confidence in the business community.

But the economies of South Africa's major trading partners in the Western World are still struggling, a development which spells gloom for this country's exports.

FM 12/3/93 153

balance of payments pressures which have weakened the rand

Though Vat and fuel levy increases imposed now will have worked their way out of the inflation figures a year after the change, Czypionka foresees the possibility that the authorities might have to draw on these indirect taxes increasingly to meet the enormous demands for social expenditure that are likely to prevail in the new SA

Despite this, he believes that, with consistent policies, a little luck and political co-operation, the inflation rate could be in high single digits in two years' time

Structural issues, including the high degree of inefficient government intervention in the economy and low labour productivity, would also have to be addressed for SA to stand a chance of low single-digit inflation ■

INFLATION OUTLOOK FM 12/3/93

Heading for 5%?

(153)

Now that inflation has dropped into single digits, there is some debate over how much lower it will go Reserve Bank Governor Chris Stals is thinking in terms of inflation approaching that of trading partners — a level of 2%-3%, says the Bank of Lisbon *Economic Focus.*

The objective set in the normative economic model published this week is a more modest 5% by 1997 But Southern Life's chief economist Mike Daly, for one, believes

continue

 (153) FM 12/3/93

the rate could drop to around 5% in 18-24 months (though any increase in the Vat rate and fuel levy will nudge up inflation in the short term) He cites a number of reasons, including Stals's policy objectives.

Addressing the Frankel Pollak Vinderine investment conference last month, Stals said. "The SA inflation rate is still high compared with inflation rates in many other countries, particularly in the industrial countries with whom SA producers must compete Now that the foundation has been laid for a decline in the rate of inflation, it will be folly not to follow through with a further effort in 1993 to bring the SA rate of inflation in line with the rest of the world."

With Stals gaining a reputation for consistency, this statement should be taken seriously

Confirmation comes from the reduction of the guideline range for growth in the broad monetary aggregate M3 It drops from 7%-10% in 1992 to 6%-9% in 1993. The latest year-on-year figure — for February — shows growth of only 5,4%

Daly notes that the PPI, currently 7,3%, has been in single digits for over a year and the combination of low economic activity and single-digit salary and wage increases suggests PPI could remain at low levels, providing an opportunity for a further reduction in the CPI.

But other economists are not so optimistic Econometrix economist Azar Jammine agrees the rate could fall further but puts the bottom at around 7% And he is sceptical that this will be maintained two years down the line. The capital market rates, now trading on interest rates above money market rates, tend to support Jammine's view The Eskom 168 trades at 14,49% compared with the three-month BA rate of 11,6%.

"Should it not be possible to finance interest costs on the massive public debt through tax receipts, the authorities may choose to print money instead "

Inflation helps a country to meet its debt obligations as the real value of historical debt is reduced

Standard Bank chief economist Nico Czypionka believes a rate around 5% two years from now "unlikely" due to the probable Vat, fuel levy and excise duty increases in the coming Budget, as well as sudden new

Inflation maintains a downward trend

BDAY 16/3/93 153

TIM MARSLAND

PRODUCER inflation inched up in the year to January as imported prices failed to react to the depreciation of the rand, economists said yesterday

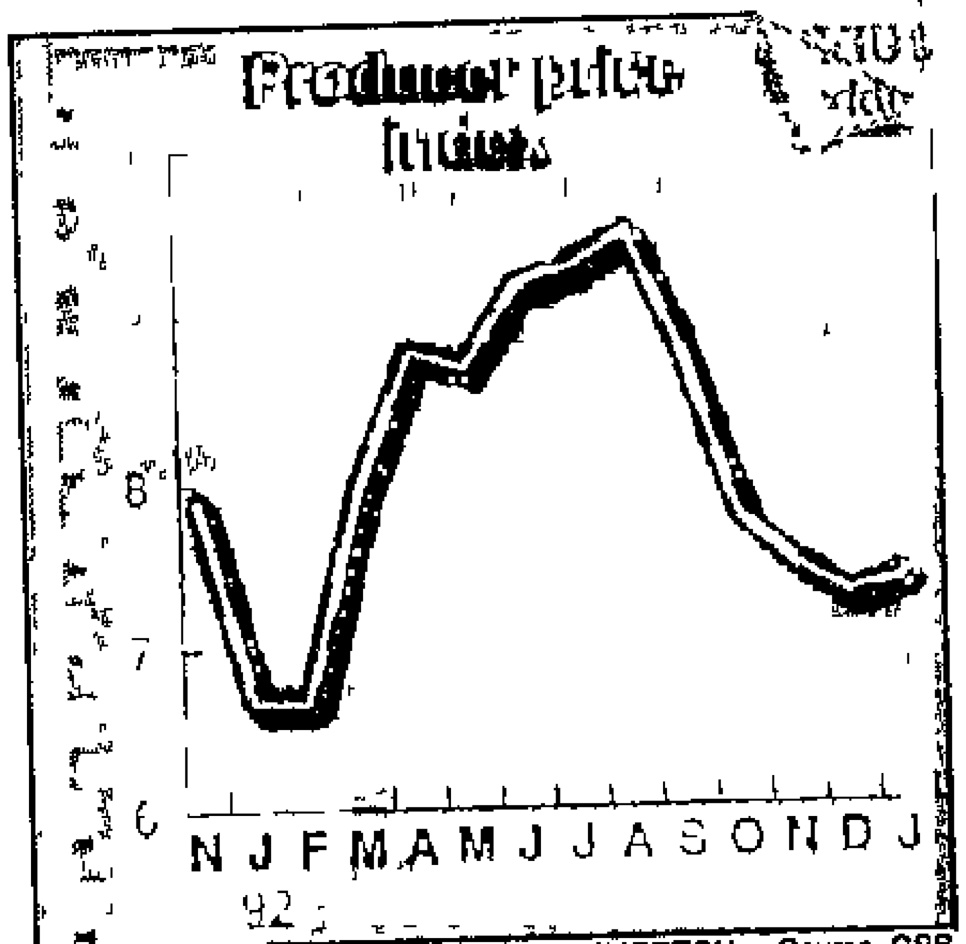
Producer prices rose 7,4% for the year to January compared with 7,3% in the year to December The imported component makes up about 25% of SA's PPI index. On a monthly basis, producer prices overall rose 0,2% in January, unchanged from December's 0,2%. Locally produced goods rose 0,4% from December's 0,3%, while imported inflation fell -0,4% from 0,2%

Rand Merchant Bank chief economist Rudolf Gouws said the producer figures showed that the underlying downward trend in inflation remained intact.

Producer inflation would continue to fall until the year-end. Producer and consumer inflation should have narrowed considerably by March or April in 1994.

The monthly fall in imported inflation was "particularly good news", given the weak rand and the resultant higher dollar prices, he said.

Economists had expected the imported component to rise in January because of the weakening rand.



Graphic LEE EMERTON Source CSS

Gouws said if it were not for the problems of the balance of payments, the Bank rate would have been cut already.

Absa senior economist Pierre Morgenrood said the latest producer inflation data showed that inflation would continue to fall in the months ahead. January's figure was "not out of line" with expectations.

He pointed out that rand depreciation had accelerated in February, so the inflationary effects on the imported side could still filter through.

Star 18/3/93

Budget 'sends encouraging signals'

(153)

By Michael Chester

Though tax bills threaten to increase over the next 12 months and there is a risk of inflation — at least temporarily — returning to double digits, the Econometrix think-tank said the Budget had sent out "encouraging signals" about the longer-term economic outlook

Econometrix director Dr Azar Jammine estimated that individual taxpayers faced an increase in collections from R31,3 billion to about R36,2 billion.

While actual rates had not been increased, heavier income tax demands were inevitable as inflation pushed taxpayers into higher marginal brackets — deeper into the fiscal drag syndrome

Government income from VAT, with the rate lifted from 10 percent to 14 percent, would climb to about R23,5 billion

However, the Budget had been correct in bringing direct and indirect taxation into better balance

Jammine, who has sounded repeated warnings about growing government debts and the dangers of State overspending on bureaucracy, applauded moves to check the sharpness of increases in the budget deficit — leaving room for more government investment in productive resources

The new dual system on company taxes should also encourage an increase in private-sector fixed investment, the main key to overall economic growth and job creation

The Minister of Finance, in his first Budget, had shown a deep understanding of South Africa's economic problems and the route towards longer-term solutions.

"Most of the basic structural weaknesses in the economy have now been addressed," said Jammine.

"There are encouraging signals that we may well have set course towards the objectives of the new five-year economic model At least we are striking off in the right direction

"The increase in VAT and higher fuel prices may add a few notches to consumer prices and nudge inflation back into double digits as an immediate impact. However, it is possible that inflation will continue an overall downward trend by the end of the year — as long as tight discipline is maintained"

The Small Business Development Corporation welcomed new cash injections of R75 million, the bulk of a total of R112,6 million ploughed into development programmes to assist the launch of small enterprises

"Countering unemployment remains a top priority," said an SBDC spokesman.

The Johannesburg Chamber of Commerce and Industry said the restructuring of the company tax system had sent business powerful new signals about a restart of the economic motors.

A harsh Budget, says Econometrix

Star 18/3/93

By Claire Gebhardt

The Budget will impact harshly on the man in the street, says Dr Azar Jammine of Econometrix.

Labelling the 40 percent increase in the VAT rate to 14 percent as vicious, he warned yesterday that the hike in indirect tax without any compensatory drop in personal tax would heighten the severity of the recession.

"Fiscal drag will bear down on taxed salaries and, were it not for the fact that interest rates have come down, people will be very much worse off indeed."

Dr Jammine said the VAT increase would also immediately lift inflation to close to 12 percent.

"Consumers will be hard hit by the 10 percent increase in petrol and diesel, which will impact negatively on food prices by pushing up transport costs," he said.

On the positive side, Dr Jammine said he was encouraged by the underlying compatibility between the Budget and the Normative Economic Model (NEM), which is designed to attack the fundamental structural problems of the economy.

Constraints

"In spite of the constraints and the fact that this is a very harsh Budget, there is a direction in economic thinking at last.

"Keys (Finance Minister Derek) has predicted growth of no more than 0,5 percent and doesn't expect this to create a boom at all.

"He obviously had no choice, given that spending has gone out of control and he must be applauded for the fact that budgeted spending is to rise by only 8,8 percent.

"This is the first reduction in government spending in real terms and is also a dramatic cut in nominal terms.

"Company tax looks like a novel idea and, as it is geared to encouraging entrepreneurship, one should welcome it."

A harsh Budget, says Econometrix

Star 18/3/93 (325)

By Claire Gebhardt

The Budget will impact harshly on the man in the street, says Dr Azar Jammine of Econometrix. (153)

Labelling the 40 percent increase in the VAT rate to 14 percent as vicious, he warned yesterday that the hike in indirect tax without any compensatory drop in personal tax would heighten the severity of the recession.

"Fiscal drag will bear down on taxed salaries and, were it not for the fact that interest rates have come down, people will be very much worse off indeed."

Dr Jammine said the VAT increase would also immediately lift inflation to close to 12 percent.

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'Some revival, inflation dip'

CT 18/3/93 153

Political Staff

SOUTH AFRICA can look forward to a moderate economic revival and a fall in the inflation rate this year, says Finance Minister Mr Derek Keys

Speaking on the economic outlook in his annual Budget review, he said growth of between only 0% and 0,5% of real gross domestic product (GDP) was anticipated.

However, he added that this was "nonetheless a significant improvement on the falls of 2,1% in 1992 and 0,5% in 1991"

"Still, this growth is much lower than population growth, with the corollary of falling average living standards," he said

He added that the prospects for a fall in the inflation rate were "favourable".

Mr Keys also said that due to the "moderate economic revival" in South Africa's major trading partners the volume of our exports was likely to grow in 1993.

Despite the better prospects for agriculture, import volumes would also increase because of the moderate economic growth forecast for the country. The result of this will be a smaller surplus on the balance of payments.

The minister said the drought and the lack of investment last year were major contributing factors to the poor economic performance. Social instability also militated against new investment

Inflation fears rise

Own Correspondent (63)

JOHANNESBURG. — The capital market weakened sharply in hectic early trade yesterday on the back of higher inflation expectations as a result of Wednesday's Budget, dealers said

Key stocks fell sharply in a largely speculative market

CT 19/3/93

In another move, the Reserve Bank launched the Treasury's new five-year bond on which it will pay a coupon rate of 10,75% The new bond, the R160, is expected to be a key source of funding in the current year

Investors sought almost R500m of the paper, but the Bank issued only the initial R100m that was on offer

Market sources believe the Bank intends issuing about R7,5bn of the bonds Andre Kok, Bank GM, money and capital markets, said the Bank had offered the initial R100m to "test the water" to see what yield the new paper would attract.

The paper was issued at a yield of 13,85% which capital market dealers said was in line with similar stocks on the market The R160 ended yesterday at 13,840%

INVESTMENT FM 19/3/93

Changing gear

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South Africans have lived with double-digit inflation for so long that investors automatically add it into calculations and make decisions accordingly. Now that the official inflation rate has dropped to single digits, and a target of 5% by 1997 has been mooted in official circles, investors are rethinking their strategies.

Traditionally, inflation has been bullish for equity markets because shares generally keep pace with inflation. This has given them a competitive edge over bonds; when inflation drives up nominal interest rates, the value of bonds declines.

When inflation is low, bonds will become relatively more attractive and bondholders could reap substantial capital gains as interest rates fall.

However, according to the Bank of Lisbon International's latest issue of *Economic Focus*, equities will not suffer. Though prices might not record the dramatic nominal increases of the past, they could perform better in real terms — with the effect of inflation stripped from the price.

The journal says that, by distorting the price mechanism, inflation stunts growth and generates uncertainty, which is the enemy of investment. If businessmen are unsure about the future level of prices, and hence of real interest rates, they will be less willing to take risks and to invest, especially in long-term projects.

Though tight monetary policy restricts company profits in the short term, equity markets benefit from lower inflation medium- to long-term, owing to the improved economic growth prospects. When the general price level is stable, the market

FM 19/3/93

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economy functions more efficiently. Old Mutual senior portfolio manager Adrian Allardice says statistics from the UK and the US indicate falling inflation has been good for long-term bonds and equities.

But the causes of lower inflation are material to investment strategy. Expectations of low inflation will in general result in capital gains on bonds (as nominal interest rates fall in line with the lower inflation). When inflation is reduced through tight monetary policy, the fall in interest rates is steeper than it would be if low inflation came from currency appreciation.

As SA's monetary policy has been restrictive, investment in bonds would provide substantial capital gains should inflation decline further.

Because equities and property have often been held as inflation hedges, Martin & Co senior analyst Richard Jesse believes the weighting of bonds in an investment portfolio should rise where inflation is low.

Property will be the greatest casualty of reduced inflation. Investments could become less attractive as the motto "buy now, pay later (with cheaper money)" will make less sense. Also, institutional investment in property could plunge. Institutions have argued that, with inflation high, the cost of holding empty space is less than the increases in the value of building. The situation is reversed when inflation falls sharply.

Renting could then be a more attractive alternative and fewer buyers could mean lower home prices. The combination of poor economic growth and disinflation in countries such as the UK and the US has been accompanied by major declines in property markets. But Allardice believes commercial property investment will continue to play an important part in portfolio management as it enables the fund to diversify resources.

Analysts who believe equities are fully priced in the short term suggest bonds might be a better investment, assuming low inflation. ■

NEWS IN BRIEF

Pilatus campaign

THE World Campaign Against Military [illegible] Nuclear Collaboration with SA has shifted the focus of its campaign against the SA Air Force [illegible] Swiss Pilatus PC-[illegible] aircraft from the manufacturer [illegible] Canadian engine supplier Pratt and Whitney

The [illegible] organisation's director [illegible], said yesterday the [illegible] Campaign intended [illegible] the Canadian government [illegible] the PT-6A turboprop engines from being fitted to the Pilatus trainers.

Heyl case postponed

THE sentencing of Stander Gang survivor [illegible] Heyl was postponed in the Johannesburg Regional Court yesterday. Heyl, 41, was found [illegible] in October last year on [illegible] counts of armed robbery, [illegible] possession of firearms [illegible] theft and one of escaping from detention after pleading [illegible] to the charges

He [illegible] on May 28

Hippo is still stuck

THE [illegible] hippo is still stuck in mud [illegible] farm dam. The TPA nature conservation department yesterday could not say when it would be captured

Mines 'bosberaad'

THE Chamber of Mines and the NUM are holding a "bosberaad" today [illegible] wage negotiations, the [illegible] purpose being to evaluate [illegible] protracted wage round

Pupils' protest march

THOUSANDS of Cape Town township school pupils are expected to march to Parliament today to demand the scrapping of examination [illegible] in support of a call [illegible] the Pan Africanist Students [illegible], the Congress of [illegible] and the Azanian [illegible] Movement.

[illegible] pupils [illegible] to march to the Braamfontein offices of the Education and Training [illegible] the call.

[illegible] Reporters Sapa [illegible]

Budget 'will hike inflation by 3%'

B/Day 24/3/93. 153

LINDA ENSOR

CAPE TOWN — The Budget's immediate effect would be to raise the inflation rate by 3%, but the average rate for 1993 would be considerably lower than last year's, Sanlam chief economist Johan Louw said in the latest Economic Survey

The budgetary increases in the VAT rate, excise duties and the fuel price would cause the inflation rate to climb to more than 11% in April compared with December's 9,6%

Louw expected an average rise in the consumer price index of 10,5% this year compared with last year's 13,9% average. He said the underlying inflationary pressures in the economy had reduced noticeably, mentioning specifically the slower increase in labour costs, higher productivity and lower interest rates.

Although the delicate balance of payments' situation would play a significant role in determining monetary policy, Louw said a drop in interest rates from 13% to 12% in the next three to six months could not be excluded Long-term rates should also tend downwards.

He expected little growth in 1993, with the Budget playing a significant role in retarding economic activity as a result of the smaller deficit, real decline in government expenditure and tax increases.

"There are, however, signs that the rate of weakening in general economic conditions is slowing down. In addition, the declining inflation rate, lower interest rates and possible favourable developments on the political front, together with the soaking rains that fell recently in drought-stricken areas, should have a beneficial effect on the economy."

Louw stressed the importance of financial sanctions being lifted as soon as possible to ease the pressure on the balance of payments. The unfavourable movements of foreign capital since the end of 1992 and the sizeable debt repayments due this year had resulted in an uneasy balance of payments position

The slackening of SA exports over the past few months had led to smaller trade surpluses. Louw said the sluggish growth in foreign economies could be expected to worsen a sustained low growth rate for SA's merchandise exports Gold proceeds could be higher because of the weakening of the average rand-dollar exchange rate while improved agricultural conditions would also have a favourable effect on the trade account

Interest rates 'to bottom out'

TIM MARSLAND

B/Day 24/3/93

INTEREST rates were likely to bottom this year before moving higher in 1994, SPL Banking Services said in its March forecast yesterday.

The forecasts are carried out monthly among a group of nine economists such as Rudolf Gouws of Rand Merchant Bank, Adam Jocobs of Absa, Eddie Lindeque of Eskom, Ulrich Joubert of Transnet, and Jos Gerson of Davis Borkum Hare.

The forecast shows there is a 53% chance that the prime overdraft rate will be 15,25% by August This implies a one percentage point cut from its present level, with the rate staying at this level until February

Twelve-month negotiable certificates of deposit (NCDs) are seen easing to 11,25% by February 1994, which the forecast says will coincide with an early upturn Whether this lasts depends on the extent to which the Bank applies its "strict monetary policy to the economy"

The forecast sees interest rates moving up again in 1994, which could "limit the upward potential of inflation, as enhanced by the 1993/94 Budget" Given the historical correllation between inflation and the prime rate, the one percentage point drop in prime forecast for 1993 seemed to bring about the end of the downward trend in inflation.

Amended regulations may benefit Telkom

MELANIE SERGEANT

B/Day 24/3/93

TELKOM [illegible] to net a quick fortune [illegible] amended conditions [illegible] would-be cellular phone operators to test their systems

Until the second licence operator is announced [illegible] couple of months time, companies wanting to test their systems [illegible] a "minimum of R10 000 [illegible] connection period"

Each potential operator is limited to 30 days of testing. Companies believed to be vying for licences include M-Net, Grinel, Vodaphone, Transtel and a newcomer, SunTel.

The tender to select the second operator is expected to be released by month-end Telkom has been granted 50% of one licence, and is choosing one or more partners

Posts and Telecommunications Minister Piet Welgemoed said yesterday each new interconnection would constitute a separate period, and the period of connection would be deducted from the 30 days

Although Telkom will be one of the operators it will, said Welgemoed, "use its best endeavours to connect (potential operators) . . . and to assist (them) in testing interconnection to the public switched telephone network, leased lines or data networks in as short a time as possible".

Star 17/3/93

(153)

Cabinet will decide on rands and sense

The SA Mint may soon halt production of the humble 1c and 2c coins. The proposal underlines the dramatic shrinkage in the buying power of the rand, writes MICHAEL CHESTER

PROPOSALS by the South African Reserve Bank to halt production of both the 1c and 2c coin, while pushing ahead with plans to introduce R100 and R200 notes next year, reveal the full extent of the shrinkage of the rand in recent years

The future of the two coins hangs by a thread as the SA Mint joins the Reserve Bank in pressing the argument that the 5c coin should be made the smallest unit in new coinage.

A final decision will be made at Cabinet level Whether the outcome is an execution order or a reprieve, the issue brings into fresh focus the alarming erosion of the buying power of the rand.

How far the rand has been battered by inflation has been analysed by Robin McGregor, author of *Who Owns Whom* on the Johannesburg Stock Exchange The analysis is intended to provide guidelines to investors on the size of the hurdles they have to clear to defend, let alone increase, the real value of investments.

Shocks in the results also reverberate among ordinary breadwinners striving to stay abreast of inflation.

Movements in the consumer price index and the purchasing power of the rand have been traced all the way back to 1910 It is from the 1970s, when inflation bounded into double digits, that the record becomes the horror story told in the accompanying graphics

Jolts came on discovery that the value of R1 if measured as 100c in 1970 was halved by 1978 and by last year had plunged all the way down to a feeble 7c

Packages of consumer goods and services that cost R100 in 1970 had increased tenfold by 1990 and by last year cost more than a stunning R1 400

Pragmatists are bound to use the statistics to try to prove that 1c and 2c coins have been reduced to worthless nuisances — no more than irritants when sorting out small change in pockets and purses Do away with them, they say

Daan Naude, assistant general manager at the Reserve Bank, says that has been the verdict of a clear majority of respondents who were invited to comment on the proposal.

However, there were reservations inside the commercial sector Naude adds: "Several respondents argued that the elimination of the 1c and 2c coins would be inflationary and prove detrimental to the economy But we disagree.

'There is a simple formula to neutralise any inflationary impact. Prices would be rounded off to the nearest 5c — meaning cropping a couple of cents off some prices or adding a couple of cents to other prices The end result would be a balance"

SA Mint managing director David Powell argues that the exit of the 1c and 2c coin from production would make a lot of economic sense.

He points out that the 174 million new 1c coins that were ordered when introduced in September 1990, plus the 132 million new 2c coins ordered for delivery from August 1991, now absorb no less than 60 percent of the overall production capacity at the SA Mint.

"Even the high technology used at our brand new plant at Verwoerdburg cannot break even on production costs when we are turning out 1c and 2c pieces,' says Powell "Both coins are produced at a loss '

Worse than that, according to the Reserve Bank, the SA Mint is having to turn down the chance of using the hi-tech as the source of valuable new foreign exchange income.

"Inquiries about the supply of new coins to several overseas governments have started to flow in,' says Naude. "It could be turned into a valuable export money-spinner

'The SA Mint is already trying to cope with multimillion rand orders from Argentina and Israel, but lots more contracts are having to be turned down because of the lack of production capacity

"It's ludicrous that we have to miss the opportunity to boost export income when production lines are burdened with loss-makers"

The longer term view of the Reserve Bank about trends is reflected in the plans on its drawing boards

Within the next few months even the R5 note will be reduced to a simple coin Introduction of the new coin, first earmarked for a debut in early 1993, has been postponed only until the current generation of R5 notes starts looking too dog-eared to carry on

Naude confirms the introduction of R100 banknote will go ahead in April next year And consumers can still expect the debut of a R200 note in October 1994

The next issues will follow the wildlife theme set by the lion that stares out of the new R50 note The R100 will bring consumers face-to-face with an elephant The R200 note will have a leopard glaring out at gluttonous cash-tills

Such sky-high denominations seem to make humble 1c and 2c coins look even more insignificant. However the Reserve Bank is having to weigh arguments that even handfuls of cents may sometimes be crucial in the struggle for survival among thousands of families trapped in dire poverty

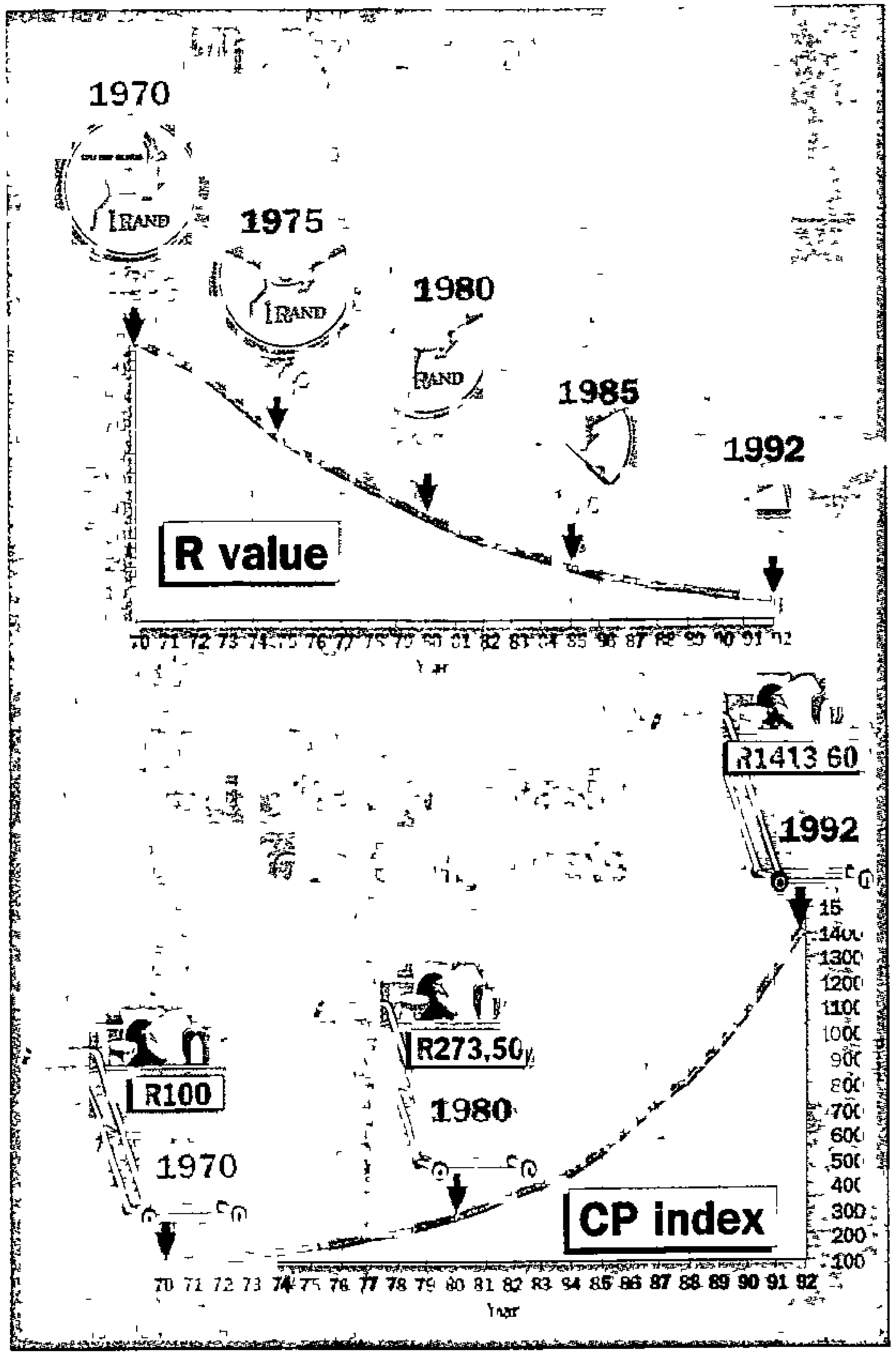
The Reserve Bank and SA Mint may also need to listen to cautions from Biblical voices

Will the demise of the two coin mean shooting down the two tiny sparrows that are perched on every 1c piece?

The special spot has been reserved for them on every coin of the lowest denomination ever since South Africa starting to mint its own currency back in 1923

The tradition finds its roots in the New Testament. Matthew 10 29 reads "Are not sparrows two a penny? Yet without your Father's leave not one of them can fall to the ground."

The dire warning must cause a moment of hesitation when the Cabinet — as the final judge — lays down the ultimate decision about pulling the trigger □



Star 25/3/93

9% inflation lowest in almost 20 years

(153)

By Sven Lunsche

The inflation rate fell to 9 percent in February — its lowest level in almost 20 years — the Central Statistical Services (CSS) announced yesterday

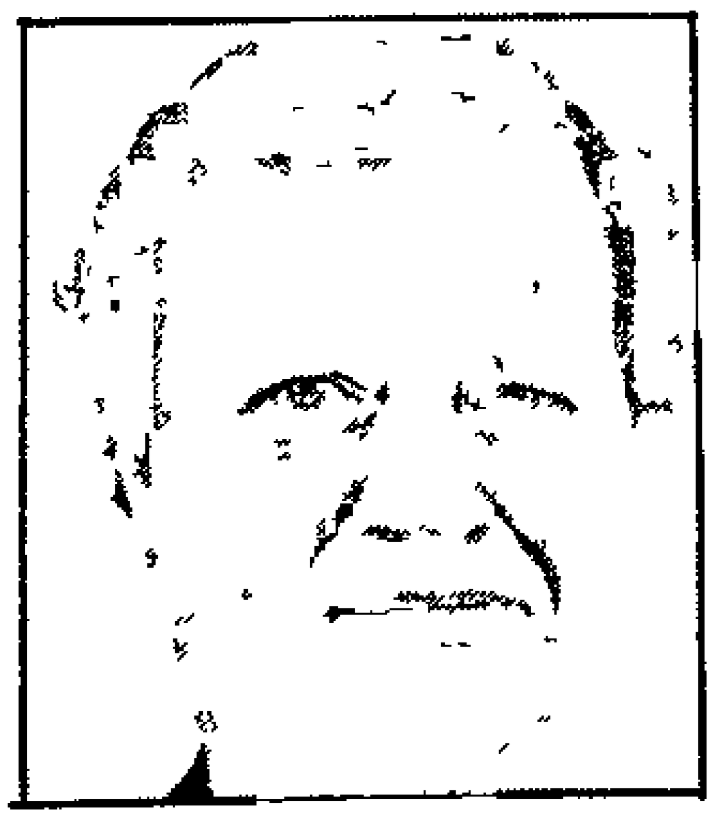
However, economists are bracing for a further rise in inflation once key tax proposals announced in the Budget take effect.

The latest drop in inflation, which measures 12 months' rises in the Consumer Price Index (CPI), follows dramatically improved agricultural conditions in the wake of good summer rains.

The 9 percent inflation rate in February compares with a rate of 9,7 percent in January and is the lowest since 8,9 percent was recorded in 1973

The food component of the CPI showed a 14 percent increase between February this year and February 1992, well down from a peak of about 44 percent last year

Further downward pressure on food prices is indicated by monthly price trends between January and February this year Overall food prices only showed a modest



Derek Keys ... Budget will up inflation by 2 percent.

0,3 percent increase led by a 0,4 percent rise in the cost of meat.

Prices of vegetables and fruit, however, fell by 0,5 and 0,2 percent respectively on a monthly basis

The CPI for all products was up by 0,3 percent

Pressure

Economists believe that the downward pressure on prices would have continued had it not been for the impact of a number of tax proposals in the Budget

These taxes, which include a rise in VAT to 14 percent, a 16c per litre hike in petrol and diesel prices and higher excise duties, could lift inflation to 11 or 12 percent by April, when they take effect

Sanlam's chief economist Johan Louw warned yesterday that the Budget proposals on indirect taxation could push up the inflation rate by as much as three percentage points in April

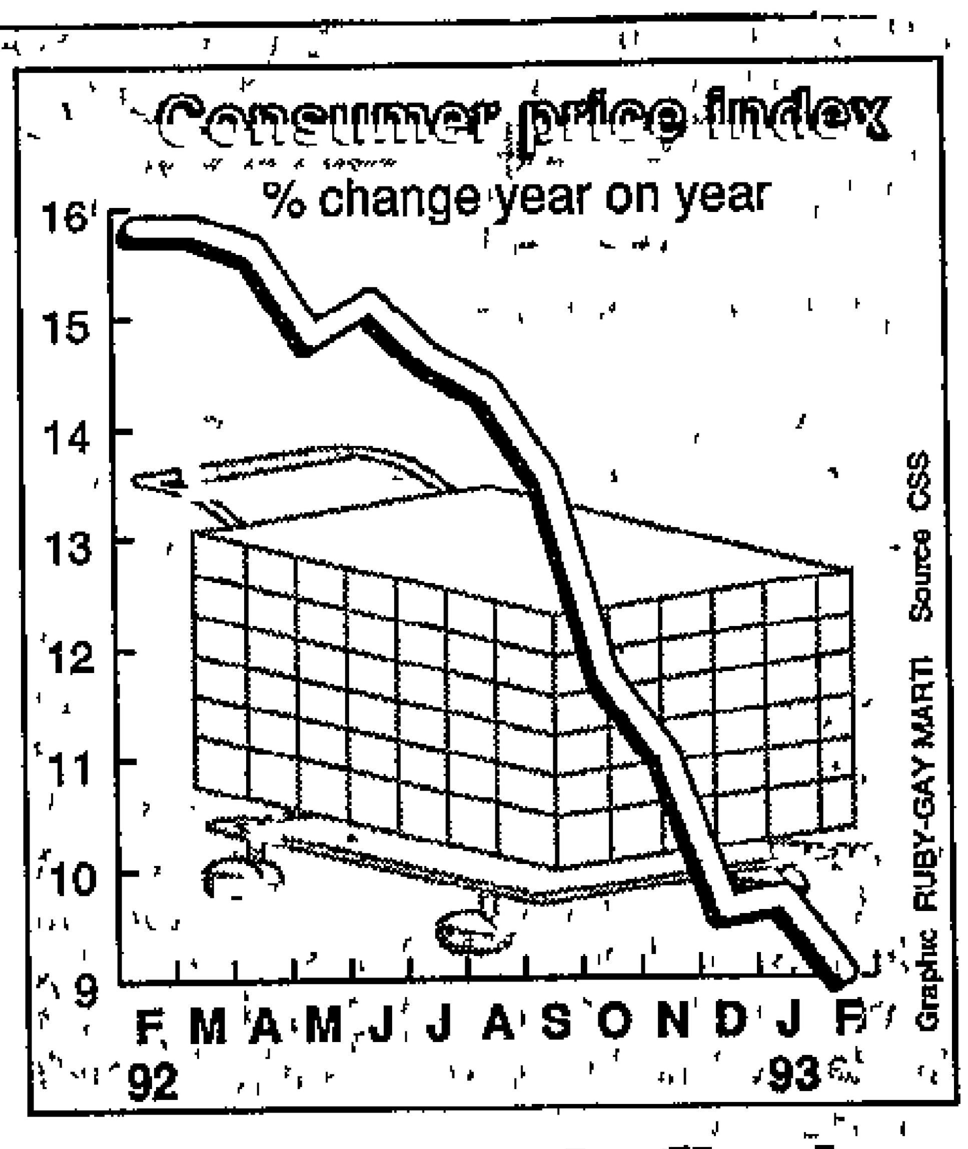
However, Louw still expects the inflation rate to average 10,5 percent this year This is considerably lower than 1992's rate of 13,9 percent

He says the underlying inflationary pressures had been noticeably reduced as a result of considerably slower increases in labour costs, higher productivity and lower interest rates

However, Louw warns that the improvement since late 1992 would be temporarily reversed by the higher VAT rate, increased excise duties and the fuel price rise announced in the recent Budget

This could cause the inflation rate to jump to more than 11 percent in April

In his Budget speech Finance Minister Derek Keys said inflation would rise by two percentage points as an immediate result of his proposals



Consumer inflation falls to 15-year low

BDAY 25/3/93

TIM MARSLAND 183

CONSUMER inflation fell to 9% in February, its lowest level in 15 years, as the rise in food prices continued to slow with the effects of the drought subsiding, economists said yesterday.

But they warned that inflation would rise sharply in April as the VAT and fuel price increases took effect.

Central Statistical Service (CSS) figures yesterday showed that consumer inflation in the 12 months to February slowed to 9% from January's 9,7%. For the month, consumer prices rose just 0,3% in February from January's 1,1%.

In the food category, soft drinks rose 5,3% in February while meat prices rose 0,4%. Seafood was up 1,4% from January, and tea and coffee rose 1,3%. But fruit and nuts, which rose 44% in the year to February, fell 0,2% during the month.

UAL Merchant Bank economist Dennis Dykes said the figures were encouraging, particularly the food component.

Inflation appeared to be slowing significantly as indicated by the prices of durable and semi-durable goods.

Inflation was likely to fall to about 8,5% in the year to March, partly because of the reduction in the bond interest rate. "After that, the fireworks start," he said. Inflation would rise about 3,3% in April from March.

Absa economist Dominick Sutton agreed the inflation figure was good news, particularly because of the slowing in prices on a monthly basis. He expected inflation to rise about 2,5% in April from March.

Inflation rate down to 9%

. . . but food index still high

25/3/93

By AUDREY D'ANGELO
Business Editor

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THE inflation rate as measured by the consumer price index (CPI) continued its downward trend in February. Figures released by the Central Statistical Services yesterday showed that the year on year figure [illegible] compared with 9.7% in January.

[illegible]

THE WEEK AHEAD by Simon Willson

Weaker exchange rate threatens PPI

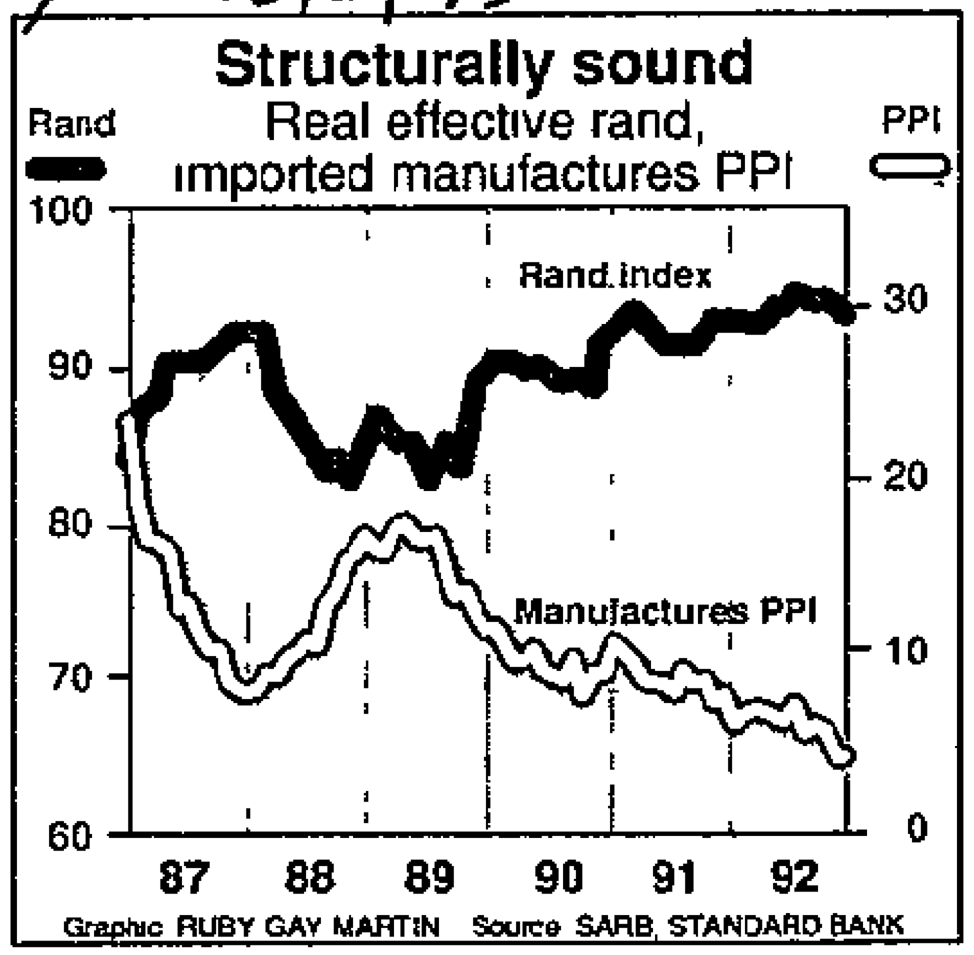
BIDAY 15/3/93. (153)

EXPORTERS may have welcomed the steeper depreciation of the trade-weighted rand over the past few months, but the producer price index (PPI) for January released this week could supply a reminder of the inflationary implications of a drooping exchange rate

It may, however, be a bad time to remind exporters of the danger to domestic prices of a weaker rand There were high hopes in the export community that the long-awaited structural adjustment programme for the economy, published last week, would incorporate an orderly devaluation as part of a plan to revive domestic activity Some institutions last year joined the exporters in the devaluationist camp, advocating a more free-floating and market-determined rand as part of the restructuring process

All were disappointed The Finance ministry's economic adjustment plan reaffirmed the importance of Reserve Bank independence from government in pursuing its mission of defending the value of the rand irrespective of short-term policy considerations Furthermore, the plan said monetary and fiscal policy should be aimed at the *prevention* of sharp exchange rate depreciations that could cause higher import prices

With tactful deference, therefore, to the efforts of SA's exporters it has to be pointed out that the dip in producer inflation to 7,3% in the year to December from November's 7,5%, was concentrated in the imports section of the PPI Imported inflation eased to 3,1% in December from 4,1% in November, while domestic inflation at producer level was unchanged at 8,2%



Graphic RUBY GAY MARTIN Source SARB, STANDARD BANK

Homegrown producer inflation seems to have settled on a plateau towards the upper end of single digits and may stay there for a while as the apparently inevitable petrol price increase in this week's 1993/94 Budget ripples through producer prices This means continued low imported inflation — or a return to the falling import prices of last year — could be a key determinant of whether consumer inflation stays in single figures this year

As the chart shows, the rate of imported manufactures inflation factored into the PPI correlates closely with the level of the real effective rand — that is, the rand expressed as an index against the currencies of SA's major trading partners but adjusted for inflation Part of the exporters' beef against the authorities is that, while the nominal — that is, inflation unadjusted — effective rand has been falling steadily, it has declined by less than SA's inflation differential with major trading partners In other words, the real effective rand has been rising, and eroding exporter competitiveness

This was true up to the end of the second quarter of last year, when the real effective rand firmed to an eight-year high of 94,4 on an index where January 1979 equals 100 But, as the chart shows, the real effective rand subsequently weakened from its July 1992 high and, in December, had settled back at an eight-month low of 93,0 The run on the foreign reserves of the past few months has probably restricted the Bank's ability to support the rand in the market

Publication of the real effective rand lags the nominal rate because of the need to use an assortment of foreign wholesale price indices to deflate the variables, and the December outturn is the latest available The impact of the rand's renewed nominal weakness of recent weeks on its real effective value is still concealed from view, but the January PPI might this week give an indication

Internationally, it is an interesting week for the UK Chancellor Norman Lamont presents his 1993/94 Budget tomorrow and is faced by some of the same economic problems that confront SA Finance Minister Derek Keys on Wednesday **UK industrial production data** for January are released tomorrow and will probably look as grim as December's, when output fell 0,1% on the month UK base rate cuts in November and January are unlikely yet to have fed through to order books — assuming they ever do

UK retail sales for February, out on Wednesday, may look brighter since base rate cuts will affect sales well before production Much of the 1,6% jump in January sales arose from post-Christmas price cuts and sales promotions, but a surprise rise in preliminary **UK M0 growth for February** suggests there has been a rise in cash in circulation which could have spilled over into an extended increase in sales

Inflation in the UK fell to a 25-year low of 1,7% in January, and **February UK inflation** is out on Friday The monthly change in average prices is unlikely to match January's 35-year record of -0,9%, which was mainly the result of the new-year discounting that should help retail sales, but headline inflation is likely to remain below 2%

By Friday the UK will need some encouraging economic news, because Thursday is likely to bring another rise in **UK unemployment** when the February level is published The adjusted jobless total rose 22 000 in January to 2,9-million or 10,6% of the workforce, and should this week join the unadjusted total on the wrong side of the psychological 3-million mark.

'Fiscal control not enforced'

CT 18/3/93 (153)

By LINDA ENSOR

FINANCE MINISTER Mr Derek Keys was criticised by ANC economics chief Mr Trevor Manuel yesterday for failing to introduce measures into the Budget to enforce fiscal discipline.

"There is no indication in the Budget that discipline goes beyond aggregate expenditure cuts Poorly targeted and inefficient delivery of social services will by and large continue through wasteful apartheid structures," Mr Manuel said at a press briefing on the ANC's response to the Budget

He criticised the absence of clear objectives which would allow for the measurement of performance and said the nature of the internal budgetary process encouraged departments to build fat into their estimates

"The budgetary process undermines the good intentions the minister may have on exerting fiscal discipline," Mr Manuel said "Little value can be attached to the stated commitment to discipline and growth"

Inflation will rise — ANC

If discipline was the theme for the Budget, why did the vote for Parliament rise by about 31%, he asked

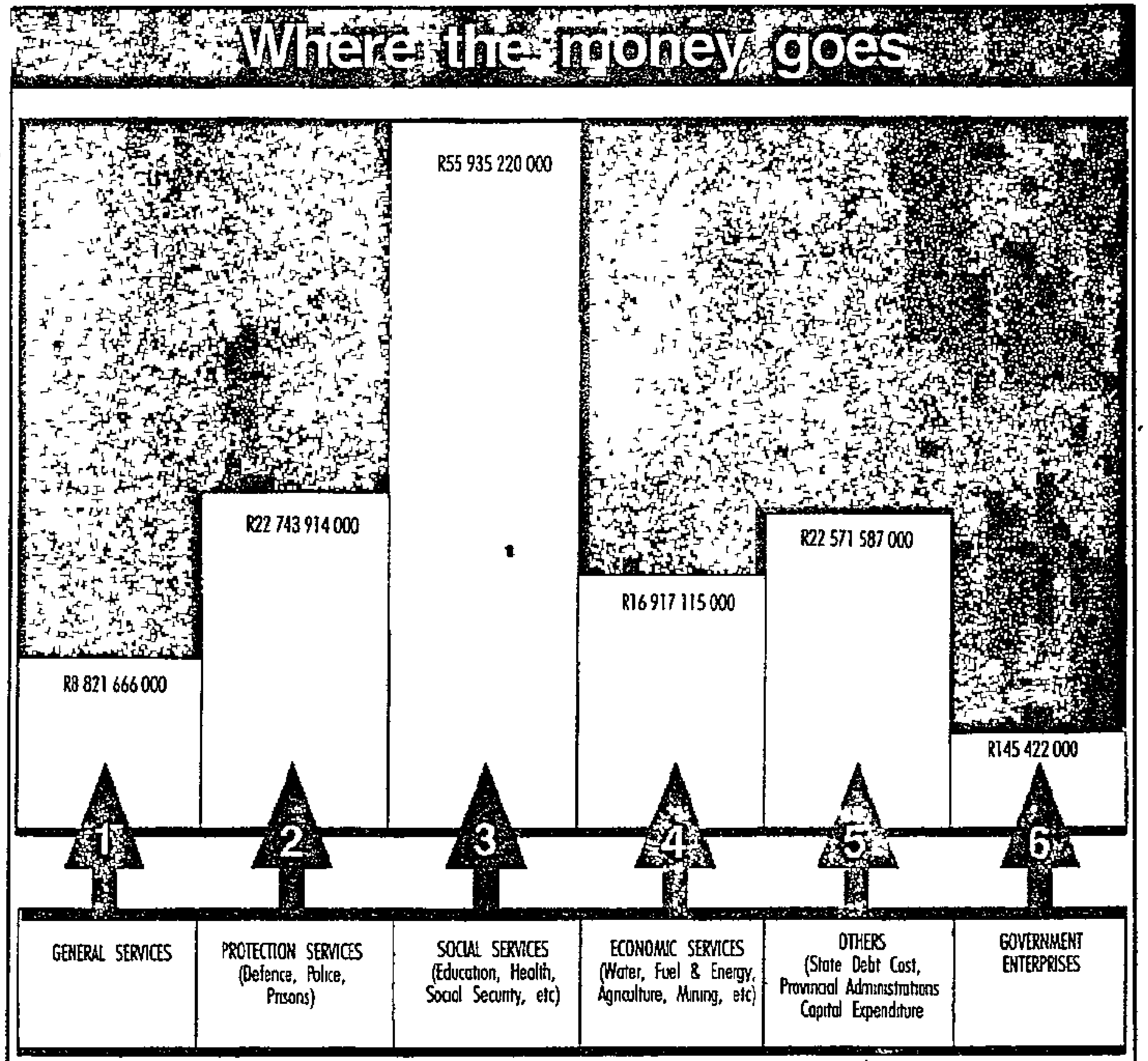
He said the theme of the Budget — discipline and growth — was inappropriate at this stage of political development as it could only be realised after a political transition had brought about stability in society and a degree of predictability in government policies

Furthermore, there was nothing on the revenue side of the Budget which would promote economic growth The effective personal tax rate had been increased and the higher VAT rate and excise duties would contribute to the contraction of consumer spending and a 2% rise in inflation, which would affect "the ordinary person in the street" disastrously

At the same time government expenditure would be kept constant or decline slightly in real terms and as a proportionately higher amount would be used for interest payments, expenditure on goods and services would be reduced in real terms Neither would the change in company tax have the desired supply-side impact on economic growth, Mr Manuel said

He believed the budget lacked strategic coherence owing to the absence of any apparent development strategy to provide it with context and direction

Where the money goes



'Govt

Inflation fears hit capital market

BDay 19/3/93. (153)

TIM MARSLAND

THE capital market weakened sharply in hectic early trade yesterday on the back of higher inflation expectations as a result of Wednesday's Budget, dealers said

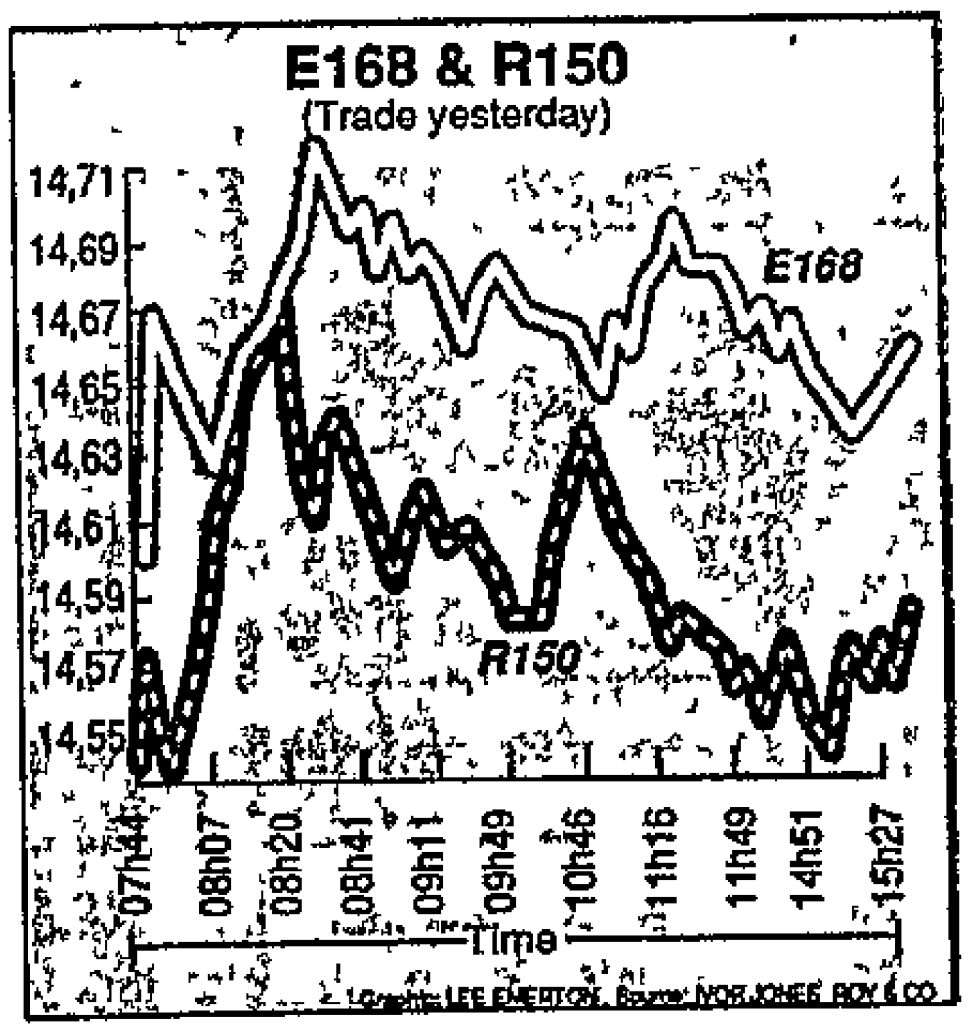
Key stocks fell sharply in a largely speculative market The Eskom 168 long-dated bond yielded 14,72% at one stage and closed at 14,680% compared with its overnight 14,590%. In rand terms, this meant a loss on the day of R4 452 on a R1m bond

The higher the yield on a bond, the less it is worth

Government's R150 yielded a high of 14,680% and a low of 14,550% before closing at 14,590% from an overnight 14,500%

In the medium area, Transnet's T007 hit a high of 13,750% before closing at 13,735% from an overnight 13,550% Telkom's medium-dated TK05 closed at 13,740% from 13,600%, while the Land Bank LB00 ended at 14,125% from 13,980%

Dealers said the Budget's inflationary implications, mainly the new 14% VAT rate and the 16c/l rise in the fuel price, were particularly bearish for the market



Bears also sold on the back of news that R13bn in new money would be required from the market this year to fund the deficit However, one dealer said the

□ To Page 2

Capital market

BDay 19/3/93.

□ From Page 1

amount was similar to that raised last year, which the market had absorbed "quite comfortably"

The dealer said the market would regain some lost ground today, once the Budget had been better digested, since the underlying trend remained bullish

A key feature of yesterday's trade was the narrowing of the gap between government and parastatal bonds Dealers said this indicated that there was a potential oversupply of government bonds as a result of the funding programme

In another move, the Reserve Bank launched the Treasury's new five-year bond on which it will pay a coupon rate of 10,75%. The new bond, the R160, is expected to be a key source of funding this year

Investors sought almost R500m of the paper, but the Bank issued only the initial R100m on offer.

Bank GM money and capital markets Andre Kok said the Bank had offered the initial R100m to "test the water" to see what yield the new paper would attract.

Market sources believe the Bank intends issuing about R7,5bn of the bonds

The paper was issued at a yield of 13,85% which capital market dealers said was in line with similar stocks The R160 ended at 13,840%

Recession hurts upliftment aim in businesses

S Times 28/3/93.
(BUSS)
(153)

By ZILLA EFRAT

THE prolonged recession is inhibiting affirmative action programmes.

All interviewees in a survey of 35 major South African organisations said their programmes had slowed as a result of the economic downturn

The survey, conducted by Anthea McGregor & Associates and SPA Consultants, found that most organisations envisaged that the "economic pressures of survival" would lead to affirmative action budgets being curtailed

Organisations surveyed said they were finding affirmative action difficult because they had to balance the need to reduce staff numbers against the objective of changing a company's racial profile.

In spite of the poor economic climate, however, the major obstacles to implementing affirmative action were seen as creating the right culture, middle management's attitude and white resistance to change

These were rated by 61% of those surveyed as obstacles. In comparison, 39% of the respondents listed the negative business environment as an obstacle

Most organisations suggested that campaigns to educate all staff members were required to reduce resistance to change

The survey also found that candidate mistrust was seen as a major obstacle, receiving 46% of the responses.

Some candidates for promotion feared being seen as "sell-outs" by colleagues and the community This seriously harmed their ability to play a leadership role

Few of those interviewed believed their organisations had achieved the stage of equality of opportunity where a true meritocracy existed and where it was no longer necessary to act affirmatively

Indeed, the researchers say most organisations are still battling with how best to equalise opportunity Although the private sector leads the way, certain parastatals have made significant progress in affirmative action programmes.

Definitions of affirmative action differed among the organisations surveyed Eight suggested that their action was aimed at blacks and most others included any group other than the white male

Skills

A total of 61% of organisations interviewed suggested that the objective of affirmative action was to ensure that the makeup of personnel at all levels in a firm represented SA's demographics

Major reasons given for embarking on an affirmative action programme were a skills shortage in the white population, redressing the imbalances of the past, preparing for new legislation and business reasons, such as a changing consumer profile

Although most organisations acknowledged that trade unions had an important role in ensuring the legitimacy of the process with the workforce, about half had not brought labour leaders on board

Recession blues hits the auction market

153

By Julienne du Toit

As the recession drags on, some of South Africa's wealthier citizens are auctioning off their precious assets, sometimes for a pitiful price

At an auction in Morningside Manor, Sandton, yesterday, beautiful finely knotted rugs such as Russian Bokhara, Tabriz, Meshad, Afshar, Hereke and Qum went for a song.

Veteran auctioneer Cecil Mark complained: "I've never seen such apathy about rugs in my life."

Some of the paintings, including one by Walter Batiss, hardly aroused interest The Batiss went for R500.

A potential Constable, which would go for about £100 000 (R460 000) in Britain if authenticated, went for a mere R3 500.

There were some high points, however A beautiful Turkish silk Hereke rug, 40 or 50 years old and possibly the only one of its kind in the world, according to Mark, went for R65 000 to a Hungarian couple from Vereeniging who would not identify themselves

A silk Qum rug from Iran went for R9 000, and one particularly beautiful Karachi carpet sold for R17 500.

The sale, which included paintings by Pierneef, Irma Stern, Tinus de Jongh, Gregoire Boonzaaier, Domsaitis and Hugo Naude, was 90 percent without reserve, which means prices were not pre-set.

The first day of the two-day sale had gone considerably better, confided Mark But there were three house sales yesterday, "and it's all a bit of a gamble"

Inflation set to slide below 5% in three years

153 CT 31/3/93

By AUDREY D'ANGELO
Business Editor

INFLATION may drop below 5% in the next two or three years now that inflationary expectations have been curbed, University of Cape Town (UCT) economics professor Brian Kantor said last night.

But he expects it to rise to 11,5% this year as a result of higher VAT and fuel prices, before easing again.

Because of this he thinks interest rates will still be around their present levels by the end of the year

Kantor was speaking at a seminar organised by the UCT Graduate School of Business Association, at the GSB Breakwater campus.

He said that a year ago it had been monetary policy and not the political situation that was holding back the economy.

Stals had not relaxed his determination to keep monetary policy tight until the inflation rate came down. And inflation had stayed at high levels for so long because business people and trade union negotiators budgeted for it to continue at 14% or 15%.

But lack of political confidence was now the reason the economy could not be allowed to grow, because capital outflows last year meant that a recovery would soon have to be aborted to protect the balance of payments· 'The cruel fact is that the economy remains hostage to the realisation of political transition.

"There is no room for growth without a political settlement that will relieve the pressure of capital outflows and replace it with capital inflows — the more the better.

"Naturally the political opponents of the Government are aware of their power.The Government controls the money supply and the security forces.

"The ANC controls the capital account of the balance of payments.

"Each blames the other for the economic stalemate. This is natural but should be totally unacceptable.

Accountability

"Both parties, at this stage of the political process, may surely be held equally accountable for the hardships that the people of SA are being forced to suffer."

Urging a quick solution to SA's political problems, Kantor said it was fortunate for this country that the rest of the world was in recession

Otherwise the recession here, and a high level of taxation, would have resulted in an exodus of skilled people.

The IMF had said that the ratio of taxes to income, and the benefits received, for middle income and higher income people in SA was one of the most unfavourable in the world.

Self-serving fixes threaten to prolong the global recession

BDM 3/2/93.

JIM JONES in Davos 153

THE recession which has plagued and preoccupied the world's industrial nations for three years is unlike any other in recent memory. Other post-war declines have largely been due to short-term or cyclical factors Generally, they were amenable to conventional stimulatory treatment Not this time around, according to the economists and businessmen brainstorming at the World Economic Forum's annual meeting

They believe this recession is complicated by the convergence of cyclical and structural shifts, and they are at a loss to come up with anything other than conventional cures

If conventional short-term treatment is inappropriate, so, too, is treatment which does not take account of differing regional and national recessionary factors Policies appropriate for the US would be inappropriate for the EC That, in turn, brings the risk of increased protectionism which would stall chances of a worldwide recovery

Former French prime minister and author of several best-selling economics texts, Raymond Barre, summed up the complexity of beating the recession by pointing to this convergence of cyclical and long-term structural factors

Recession started to bite as the worldwide expansionary phase ground to a halt in 1989/90 It came with the inflation that had taken grip in the freespending '60s and that had been tackled only in the '80s when governments introduced and persisted with anti-inflationary measures

To succeed, these measures had to be accompanied by an extensive financial cleanup Banks' balance sheets needed restructuring after years of over-easy credit extension domestically and internationally With banks in the US, Europe and Japan no longer willing to extend easy credit, governments could not rely on simple reflationary policies to kick-start faltering economies.

Cyclical economic developments were amplified by the structural factors of the globalisation of competition — firms in the industrialised nations faced competition on all sides from countries with lower or more appropriate labour input costs

To that has been added the accelerating rate of technological change which, almost overnight, it often seemed, left well-established manufacturers uncompetitive and with obsolete manufacturing capacity

The businessmen know what they want — recovery which avoids the mistakes of the past, open markets for their products and protection from imports

Business, particularly in the US, is getting back to basics and firing executives who cannot manage firms out of their problems. Manufacturing firms which scrambled to establish or to acquire financial services offshoots in the '70s and '80s are shedding them fast. Profits once generated by financial transactions have been transformed into losses and the headaches of inappropriately structured balance sheets.

But knowing what one wants is not the same as devising appropriate and politically acceptable policies to achieve those aims

In the US, unemployment is running at less than 7% and the labour market is operating flexibly as Americans' real wages and living standards adjust.

Europe is a different matter as rigidities in the labour market restrict job mobility, as the cost of labour remains higher than the cost of capital and men are replaced by machines, and as social security systems act as disincentives to the creation of economic activity

Most Europeans have yet to face up to the likelihood that they will have several different jobs in their lifetimes and that this means regular training and retraining In some countries they also have to face up to the reality that social security payments cannot be open-ended

Nor has the EC fully come to grips with the problems associated with the massive unemployment in the former communist bloc and in other less developed countries on Europe's borders. Migration into the richer European countries — particularly into Germany and Austria — is being met by resurgent racism and violence. But while Europe's businessmen and politicians talk soberly of creating jobs that would persuade prospective economic migrants to stay at home, protectionist instincts prevent European markets from being opened to goods from developing countries

In the US, more relaxed fiscal policies seem appropriate to stimulate capital investment in new plant and infrastructure In Germany, and by extension the EC, stricter fiscal discipline is needed so that the unification of Germany is not financed by rising government borrowing and advancing interest rates

Japan has still to deal with the deflation of the financial balloon on which its recent growth was founded. Its conventional approach is to seek ever larger trade surpluses and to maintain the structural and legal barriers to foreign entry into its market. Japan, perhaps more than any other country, has to accept that globalisation of markets does not simply mean that it can go on generating rising trade surpluses by exporting hi-tech goods

East Asian countries increasingly resent Japan's strategy of establishing abroad factories which are often little more than assembly plants for Japanese-made components They want technology transfers, not just jobs Their response has been to initiate a regional co-operation bloc, in part to facilitate technology transfers denied to them by Japan

European businessmen complain about the danger of the US "uncoupling" itself from the rest of the world Uncoupling is the new buzzword for the protectionism the US might feel is necessary to prevent economic recovery being aborted by the deficits caused by soaring imports.

Uncoupling and protectionism are cynically criticised by the very Europeans who have placed limits on Japan's share of the EC's motor market. And this week the Europeans were complaining about Washington's plans to favour domestic companies in federal tenders Europe already does that, and Washington's move is retaliatory

The usual pathetic calls for playing fields to be levelled translate into the usual depressing attempts to tilt the pitch in the bleaters' favour Regular calls for a completion of the Uruguay Round of GATT are accompanied by public recognition that the round cannot be completed without compromise

But such statesmanlike protestations are transparent. Protectionism is politically expedient and is advancing Under those circumstances, the outlook for the economically developing countries will continue to look bleak for as long the industrial nations continue to fumble towards narrow solutions to their own problems

SA will need to factor that into its economic planning

Keys: Inflation set to stay down

(153)

CT5/2/93

By ANTHONY JOHNSON
Political Correspondent

SOUTH AFRICA was entering a "sane economic era" in which both inflation and interest rates could be kept at single-digit levels, Finance Minister Mr Derek Keys said yesterday

The minister said the inflation rate, currently below 10%, ran at less than five percent for the last four months of 1992

Mr Keys said there was already "plenty of room" for interest rates to come down

He said he did not believe inflation was going to return to double figures

Speaking later in Parliament, Mr Keys said that as reductions in government expenditure continued, investment resources would be more available and interest rates would decline following a drop in inflation.

● Earlier Mr Keys told a press conference that he had found ANC economists "realistic, pragmatic and imbued with the desire to do the right thing"

● Petrol hike on cards — Page 3

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153

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● Petrol hike on cards — Page 3

Star 5/2/93 (153)

Lower inflation 'here to stay'

By Peter Fabricius
Political Correspondent

CAPE TOWN — Single-digit inflation was here to stay, and single-digit inflation should lead to single-digit interest rates, Finance Minister Derek Keys forecast yesterday in a highly upbeat assessment of economic prospects for 1993

There was "plenty of room" for interest rates to come down

These factors were the most crucial for stimulating investment and would have a decisive effect on it.

Keys's comments came during a briefing to journalists and an address to Parliament during the debate on the State President's opening speech.

He said commentators had not yet begun to appreciate the significance of the steep drop in inflation over the last months of 1992, which had brought the rate down to 9,6 percent.

Annualised and seasonally adjusted, these monthly figures since August 1992 meant that inflation during those months had never been higher than 6 percent and had averaged at less than 5 percent.

Single-digit inflation would have a large impact on pension funds, on the international competitiveness of South African exports, on the foreign exchange value of the rand and on labour peace.

Keys explained that the greatest problem he faced was to increase investment and decrease government spending

If government spending continued to drop, interest rates would come down, helped by the low inflation rate

There was also good news in the beginning of investment in important mega-projects in the private sector — such as the Alusaf aluminium smelter, the Columbus stainless steel plant and the Namaqua titanium sands project, Keys said

THE WEEK AHEAD by Simon Willson

Are the days of inflation numbered?

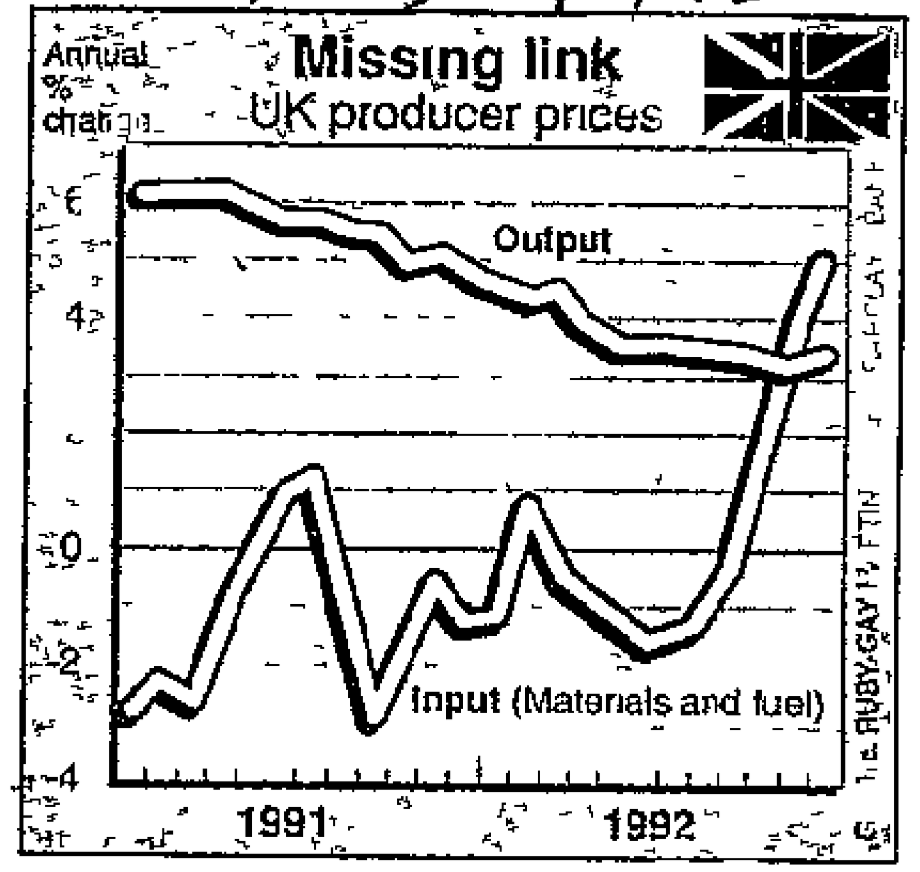
BDay 8/2/93. (153)

A DECADE ago, scientists announced that smallpox had been eradicated from the face of the earth Further evidence that economists might soon be able to say the same about inflation should be published this week

An increasing number of governments and central banks in the developed world are committing themselves publicly and irrevocably to worst-case inflation ceilings of around 2% One-time inflation disaster areas in the developing world, which used to measure their annual price increase percentages in hundreds or thousands, are halving and quartering their inflation rates

Western academics are questioning whether nil inflation and statistically stable prices are, in fact, a good thing Tentative recommendations are surfacing in official memos that perhaps inflation should not be killed off too quickly, as negative real interest rates (which are only possible if prices are rising) might still be useful for pulling economies out of recession

Preparations in the developed world for administering the last rites to one of the most persistent bogeymen in 20th century economics are rather deflating local elation at attaining single-digit inflation for the first time in 14 years But data released this week should show that domestic and international inflation rates at least share a trend, if not yet a level



The week's most spectacular disinflator is likely to be the UK, when the **British January inflation rate** is published on Friday UK consumer prices rose 2,6% in the year to **December**, a six-year low If, as is probable, UK prices repeat their December monthly fall of around half a percentage point, the headline annual inflation rate should be dragged down to just over 2% — a 25-year low

UK headline inflation, like SA's, is currently being massaged firmly downwards mainly by lower prices among one or two top-weighted commodities in the consumer price index (CPI) basket Reduced housing costs, a reflection of lower mortgage rates, are now the main contributor to UK disinflation, which is why the Whitehall authorities are targeting an underlying inflation rate that excludes mortgage interest payments

Core UK inflation rose to 3,7% in December from 3,6% in November, showing that underlying inflation has been more resilient than the overall figures are stating **UK underlying inflation** may again lag the likely fall in the January headline rate, but should still be within the government's 1%-4% target range

UK producer inflation for January is due out tomorrow, and the remarkable feature of these data is the ease with which they appear to have absorbed the 15%-20% fall in sterling since September last year. As the chart shows, the rate of change of the largely imported input component of the UK producer price index (PPI) has duly reflected the weaker pound by soaring from mid-1992 lows. However the output PPI, which measures the prices of goods at the factory gate, has remained stable

This indicates that UK industry, mindful of sluggish retail sales, has not dared to pass on the higher costs to the shelves for fear of poleaxing what is left of consumer spending in the recession-blighted British economy The fresh fall in sterling this month suggests that further upward pressure on the input PPI is imminent But, in another indication of inflation's fading menace, it seems a stiff recession can interrupt the normal transmission of upward price pressure from PPI to CPI

That would be a reassurance in SA if there was any upward pressure on local producer inflation But, in figures that may emerge this week, **SA's December PPI** is set to show producer inflation well into single figures following November's 7,5% outturn, with a continued slackening in the imported contribution The steeper fall in the rand, and especially its plunge last week against the dollar, may subsequently show up in the imports PPI

Meanwhile **US January producer inflation** is scheduled for release on Friday and, in view of the recent strength in the dollar and the extended weakness of oil prices, there is little danger of the current sequence of negligible monthly US PPI rises of 0,1% and 0,2% being broken. Another in this monthly series would yield an annual rate of US producer inflation of around 1,5%

Revision of the final **German January inflation rate** is imminent and may lower the initial annual outturn of 4,4% The Bundesbank perversely eased its key short-term interest rate last week within days of the advance January inflation rate jumping to 4,4% from December's 3,7%. But the main cause of the inflation bulge, the increase last month in the German VAT rate from 14% to 15%, was apparently so obvious that the bank felt able to act.

MONEY MARKETS by Tim Marsland

Slower inflation, rate cut hopes spark heavy trading

153 BDAY 8/2/93

BULLS and bears dived headlong into the capital market last week, and turnover was almost the heaviest ever

Bonds worth about R20bn traded on the JSE floor, which constitutes about 20% of the total market.

Even in the lofty weeks of the bull run late last year, volumes on the bond floor seldom touched R20bn in a week. Volumes on the equity market were also higher than usual.

Trade was heaviest in the long area of the market, where bonds were also the most volatile.

The move was sparked by official hints of a cut in Bank rate, coupled with slower consumer inflation

Bulls now seem to believe single digit inflation is sustainable for at least the next two years. But the bears are scoffing at the idea.

The two are evenly poised at the moment, although bulls appear to be slightly ahead on points.

Obviously government is keen on low inflation and the low interest rates that will follow. Finance Minister Derek Keys said as much last week, believing single digit interest rates were possible soon

Reserve Bank Governor Chris Stals was as cagey as ever, but did suggest interest rates could rise at the end of the year.

Conflicting signals such as these are confusing.

Government's interest in the whole affair is cheaper money It knows it is facing a huge deficit and this money will have to be begged, borrowed or stolen from the market.

Clearly, the idea of low interest rates appeals to it, but the Governor (the man who counts in these decisions) has other ideas He will keep interest rates high for as long as possible.

So, while it is fine to be bullish, it might be better to wait for a clearer signal from Stals as to where he sees rates going.

Bill sets out the standards needed for bank managing

CAPE TOWN — No degree of intervention or strict application of statutory measures by supervisory authorities could prevent the loss of an inexpertly-managed bank, Deputy Finance Minister Theo Alant said in Parliament yesterday.

Speaking during the second reading debate on the Deposit-Taking Institutions Amendment Bill, he said qualifications and standards for the directors and executive officials of such institutions were now clearly defined.

Casper Uys (Barberton, CP) said in future curators would have to prepare annual reports on progress in rehabilitating institutions under judicial management.

Francois Jacobsz (Helderberg, NP) welcomed the definition of persons considered "fit and proper" to manage institutions which accepted public deposits.

Poor management played a key role in most cases where banks ran into trouble, he said. BDM 10/2/93.

Brian Goodall (Edenvale, DP) said money-broking provided a useful service to the public, but steps were necessary to regulate this activity.

However, investors could be effectively protected only if they took steps to protect themselves.

He said the more competition SA banks had the better for them. A minimum standard was being set for foreign subsidiaries.

Replying to the debate, Alant said each member of the public was responsible for handling his or her own financial matters.

Speaking in debate on the SA Reserve Bank Amendment Bill, Goodall said the role of the Reserve Bank should be entrenched in a new constitution.

The Bank would play a critically important role in the development of the country, he said.

The Bill drew an important distinction between the monetary control function and the regulatory function.

The DP was in broad agreement with the Bill and supported it.

Replying to the debate, Alant said government had the power to dominate the Bank but had given Governor Chris Stals the reassurance that he would have the largest degree of autonomy possible.

Although Stals was expected to brief Cabinet on macro-economic matters, he retained as much independence as possible.

Alant said he had expected interest rates to drop faster but accepted Stals's point that other factors were affecting rates.

All parties supported the Bill which is to be passed simultaneously with the Deposit-Taking Institutions Amendment Bill — Sapa

AHI supports efforts to stop inflation spiral

(153)

GERALD REILLY

PRETORIA — If prices and wage increases continued to exceed monetary guidelines, it would be difficult to arrest the spiral of economic contraction and declining job opportunities, AHI president George Huysamer said yesterday. BDM 10/2/93.

He said in a statement that he supported the Reserve Bank's sustained efforts to reduce inflation to the level of SA's most important trading partners. Overarching financial stability with low inflation was needed for sustained growth.

The AHI supported the official monetary guidelines of 6% to 9% in the M3 money supply growth in 1993.

Business should take this into account in price and wage decisions during the year, he said. The national economic forum should use co-operation between business and organised labour to lower the inflation spiral to beneath the official monetary guidelines.

Huysamer said the AHI shared Reserve Bank Governor Chris Stals's concern about the large net balance of payments deficit in recent months, especially against a background of a deepening recession. The country could not afford a further decline in foreign reserves this year.

Huysamer asked whether the rand should not be allowed to absorb the greater part of the pressure on the balance of payments, which resulted from large capital outflows, agricultural imports and weak terms of trade, not from domestic overspending.

An approach in which the exchange rate was allowed to decline sufficiently to head off a further net reserve loss merited serious consideration.

BUSINESS No respite for ailing ecor

Confidence in business takes another knock

■ Value of rand against the US dollar also a factor:

Sowetan 11/2/93 (153)

By Mzimkulu Malunga

DESPITE hopes that economic conditions will improve this year, business confidence declined by 0,1 percent to 92,9 during December and January

Dr Ben van Rensburg, economic policy director of the South African Chamber of Business (Sacob), this week said the internal political situation, the violence and the performance of the world economy were among the causes

Not entirely negative

Eight of the 13 factors which Sacob takes into consideration in its monthly gauging of business confidence contributed to the decline

Issues, such as the unemployment rate, retail sales, the rand's value against the US dollar, the gold price, companies' performances as well as the volumes of exports and imports, influenced the slump

Unemployment showed no signs of easing during the past two months, about 4 000 companies went bust during the same period, while the gold price hovered well below expectations and retail sales plummet

However, the situation was not entirely negative.

The inflation rate dropped below 10 percent for the first time in 14 years and manufacturing production increased marginally

Though agricultural production is not going to reach anticipated levels, it is expected to be higher than last year, a factor that will have an influence on the entire economy

Production will rise

Business is also worried about the continuing Government debt which is expected to be around R30 billion during the 1992-93 tax year

Van Rensburg says a number of structural constraints are likely to prevent any significant improvement in the economy

"Sacob believes that it is more important than ever to take all possible measures to rebuild both business and consumer confidence.

"The success of political negotiations and the forthcoming Budget will be crucial in this respect," he says.

Inflation drop 'misleading'

WM
12/2 - 18/2

THE much-vaunted fall of inflation to single digit figures in December may lead to a problem of disbelief in official inflation

The year-on-year inflation rate figure of 9,6 percent for December, as measured by the Consumer Price Index (CPI), may be misleading.

153 [redacted]

Its accuracy is not in question. But Nedbank chief economist Edward Osborn has pointed out that the high weighting accorded to housing and in turn to the mortgage interest rate in the CPI plus an accident of timing has led to the low CPI figure — not an overall steep decline in the rate of inflation.

Osborn points out that one-eighth of the CPI or 12,77 percent is devoted to the mortgage interest rate factor

Add to this the fact that the new base of the index, August 1990, coincided with the peak of bond rate at 20,75 percent. In December the rate had fallen to 16,75 percent, a decline of almost 20 percent.

With mortgage interest removed, Osborn comments, the December inflation rate turns out to be as high as 13,8 percent, as opposed to the published 9,6 percent.

So are we being deluded by the extent of the drop? he asks.

"There is an incipient problem of credibility with the CPI," believes Osborn. Since the CPI year-on-year figure is an important element in containing inflationary expectations, this is worrying.

Spending 'double rate of inflation'

(153) ARG 16/2/93

MICHAEL MORRIS, Political Correspondent

GOVERNMENT spending had increased at nearly double the rate of inflation, MPs have been told

Democratic Party finance spokesman Mr Ken Andrew said in a critical speech in the debate on the additional budget yesterday "From levels in the low 20s, government expenditure has grown steadily as a percentage of gross domestic product (GDP)

"This year it was budgeted to be a little under 30 percent Now we have proposed additional expenditure in a shrinking economy that will result in central government expenditure of 33 percent of GDP in 1992/93"

He said government spendingwas out of control, and added "This financial year spending is now budgeted to increase by 21,4 percent over last year

"Even if one adjusts that for drought relief, government expenditure has increased at close to double the rate of inflation

"Then one needs to ask Are we getting value for money? The answer must surely be a resounding 'no'

"How much of the hundreds of millions of rands allocated to poverty relief has actually reached those who are suffering? Very little, I would suggest.

"And what about the R20 billion or so being spent on education? We are not seeing the fruits of this enormous expenditure in the form of more literate, better-educated young people

"This is all bad enough, but if one considers the financial impact of one corruption scandal after another, one realises why our state finances are in such a parlous state"

Minister of State Expenditure Mr Amie Venter said tighter financial controls and an improved system of reporting expenditure had been introduced to keep rising state spending in check

The cabinet had decided additional funds would in future be approved only for absolutely unforeseen and unavoidable expenditure and that the shift from a need-orientated to an affordable budget was also being pursued in individual departments.

The cabinet had also decided that surplus funds should be rolled over so that departments could do "multi-year" planning, and that "funds will most probably no longer be spent on non-essential items at the end of the financial year"

The government was also to introduce a system of auditing draft estimates as an additional test

Other measures included

- Replacing the "unwieldy" financial management system introduced in 1976 with a new computer system.
- Developing financial expertise in the civil service
- Harmonising the financial instructions and systems of regional governments and central government.
- Strengthening and refining financial controls and reporting.

Stals could bring rate to single digit

STAR 19/2/93. (153)

Due to Chris Stals's efforts in reducing the inflation rate to single figures, the Reserve Bank was able to drop its lending rates resulting in lower bond and bank overdraft rates for consumers.

What has the inflation rate to do with the bank and building society rates?

According to a spokesman for the First National Bank, the differential between the two rates determines the will to reduce the inflation and varies from country to country. In Australia, for instance, the percentage difference is more than 7 percent but in Britain it is 2 percent The ideal ratio would be nil inflation, but this is virtually impossible

Although much of our economic future depends on the political direction, many reckon Dr Stals, given time, could bring down the bond and bank interest rates to single figures

Many people criticise the official inflation rate, saying it has no bearing on their cost of living One critic is Ted Osborne, economist at Nedbank He says the inclusion of mortgage rates, which have dropped by 20 percent in just over a year, have been largely responsible for the single figure inflation Another major cause was the cost of meat which rose by 38 percent in 1991 but only by 1,4 percent in 1992

However, a number of financial institutions, including FNB, find the official inflation rate realistic. According to a spokesman "It is always difficult to compare apples with apples in extreme locations, but by and large, the official inflation rate reflects 'trolley for trolley'."

Basically, the banks are passing on the full base cuts to their borrowers However, there are a few borrowers (perhaps 1 percent) who will not get the full benefit of the reduction The disparity in interest rates charged by banks is dependent on the customer's security provisions Those who do not have assets to back their overdrafts may pay higher interest.

It is not strictly true to assume banks make more from high interest rates than from the lower rates. The First National Bank spokesman pointed out that the bank does not always charge on home loans at the highest rates, knowing how it will affect its customers. For instance when interest rates rose to 25 percent FNB kept its interest at 21 percent.

Big results in small sector

(153A) Argus 20/2/93

IT costs between R40 000 and R50 000 to create a new job in one of the big industrial and manufacturing companies, but only R18 000 to create one in the formal small business sector, and R2 000 in the informal sector, says the Small Business Development Corporation (SBDC).

ALIDE DASNOIS, Business Staff

Small wonder, then, that experts increasingly are questioning the wisdom of relying on billion-rand, capital-intensive projects like Alusaf and Columbus The key to absorbing the 400 000 new entrants to the labour market each year, they say, probably lies rather in the development of the small business and informal sectors

According to figures quoted in the *Platform For Investment* published by Frankel Max Pollak Vinderine, Sanlam, Ernst and Young and the HRSC, small and medium enterprises (SME) — with assets of R2 million or less — accounted for 29 percent of South Africa's gross domestic product and the informal sector for 17 percent

Their combined weight had risen from 29 percent in 1980 to 46 percent in 1991, in line with trends in Europe

The SBDC calculated that 75 percent of all new jobs were generated in these two sectors

Developing the small business and informal sectors should be one of the pillars of any investment programme, the *Platform For Investment* report concluded

This implied

- Removing legislation, which constituted a barrier to small and informal businesses,
- Reforming tax policy to encourage small businesses or labour-intensive production techniques,
- Providing small entrepreneurs with better access to finance, technology, information systems, management skills and premises, and,
- Encouraging big business — and the public sector — to sub-contract part of production to smaller entrepreneurs

Special attention should be given to promoting small manufacturing operations, the report said For the moment, small businesses — especially in the informal sector — were largely confined to the service sector and, if this did not change, "South Africa runs the risk of becoming a nation of hawkers and shoe-shiners"

In 1991 and 1992, funding for small business development by the state, semi-government agencies and other organisations totalled about R900 million This was "clearly inadequate", warned the report

1 000 small businesses got loans

Business Staff

MORE than 1 000 loan applications were granted by the Small Business Development Corporation in the Western Cape last year

The loans ranged from R500 to R1 million, with an average of R52 000

Senior manager (Development Promotion) Johan Naude says SBDC hopes to increase the number of loans this year, particularly to the informal sector. Currently about a third of the roughly 80 to 90 loans granted each month are for less than R5 000 to informal sector operators

"We are trying to expand at both ends of the market to give more help to the informal sector as well as to growing small and medium enterprises", said Mr Naude

Over the past 12 years the SBDC in the Western Cape has spent about R77 million of the roughly R350 million granted in loans to informal, semi-formal or start-up businesses

Number and amount of loans granted in the Western Cape, by sector

SECTOR	NO OF LOANS	AMOUNT
Agriculture, hunting, forestry and fishing	326	47 843
Mining	29	3 357
Manufacturing	2 916	101 485
Construction	1 037	32 216
Retail and repair services	3 188	94 082
Catering and accomodation	459	38 257
Transport services	121	6 010
Business services	392	18 365
Social and personal services	701	19 231
Total	9 169	360 846

Increasing the number of small loans to this end of the spectrum would necessitate more funds, he said, since the SBDC's break-even point is well above the average loan required in this sector

Most of the SBDC's income is derived from its investments of R900 million, made possible by shareholders' contributions The State provides an annual grant of about R15 million, as well as other grants which vary from year to year

Most people associate the informal sector with retailing, but this was only the most visible part, said Mr Naude

"There's also a lot of building activity, such as the supply of corrugated iron for shacks or the stripping and recycling of used bricks"

He said that informal sector and small businesses could compete with and even undercut big businesses, because they don't have the same capital structure

"Small businesses may not need to generate the same size profits, they often don't have overheads to cover"

Mr Naude said that other sectors which developed well over the past year were small tourism-related projects like bed and breakfast establishments, small tour companies and travel agencies

Only some 10 percent of loans were not repaid, showing the relatively high success rate of SBDC-funded projects

Public works

FM 26/2/93

INFLATION

Real rates

(153)

The weighting of the various components of the consumer price index is often a controversial issue So too is the way in which price increases are measured Both issues are raised by Nedcor Bank chief economist Edward Osborn in his latest *Monthly Economic Profile*

He suggests that mortgage interest has too large a weighting in the index — 12,77%, directly and indirectly — compared with 6,4% in the UK This has magnified the effect of falling interest rates on overall in-

FM 26/2/93 (153)

flation. "Moreover the newly based consumer price index was introduced at the peak of the mortgage rate cycle of 20,75%, in August 1990, which tends to exaggerate the percentage decline since then"

He argues also that mortgage rates are not an adequate measure of the cost of owner-occupied dwellings "In economic terms, the real cost is the opportunity cost, as measured by the rental equivalent of the dwelling This is in fact the basis of the calculation of the housing component in the consumer price index in the US In effect, the present SA method is to confuse a consumption item with the cost of purchasing an asset

"And it is common to adjust the redemption period of the mortgage bond when there is a change in mortgage interest rates, retaining the level of instalments," says Osborn

He argues that inflation of 9,6% in December — the lowest since June 1978 — gives "a misleading impression of the effective underlying inflation rate as generally experienced in SA Mortgage interest apart, only a quarter of the consumer price index, by weight, showed price increases of less than 10% over the year In fact, the credibility of the official inflation figure is being put in jeopardy"

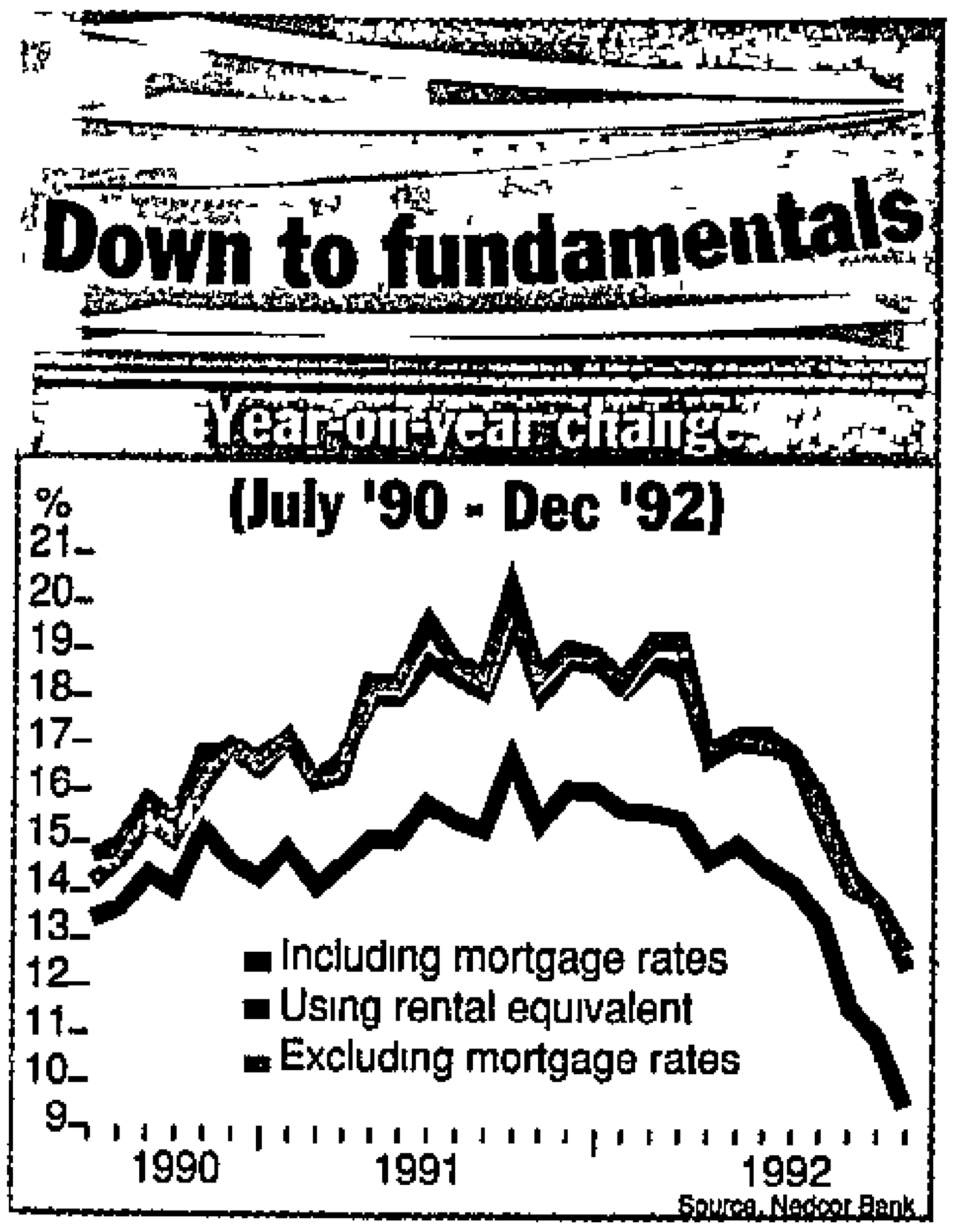
Osborn calculates an underlying inflation rate in two ways (see graph)

☐ Excluding the mortgage rate, as is done in the UK, and

☐ Using a rental equivalent (opportunity cost as measured by the rental equivalent of the dwelling) to the mortgage rate

This exercise establishes that the rate at which inflation has been falling is similar, by all three measures. But this is coincidental, says Osborn, because "the introduction of Vat in October 1991 worked itself out of the inflation calculation and a marked decline in the rate of price increases in fresh produce took place — in particular meat which was 38,7% in December 1991 compared with 1,4% in December 1992."

However the level of underlying inflation is nearly three percentage points higher than



FM 26/2/93. (153)

the published all-items figure "With underlying inflation at 12,5%," says Osborn, "SA clearly has low real rates of interest compared with other countries and, in fact, has negative real rates of interest in the money market at present

"This comparison runs counter to the common argument that interest rates in SA were due for a downward correction because they were unnecessarily high This arcane argument needs to be rephrased in more simple terms — their impact on highly geared enterprises struggling in a depressed economic environment The negative market rates have presumably arisen from the lack of market demand, the plethora of corporate and institutional funds and the wrong-footing of the market by the speed of decline in inflation"

Ernie van der Merwe, head of the Reserve Bank economic unit, does not agree with Osborn's conclusions "We believe CPI should be looked at in total and not disaggregated. What matters is what the consumer has to pay for the total basket"

Central Statistical Service chief Treurnicht du Toit says the weighting of mortgage rates in the index was established in a 1990 survey "which included all population and economic groups"

He argues that CPI is calculated to reflect the change in the average price level of those consumer goods and services bought by an average urban household So the cost of owner-occupied housing and, therefore, the cost of mortgage bonds should be taken into account"

Whatever the merits of the arguments put forward, it is important that they are explored by analysts and understood by the public Inflation figures must be seen in as full a context as possible so that expectations for the future are realistic Given incipient inflationary pressures (and a falling surplus on the current account of the balance of

continued

ECONOMY & FINANCE

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payments), official interest rates are unlikely to fall much further

☐ The official inflation rate for January was 9,7%, up from 9,6% in December The monthly rise in the CPI was 1,1% and a seasonally adjusted 1,1% Comparable figures for food inflation were 14,9%, 1% and 1,4% If mortgage rates are stripped out of the annual figure, the underlying rate of inflation is 12,5%. ■

Battle against inflation is not yet won (53)

By Sven Lunsche Star 26/2/93

The Afrikaanse Handelsinstituut (AHI) cautions that inflation could return to double-digit levels over the next few months, despite its recent decline to 9,7 percent.

In the latest AHI Inflation Barometer, which points to an inflation rate of 10,8 percent by mid-year, economist Nick Barnardt says the battle against inflation has not yet been won

The AHI is, however, confident that even if VAT and the fuel levy are raised in the forthcoming Budget, inflation will remain below 11 percent at year-end

The Barometer, which analysis economic conditions and their impact on consumer prices about six months ahead, last year predicted the sharp downswing in inflation, but did not foresee a fall to single-digit levels

"The fact that the inflation rate is at present below the level of the Barometer is due to factors such as declining food prices and bond rates, which have restrained inflation in a technical manner," Barnardt says

Scepticism reigns over inflation

AAG 27/2/93

"If you believe that, you'll believe anything", Stellenbosch economist Mr Willem Roets is frankly sceptical about the falling inflation rate

"No-one will make me believe the inflation rate really did fall from 14,3 percent a year to 9,7 percent in the space of five months," he says.

"It's never dropped like this in the past, and I see no reason why it should have fallen last year."

Mr Roets believes the drop really reflects a correction in the weightings given to big chain stores — where prices are generally lower — as opposed to smaller retail outlets.

"The trend in retailing is towards chain stores They're the only outlets which can survive in the recession. Small corner shops are rapidly going out of business

"But for a long time the Central Statistical Service (CSS) refused to alter the proportions of chain stores and other outlets to reflect the changing situation As a result the figures were distorted, because prices tend to be higher in the smaller shops.

"It seems the CSS has finally seen the light and has changed its weightings at last."

Not so, says deputy director of the CSS Mr David van den Heever

Of the 3 500 outlets which send in price information to the CSS each month, about two-thirds are chain stores and one-third are "other retailers", he explains

"But the category 'other retailers' doesn't include only small corner cafes Even big outlets are included here, provided they don't form part of a chain

Unions settle for job security

Recession puts brakes on pay deals

BDay 4/1/93

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ROBERT WICKS

THE average rate of wage increases fell by an unprecedented four percentage points in the past year as recession and dismal economic expectations took their toll on pay settlements, according to a report by labour consultants Andrew Levy and Associates.

The average level of settlement as a percentage of payroll fell to 12% In 1989 and 1990 the figure was 17,4% and dropped slightly to 16,1% in 1991.

The report said wage negotiations had been conducted against a backdrop of continuing recession with limited expectations of significant economic recovery

"Trade unions have been forced to revise their strategy away from a living wage campaign to one where job security became predominant Industrial action related to wage claims showed a downward trend throughout the year."

According to the report, only 23% of wage bargains involved industrial action, compared with 52,6% in 1991 Strikes accounted for 35,6% of wage-related industrial action as opposed to 37,4% in 1991 Work stoppages took place in only 7,2% of the wage bargainings, compared with last year's figure of 9%

The report said these trends would seem to indicate unions favoured procedural methods in applying pressure on employers, particularly when job security was such an issue.

Go-slows amounted to 29% of the industrial action monitored Last year the figure was 21,9%

The report said go-slows remained a popular tactic initiated by unions to apply pressure during wage negotiations.

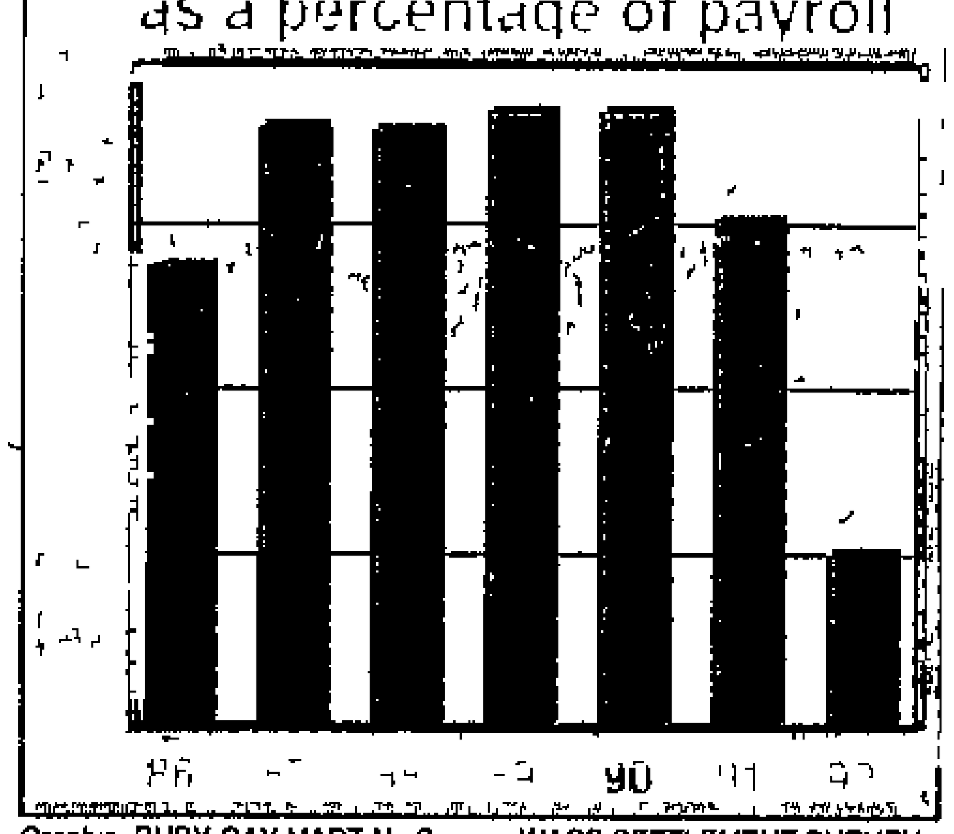
One of the most significant trends in 1992 was the increasing acceptance by organised labour of the link between productivity and job security, the report said

In a major development, Numsa and the motor manufacturers agreed to establish a fund aimed at contributing towards work security, employment creation and human resource development

Employers will contribute 10c an hour for each employee and will not be required to make any additional financial contribution during the period of agreement

The report said the fund represented a landmark in employer/trade union co-operation regarding job security within an industry.

Average level of settlement as a percentage of payroll



Graphic RUBY GAY MARTIN Source WAGE SETTLEMENT SURVEY

NEWS Work week may be cut to 40 hours ● Hunt for Cash Competition

Plans to beat recession

Sowetan 5/1/93

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By Ike Motsapi

THE country's two trade union federations are considering shorter working hours instead of retrenchments as options for employers while the economic recession bites deeper in 1993

Among the options considered is that workers should work fewer hours That is, instead of working 46 hours a week, unions propose that these should be cut to 40

Mr Sam Shilowa, assistant general secretary of the Congress of South African Trade Unions, said "Obviously all trade unions are discussing ways of dealing with retrenchments

"A number of options are being discussed at present but the other factor that is worrying is that many companies are experiencing industrial restructuring

"I want to emphasise that there are no deals involved because no finality has been reached on the matter as far as Cosatu is concerned "

■ Unions propose shorter week to stave off feared retrenchments and salary cuts:

Shilowa said the trade union federation has impressed on employers that where job cuts "were to take place this should be stopped"

Mr Mahlomola Skosana, the first assistant general secretary of the National Council of Trade Unions, also said the federation favoured shorter working hours rather than retrenchments

Less working hours

He said the country was facing one of its worst recessions in years and that it was imperative that people should be kept employed

Both Cosatu and Nactu agreed that.

●Fewer working hours should be considered as an alternative to retrenchments,

●Groups of people should be kept together in a companies; and

●People should be retrained in other skills to make them productive

Skosana said Nactu considered salary cuts as the last alternative to retrenchment He said, however, that salaries should not be cut below the inflation rate

He said. "There is a lot of debate regarding this factor because we believe there are other alternatives to wage cuts

"What worries us is that management give themselves bigger increases while at the same time cutting the salaries of employees

"For instance, last year management received average salary increases of up to 28 percent."

Skosana said it was for these reasons that trade unions, as one of the important components of social and economic development, have approached both business and the Government to establish a tripartite forum which will address the pressing issue

multinational clients such as Ford and Chrysler.

sentations.

On issues of productivity,

... without a suitable work ethic SA cannot hope to draw investment."

Drop in inflation signals recovery

By CIARAN RYAN

INFLATION increased by 6% during the past three months, says Finance Minister Derek Keys. This is down from a monthly increase of 20% in June 1992.

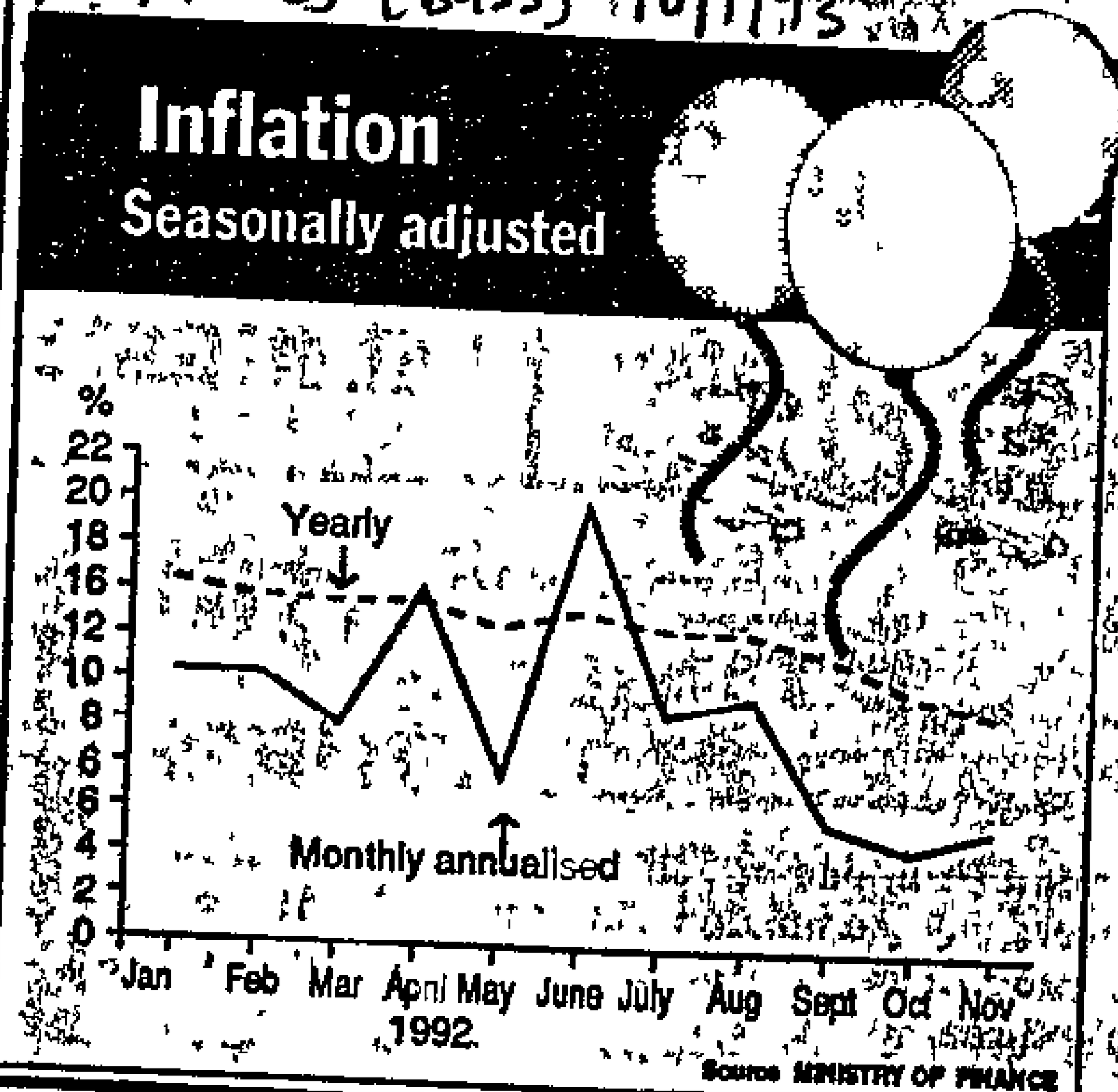
November's 11% year-on-year increase in the consumer price index reflects sharp rises in consumer items in the first half of 1992. These are gradually being annualised out of the official consumer price index.

The sharp fall in inflation over the last three months is a positive sign that the economy will recover in 1993, Mr Keys says.

Other positive factors include:

- A decline in interest rates — the Bank rate was cut from 17% to 14% last year;
- Stocks will have to be replenished to feed any recovery in economic activity;
- A favourable rand/dollar exchange rate for exporters of commodities and gold;
- The launch of the Namaqua Sands, Alusaf, Columbus and other projects with a capital value of over R12-billion;
- Mechanisms for orderly dialogue between business, labour and the government are in operation.

S1 Times [BUSS] 10/1/93



Needs

(153)

Mr Keys says there are signs that political leaders are giving more consideration to the needs of the economy. He is committed to reducing the size of the public sector and will have to tackle the overhang of a 7% to 8% deficit in the coming Budget.

Most economists caution against excessive expectations for economic recovery in 1993.

SA company execs bullish on inflation

(153)

ARG 14/1/93

Business Staff

THE inflation rate for 1993 will be 13,1 percent, down from 14,1 percent last year

This is one of the findings of a survey of the top 100 industrial companies by Unisa's Bureau of Market Research.

Inflation rate forecasts vary between 12,2 percent and 14 percent

Company executives are more optimistic about the real economic growth rate, which they say will pick up from a negative growth rate of 2 percent to a positive 0,5 percent rate.

The average dollar/rand exchange rate this year is expected to be R2,98, with forecasts ranging from R2,92 to R3,02.

Executives predict that the prime overdraft rate will fall from the present level of 17,25 percent to 16 percent, although more optimistic executives predict it will fall to 15 percent

Of the sample, 81 percent believe pressure for affirmative action programmes will not be reduced — 78 percent disagree that the total unemployed in South Africa will drop.

On a more positive note, only 39 percent of executives predict that labour unrest will intensify, compared with two-thirds who predicted increased unrest in 1991

But 68 percent expect the labour unions to play the same, or even greater, role this year.

Opinions are fairly evenly divided on the overall political situation, with 32 percent expecting it to worsen, 31 percent expecting no change or an improvement, and 37 percent neutral.

Last year a clear majority were optimistic.

A similar pattern has emerged over business confidence. Last year 54 percent were optimistic

This has fallen to 34 percent, with 32 percent negative and 34 percent unsure

STAR 14/1/93.

Executives peer into crystal ball

By Stephen Cranston (153)

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Beware the dangers of business recovery

(153) (ajb)

Star 23/1/93

LEIGH HASSALL continues her guide to small businesses and warns that enterprises are more inclined to collapse as an economic recovery begins than they are during the downturn itself.

IS YOUR business receiving more inquiries nowadays? Is your bad-debt level slowly drifting downwards? Or is your order book getting fatter? If so, your business might be showing the first signs of climbing out of the current recession But watch out! You could still be in great peril.

Recent research in Britain shows that more business failures occur in the upturn after a recession than during the recession itself

In the November 1992 issue of Ernst & Young's In Touch magazine, David Purnell says the reasons for this astonishing fact is that the business which has managed to survive the recession is likely to have its capital base stretched to its limit Working capital is probably tight with the overdraft level at its peak

In all likelihood, the business has not replaced its plant and machinery and is operating with a minimal staff Purnell says an increase in sales activity is the first sign of a recovery. However, most small businesses do not have the working capital to finance the increase in demand

"Banks generally require improved financial figures from clients before they will rerate from a risk point of view," adds Purnell

Which is why it is important for the entrepreneur to recognise and track the key indicators specific to his business so that he is able to take advantage of the upturn when it occurs

Purnell says managing through the recovery phase will be fraught with difficulties and the crux is for the entrepreneur to manage those variables which he can control, rather than let the recovery come to him

The entrepreneur should take steps now to improve his relationship with his banker He should also review his capital asset position after assessing whether the existing level will meet his future sales requirements

During the early stages of recovery, the entrepreneur should focus on the key business area of sales, pricing and margins

Purnell advises the business owner to concentrate on improving margins rather than going for growth, which draws heavily on working capital

To combat competitive pricing pressure, the entrepreneur could negotiate larger sales volumes or longer contract periods

Purnell adds that the entrepreneur should examine opportunities that will gain market share or enable the business to enter new markets through mergers or acquisitions He should look out now for bargain purchase opportunities

The current business buzz word is *exports* Actively identify opportunities to exploit existing export incentives

A business decision is dependent on the information on which it is based Take steps now to ensure your accounting systems provide timeous and accurate data

Cops chase hawkers

By HERMAN LEEUW C/Press 31/1/93

LICENSED hawkers in Vereeniging say they can't earn a living because they are being chased from their stands by traffic officers (153A)

After a recent meeting at the Vereeniging Consumer Council offices, to try and form an association for Vaal hawkers, Petrus Pooe told City Press that the traffic officers' dogs bit him

While he was trying to fight the dogs off, the officers loaded his fruit and vegetables into a bakkie and took his money. They then told him to stop hawking in town.

Pooe laid a charge of theft and harassment against the officers.

Caroline More, 41, was detained by traffic officers while she was hawking She said they sprayed teargas into the bakkie they were using to take her to the Vereeniging Police Station. There she was told she had to appear in court.

Her husband, Abraham, said he went to the police station immediately after he heard that his wife had been arrested

"When I arrived there, I found white cops busy sharing out my wife's vegetables," he said. "They arrested me when I told them who I was.

"The following day, they asked me to pay admission of guilt – R50 for me and R100 for my wife.

"When we appeared in court the next day we were told to go back home.

"At the police station I demanded my money and vegetables back, but the commander, Maj van der Mescht, told us the police had thrown the vegetables away because they were rotten When I mentioned the money he said the police would investigate my case thoroughly."

Vereeniging town clerk Gerhard Kuhn has appealed to the victims of harassment to lay charges. He said many businessmen had complained to the council about hawkers selling in front of their shops.

"We are not against hawkers, but we want them to move away from the shops If the hawkers have a problem they can phone me," he said.

The number is (016) 503-3005.

Lower inflation, but scant real relief in sight

CT 1/2/93

(153)

By AUDREY D'ANGELO
Business Editor

INTEREST rates could be cut at any time now, as a result of the falling consumer price index (CPI), says Board of Executors economist and senior portfolio manager Rob Lee

But, in spite of the relief lower bond rates would give home owners, he thinks it unlikely a 1% drop in interest rates would lead to any short-term improvement in the economy

"It might alleviate consumers' position slightly," he said at the weekend. "But they will still be under pressure

"Wages and salaries have gone up by less than 10% in most cases, significant retrenchments have taken place, indirect taxes are certain to go up in the Budget and there will be no relief from fiscal drag."

In his Investment Outlook for February Lee says prospects for growth this year have worsened

"An examination of each of the components of GDP shows that growth in 1993 will at best be marginally positive Driven by weak consumer spending and continued drought it could even be a year of negative growth.

"However, unless political negotiations collapse again and a renewed spiral of violence occurs, economic activity has probably reached its bottom and the trend towards the end of the year should be upwards

"Given sustained political progress (a big if), 1994 should see a return to positive economic growth

"The main factors behind this would be a better international economy, the lagged benefit of lower inflation and interest rates, an inventory turnaround and the impact of recently announced large investment projects"

Lee says that although, according to conventional wisdom, the gains in the fight against inflation will inevitably be reversed in the new SA, this will not necessarily be so

This view might underestimate the tenacity of Reserve Bank governor Chris Stals and the need to conform to international norms

AHI warns Keys on tax increases

BDM 2/2/93 153

AN AFRIKAANSE Handelsinstituut (AHI) delegation which met Finance Minister Derek Keys last week has warned sharp tax hikes in the coming Budget could seriously damage inflation and growth prospects for the year.

It added that tax hikes could possibly plunge the economy into its fourth year of declining GDP.

The delegation called for a freeze on government's wage and salary bill to remove the need for sharp increases in tax.

In a statement released yesterday, AHI president George Huysamer said the organisation had "urgently requested government and the civil service to reconsider the prospect of a general 5% salary increase and thus to obviate any substantial tax increases".

The country's economic and fiscal situation rendered any rise in the public sector's wage bill, and the private sector's tax bill, unaffordable.

AHI economist Nick Barnardt, who was a member of the delegation, said the fiscal crisis was threatening to destabilise the economy.

Barnardt said the delegation had recommended a medium-term deficit reduction programme to reduce it to 6% of GDP in the next year.

DUMA GQUBULE

This would require that government freeze its wage and salary bill to limit spending to below R110bn.

The fiscal crisis and the potential effect of significant tax increases were too serious for government to consider whether such a move was politically feasible, he said.

On the revenue side, the AHI reluctantly conceded that fiscal drag would have to be tolerated, raising an extra R3bn above the R80bn in tax receipts that could be expected in the absence of effective tax increases.

Another R4bn could be raised from a one percentage point increase in VAT, a small hike in the fuel levy and excise duties The measures would result in revenues of R87bn, a two percentage higher inflation rate and a deficit of about 6% of GDP, which the private sector could absorb.

Barnardt said a 5% increase in government's wage and salary bill would result in government having to raise tax revenues of R92bn, which the economy could not absorb.

Any attempts to do so would have a negative effect on the economy, resulting in GDP growth of -1% or worse for 1993 and an increase in the inflation rate of about 4,5 percentage points.

CPI's weight debate

27/2/93

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■ The weighting of income groups by Central Statistical Services to arrive at the consumer price index may favour the rich and not give a true reflection of the inflation situation

AlIDE DASNOIS
Business Staff

A RICH man's index? The much-vaunted inflation rate drop to less than 10 percent a year affects only the higher-income group — households earning R60 000 a year or more

Central Statistical Services figures show that for the second month in a row the consumer price index (all households) rose by less than 10 percent a year in January But the index for the lower and middle-income group rose 10,2 percent

This highlights one of the criticisms that can be levelled at the way the index is calculated Lower-income group households — those with an annual income of up to R15 999 a year — are given a weight of only 19,42 percent in the index, with 56 percent for the higher-income group

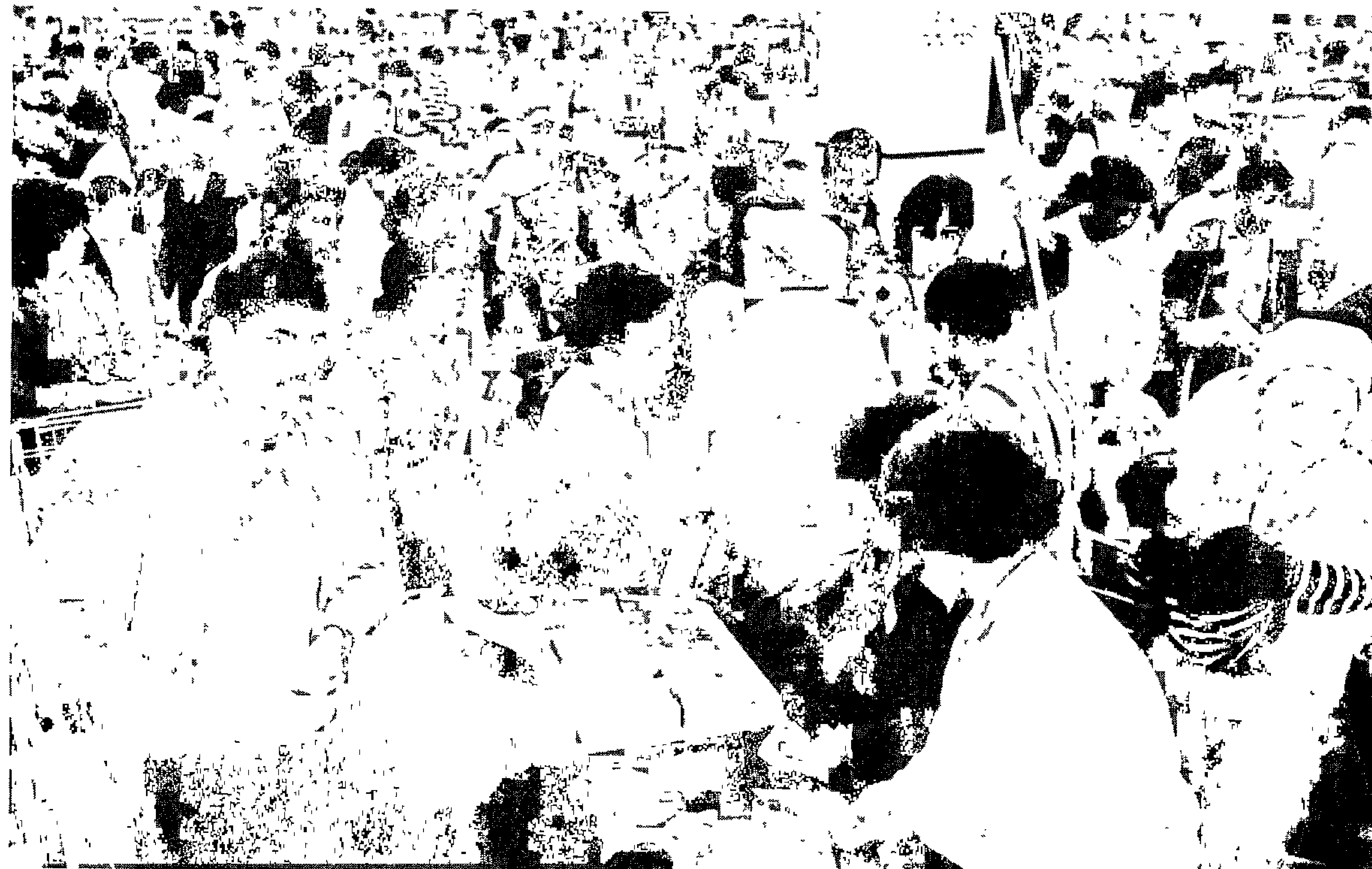
Income distribution statistics in South Africa are notoriously poor But Central Statistical Services publications show that in 1991 more than 19 million South Africans, 73 percent of the population, earned less than R3 000 a year This includes people under working age and old people

But the figures also show that only 13,6 percent of the population earned R10 000 or more

This seems to suggest that the weightings given to each income group in the CPI are unrealistic — though as CSS deputy-director, Mr David van den Heever, points out the weightings are based not only on numbers of households but also on their spending power — and poorer households obviously spent less than the rich

Fortunately the CSS also calculates an index for middle and lower-income categories, and though these may also have shortcomings, they are certainly a better indication of how price changes actually hit less rich families

The lower-income group, for instance, spends more than a quarter on food (compared to 15 percent for the higher-income group) On the other hand, the higher-income group spends 7,5 percent of income on vehicles and only 2,65 percent on public transport, compared to 1,18 percent and 4,75 percent for the lower-income group



□ **YOU MUST BE JOKING!:** Try to tell them the inflation rate is less than 10 percent. It's in the supermarket where people see prices going up almost daily, with food inflation remaining stubornly high

Higher food prices stall inflation trend

CT 24/2/93 (153)

By AUDREY D'ANGELO
Business Editor

THE downward trend of inflation was stopped in January by higher food prices and medical costs. After dropping dramatically to 9,6% year on year in December from 11% in November the consumer price index (CPI) edged up to 9,7% last month — disappointing the markets, which had expected 9%.

Figures released by the Central Statistical Services yesterday show the month on month rise was 1,1% compared with zero in December.

The steep fall in inflation from 16,2% in January last year is mainly due to lower mortgage bond costs, although food price inflation had also slowed.

But food price inflation rose again last month to 14,9% compared with 14% in December and 26,2% in January last year.

The rise in the food index between December and January was a full 1% compared with a drop of 0,1% between November and December.

The main reason for the jump in food price inflation in January was a 5,4% rise in the price of fruit and nuts and a 1,1% rise in the price of fish and other seafood.

The cost of medical care went up by 13,2% year on year The month on month rise was 7,1% as a result of higher tariffs and annual price increases

Falling bond costs benefit the higher income group more than the lower and middle income groups, who spend a larger proportion of their total budget on food

As a result, inflation for the higher income group fell to 9,3% year on year in January, although the month on month rise was 1,3%

Inflation for the lower and middle income groups was 10,2% year on year. The month on month rise was 1,1% for the middle income group and 0,7% for the lower income group

The year on year rise for pensioners, who are normally affected more by food prices and medical costs and less by bond costs, was 10,6%

Economists expect inflation to resume its downward trend in March, when the 0,75% cut in bank rate announced in January results in a further drop in bond rates

But most of them expect inflation to rise above 10% again in April, following rises in indirect taxation virtually certain to be announced in the budget on March 17.

Southern Life economist Mike Daly said he thought a further drop in the CPI next month would bring it to "the lowest level we shall get this year

"I am sure it will rise above 10% after the March budget, but perhaps not dramatically so The Producer Price Index (PPI) has been in single digits for more than a year and that bodes well for the underlying CPI "

Daly pointed out that poor consumer demand meant continued downward pressure on the CPI Wage and salary increases this year were likely to be lower

"It could be a rough year but the potential is there for the CPI to average 10% for 1993."

Sanlam economist Pieter Calitz said that if the effect of lower bond costs were stripped out of the CPI it would have risen 12,6% year on year in January

He thought VAT would probably rise by 12% in the budget, without any extension of zero-rating This, with the expected rise in the fuel levy, would push the CPI up again to 10,5%

Boland Bank economist Louis Fourie and Old Mutual economist Johan Els said they expected the underlying rate of inflation to remain below 10% for the rest of this year

Budget likely to boost inflation

BRUCE CAMERON
Business Staff

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ARG 24/2/93

HARD-PRESSED consumers can expect a few months of relief from double digit inflation but next month's government Budget could push the inflation rate upwards again.

However, Nedbank economist Edward Osborn said in an interview today that a Nedbank projection indicated the Consumer Price Index would sink back to single figures again by June.

"For the year we expect the inflation rate to stay on a plateau of between 9 percent and 11 percent at the highest."

Mr Osborn sympathises with those people who don't agree with the official inflation figures which were released by the Central Statistical Service (CSS) yesterday

After taking out the effect of the falling mortgage interest rates, Mr Osborn said, the true underlying inflation rate was at the 12,5 percent level

He felt the CPI was too heavily weighted with mortgage interest rates

The CSS says January's inflation rate, as measured by year-on-year changes in the consumer price index (CPI), increased slightly to 9,7 percent from 9,6 percent in December

December's rate was the first time since 1978 that inflation was recorded at single-digit levels

However, the latest figures indicate slight upward pressure on the inflation rate emanating from two sectors - food and medical care

Over the 12 months, food inflation rose from 14 percent in December to 14,9 percent in January

Excluding food, the inflation rate would have been 8,3 percent last month

Mr Osborn said with an increase in VAT and fuel prices expected to be announced by Finance Minister, Mr Derek Keys, on March 17 single digit inflation can "be expected to kick back to a figure of between 10 and 10,5 percent but to drop back to less than 10 percent in June"

End-of-year seasonal prices could again be expected to push the inflation upwards again to 10 1 percent in November and to 11 percent in December.

The CSS said in its statement yesterday the monthly rate of increase in food prices — between December and January — was one percent after falling by 0,1percent between November and December

Large monthly rises were recorded by fruit and nuts (5,4 percent) and seafood (1,1 percent) Vegetables were up by 0,3 percent

The monthly hike in all prices was 1,1percent, of which food accounted for 0,2 percentage points and medical and health expenses for 0,4 percent.

Between December and January, medical and health costs surged by 7,1 percent as most medical aid tariff increases came into effect in January

THE WEEK AHEAD by Simon Willson

Broad money growth set to square up to new target

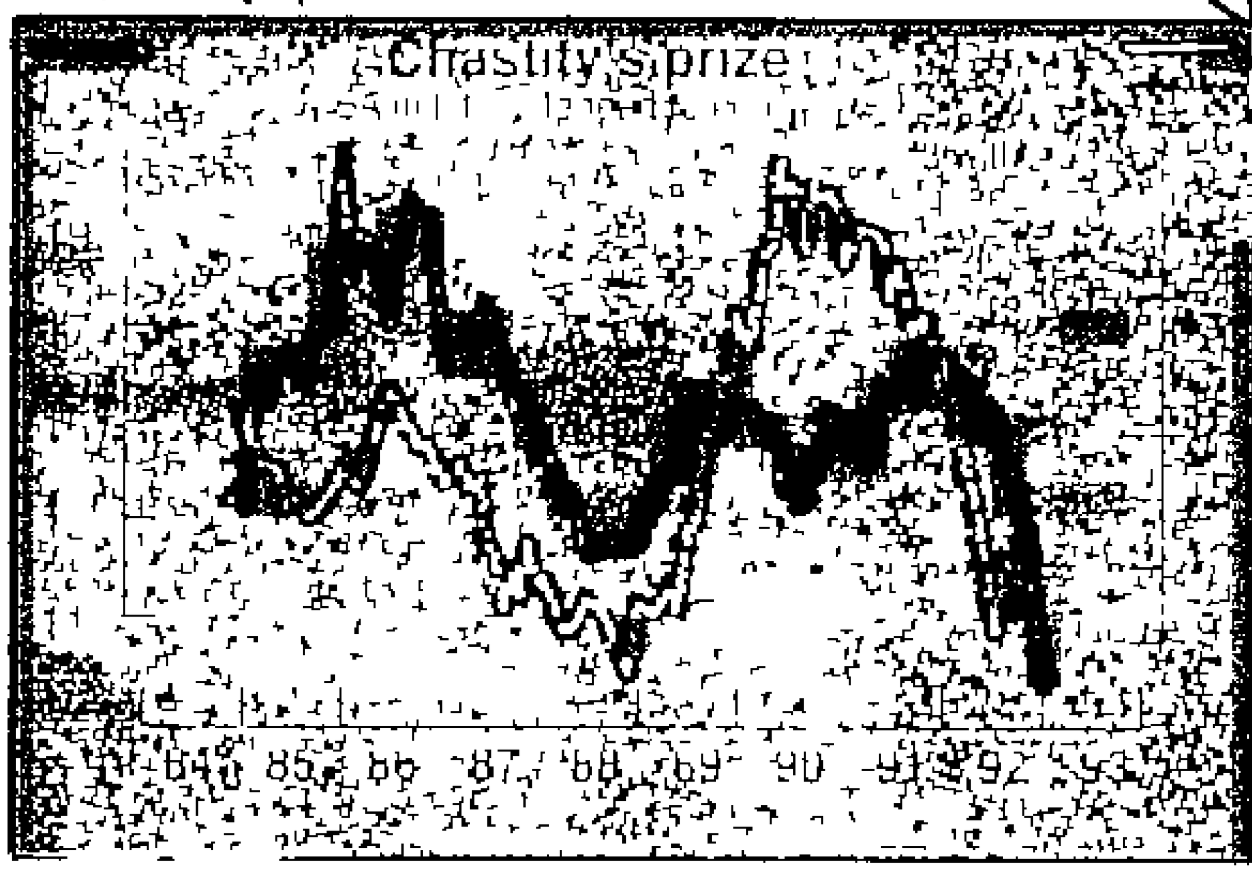
BDAY 22/2/93 (153)

PUBLICATION of the January money supply data later this week carries a special attraction, as it is the first time broad money growth will be measured against its new guideline range for 1993.

Expansion of the broad money supply could hardly have ended 1992 on a finer note M3 growth from the base of its guideline year (the fourth quarter of 1991) was 8,5% in December — straight down the middle of its 7%-10% target range

Meanwhile, the annual rate of increase in M3 steadied at levels comfortably below 10% in the second half of last year, coming in at 8,6% in the 12 months to December The on-target money supply pattern was one of the factors that prompted the one-point Bank rate cut to 13% earlier this month

This week M3 growth will be stacked up against



its new 1993 guideline range of 6%-9% The range is based on the fourth quarter of last year, and is the lowest M3 growth corridor adopted by the Reserve Bank since monetary targeting began in 1986 — when the debut range was a laughably loose and inflationary 16%-20%

Anxiety will have been felt in some quarters about how low and narrow the 1993 M3 range is There is still doubt about whether the increase in nominal GDP (national output in cash terms) will stagger into double digits this year, so a broad money growth target centred on 7,5% is, on the face of it, a tightly notched chastity belt

However, as Reserve Bank Governor Chris Stals has mentioned, the licentious and wanton M3 target ranges of the past have sharply lowered the income velocity of money circulation (nominal GDP divided by money supply) Therefore a higher level of economic activity can first be accommodated by a greater velocity of circulation

But there is another reason for accepting another year of rigorous monetary targeting the effect it is having on inflation The tumble in consumer inflation to 9,6% in December — its first single-digit outturn since mid-1978 — was a huge surprise to many analysts "A continued slowdown in inflation had been expected but not a plunge of 1,4 percentage points from November's 11%

The December drop was unforeseen because the chief statistical contribution to disinflation had already been factored into the rate when VAT dropped out of the CPI two months earlier Mortgage rates had not yet eased again, and the rise in food costs were decelerating only slowly

But aficionados of monetary targeting will have been less surprised at the December dive in inflation Among the deeply held beliefs of hardened monetarists is a conviction that the annual percentage change in the CPI lags year-on-year M3 growth by nine calendar quarters Simply put, it is a theory that inflation will follow money supply two years down the line Germany's Bundesbank is a long-standing convert to this article of monetarist doctrine

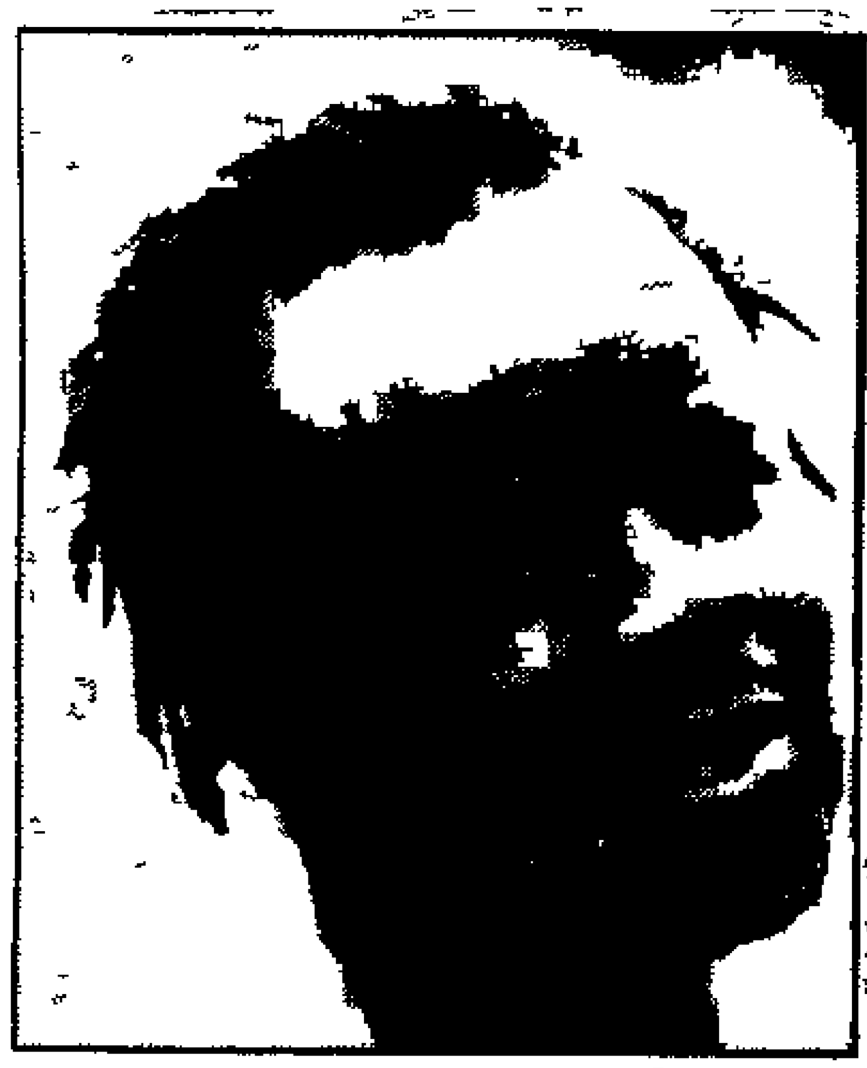
The chart plots SA inflation against annual M3 growth with a nine-quarter lag, and shows starkly why the plummeting inflation rate in December will have been a bit of a yawn to monetarism devotees It also helps to explain why a Reserve Bank committed to reducing inflation will feel it has to stick to restrictive monetary targets for the time being SA is only now reaping the benefits of severe monetary restraint at the end of 1990

SA's **January inflation** rate may also emerge by the end of the week, and will arrive in a market still getting accustomed to single-figure inflation Food accounts for a fifth of the CPI basket, so any extension to the falling food prices which helped post unchanged average prices during December should have a similar effect in the January data Only looming tax and excise increases in next month's Budget appear to be able to spoil the single-digit party

Internationally, the provisional measurement of **UK fourth-quarter GDP** is published today and is unlikely to show any evidence of recovery Third-quarter growth was revised from an initial quarter-on-quarter annualised 0% to 0,1% but, since then, demand and output have looked sickly and UK interest rates have been cut to 15-year lows to try to revive them Any signs of life are unlikely to have come in time to show up in the GDP figures for the December quarter

The advance readout of **US fourth-quarter GDP**, which showed quarter-on-quarter annualised growth of 3,8%, gets its first revision on Wednesday The final third-quarter rise of 3,4% was revised down from an initial 3,9% after inventory updates, and something similar could befall the final figure for the quarter just ended

There will not have been time for the tax increases announced last week by President Bill Clinton to affect **US February consumer confidence** when the figure is published tomorrow Although the variable has risen for three consecutive months and stood at 77,0 in January, the administration's package of tax increases could dent consumer sentiment in subsequent measurements of this figure


Lebogang Diretse

There's money in those bottles

15 3A

■ That's what Lebogang discovered after he lost his job:

Sowetan 18/2/93

THERE is a school of thought that a crisis sparks creativity and for an entrepreneur Mr Lebogang Diretse this saying is no old wives' tale

Eleven years ago when he lost his job, he thought the world had come to an end

But the entrepreneurial spirit soon took over in Diretse's soul He decided to buy a van and sell fruit and vegetables - the usual trend in the townships if a person does not venture into the retail sector either by owning a spaza shop or a cafe

One of his friends, however, advised him to explore the bottle collection business. After some thought he took up the challenge and called his enterprise Sizanani Bottle Collection

Looking back at the turbulent 10 years, Diretse has no regrets.

The way I see it work is like this children bring bottles to their schools, then I collect them from there

"Every month-end I pay the schools for all the bottles collected from them," says Diretse

"In each school there would be a contact person to oversee the bottle collection The project has the support of the Senaoane Civic Association

About 15 schools in Soweto have responded positively so far, he says

Diretse buys beer bottles from groups and individuals for 25c each and sells them to South African Breweries for 30c He also buys spirits bottles for 20c and sells them back to the likes of Gilbeys for 25c

In a single load to SAB at any given time he carries 146 cartons and there are 12 bottles in each one of them. For the spirits he loads 108 crates each containing 36 bottles

Gilbeys' national recycling manager, Mr Ian de Wet, feels that the money his company injected into Sizanani to help the enterprise to lease larger business premises has not gone down the drain

The company has paid three months' rent on Sizanani's new premises near Midway station

If Diretse is successful in involving schools in bottle collection, Sizanani's profits could shoot up to around R20 000 a month and create 15 jobs

ANC welcomes proposal for fiscal safeguards

Star 17/2/93

(153)

By Sven Lünsche

The ANC has welcomed proposals by Finance Minister Derek Keys to provide safeguards for sound fiscal principles.

Keys told an investment conference in Johannesburg yesterday that borrowings for current expenditure by regional governments should be prohibited in a future constitution.

ANC economist Tito Mboweni said this morning that Keys' ideas were "sound", as excessive current expenditures were a problem for the present government and could prove problematic for a future government.

He added, however, that the constitution should not be loaded with detailed financial proposals, but that sound financial guidelines should rather be laid down by parliament.

Such rules should include limiting the government's deficit before borrowing to three percent of gross domestic product (GDP) and only allowing additional borrowings if they were used towards financing capital spending, Mboweni said.

Addressing the annual investment conference of stockbrokers Frankel Max Pollak Vinderine, Keys outlined a long-term strategy of tackling excessive government spending.

He said that as part of this strategy and "to run a responsible country that has growth potential" some fiscal safeguards would have to be built into a new constitution.

Borrowings

One of these safeguards would limit regional governments to borrowings in order to finance capital spending.

The current negotiations allowed for a re-design of the government's fiscal set-up.

Until a new constitution had been established, however, there was little the government could do about spending trends in the TBVC and self-governing states.

Keys reaffirmed his commitment that government spending would be cut by three percent in real terms in the forthcoming Budget, although the latest drop in inflation meant that in nominal terms, spending could now rise by only about seven percent instead of nine or 10 percent.

He had the full backing of the cabinet for his fiscal stringency package, Keys said.

In his address to the conference Reserve Bank governor Dr Chris Stals said the country required a further fall in inflation from its current levels of just under 10 percent.

"The rate of inflation is still relatively high compared to the rates of inflation that now apply in the industrial countries with whom SA producers must compete," he said.

To bring inflation to its knees, however, it would be necessary for government also to make an important contribution through austerity measures in the Budget for 1993-94, for businesses to contain price increases and for labour to support average wage and salary rises with corresponding increases in productivity

'Build curbs into constitution'

Keys pushes for fiscal safeguards

B/Day 17/2/93.

GRETA STEYN

FINANCE Minister Derek Keys yesterday placed economics on the political agenda by calling on constitutional negotiators to build fiscal responsibility into a new constitution.

He told the Frankel, Pollak, Vinderine investment conference SA should include a clause in the constitution preventing the use of borrowings to finance current expenditure. There should be no borrowing for current expenditure at a regional level. "It should be written into the constitution that regions should be self-financing other than on capital expenditure."

ANC spokesman Tito Mboweni rejected the idea of building financial limits into the constitution. "We agree that there should be formal limits, but the constitution should not be used for that aim."

Keys said the whole "government machine" needed to be redesigned to free up resources "We cannot do what needs to be done simply by being frugal." A better designed structure should come about as a result of political negotiations.

Keys also said the deficit in next month's Budget would be tackled "in a responsible manner and with conviction", but not in a way that slowed down progress towards an economic environment that favoured growth and risk-taking and provided rewards for those who did

However, speaking at the same conference, Reserve Bank Governor Chris Stals called for "austerity measures" in the Budget to help "bring inflation to its knees".

He called on businesses to constrain price increases and for labour to support average wage and salary rises with corresponding increases in productivity. "All South Africans will eventually share in the benefits of such a joint and co-ordinated effort now to finally break inflation."

The fight against inflation was not to make paupers of people, but to give the millions of unemployed a chance to earn a decent living in a stable financial environment. He rejected the notion of a trade-off between inflation and economic growth.

He also rejected calls to depreciate the rand exchange rate, saying this would make it difficult to pursue existing money supply objectives and would require an upward adjustment of interest rate levels to offset the inflationary effect.

On the financial rand, he said one of the key elements in phasing out the unit would be getting rid of the foreign debt standstill.

The finrand had become increasingly volatile as it was now also a speculative currency.

● See Pages 3 and 8

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THE ECONOMY

Now's the time to reflate

(153) FM 5/2/93.

One swallow doesn't necessarily make a summer But the sharp decline in CPI for December, accompanied by lower money supply growth, has heightened expectations of a further drop in interest rates

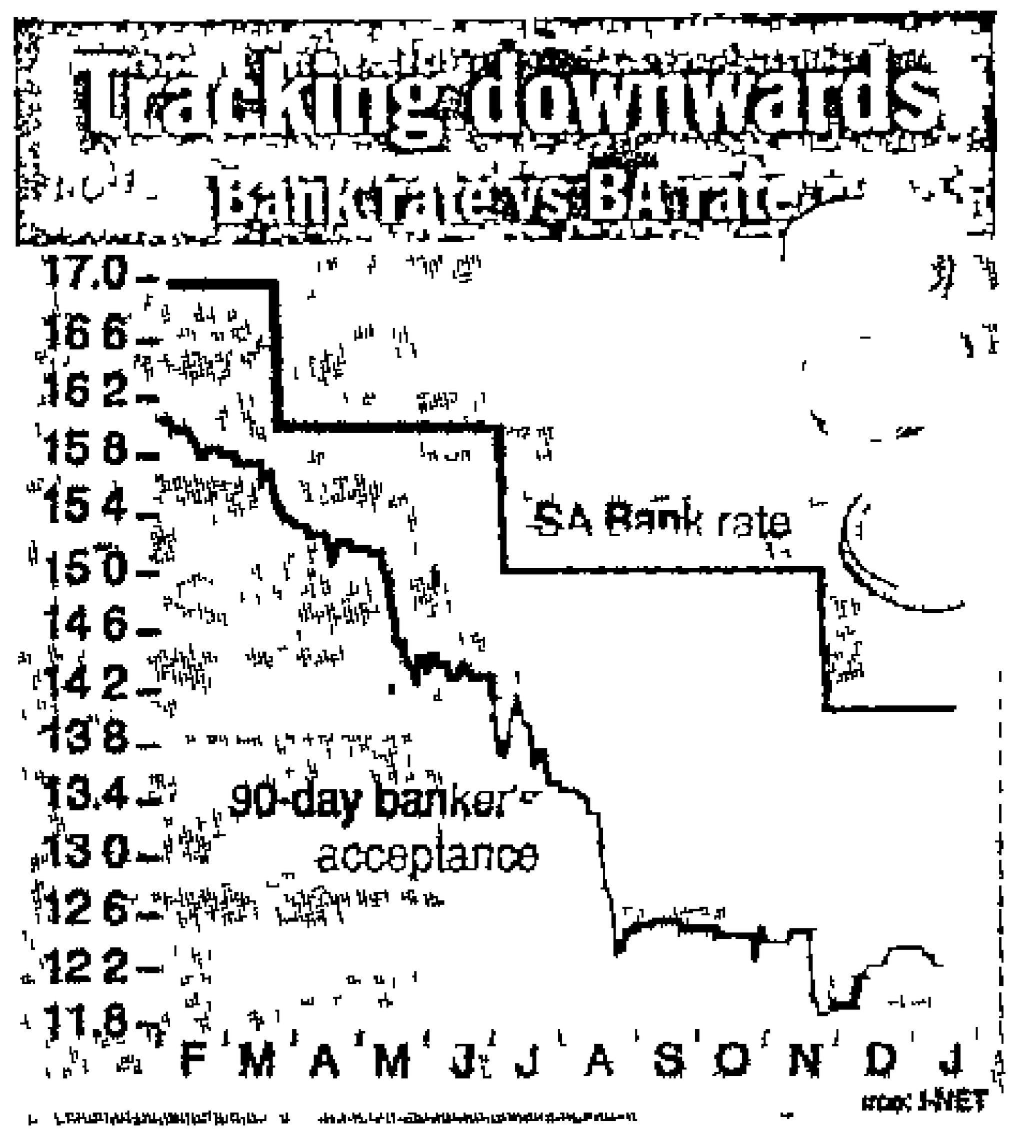
Lowering interest rates would be good for an economy that hasn't seen positive growth for about three years It would have immediate implications for easing the debt burdens of, for example, farmers, homeowners, manufacturers and importers

The prime overdraft rate has come down from a high of 20,25% in November 1991 to 17,25% With year-on-year CPI inflation at 9,6% in December — implying a real interest rate of nearly 8% — Reserve Bank Governor Chris Stals must be under enormous pressure to cut the Bank rate again

But a number of factors could limit his room to manoeuvre — chief among them pressures on the balance of payments and the likelihood of higher Vat and fuel levies as two means Finance Minister Derek Keys has of attacking the Budget deficit Both measures are likely to give renewed impetus to inflation — at least in the short term

Following the decline of year-on-year inflation to 9,6% in December and a dip in the broad money supply M3 in the same month to 8,58% from November's 8,66% (see p31), Stals indicates that a relaxation in the Bank's tight monetary policy is possible Apparently a new short-term policy announcement will be made soon He's expected to address interest rate policy, money supply, gold and foreign exchange reserves, government finances and the Budget

Standard Bank chief economist Nico Czypionka notes a drop in nominal interest rates on the back of lower inflation doesn't necessarily imply a loosening of monetary policy as real interest rates may not have fallen



Economists note SA's real interest rates are high compared with most of its main trading partners Japan's is around 3,8%, the US 3,1%, Germany's 7,2% and the UK's 3,4%

Sanlam chief economist Johan Louw believes a reduction from 14% to 13% in Bank rate is imminent, to be followed by a corresponding lowering of the prime overdraft rate from 17,25% to 16,25%

Absa chief economist Hans Falkena also expects a fall in interest rates, noting that the market has already discounted this view The three-month BA rate, at which prime corporate clients lend from commercial banks, is around 12,15%, almost 2% below Bank rate — at which commercial banks borrow from the Reserve Bank

It may be that balance of payments problems have become a more important determinant in monetary policy than reducing inflation which, till now, has been the Bank's prime focus But Czypionka believes a cut in prime of at least one percentage point is called for, regardless of BoP problems

The Bank will have to assess the outlook for the balance of payments in view of the recent fall in foreign reserves and foreign debt repayments of about R5bn (US$1,6bn) which fall due this year

Pressure on the balance of payments means SA will have to generate enough of a current account surplus to fund outflows on the capital account Nedcor Bank chief economist Edward Osborn says the Reserve Bank may be troubled by the thought that a loosening of monetary policy will boost economic activity, triggering a rise in imports and narrowing the current account surplus

This will impair SA's ability to meet foreign debt commitments

But Stals says "Disappointing reserves are largely the result of the deterioration in the current account, itself mostly due to the drought Thus the problem of lower reserves cannot be solved through monetary policy "

Rand Merchant Bank economist Rudolf Gouws expects a current account surplus of R5,4bn if 1993 is a normal agricultural year This could drop by R1bn-R1,5bn if there is another year of drought But Osborn predicts a R3bn current account surplus — significantly less than the debt commitment

There's little doubt that a jump in the Vat rate and increase in the fuel levy would have inflationary consequences Osborn calculates a three-percentage-point Vat increase will increase the inflation rate by 2,5%

Stals offers reassurance that the inflationary effects of a Vat increase will not influence monetary policy "A Vat increase should have a one-off effect on prices This should not be inflationary, as inflation is defined as continuous price increases Admittedly any Vat increase could fuel inflationary expectations through wage and price hikes, but this is unlikely in the current depressed economy "

Also inhibiting further cuts in interest rates is the need to reduce the expected Budget deficit of about R28bn Fiscal expansion through additional borrowing means the private sector has to be squeezed (through high interest rates) to ensure overall demand is controlled

Czypionka believes the authorities are finally beginning to control expenditure This is supported by recent figures Exchequer issues rose 17,2% in the first nine months of the fiscal year in spite of higher interest payments and spending on drought relief, well below economists' forecasts of 20%

It is, of course, likely that a drop in interest and mortgage rates will further ease inflationary pressures and partially offset the inflationary consequences of any increase in Vat or the fuel levy

Single-digit inflation is a triumph for Stals's relentless anti-inflationary policy It seems he can now allow himself the indulgence of a further decline in Bank rate without too many negative side-effects ■

THIRD PARTY FM 5/2/93

Lawyers in the dock

The Office for Serious Economic Offences (Oseo) has instituted five criminal prosecutions against attorneys for allegedly defrauding the Multilateral Motor Vehicles Accident Fund More cases are pending and the "third party" fund has reserved the right to take civil action to recover losses The insolvent MMF's deficit exceeds R3bn

Oseo has not yet been able to bring a case against any insurer which acted as agent for

* continued

THE ECONOMY

Only two cheers

(153) FM 5/2/93

With inflation at a 15-year low and money supply growing even more slowly than inflation — meaning it's declining, in real terms — most countries would be rejoicing. There'd be dancing in the streets, and the proclamation of special public holidays. Here, all we get is gloomy economists predicting that it won't last (see *Economy).*

Is this just a reflection of innate Calvinist masochism? Certainly, it's hard to get euphoric about the economy on a day in which minibus drivers — once regarded as the great success story of black business — have turned much of the Johannesburg CBD — notably the streets around the JSE and 11 Diagonal Street — into an urban guerrilla war zone

What hope can there be for renewed economic growth when the financial centre can so easily be paralysed? It may make little difference whether any individual stockbroker can get in and out of his office The point is how can we expect foreign investors to commit themselves to a society in which violence is so near the surface and can bubble up so suddenly, with no warning?

More to the point, there's an underlying fear that — without detracting from the discipline Reserve Bank Governor Chris Stals has imposed on us — our apparent economic gains have been brought about by weakness rather than strength

Inflation has come down partly because of anomalies over the base and partly because of a slackening in a previously intolerable rate of food price increases; low growth in money supply reflects crumbling demand for credit, because of recession; and a surprisingly solid trade surplus, despite a slack world economy, hides the fact that a poor export performance has been outweighed by a cap on imports imposed by even poorer domestic demand — again reflecting local economic woes

That is why these achievements, though necessary, are not adequate conditions for renewed growth, and our real interest rates will stay high, by world standards (see *Economy)*

Moreover, hovering in the background is the March Budget, for which we are now being softened up to expect increases in Vat and fuel taxes, with the ancillary message that we should be happy if direct taxes are not raised too

Could anything be more absurd, on general principles, than to slap higher taxes on an economy just struggling to come out of the longest recession in 60 years? Sadly, that's the pass to which 45 years of Nat misrule, corruption and overborrowing have brought us But for Finance Minister Derek Keys' new broom, it could have been even worse

It has, of course, long been accepted that no amount of financial discipline will bring economic revival without a political settlement and a recovery in world prices of the commodities that — despite success in broadening the range into manufactures — still make up the bulk of our exports

What this week's anarchy in Johannesburg may have shown is that, even if a political settlement can be negotiated, it won't help if relatively small groups of dissidents set their mind on disrupting the flow of society And if this is what a couple of hundred taxi drivers can do to Johannesburg, imagine what havoc the AWB, MK or Apla could create throughout SA ■

MONEY SUPPLY FM 5/2/93 (153)

Hobson's choice?

Depending on which measure of money supply one chooses to follow, the latest Reserve Bank statistics give either reassuring or alarming news If one looks to the broad measure M3 as a pointer to inflationary pressures, there's cause for celebration Since April, when M3 last touched 10%, the trend has been downwards Annualised M3 from November 1991), seasonally adjusted, grew 8,47% in December, from 9,86% in November

Viewed with the consumer price index (CPI) figures for December — which for the first time in 15 years moved back into single digits — the medium-term outlook for inflation is encouraging

Since April M3 has stayed well within the Bank's guideline 1992 money supply growth of 7%-10% Actual growth in the 12 months to December was 8,58% to a provisional R198,3bn, from a revised 8,66% (R199bn) in November

Less encouraging is that the narrow aggregate M0, defined as notes and coins in circulation and deposits by deposit-taking institutions with the Bank, has grown considerably Many economists regard M0, known as the monetary base, as a more valid pointer to future inflation than the broader aggregates This grew by 23,8% in the 12 months to November (the latest figure available), against 19,2% in October

Unfortunately, M0 figures are notoriously volatile In October-November it grew 8,3%, against 0,5% and 3% in the previous two months December's M0 may turn out to be low, since November's uptick was reflected in an upturn in M3 of 2,5% M3 slid 0,3% between November-December

Figures for year-on-year growth in the monetary base are also fraught with technicalities In February 1991, the amount in deposits required to be lodged with the Bank was dropped from 5% to 4% of short-term liabilities, phased in over four months. The result was a fall in the aggregate, with year-on-year declines between October 1991 and March 1992 So the figure against which the most recent M0 is measured is low

Credit aggregates for November seem to support M3 growth figures Total domestic credit extension over the 12 months to November grew 8,65% to R213,2bn Growth in the month was 2,1% Most of the impetus came from net claims on the government sector, which rose to R7,2bn from R3,8bn the month before Private-sector credit growth was sluggish, rising 6,98% year-on-year to R206bn, or 0,5% in the month. ■

Stals wants lid on pay to help beat inflation

BDay 5/2/93

(153)

DIRK HARTFORD

INFLATION could be tackled decisively only by a permanent depression of wages and salaries, Reserve Bank Governor Chris Stals said yesterday

He told delegates at the national economic forum that this would lead to greater productivity and higher earnings.

Cosatu delegate Jayendra Naidoo challenged Stals's argument, saying wage increases were only one of the factors affecting inflation — with which Stals agreed.

The governor then agreed to take up the debate at Cosatu's "campaigns conference" in March, where he will address the subject of the Bank's monetary policy.

Stals said the Bank would be announcing a package deal on monetary policy in the next couple of days. This would include money supply targets for the year as well as a possible cut in Bank rate.

TIM MARSLAND reports that banking spokesmen said yesterday major banks could cut home loan interest rates today, but would probably wait for the Reserve Bank to make the first move

First National Bank senior GM Viv Bartlett said the market would probably wait for Stals to take action. The banking community would prefer to see a cut in Bank rate first as previous anticipatory cuts had not always correctly read the timing of the official move. Current money market liquidity did not encourage a repeat of this, he said.

A Standard Bank spokesman said banks were unlikely to cut home loan rates before the end of February, unless the Bank moved first. Previously when banks had cut their rates before the Bank rate cut, the cost of money had declined. This time, banks would be reluctant to take the step as their margins would be affected

An Absa spokesman said Absa was monitoring the situation, while Nedbank divisional director Mike Leeming said his bank would take its lead from the Reserve Bank.

Low inflation gives scope to cut interest rates, says Keys

ARG 5/2/93

(153)

Political Staff

SINGLE digit inflation is here to stay, Finance Minister Mr Derek Keys has forecast in a highly upbeat assessment of economic prospects for 1993.

And single digit inflation should lead to single digit interest rates, he said.

There was "plenty of room" for interest rates to come down now, he said.

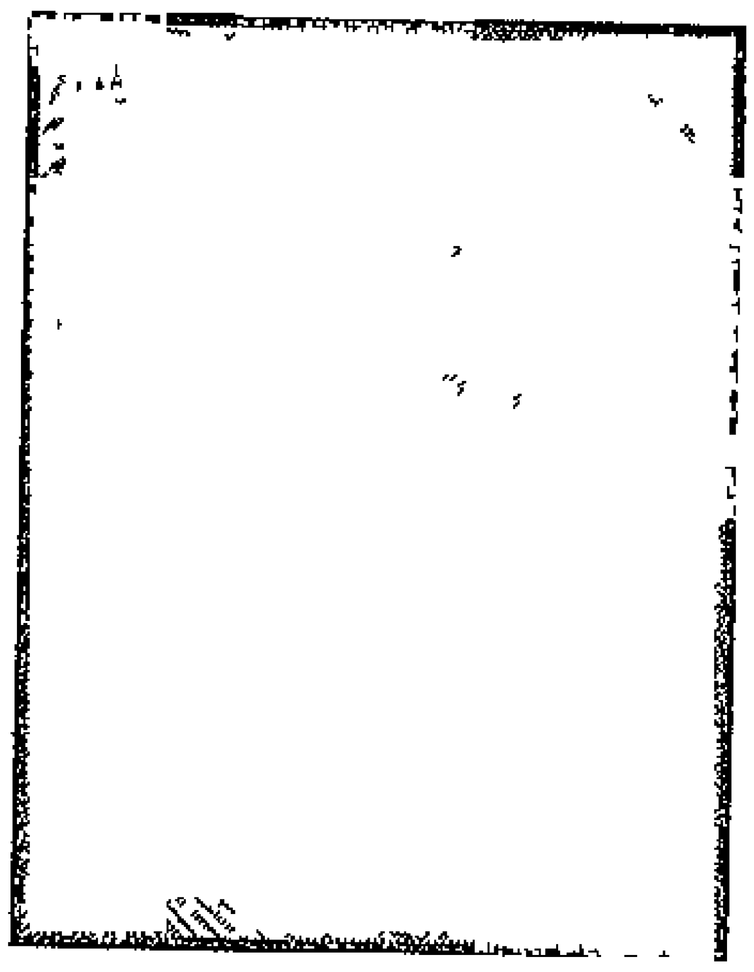
These two factors were the most crucial for stimulating investment and would have a decisive effect on it

Mr Keys was speaking at a briefing for journalists and in an address to parliament during the debate on the State President's opening speech.

He said commentators had not yet begun to appreciate the significance of the steep drop in inflation over the last months of 1992, in which the rate had come down to 9,6 percent.

Annualised and seasonally adjusted, these monthly figures since August 1992 meant that inflation during those months had never been higher than 6 percent and had averaged less than 5 percent.

He spelt out the tremendous



Mr Derek Keys

implications this had for pensioners and others on fixed incomes.

At these rates the price levels in five years would be less than 60 percent of what they would have been at the old inflation rates before 1992

In 10 years prices would have dropped to a third of the levels they would have been at pre-1992 inflation levels

Single-digit inflation would also have a large impact on pension funds, on the international competitiveness of South African exports, on the foreign exchange value of the rand and on labour peace

He said the greatest problem he faced was to increase investment and decrease government spending

In 1983 fixed domestic investment was 26 percent of gross dmoestic product (GDP) and government expenditure 15 percent of GDP

By 1992 investment had dropped to 16 percent of GDP and government consumption expenditure had climbed to 21 percent

Since 15 percent investment was needed just to replace worn equipment, this meant only one percent was available for growth

One way of solving this problem was to cut government expenditure, which the government had begun to do

He was confident that this would succeed as constitutional negotiations had brought a high degree of consensus among all negotiation partners.

If government spending continued to drop, interest rates would also come down The low inflation rate would also help

Meagre relief in inflation's dive

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S Times (Buss) 31/1/93

By CIARAN RYAN

DESPITE welcome news that inflation has fallen to single digits for the first time in 14 years, interest rates are unlikely to fall more than one percentage point this year

SA's foreign debt obligations are pushing the country towards an overall balance of payments crunch, says Nedcor Bank chief economist Edward Osborn.

This, coupled with serious budgetary pressures on government, limits the scope for interest-rate cuts "to one percentage point at most for this year", says Mr Osborn He says the Reserve Bank may not drop rates at all.

The balance of payments position is likely to become a key determinant in Reserve Bank monetary policy which, until now, has been guided by progress in reducing inflation.

Weak international demand and soft prices for commodities — which account for 80% of SA's exports — coupled with continued imports of maize and wheat will reduce the surplus on the balance of payments to around R3-billion ($1-billion) this year, says Mr Osborn.

SA is facing foreign debt repayments of $1,6-billion in 1993, some of which may be rolled over. Of this, $440-million falls within the debt standstill arrangements — the so-called affected debt — and must be repaid in three tranches

Another factor holding back further cuts in interest rates is the need to reduce a government deficit of about R28-billion this year. VAT is likely to be increased to 13%

However, Reserve Bank governor Chris Stals told delegates at a central bankers' conference in London this week that the inflationary effects of a VAT increase would not influence monetary policy

Squeeze

Attention is increasingly shifting to the looming balance of payments squeeze The country's debt obligations could force authorities to draw down on gold and foreign exchange reserves, currently R9,1-billion This is equal to 17,5% of the country's annual import bill

"The minimum we will have to repay is $840-million, but a figure above $1-billion is probably closer to the truth," says Mr Osborn "This leaves the Reserve Bank with very little room for manoeuvre"

Parastatal debt due for repayment this year is $700-million, most of it owing by Eskom which announced that it will not roll over its foreign loans this year because this is too costly

The forecast $1-billion surplus on the current account of the balance of payments — reflecting all money flows in and out of the country except purchases and sales of assets which are recorded on the capital account — is probably overstated because of the errors and omissions factor, says Mr Osborn.

SA's problems are exacerbated by past conversions of affected debt to medium-term debt Of this medium-term debt a total of $400-million is due for redemption this year, rising to $770-million in 1994 and $950-million in 1995

This maintains the pressure on the balance of payments until 1998.

Deputy Reserve Bank governor Pierre Groenewald says some of the debt which is due for repayment will be rolled over and some of it will be reinvested in SA.

Econometrix' chief economist Azar Jammine says rains this week will have a critical impact on the agricultural sector, and therefore the balance of payments.

Breaking the double-digit barrier

Drop in inflation rate heralds turnaround (153)

STAR 30/11/93.

THE latest figures mark a turning point in our financial affairs and victory for Reserve Bank Governor Chris Stals. They should be good news for everyone, helping to create jobs, writes DEREK TOMMEY.

SOUTH Africans should start preparing themselves for considerable changes in their lifestyles and attitudes to money.

The news this week that the year-on-year inflation rate has fallen to less than 10 percent for the first time in at least 15 years marks a major turning point in South Africa's economic life and financial affairs

All the signs point to inflation continuing to fall, which means that South Africans are likely to have to start adapting to greatly changed conditions

For example, paying over the odds for a house in the expectation that inflation will double its value in three or four years will no longer be on Expecting unit trusts and other share market investments to regularly produce returns of 20 percent or more a year is also out

Welcomed

But it also means that savings will again have some value Instead of buying a car now in the belief that inflation will minimise the real effects of the repayments, it will now pay to save up the money and pay cash

Lower inflation is not to be feared it should be welcomed, for it promises to greatly improve everyone's living standards

By how much was indicated by a South African in a top job in the United States, where inflation is low On a recent visit to South Africa he said the big difference beween the two countries was that a pay rise there meant something It showed that your worth was recognised, it wasn't just a cost-of-living increase

More importantly, the benefits of the pay rise were not quickly wiped out by inflation or increased taxation

South Africa's lower inflation rate will bring great benefits for this economy It should provide thousands more jobs — probably the country's biggest requirement at the moment

Low inflation will increase employment in a number of ways

For example, it will stimulate new investment. Until now, any firm planning a project which would take, say, three years to complete had to base its costs on what they would be in three years' time

With inflation running at 15 percent a year, this meant that those costs would probably be 50 percent higher than at the time of planning — making the project unprofitable

Now, with costs not likely to rise so strongly, many of these projects will be worthwhile. The lower rate of increase in future costs will also help firms to plan expansions.

A major effect of lower inflation is that it will make exports easier for South African firms

When inflation was 15 percent, exporters constantly had to battle to remain price-competitive abroad Now this crippling handicap has been greatly reduced

Foreigners will be keener to invest in South Africa and create jobs

An inflation rate of 15 percent meant the rand was falling by this amount against other currencies, so foreign investors would lose at least 15 percent of capital in their first year of operation here This kept them away

Another benefit of the lower inflation rate will be that taxes should start to ease

A 15 percent inflation rate meant that the Government did not have to increase taxes to generate additional revenue. All it needed to do was to sit back and let inflation boost GST and, later, VAT receipts and also boost income tax payments as fiscal drag came into play.

Tight policy

The result was that tax revenues swelled sharply every year without the Government incurring the odium for increasing tax rates The people became poorer, the Government richer, leading to much wasteful spending and further inflation

However, Reserve Bank Governor Dr Chris Stals has pulled the rug out from under the Government's feet with his tight money policy. It will have to be far more careful in future as to how it spends its money

Low inflation should be good news for savers. The purchasing power of their savings should not fall as quickly as in the past.

While low inflation can lead to lower interest rates, it should also lead to lower taxes and stable prices, making the saver better off overall.

Pensioners should also start cheering, as their pensions should retain their value much better than in the past.

Plunging inflation fuels rate cut hopes

(153)

BDAY 29/1/93

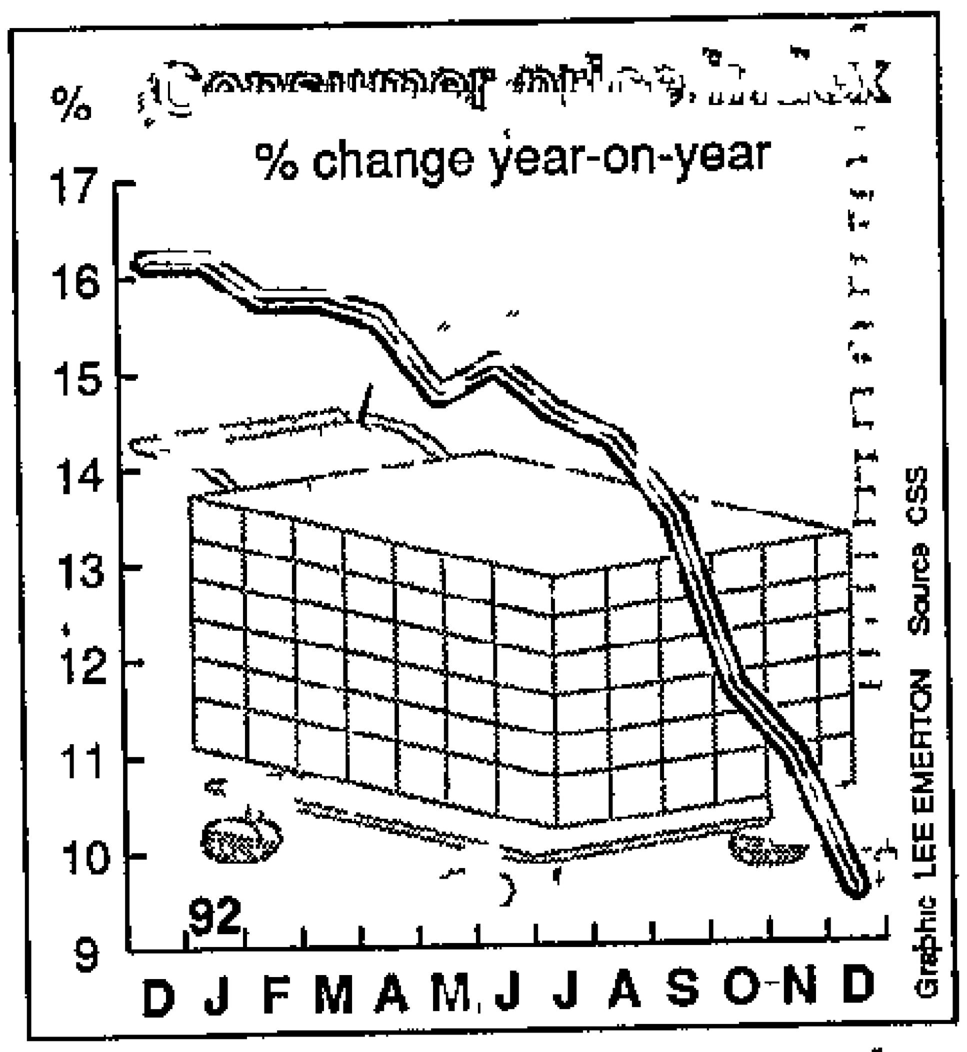
GRETA STEYN

HOPES of an early interest rate cut were fuelled yesterday by the surprise plunge in inflation from 11% in November to 9,6% in December — its lowest level since June 1978.

The recession, the easing of the drought, cuts in mortgage rates and stable import prices combined to hammer inflation, with the rate tumbling in six months from 15,1% in June to single digits. Economists were particularly surprised that the overall price level, as measured by the consumer price index (CPI), showed no increase between November and December. December's zero increase is a far cry from the average monthly increase in prices of 0,76% in 1992.

The rapid pace at which inflation was declining could not be sustained, economists said. But they predicted further falls in the next two months before an increase in VAT, the fuel levy and customs and excise duties interrupted the decline.

Sapa reported Reserve Bank Governor Chris Stals as saying the latest drop in inflation would help the Bank to consider a further relaxation of monetary policy. He would be looking at monetary policy in the light of government's budgetary requirements, the balance of payments position, interest rate levels and the latest money



□ To Page 2

Inflation

BDAY 29/1/93 (153)

□ From Page 1

supply figures. The money supply figures are due for release today.

A major turnaround in food prices was one of the main factors behind inflation's recent rapid descent. Central Statistical Service (CSS) figures show food prices fell slightly between November and December for the second consecutive month, mostly reflecting a fall in vegetable prices.

Standard Bank economist Nico Czypionka said the drought had caused substantial distortions in food prices, which were now unwinding. The underlying trend in inflation was downward, and this would be sustained even after tax increases in the Budget. He saw inflation at about 11% as a result of measures in the Budget. The inflation trend augured well for three cuts in interest rates this year, instead of two as generally expected, but other factors such as the BoP might militate against significant policy relaxation.

The other main feature of recent inflation trends was the fall in housing costs. The housing index fell by 1,1% between November and December and was also down on a year-on-year basis. Old Mutual economist David Mohr said this trend was only partially explained by the decline in mortgage rates. Other housing costs were also falling — a trend he found unusual.

Mohr said the prolonged recession was mirrored in a falling inflation rate. Interest rates were very high in real terms — between 7,5% and 10% — for an economy that had not had growth in four years.

● Comment: Page 6

Decline in inflation widens policy options

STAR 29/1/93

By Sven Lünsche (153)

Reserve Bank Governor Dr Chris Stals must be elated that his two-and-a-half years of monetary discipline have finally yielded impressive results

While commentators said yesterday the fall in the December inflation rate to 9,6 percent — the lowest since 1978 — did not allow for complacency, it had broadened policy options to boost the economy.

Stals told the SABC yesterday it would enable the Bank to consider a further relaxation of monetary policy

A cut in the key Bank rate from 14 to 13 percent, however, is not expected this week, but could be part of a thorough reconsideration of monetary policy when the Bank sets its money supply targets for 1993

According to the Bank's deputy Governor, Dr Jaap Meier, such a meeting is scheduled to take place much earlier than usual and well before this year's Budget in March

Meier says the targets — which provide a guideline for the desired increases in the broad money supply measure M3 — are likely to be below the 1992 range of seven to 10 percent

It is thus obvious that the Reserve Bank will continue its policy of keeping interest rates at real levels of three to six percent until it is convinced that

Dr Chris Stals . further relaxation of monetary policy

underlying inflationary tendencies have been reduced to a minimum

Stals has gone a long way to achieving just that

Economists said yesterday that one of the main benefits of the drop in inflation below 10 percent was that it had seriously dented inflationary expectations

"South Africans have been so used to double-digit inflation that they have almost come to accept it as inevitable and structured their wage and price increases accordingly

"The December inflation figure has hopefully started eroding this process," one economist said

Meier believes that purely technical factors could keep the inflation rate at single-digit levels in January and February, but that possible tax increases in the Budget in response to the high deficit before borrowing could once again accelerate price increases.

Certainly, tax hikes, particularly an increase in VAT and the fuel levy, have emerged as the major threat to a lower inflation rate

The underlying trends in the December consumer price index (CPI) figures point to a mid-year inflation rate of 5,1 percent, provided VAT and the petrol price are not raised

Econometrix estimates that a rise in VAT from 10 to 13 percent and a 15 percent increase in the fuel levy will almost immediately add two percentage points to the annual inflation rate, apart from seriously hampering a consumer spending-led upturn

Southern Life economist Mike Daly calls on the authorities to exploit the fall in inflation by lowering interest rates as soon as possible

Lower interest rates would speed up the recovery, boost revenue collection and weaken the need for large tax increases

The scenario of higher taxes is, however, not the only factor in limiting the scope for substantial rate cuts

Before such a move is considered, says Meier, the Reserve Bank will have to assess the outlook for the balance of payments in view of the latest fall in the foreign exchange reserves and foreign debt repayments of about $1,6 billion due this year

The current optimism could also be shattered if the drought were to ravage agricultural production, as it did last year

The return of more normal weather patterns in November and December certainly played its part in bringing down inflation

Food price increases, a major component of the CPI, and long the nemesis of inflation-fighters, actually reversed into a 0,1 percent fall between November and December to produce a year-on-year measure last month of 14 percent As recently as September, food inflation was munching away at 27 percent

Owing to its large weighting in the CPI, the drop in housing costs as a result of lower bond rates was also a factor in the lower inflation picture

Combined with the impact of poor consumer demand, these factors resulted in a relatively steep decline in the overall inflation rate from over 15 percent in June to 11,7 percent in October and 9,6 percent last month.

Despite the sharp fall in price rises towards the end of the year, the average inflation rate for 1992 at 13,9 percent remained relatively high

In 1991, inflation averaged 15,3 percent and in 1990 14,4 percent

Average food prices last year rose by 25,3 percent, well up on 1991's 19,6 percent

Recovery this year 'won't boost inflation'

CT 28/1/93

(153)

By AUDREY D'ANGELO
Business Editor

SOME manufacturers are selling at last year's prices and inflation will continue to fall even when the recovery takes hold — which will probably happen in the second half of this year — Southern Life chief economist Mike Daly forecasts in his quarterly Economic Comment.

Further cuts in interest rates are on the way. But these will probably be limited to two this year if indirect taxes are raised in the March Budget.

And, in view of the government's huge deficit before borrowing, Daly thinks it a foregone conclusion that "no relief against fiscal drag will be given to individual taxpayers" even though this will mean further downward pressure on consumer spending.

He points out that failure to give such relief will be of substantial benefit to the exchequer "with its biggest revenue source (some 45% of the total) increasing purely due to inflation by some 20%

"Together with an increase in the VAT rate to 12% (with more zero ratings of basic foods) and increases in excise duties and the fuel levy, it will be possible to get a revenue increase of at least 15% in the new fiscal year after a projected increase of some 5% in the current year"

An increase in Government spending of 8% in nominal terms "could then imply a deficit before borrowing of less than 6% of projected GDP which would be a small improvement on the current year.

"A second year of a large deficit will be risky and unsettling for the capital market

"But, provided a coherent plan is put forward for government finances in 1993/94 with the backing of the major political groups, the risks may be acceptable

"The key to this strategy would be a negotiated, de-ideologised privatisation programme to be put in place as soon as possible, the revenue from which would finance government fixed investment expenditure"

Explaining why he expects inflation to continue to fall as the upturn develops, Daly says this will be the result of increased efficiency forced on manufacturers by the downturn

"Higher output growth in a situation where labour complements have been cut to the minimum and cost control has become the key to survival will result in lower costs per unit of output until the economic upswing has been established for some time"

Reserve Bank may cut interest rates

Inflation dips below 10%

By Sven Lünsche

153

The yearly inflation rate in December dropped to 9,6 percent, the first time it has fallen below the 10 percent mark since 1978. STAR 28/1/93

Announcing the good news today, Central Statistical Services (CSS) said the sharp drop was led by a 9 percent decline in vegetable prices in December.

The decline in the inflation rate, which is a measure of increases in consumer prices over 12 months, has fuelled speculation that a further drop in interest and bond rates is imminent.

The senior deputy governor of the Reserve Bank, Dr Jaap Meier, said he was pleasantly surprised at the drop in inflation below 10 percent, which he had only expected in February/March this year.

"We will examine the impact of the latest inflation figure on the bank's monetary policy at our weekly money market meeting this afternoon," Meier said.

Prospects

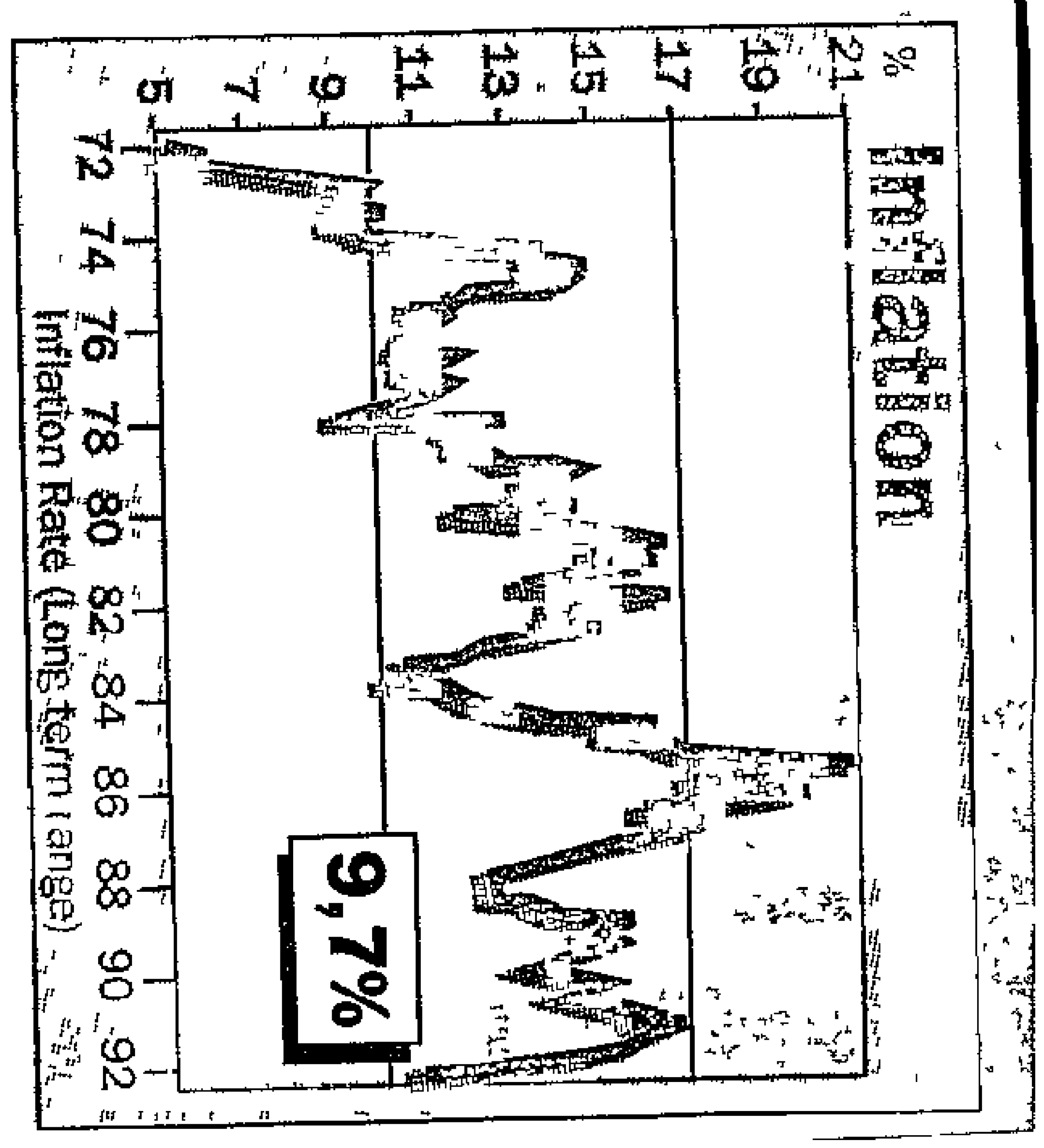
He said, however, that other aspects of the economy would have to be taken into account before a decision on interest rates was taken

These included the balance of payments and, more crucially, the prospects of a higher VAT rate and fuel levies to counter the shortfall in tax revenues. Higher taxes would immediately lead to a technical rise in the inflation figures.

Economists have previously stated that a 13 percent VAT rate and a 15 percent increase in the fuel levy could add up to two percentage points to the annual inflation rate

The fall in inflation to below 10 percent is seen as a remarkable victory for Reserve Bank Governor Dr Chris Stals who has persisted with a tight monetary policy despite calls to ease interest rates to boost a depressed economy.

As recently as June inflation was running at more than 15 percent



In November it still measured a relatively high 11 percent

On a monthly basis — between November and December last year — average consumer prices were unchanged while food prices actually declined by 0,1 percent STAR 28/1/93.

This was in large measure due to an 8,7 percent fall in the price of vegetables as better rains boosted agricultural production. Compared with December 1991, however, vegetable prices were still 30 percent higher

Other food products showed slight monthly increases in December, although well below the levels recorded in previous months.

The average inflation rate for 1992 was 13,9 percent compared with 15,3 percent for 1991 and 14,4 percent for 1990.

Average food prices last year rose by 25,3 percent, well up on 1991's 19,6 percent, the CSS said

Stals takes positive view on inflation

STM 27/1/93 (153)

By Neil Behrmann

LONDON — Reserve Bank Governor Dr Chris Stals has allayed fears that anticipated tax increases could halt the recent drop in the inflation rate

At a World Gold Council conference here on central bank asset managment Stals said SA's underlying inflation rate had fallen to seven percent over the past four months.

"Most people compare inflation with twelve months previously, but latest indicators show that it is falling faster than was previously expected," he commented

Stals said that any VAT increases in the coming budget, would not have an adverse impact on inflationary expectations.

Critics fear that VAT increases will raise inflationary expectations.

Stals contends that in the present recession, VAT increases will be a temporary blip in a downward inflationary trend. Since business conditions are poor, businesses would be mostly unable to maintain higher prices

Inflationary spectre of 1978 beckons

BDay 25/1/93

153

EERIE memories of the inflation rate's last brief sortie below 10% could be evoked when the December consumer price index CPI) is released later this week

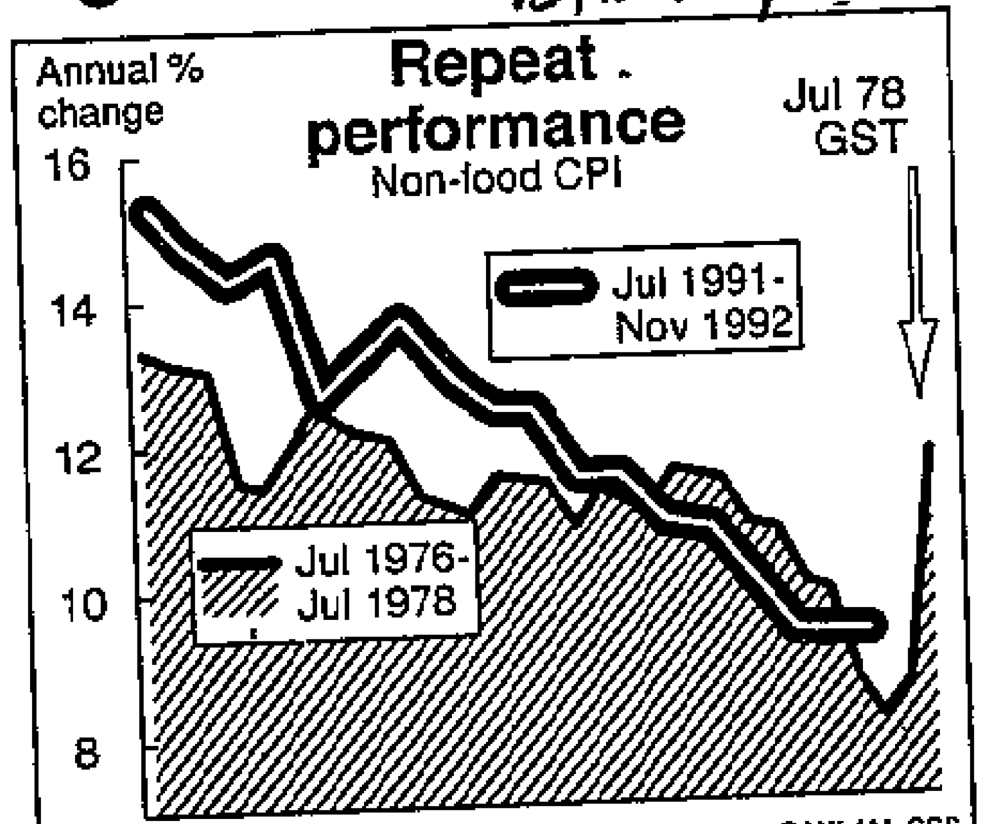
While another slowing in the headline inflation rate from November's 11% would take the rate of consumer price increases to a new eight-year low, figures buried in the CPI breakdown are at even more historic levels.

Non-food inflation, at 9,3% in the year to November, is running at its lowest rate in more than 14 years. This is an encouraging sign of fresh abatement in underlying inflation, but is also a portent of lower inflation's high susceptibility to a rebound

Monthly inflation's last brief sortie into single digits, in early 1978, was abruptly truncated by just such a rebound The relevance of 1978's inflation experience to the situation today arises from the similarities between the slowdown in inflation 14 years ago and the current decline in the annual rate of increase in the CPI

The authorities will be hoping that inflation in 1993 does not parallel the resurgence performed in 1978 But the indications are worrying

The chart traces non-food inflation through two influential periods between July 1976 and July 1978, and between July 1991 and November 1992 The chart's background shows the steady decline in non-food inflation from a high of 13,3% in July 1976 to 8,6% in June 1978 By mid-1978 the inflation outlook was promising the fixed rand bought $1,15 and the Budget envisaged a fall in real government expenditure based on cuts in defence spending



Graphic LEE EMERTON Source SANLAM CSS

But, as the chart indicates, the decline in inflation that took the headline change in the CPI to a low of 8,2% in June 1978 (lower than prevailing inflation in the UK, France, Italy and Canada) was interrupted the following month. The introduction of general sales tax (GST) at 4% in July 1978 wrecked SA's last attempt at sustained single-digit inflation The tax added an immediate 2,8 percentage points to headline inflation, and three points to non-food inflation

It was the effect of higher indirect taxation that scuppered SA's last bid at significantly lower inflation and, as non-food inflation in 1992-93 returns to its 1978 lows, indirect taxation is again the main threat to a lower inflation rate The devastation wrought to disinflation by cavalier taxation 14 years ago is only too apparent in the chart, and the announcement of another fall in inflation this week will raise the spectre of a repeat performance

Raising the VAT rate to 13% in the March Budget will, it is calculated, immediately put an extra two percentage points on inflation with higher fuel levies and excise duties capable of adding the best part of another point The adverse impact such a rise could have on painstakingly lowered inflationary expectations and pay settlements can only be guessed at, but will be entirely disenchanting to markets positioned for lower inflation

The **December money supply** data also due this week from the Reserve Bank could be followed by a 1993 guideline range for the M3 aggregate The final M3 outturn for 1992 is likely to be similar to the 8,8% growth posted for the year to November and M3 growth from the base of the guideline year, 9,8% in November, should be on or about the 7%-10% range for 1992

December's delayed **trade figures** are due today, and the limelight will be stolen by the extent of the revision to the startlingly low R113m November surplus. Expectations are that the final surplus will be about R700m, easing alarm about pressure on the reserves from a deteriorating balance of payments.

Internationally, the first measurement of **US fourth-quarter GDP** is scehduled for release on Thursday. Growth is unlikely to match the third quarter's 3,4% but analysts have been upwardly revising their estimates over recent weeks as evidence of strength in corporate spending and personal consumption has become available

The January readout of **US consumer confidence** is slated for release tomorrow. It has risen in each of the two measurements taken since the US presidential election, and stood at 78,3 in December. The election of Bill Clinton as president evidently has such a positive effect on consumer sentiment that the prospect of his inauguration and of his administration taking power could easily have galvanised the US consumer sector in the same way as the Desert Storm victory did in March 1991

US durable goods orders for December are due out on on Friday, but have been too volatile recently to be of much influence. The 1,9% fall in orders in November was mostly defence-related and, while the defence contribution could reverse out at any time, a December slowdown in industrial production growth will probably be reflected in slack durables orders

The **UK trade and current account** balances for December are also published on Thursday and are likely to cause anxiety in London The trade and current account deficits both widened in November, to £1,4bn and £1,2bn respectively, as the UK's external account gaps traversed the classic J-curve that follows a sharp fall in the exchange rate

The J-curve describes the effect on the current account of an immediately higher import bill in advance of any gains in export competitiveness with a cheaper currency December looks like another adverse J-curve month for the UK before lower export prices are reflected in higher export volumes

French December unemployment is published on Friday, and a big rise from November's 10,5% jobless rate could lead to calls for lower interest rates and bring pressure on the franc.

multinational clients such as Ford and Chrysler.

sentations.

On issues of productivity,

work ethic SA cannot hope to draw investment."

Drop in inflation signals recovery

By CIARAN RYAN

INFLATION increased by 6% during the past three months, says Finance Minister Derek Keys. This is down from a monthly increase of 20% in June 1992.

November's 11% year-on-year increase in the consumer price index reflects sharp rises in consumer items in the first half of 1992. These are gradually being annualised out of the official consumer price index.

The sharp fall in inflation over the last three months is a positive sign that the economy will recover in 1993, Mr Keys says.

Other positive factors include:

- A decline in interest rates — the Bank rate was cut from 17% to 14% last year;
- Stocks will have to be replenished to feed any recovery in economic activity;
- A favourable rand/dollar exchange rate for exporters of commodities and gold;
- The launch of the Namaqua Sands, Alusaf, Columbus and other projects with a capital value of over R12-billion.
- Mechanisms for orderly dialogue between business, labour and the government are in operation.

ST Times [BUSS] 10/1/93

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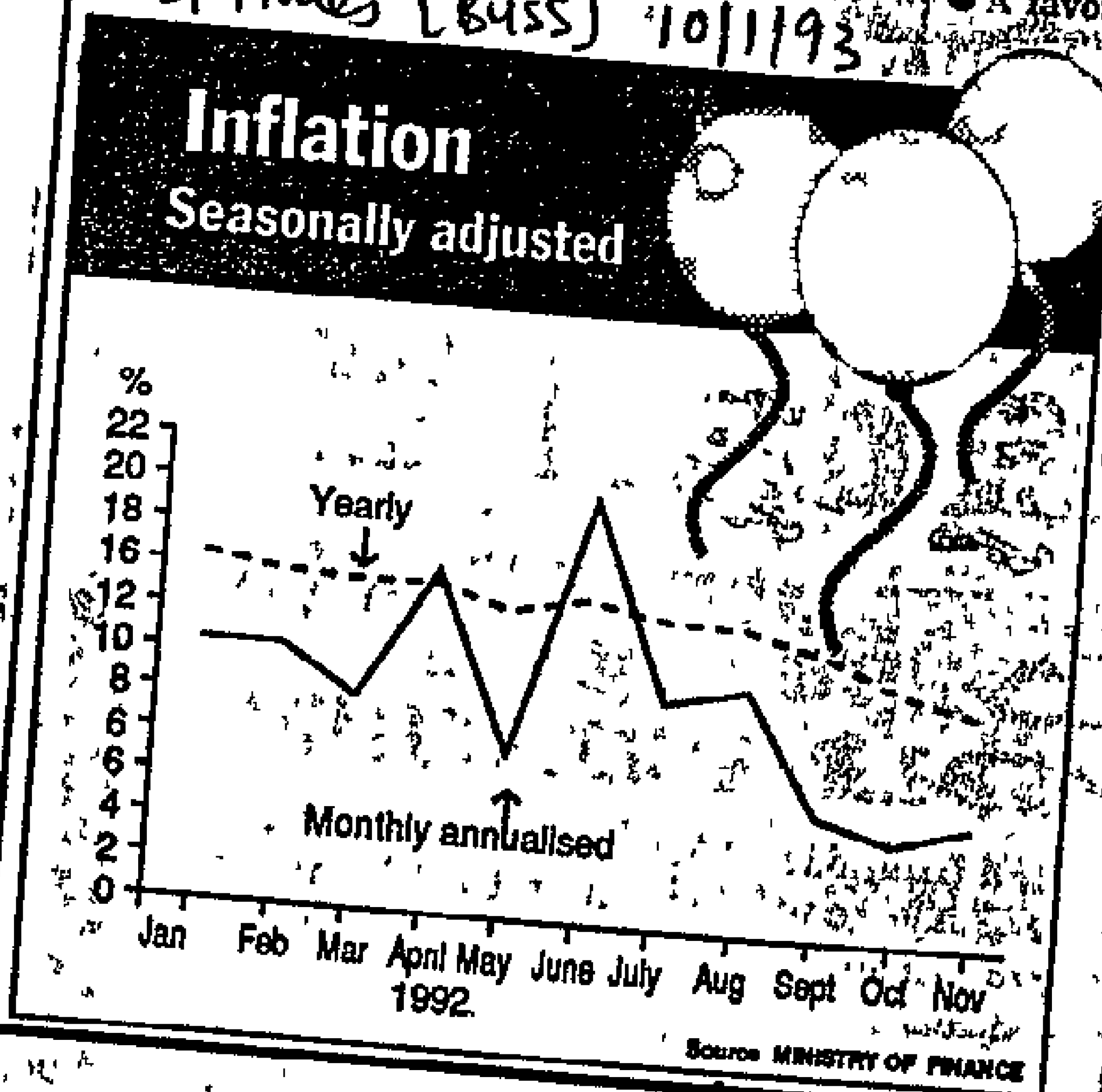


Needs

Mr Keys says there are signs that political leaders are giving more consideration to the needs of the economy. He is committed to reducing the size of the public sector and will have to tackle the overhang of a 7% to 8% deficit in the coming Budget.

Most economists caution against excessive expectations for economic recovery in 1993.

Sharp drop in market rates

CT 8/1/93 (153)

Business Staff

INTEREST rates dropped sharply in both the money and capital markets yesterday in a delayed reaction to November's lower inflation figures

Dealers said that institutions who held off during the festive season had come back positively, buying up bonds which lowered market rates between 15 to 20 points across the board

The inflation rate, running at an eight-year low of 11%, has raised market expectations of single-digit inflation by January, which in turn will pave the way for the SA Reserve Bank to lower the bank rate and further ease the plight of consumers

First National Bank's senior general manager Mr Viv Bartlett said the softening on the money and capital markets supported expectations of a further 1% drop in the bank rate ahead of the March budget

He said the Reserve Bank would be unlikely to move before the December inflation figures were released later this month

Financial Mail

INFLATION FM 8/1/93

Supply-side discipline

153

The decline in the inflation rate stands out as one of the most encouraging achievements of a rather dismal and discouraging 1992. The bulk of the decline took place last year, which saw a 23% reduction in the annual rate of inflation from 14,3% in early 1992 to 11% now. It has taken six years for the authorities to get the rate down from its peak of 18,6% to its present level, which is of course still far too high.

It could well be argued that the political will to stabilise prices really fructified only after F W de Klerk became State President — and the steps necessary to do so were taken only when Chris Stals took over as Governor of the Reserve Bank

The importance, politically and economically, of stable prices cannot be over-emphasised. No economic growth will be sustainable — even if all other obstacles are removed — unless it takes place against a background of reducing inflationary pressures.

The *FM* has expressed the view that momentum towards at least single-digit inflation will most likely be swifter now that the money supply growth is demonstrably under control But that does not mean the battle is over The time is not yet ripe for any relaxation of monetary stringency — such as it has been — despite the general decline in interest rates, the modification of wage claims, lower food prices and reducing aggregate demand.

Nor, however, does it mean that the recession should be intensified. The emphasis in official policy should begin to edge now towards encouraging supply to meet demand That means, simply put, that there should be no increases in taxation — especially in Vat — until a further reduction in inflationary pressures is manifest

Greater supply will also increase the proceeds of existing taxes, including that of Vat, which have been lower than expected because of declining business activity and which have aggravated government's financing problem

Of course, the immediate need, to finance a budget deficit before borrowing, which at nearly 9% of GDP is dangerously close to getting out of control, will not disappear It could be financed from long-term borrowings with little if any inflationary implication But the cost of that borrowing would be material and lock the Exchequer into further levels of rising expenditure, which is the last thing any reasonable taxpayer would want

The answer is fiscal discipline, especially greater control in the funds flowing without sufficient accountability to the TBVC dependencies Or in a sustained programme of privatisation, the proceeds of which will help government over the difficult and, it is hoped, temporary period before adequate spending disciplines can be applied. ■

THE GOLDSTONE COMMISSION

FM 8/1/93

Fishers of men

The Goldstone Commission is rightly regarded, here and abroad, as one of the country's most needed and important institutions After all, its primary focus is on issues vital to the ultimate installation of a political dispensation which respects the rights of every citizen.

Nothing could be more momentous in the long run for SA than an unimpeachable body which is — and which is seen to be — unbiased and rigorous in its pursuit of truth.

There are some areas of concern, however It is a frequently quoted truism that if something must be done, the best method is to give it to a busy man. And certainly this seems to be the case with Justice Richard Goldstone, Judge of Appeal, chairman of the standing commission which takes his name, chairman of the Standing Advisory Committee on Company Law — along with a number of other positions in voluntary organisations.

On balance, it seems to us that Judge Goldstone is being asked to do too much. It cannot surely be beyond the wit of the authorities to ensure that he is left relatively free to concentrate on the smooth operation of his most important undertaking.

Another matter concerns the composition of the commission There are five permanent commissioners who are supplemented by others assisting with the work of various subcommittees.

However, the permanent commissioners are all members of the legal profession. Is it right that a commission whose purpose is to inquire into endemic and widespread intimidation and violence should be comprised solely of lawyers? The implication is that only those legally trained are competent to express adequate judgments on matters which frequently relate not to law but to the composition of society itself — and to historic political injustices

Perhaps we should beware of the trap of giving too much authority to *any* one sector and, consequently, of being constrained within one particular philosophy There are many South Africans from other disciplines capable of exercising commonsense and integrity It is counter-productive to ignore their potential

If Bill Clinton's Cabinet has been designed to reflect America, it is no less appropriate for the Goldstone Commission to cast its net of membership widely indeed — drawing on the talent and expertise which, despite everything, SA continues to foster. ■

Tax increases predicted

STAR 27/2/93.

(153)

FINANCE STAFF

THE Budget next month will hold important signals for business on the direction of inflation, says Econometrix director Dr Azar Jammine To deal with the huge deficit, Finance Minister Derek Keys's plan would probably be made up of a mix of borrowing more money, cutting Government expenditure and increasing taxes, Jammine told businessmen in Johannesburg this week.

He said VAT would probably go up to 12 percent and personal taxes would also be raised, particularly on the top earners, as a quid pro quo to persuade organised labour of the need to increase VAT. It was important to raise taxes to fight inflation in the long term If Keys were to borrow more money to finance the deficit, expected to be R30 billion, without raising taxes, the country risked falling into a debt trap.

As debt continued to mount, it would eventually reach a stage where the Government could not raise taxes fast enough to pay the interest on the debt. In an attempt to get out of this fix, more money would have to be printed, leading to soaring inflation. However, Jammine expected that inflation would remain at its current levels of around 10 percent for the next two years because monetary supply had stabilised.

Businesses should build their financial strategy with a keen eye on inflation rate movements, he cautioned. If inflation was going to rise, businesses should then invest in equities and build up stock levels to become non-liquid.

If inflation were to drop further, managers should invest in gilts and property and avoid building up stock. Because of the expected lacklustre economic performance, Jammine advised business managers to keep stock levels low and be wary of investing in equities because returns were unlikely to be sparkling.

NEWS IN BRIEF

B/DAY 1/4/93.

Miners resume work

NORMAL underground work has resumed at Genmin's Beatrix Gold Mine All workers, except for 400 Zulu speakers whom management moved to the St Helena Hostel after they clashed with Pondos, reported for duty on Tuesday

Gengold spokesman Albert de Beer said a peacekeeping committee of workers and management would monitor the hostels and mine main entrance

Film subsidies returned

B/DAY 1/4/93

THE Home Affairs Department said in Pretoria yesterday film companies which misappropriated government subsidies had paid back more than R1m Some companies, however, still faced criminal charges

'Last post' sounds

B/DAY 1/4/93

THE SA Defence Force's first retrenchment parade took place at Cape Town Castle yesterday when about 400 Western Province Command members were bid farewell to the strains of Auld Lang Syne

Nearly 6 000 SADF personnel have been retrenched recently The SADF budget has been slashed by more than a third in the past five years

'Call up jobless only'

B/DAY 1/4/93

THE unemployed should be called up for national service to combat crime and violence and unionists who instigated labour unrest should be held criminally responsible, SA Iron and Steel Union manager Nic Celliers said yesterday The suggestions are part of a security and commerce plan the AWB and the union want to discuss with President F W de Klerk

Employment Act

B/DAY 1/4/93

WE REPORTED incorrectly yesterday that "As legislation now stands, the Basic Conditions of Employment Act will grant to farmworkers the right to strike" The Act does not deal with strikes Business Day regrets the error.

REPORTS Business Day Reporters Own Correspondent Sapa

AHI wants ceiling on wages, prices

B/DAY 1/4/93 (153)

TIM MARSLAND

THE Afrikaanse Handelsinstituut (AHI) has asked its members to hold wage and price increases to 5% or lower for the next two years in line with the declining trend in money supply growth and inflation

AHI chief economist Nick Barnardt said yesterday his organisation had taken the decision in line with its support of Reserve Bank policies to combat inflation

The decision was also aimed at trying to prevent further declines in business volumes

"The AHI general management accepted a motion at its six-monthly meeting to encourage members to hold price and wage increases to below 5% The message of discipline should be communicated to members and the broader business sector," he said

Inflation would peak close to 11% as a result of the VAT, fuel price and other increases included in the Budget, Barnardt said.

However, he saw it falling sharply after that, possibly to 5% in 1994

He said any temptation to raise interest rates to protect the balance of payments should be resisted in light of the decline in inflation and money supply growth as well as the deepening recession

The pressure on the balance of payments should rather be managed by mainly continuing the fluid exchange rate policy and the "overall laudable monetary policy flexibility" of the past six months

In the current recession, a moderate real depreciation of the rand would have a minimal negative effect on inflation, but would actively encourage exports

He said the AHI continued to support the Reserve Bank's focus on disciplined monetary expansion, which implied that interest and exchange rates were largely determined by the markets

Once the balance of payments stabilised, he expected a further cut in interest rates in response to low credit demand.

This would partially offset negative effects the hike in VAT and other taxes would have on the business cycle and could help prevent a deepening of the recession, he said

Talk of VW layoffs 'premature'

B/DAY 1/4/93.

ERICA JANKOWITZ and EDWARD WEST

VW SA said yesterday it was too early to say it would be retrenching more than 2 000 workers this year

But up to 1 000 workers were in danger of being laid off in the near future VW human resources director Brian Smith said 500-1 000 jobs at the Uitenhage plant were "currently under review" because of a sharp drop in exports and a declining local market

Numsa national organiser Gavin Hartford said on Tuesday the car manufacturer had proposed rationalising 2 270 of its workforce this year

VW said talks of staff reduction was "premature" and dependent "on the impact of the recent Budget on the local market, the outcome of various export orders currently under discussion and the success of the new Golf and Jetta range"

Smith stressed the company would try to "achieve reductions through voluntary packages offered to all employees, early retirements, outsourcing and natural attrition"

He said VW SA was renegotiating a contract to supply Jettas to China The future of workers involved with exports to China would depend on the outcome of the negotiations and on local market conditions

Putco, Sabta pledge not to raise fares

B/DAY 1/4/93

THEO RAWANA

PUTCO and the SA Black Taxi Association (Sabta) fares will not increase when fuel prices go up tomorrow

Putco MD Jack Visser said yesterday the bus company would absorb the increase of 16c/*l* on diesel for three months Sabta also said it would not increase its fares and was negotiating with the Mineral and Energy Affairs Department for a "special consideration" for taxis

Visser refused to say how much it would cost Putco to absorb the increase "We are so close to our annual increase on July 1 that we did not feel it necessary to raise fares now"

Sabta public affairs manager Cyprian Lebese said the organisation had given Mineral and Energy Affairs "a few options" The taxi organisation expected a reply today

Postal tariffs and suburban train fares went up at midnight last night and petrol will cost 15c/*l* more at the coast, and 16c/*l* more in the interior

Postal tariffs will cost an average of 30% more A stamp for a standard letter will cost 45c from today

Suburban train fares will cost an average of 9,75% more, but the SA Rail Commuter Corporation has assured its customers that there will be no further fare increases this year

Sapa reports that cheaper dialling times for overseas telephone calls will be introduced today

Telkom said the standard rate to more than 100 countries would drop by about 7% and the new off-peak rate would be up to 20% cheaper than the standard rate But VAT on calls would increase to 14% on April 7

THE WEEK AHEAD by Simon Willson

Devaluationists' strong case for a weaker rand

BDAY 13/4/93

(153)

DEVALUATION is flavour of the month again in areas of finance and commerce, and the resurgent groundswell in favour of a weaker rand forms a disconcerting backdrop for the producer price data due this week.

In the next few days **February's producer inflation rate** is likely to be released The rate edged up to 7,4% in the year to January from December's 7,3% on an unchanged monthly increase of 0,2%

But the breakdown of the producer price index (PPI) data provides encouraging signs that the overall price increase trend at wholesale level remains downward

Eradication

Imported goods prices fell 0,4% in January, after a 0,2% rise in December, extending the solid disinflationary contribution of the PPI's external component over the last two years

As charts in this space have regularly shown in recent months, the near eradication of inflation from imported manufactures has mainly been the result of the strong real effective rand

As today's chart shows, the rand, on average against a basket of trading partners' currencies, has been falling steadily but by less than SA's adverse inflation differential with those trading partners

Therefore the real effective rand, adjusted for inflation, has been firm and has kept those import prices in check

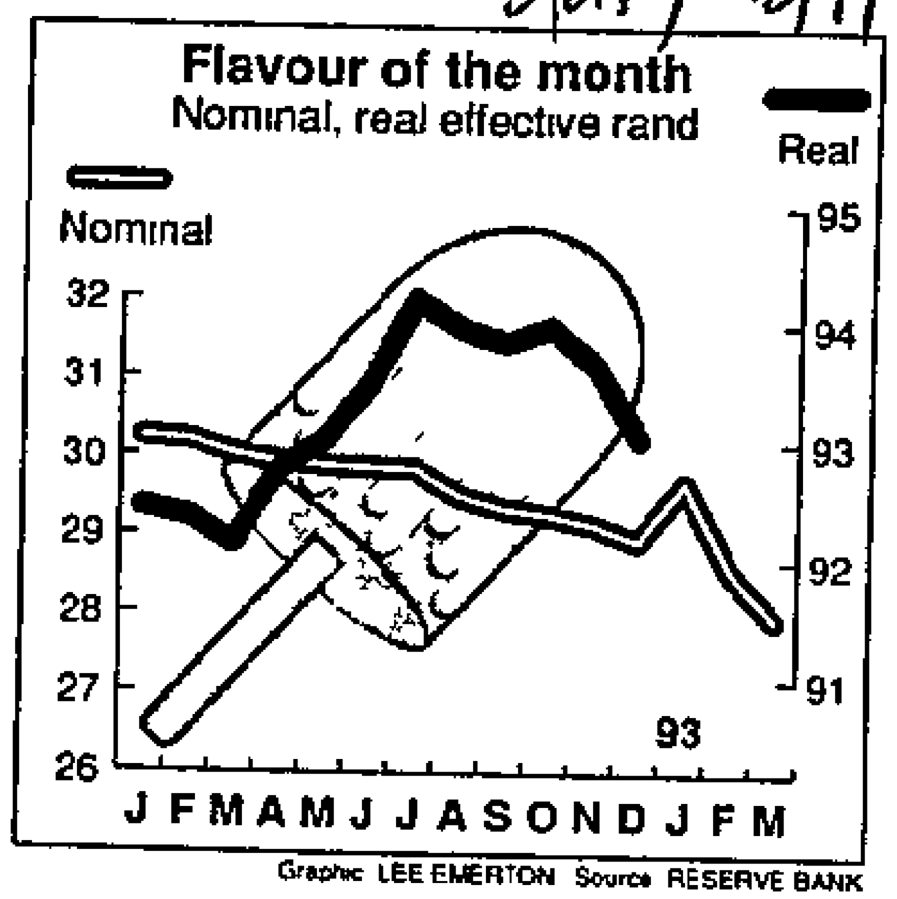
There are certain costs involved in preserving the strong real effective rand The Reserve Bank, in carrying out its mission to protect the rand's internal and external value, periodically has to support the commercial rand in the foreign exchange market to defend its prevailing parities.

One of the major spot-dealing desks in the local market believes the Bank spent around $250m in a single day at the beginning of the month, and close to another $200m last Thursday alone

This is where the devaluationists enter the argument.

They aver that the rand should be left to find its own level according to market forces, and that precious foreign exchange should not be thrown into the market to support the currency. They also feel that a weaker rand would stimulate the domestic economy by raising the local value of export earnings

The would-be devaluers were hoping that the Finance Department's five-year structural adjustment programme would support a lower rand exchange rate but it did the opposite, reaffirming the importance of an independent Reserve Bank's pursuit of exchange rate stability



So the devaluationists have climbed wearily back on to their soap boxes to try to sell their miracle cure elixir again

Already this month the Board of Executors has returned to its familiar theme of last year, calling for "stable, predictable and sensible" economic policies but also for "a more realistic and competitive exchange rate" — code for commercial rand devaluation

BoE wants a lower rand in conjunction with the elimination of exchange control and the reduction of protection

Not to be outdone, the AHI has this month called for a moderate real depreciation of the rand which would encourage exports with a "minimal" negative effect on inflation.

Other schools of thought want the rand to be allowed to weaken as an alternative to upward pressure on domestic short-term interest rates

The authorities have another public relations challenge on their hands to convince organised opinion in finance and commerce of the medium-term value of disinflation at the possible expense of short-term growth.

A continued downtrend in producer price increases this week, with falling import prices leading the way, would help enormously to support their case.

Internationally, a laboratory experiment in the inflationary dangers of sudden exchange rate depreciation is still in progress in the UK and is scheduled for two updates this week. **UK March producer inflation** is due for publication today, and the headline rate is set to give another indication of upward pressure on prices after sterling's 15% fall since leaving the European exchange rate mechanism six months ago

Headline UK producer inflation was 3,7% in the year to February, already up from January's 3,5% and imported inflation was running at an annual rate of 6,9% Sterling's slide looks set to push imported inflation above 7% for March

Meanwhile, **UK March consumer inflation** is released on Friday and, pending the feed-through of higher import costs from the PPI, is poised to drift lower from February's 1,8% Another monthly rise of 0,1% would produce an annual rate of 1,7% for March

The main US indicator on view this week is **retail sales for March**, out today Sales were up 0,3% in February over January, representing a slowdown from the higher sales levels posted at the end of last year

Downbeat

But part of the drift could have been due to the package of severe tax increases announced by the Clinton administration in mid-February, which probably helped to depress buying intentions

UK February industrial production is published on Wednesday, and is unlikely to show much of an improvement from January's downbeat monthly outturn of -0,4%

The only evidence of possible recovery in the UK economy to date has been a lift in retail sales and higher growth in the narrow monetary aggregate, and neither of these influences will quickly feed through to orders from British factories

UK governor praises Stals

B17779 16/4/93.

BANK of England governor Robin Leigh-Pemberton yesterday commended his SA counterpart Chris Stals for his dogged fight against inflation.

(153)

He said he was impressed by the credibility Stals had built up by following consistent policies and remaining free of political interference.

It was vital to bring inflation down to establish price and monetary stability, which would ideally occur at inflation rates of below 2%. — Sapa

Doubts raised over low inflation's staying power

BDay 19/4/93

LINDA ENSOR

153

CAPE TOWN — The sustainability of a relatively low rate of inflation in years to come has been seriously questioned by economists and lenders in the bond market.

Taking a pessimistic view was Syfrets economist Elmien de Kock who believed that the decline in the inflation rate was only cyclical and not a permanent trend In the latest Quarterly Economic Review she said persistent structural inflation made it impossible to forecast a sustained decline to a single digit rate over the next five years

"Once indirect tax increases such as VAT and the fuel levy have worked their way out of the system, inflation can be expected to dip below 10% again and stay there for most of the next 12 months With an expected economic upswing under way, we believe that the low point in inflation will be in the second quarter of 1994," she wrote

A cut in the Bank rate expected before the end of the year with another possible in the first half of 1994 would have a positive impact on the inflation rate No meaningful interest rate reductions were possible before then, De Kock said, because of the recent deterioration in the balance of payments

However, a factor militating against sustained lower inflation was the apparent change in the Reserve Bank's policy of keeping the rand stable in real terms This change had resulted from the rapid depletion of foreign reserves — a situation De Kock believed was likely to continue for the immediate future

The expectation that the fall in the inflation rate would not be sustainable over more than two to three years had meant that the real yields on long term bonds had remained high despite the fall in the inflation rate, Old Mutual economist Dave Mohr said at a University of Stellenbosch Business School conference at the weekend.

Mohr, however, believed that it might be possible to sustain a lower rate of inflation in the light of the structural changes which had already taken place in the SA economy. These included the scaling down of the arms industry and the structural change in the labour market away from shortages of skilled labour, which had improved the medium-term outlook for inflation.

Mohr said the inflationary pressures in the economy were still low and a return to single digit inflation early next year was possible after a post-Budget rise to about 11% However, he agreed that it was not a foregone conclusion that a low inflation rate could be maintained in future when the economic began to grow at a reasonable

Regarding the stock market, both De Kock and Mohr urged caution De Kock did not foresee any real growth in corporate earnings and noted that the international equity markets, mainly the Dow Jones Index, remained vulnerable

SA inflation trend 'cyclical'

(153)

CT 19/4/93

INFLATION is on a cyclical downtrend, not a permanent one, says Syfrets economist Elmien De Kock.

"Persistent structural inflation makes it impossible to forecast a sustained decline to single digit inflation over the next five years," she comments in the Syfrets Quarterly Economic Review

"Once indirect taxes such as VAT and the fuel levy have worked their way out of the system inflation can be expected to dip below 10% again and stay there for most of the next 12 months.

"With an expected economic upswing under way we believe that the low point in inflation will be in the second quarter of 1994"

She expects one more cut in the bank rate, with a possible further cut in the first half of 1994

Star 22/4/93

Schwarz sees investment possibilities

By Stephen Cranston

American private donors and state and city governments are likely to invest $400 million if there is an election in South Africa in 1994, says Harry Schwarz, South African Ambassador to the US.

But with the fading of the post-election glitz, that figure is likely to fall to $250 million in 1995.

Speaking to a meeting held by stockbrokers Davis Borkum Hare in Johannesburg yesterday, Schwarz said that although there were trade and investment bans in 26 states and 90 cities, the sponsors were closing their eyes to trade with South Africa.

He predicted that by June most would be repealed, but said there was considerable legislative inertia; some cities still had sanctions against Namibia on their statutes.

Schwarz said it was unrealistic to expect significant investment from overseas if local businessmen were not themselves investing.

He criticised an unnamed food company, clearly Royal Foods, for buying an international food company, Del Monte Foods International, instead of building up its local business.

He blamed the abysmal performance of the South African economy on the low level of investor confidence.

Certain facilities now available to businessmen were being ignored.

For example, only one South African company had applied to use the facilities of the US Export-Import Bank.

South Africa should tap into the sudden interest in the US in exotic investments.

Funds were being invested in the companies of the Pacific Rim and Indonesia. South Africa would represent an exciting investment for such investors.

Schwarz said there were many inquiries to the SA Embassy from Fortune 500 companies about investment in South Africa, as well as from black businessmen and franchise operators.

But it would be an illusion to think there were queues of private investors.

The US was rebuilding its own economy and was busy investing in the region, thanks to the setting up of the North American Free Trade Area, he said.

Star 22/4/93

Operational discipline to rescue of JD Group

(153)

By Stephen Cranston

Prices of furniture, both at manufacturing and retail level, have not kept pace with inflation, says JD Group chairman David Sussman.

Writing in the group's annual report for the year to December, Sussman says sources of supply have been reduced because of factory closures and declining productivity levels.

Sussman says the JD Group continues to emphasise systems development, the development of people skills and good industrial relations.

Discipline at operational level enabled the group to recover from poor mid-year results and exceed the previous year's earnings by 21,2 percent.

The overall arrears on the debtors' book rose from 7 to 7,78 percent and bad debt write-offs from 2,71 to 2,93 percent.

But the rate of repayment improved, reducing the length of the debtors' book from 15,4 to 13,5 months.

Bradlows, which trades in the upper end of the market, felt the brunt of the recession.

Joshua Doore had a "very exciting" year with the launch of its catalogue showrooms. These are 240 to 300 square metres, with minimal overhead structures.

By last December, there were 22 catalogue showrooms. Another 60 will be opened this year.

Price 'n Pride opened six new stores, expanding into the Western Cape and Swaziland.

The JD Group has instituted a new approach to stock management, which allowed stocks to fall 2,7 percent.

The new formula and the benefits of the new central distribution centres (CDCs) have already borne fruit.

Star 22/4/93

THE WEEK AHEAD by Simon Willson

inflation

March's one last hurrah for single-digit

BDay 26/4/93.

(53)

INFLATION may, temporarily, be making its single-digit swansong this week with the release of the March consumer price index (CPI). But attention is already turning to how the historically low inflation rates of recent months can be locked in once the effect of the Budget's tax and duty increases fades from the CPI.

Consumer inflation eased to a fresh 15-year low of 9% in the year to February as increases in food and housing costs, which have the two biggest weightings in the CPI's shopping basket, continued to subside. The February outturn took inflation to its lowest level since the 9% recorded for June 1978

The higher VAT rate, petrol price rise and increased excise duties included in last month's Budget will boost the April inflation rate and end, for a time, the current sequence of historic inflation lows But there should be one last hurrah for falling inflation in the March CPI figure due this week.

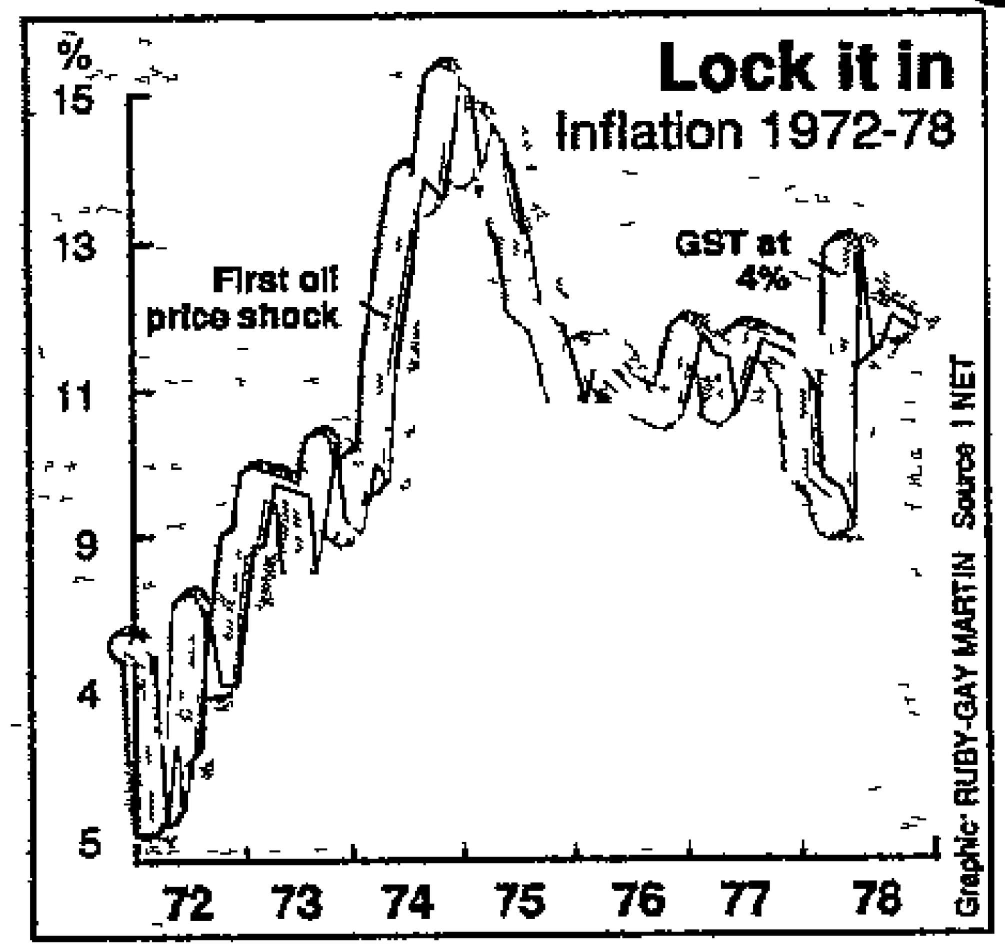
Most analysts expect the CPI's two most influential components, housing and food, to continue to push headline inflation lower in the March readout.

A popular projection is 8,5% which, as the chart shows, would be a truly epochal event in SA's inglorious inflation record. The next inflationary low in the CPI's sights is the 8,4% posted in 1973. Whatever this week's precise CPI outturn, the March inflation rate could be at or very near a 20-year low instead of around the 15-year lows of January and February.

This would represent another material advance in the monetary authorities' painstaking campaign to reduce inflation to trading partners' levels, and raises the question of how the disinflationary gains made to date can be locked in.

Inflation rose in the '70s and '80s for mainly structural reasons and the ultimate solution is therefore the type of restructuring set out in the Finance Department's economic model. But the model has a medium-term time span — its objectives are five years distant. The challenge is to lock in inflation at its current lows over the short term.

Since macroeconomic restructuring has not yet begun in earnest, today's relatively low inflation is perceived as a purely cyclical event But SA is not alone in trying to override a cyclical upturn in inflation. Some other traditionally high-inflation countries are also trying to lock in inflation rates that are cyclically low The encouraging part of this analogy is that SA is ahead of the game.



The UK (1980 inflation average: 18,5%) and France (13,5%) have, with mixed results, been trying to lock in their low inflation (now 1,9% and 2,1% respectively) by stabilising their exchange rates, confining their monetary growth to targets and freeing their central banks of government control Neither has yet achieved all three. SA has.

The desperation of would-be low-inflation countries such as the UK and France to adopt short-term adjustments that were accomplished in SA some years ago offers hope that SA may already have the capability to lock in single-digit inflation. Whether its authorities will have the resolution required to defy the remorseless business cycle is another matter.

An important part of the process of locking in low inflation should feature this week when the March money supply data are published. Growth in the broad-money M3 aggregate was little changed at 5,4% in the year to February from January's 5,3% Growth from the base of the guideline year, at 1,4% in February, is moving towards the 6%-9% 1993 guideline range If the Reserve Bank is still able, in the transitional years ahead, to confine the rate of M3 growth to that of expected nominal GDP it will help lock in prevailing inflation, since higher inflation will thus not be accommodated by the monetary base

Internationally, markets will be looking for further evidence of economic recovery in Britain when UK first-quarter GDP is released today Marginal growth of 0,1% in the fourth quarter of last year is expected to be superseded by a rise in real GDP of around 0,5% for the March quarter, which would support the upswing signals in last week's UK unemployment and retail sales data.

Conversely, slower growth is likely to be indicated when US first-quarter GDP is published on Thursday The US economy grew at an annual rate of 4,7% in the December quarter — the fastest pace for four years — and some lacklustre US monthly data during the last three months suggest a slowdown in the three months to March.

A big week for Japanese statistics starts tomorrow with **Japanese February leading indicators.** The index rose in January to the watershed 50 level that separates a growing or contracting economy in six to nine months' time The strong yen, an uptick in money supply and the government's public works programme might raise the index again

On Friday **Japanese March industrial production** figures are published Factory output rose 1,9% in February, breaking a run of four monthly falls, but the increase was mainly due to the availability of new car models The unwinding of this effect, and the problems for export industry from the strong yen, may yet dull the March outturn.

Japan's March inflation rate is also released on Friday and, although the annual rate has risen for three consecutive months to February's 1,4% the monthly rise in prices has never been more than 0,1% The yen's new record dollar highs and continued sluggish domestic demand should keep price increases measured in March tightly in check.

‘Longest recession of the century’

BDM 26/4/93. (153)

LINDA ENSOR

CAPE TOWN — The current recession was likely to be the longest this century and had already seen the standard of living falling by 13,5%, Sanlam chief economist Johan Louw said in the life assurer's latest Economic Review.

The recession, which had deepened in the past 12 months, had entered its fifth year and Louw expected no economic growth this year He predicted a recovery towards the end of 1993 or even the beginning of next year

Louw said the decline in real GDP per capita at 13,5% was considerably worse than the 7,3% decline suffered during the 1984/'85 downturn and the 8,2% in 1981/83

The slow, unsynchronised growth of foreign economies and weak commodity prices had seriously dampened export efforts while the gold price had remained weak and imports high Consequently, the current account on the balance of payments had deteriorated when foreign capital outflows had intensified The continued drop in net foreign reserves represented a serious impediment to the resumption of economic growth, Louw said

"These developments — which are being exacerbated by the weak financial position of consumers and sluggish investment as a result of the decline in domestic and foreign confidence in particular — are seriously inhibiting the recovery potential of the SA economy"

Louw added that the Budget's tax proposals had delivered a serious blow to hesitant signs of recovery in some sectors

Unemployment had reached alarming proportions and mass actions and stayaways were likely to exacerbate the trend They would also undermine consumer and business confidence and scare off foreign investors With the number of unemployed estimated at 3-million (excluding the estimated 3-million in the informal sector), job creation was vital

Louw forecast an average inflation rate of between 9,5% and 10% for 1992, possibly declining to about 9% in 1994

DP diehards oppose smoking ban

BDAY 29/4/93

GAVIN DU VENAGE

SMOKERS in the Johannesburg City Council's DP caucus broke ranks this week and refused to pass a law banishing puffers in the civic centre to "designated" toilets only.

An item on Tuesday's council agenda, that would have prohibited smoking in most rooms within the civic centre, was quietly withdrawn as it had no clear support, a council source said.

If approved, smokers would have had to skulk in designated toilets for a puff.

Diehards who balked at the idea of puffing in the loos would have been "encouraged" to join the council's anti-smoking programme.

Smokers in the DP caucus furiously objected to the restrictions. When the matter threatened to spark an intra-party debate at the chamber meeting it was quietly withdrawn.

Recently the Randburg Town Council was also embroiled in debate on whether to tighten smoking restrictions within the civic centre. The ban was approved only when mayor Brian Crail used his casting vote.

Cape Town, too, has regulations that ban smoking in its civic centre.

□ Sapa reports the board of property company Seeff Organisation Holdings has declared its Cape Town head office a non-smoking zone.

The decision was taken after top management, meeting at Seeff House on Monday night, realised something was burning. Apparently a table had caught alight as a result of a burning cigarette.

Recession 'limited social efforts'

KELVIN BROWN (153)

THE recession had limited the extent to which the local business community could afford to involve itself in broader social and political issues, SA Chamber of Business (Sacob) economic policy director Ben van Rensburg said yesterday.

Van Rensburg was responding to US ambassador Princeton Lyman's criticism that the local business community was not doing enough to promote change and improve the quality of life in SA

At a Seeff/Radio 702 business breakfast earlier this week, Lyman warned that foreign funds would not be forthcoming if local business did not take greater risks and show greater commitment to SA

Van Rensburg said business was involved as a full partner in the work of the national economic forum

In addition, two business leaders had joined the cabinet to assist with growth and development strategies.

The business community had played a significant role in the national peace accord and its structures, often beyond the call of duty Business was also actively involved in forums dealing with diverse aspects such as housing, education, health and regional economic development.

Lyman criticised the ANC for not calling for an end to sanctions "If sanctions were removed only when there was a newly elected government it would take two years before assistance could be utilised."

ANC economics department deputy head Tito Mboweni said the lead time argument was only one of the issues that had to be taken into account in deciding when to lift sanctions The main reason for sanctions was to help transform SA into a democratic, nonracial country

The events of the past two weeks proved that it would be premature to call for the removal of sanctions, Mboweni said

"The assassination of Chris Hani, the behaviour of the right wing, recent statements by government and the lack of progress in negotiations on Monday show that we are still a long way off from a real transition in SA"

FW launches undersea cable system

BDAY 29/4/93

LINDA ENSOR

CAPE TOWN — The SAT-2 digital, optical fibre undersea cable system, spanning the Atlantic Ocean to the northern hemisphere, was officially launched by President F W de Klerk last night

In his speech, De Klerk expressed confidence about reaching agreements which would rapidly lead to the establishment of the proposed transitional executive council, a transitional constitution and Bill of Rights and national elections.

He said the budgeted cost of the cable system, financed by 15 co-owning telecommunications bodies supplying services to Europe and the US, was R800m Telkom bore R500m of the costs

The co-owners from 14 different countries would contribute to maintenance on the basis of the number of channels purchased, Telkom said yesterday

Laying of the cable was completed in October last year It replaced the SAT-1 which became operative in 1969 and would be withdrawn at the end of June

The new cable, with a total length of 9 512km and submerged at a depth of more than 4 000m for most of its length, would be connected to the global optical fibre network Its southern terminal would be at Melkbosstrand near Cape Town and its two northern terminals at El Medano in Tenerife and Funchal in Madeira.

The cable would provide 7 680 speech channels between Cape Town and Madeira, 7 680 between Cape Town and the Canary Islands and 7 680 between Madeira and the Canary Islands The SAT-1 had 360 speech channels

The system was supplied by a British/French consortium consisting of STC Submarine Systems and Alcatel Submarcom

De Klerk has had the first official video conversation via the new cable with Portuguese Prime Minister Cavacao Silva and a Spanish foreign affairs official.

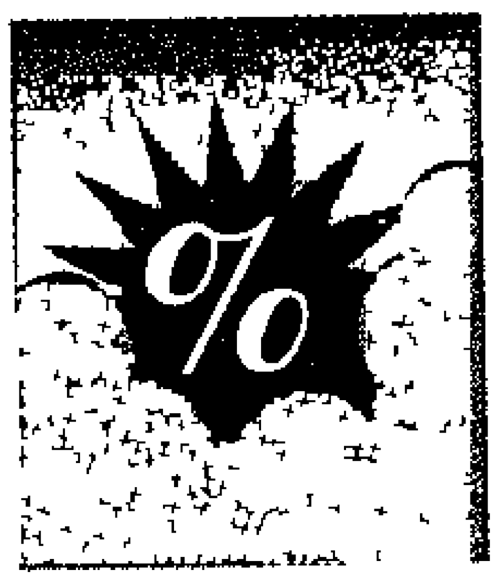
INFLATION

FM 30/4/93

On target for 5%

153

Facing a future without anabolic steroids



We have lived so long with high inflation that a future without it is frighteningly unfamiliar The relative stability of an inflation rate of even 5% will have a profound and sobering impact on many everyday decisions to buy, sell or save The consequences for those who make the wrong decisions could be as serious as if they had ignored inflation over the past nearly 20 years

For most of that time normality, despite four years of recession, has been a 15% annual rise in wages and salaries, a similar hike in the price of goods and services, soaring property values and an investment portfolio heavily weighted with equities

We have become conditioned to believing that renewed economic growth is always accompanied by high inflation

But things may turn out differently this year We may have to be content with 5% adjustments in earnings and moderate gains in asset values Instead of investing in equities, directly or via contractual savings, we have the option of simply putting money in a savings account and letting real interest rates provide decent returns This will have a profound impact on financial institutions, how they conduct business and whether their playing fields are considered level

Not everyone will appreciate the benefits Some are hooked on the adrenalin generated by acrimonious annual wage negotiations, others make money by milking confused consumers and many make huge profits fuelling inflationary expectations — among them estate agents and life assurance offices A powerful lobby has a vested, though narrow, interest in double-digit inflation

In 1989, when Reserve Bank Governor Chris Stals published his mission to preserve the value of the currency, it was met with scepticism With 12-month growth in money supply running at 24% and inflation over 14%, prospects of bringing inflation down to single digits, let alone the 2%-5% prevalent in trading-partner countries, were not highly rated

Scepticism was reasonable Even after Stals pushed up Bank rate to 18% and cut the guidelines for money supply growth from 14%-18% in 1989 to 7%-10% in 1992, setting the tone of monetary policy, too many other forces continued to generate inflationary pressures Fiscal discipline remained weak, productivity low and distribution distorted

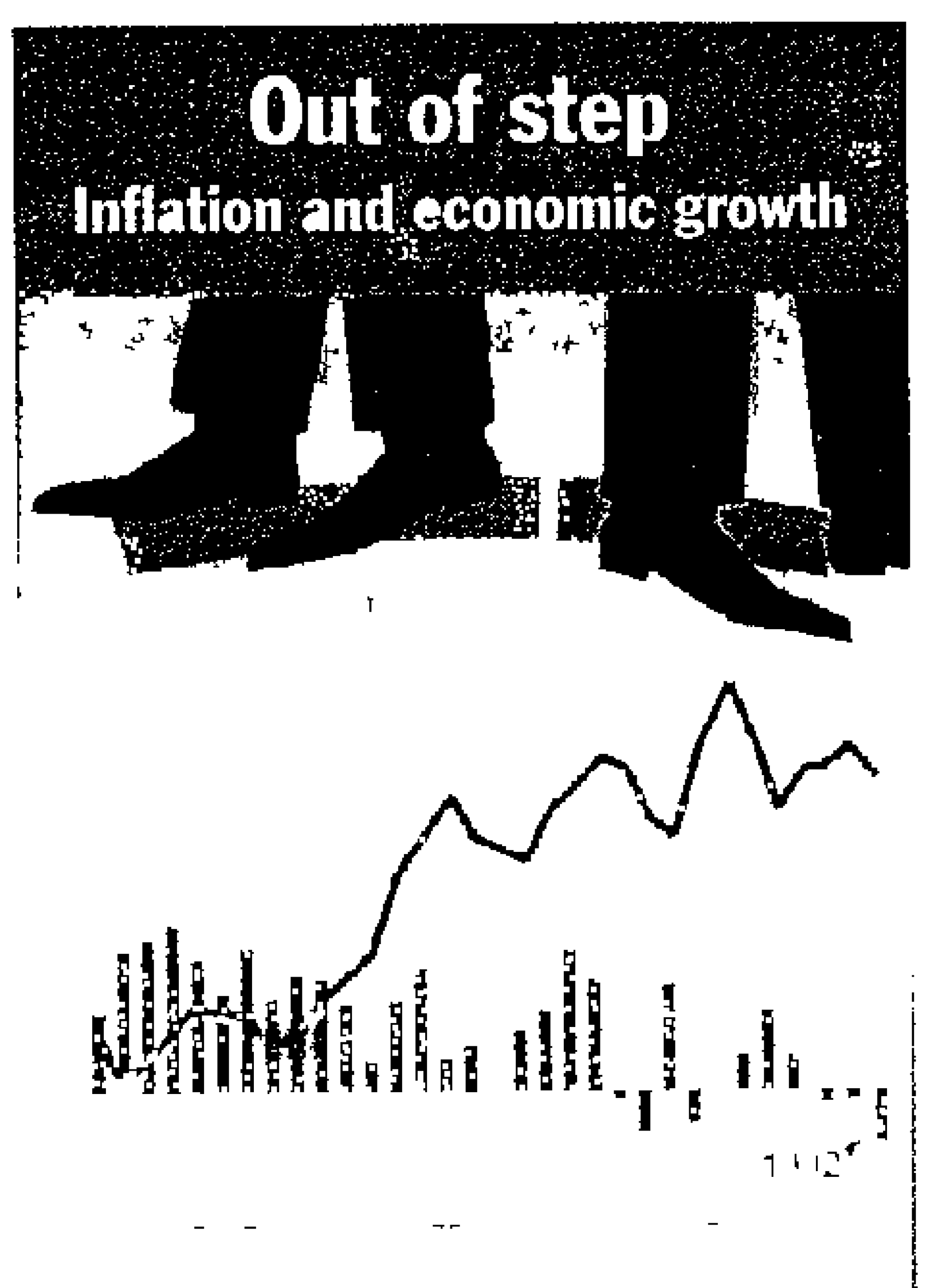
But, against all expectations, inflation is down to single digits Stals now talks of 5% inflation Though pressure on prices will come this month from the Vat hike from 10% to 14% and other sources, Stals's objective is treated with respect What some people fear now is not his failure, but his success

Whatever their motives, they usually cite macro-economic imperatives When interest rates are low in real terms and inflation high, ordinary people feel free to borrow, knowing they can repay in cheaper money The consequent spending spree fuels short-term growth, especially measured in current prices

As rising inflation has historically been associated with periods of high demand for goods and services, there is a perception that it is essential for real growth But comparison of inflation and GDP changes (see graph) shows little correlation Benefits from this fillip to consumption are quickly dissipated by the very inflation that creates them

More realistic is the fear that getting inflation down further, with the current low consumption demand, will irreparably damage the fabric of an already tattered economy Though the theory that higher inflation will meaningfully reduce unemployment was discredited by the years of stagflation in the Seventies, it is argued that anti-inflationary policies could create more unemployment at a time when it is very high indeed

Anxiety on this score is heightened by the slackening growth in exports Economic recoveries in SA have historically been led by export growth and renewed consumer demand Since the international economy started slowing in 1990, real export revenues have risen only moderately — 1,4% in 1992 compared with 9,3% in 1989



Stals *a mission to preserve the currency*

Export growth will accelerate when international activity gains momentum, but continuing uncertainty about the extent of this recovery (see page 27) means this will be a while still Even when full recovery comes abroad, limited potential for commodity prices may reduce the leverage exports have had in the past in gingering up economic activity

So can we afford to continue with tight monetary policy? Yes, as it implies strongly positive real interest rates — that is, with inflation stripped out When inflation falls, nominal rates are free to fall at the same pace without impairing the Reserve Bank's disciplined and stable monetary stance

There are those who argue that, given depressed consumption demand, there would be a benefit from low or negative real interest rates, as in 1986-1987 That is fallacious Not only would the benefit be fleeting at best, confidence now is being eroded by political developments, not the cost of money

The impact of lower rates on corporate cash flows would be limited An analysis of 50 top companies shows the ratio of debt to equity is little more than 32%, compared to nearly 65% in 1986 (see graph) Consumers may be tempted to borrow and buy more, though this is by no means certain But increased demand for goods would eventually come up against supply bottlenecks

One is directly related to inadequate real interest rates, which deter the sort of savings

CONT-D

businesses can tap for investment capital This, in turn, reduces productive capacity and, therefore, growth potential and gives another twist to the inflationary spiral

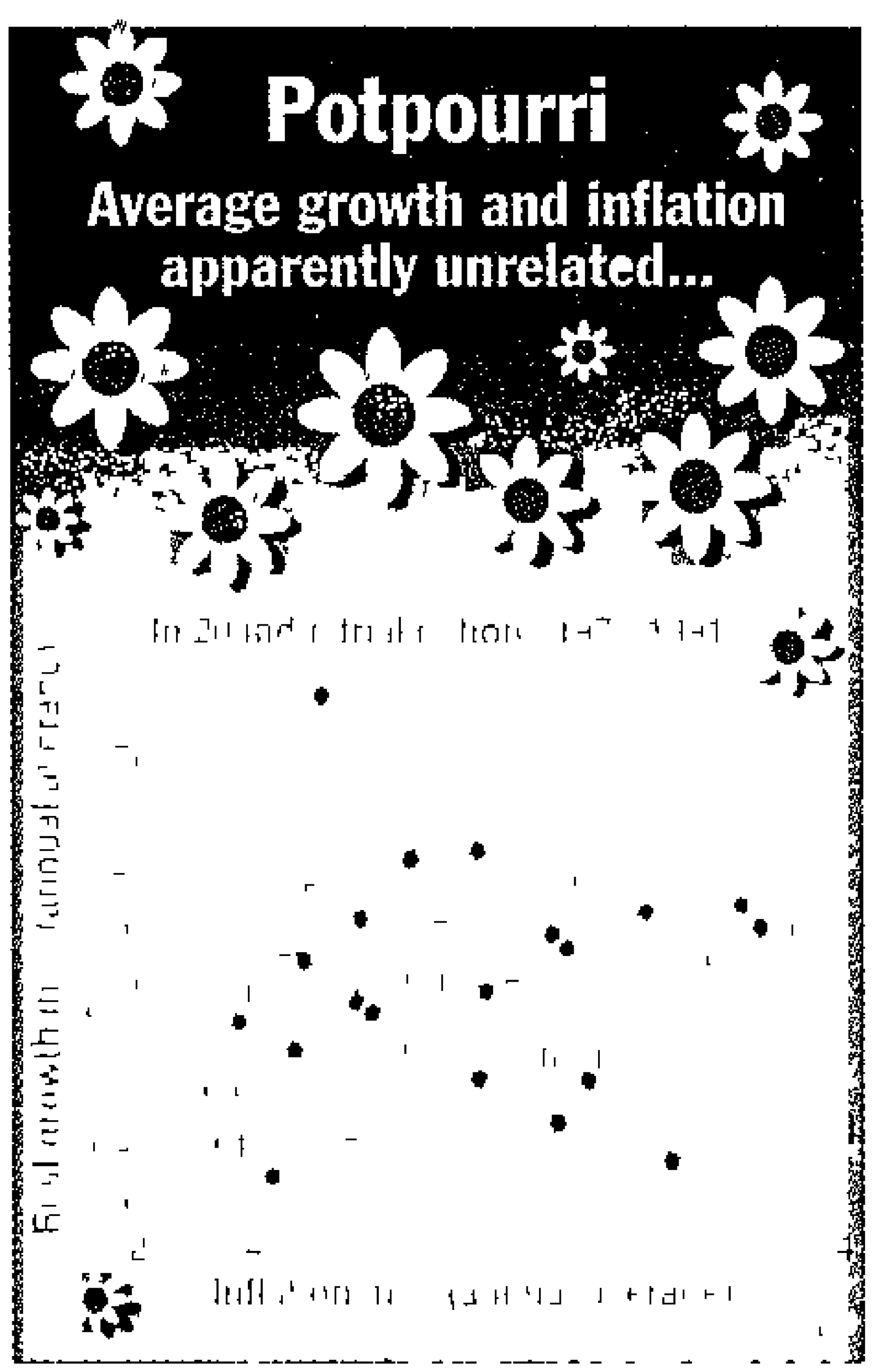
Ernie van der Merwe, head of the Reserve Bank's economic unit, argues that it is the unpredictable changes in nominal interest rates that damage confidence, rather than absolute levels "We are following a clearly defined route, creating a more stable financial environment, which allows people to take decisions

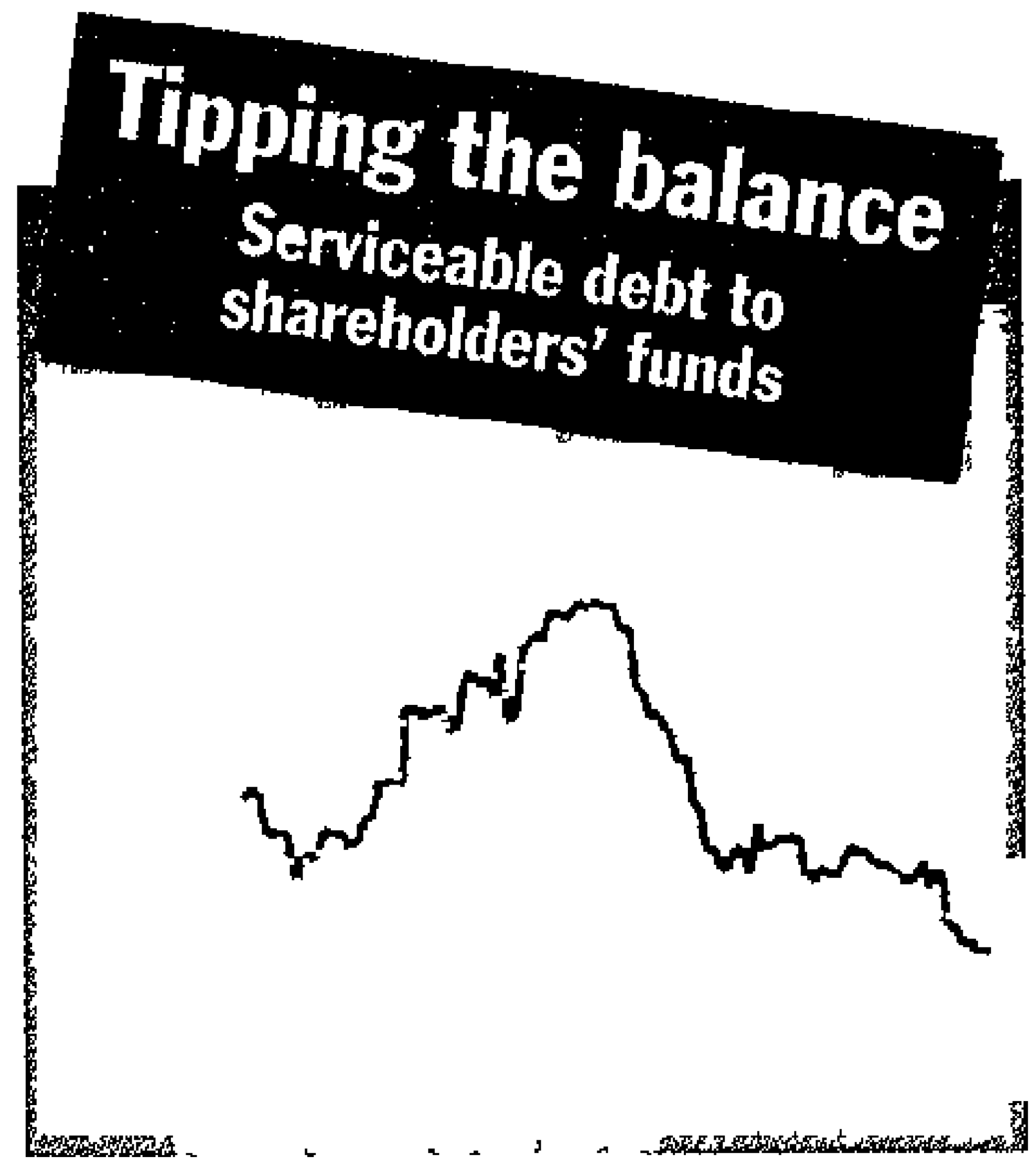
"We don't believe that in the medium or longer term, reducing inflation further will lower the growth rate On the contrary, we believe SA will achieve higher growth over the longer term because there will be better allocation of resources "

In a speech to Vista University last year, Stals explored how inflation misallocates resources A market economy, he said, "is based on the signals emitted by the prices of different commodities or services Relative prices, and particularly relative price movements, guide decisions of all participants on basic activities, such as saving, consumption and investment Persistent inflation confuses the signals of relative price changes "

An example was the response to rising prices, when serious drought cut food supplies Price increases, said Stals, were "widely perceived as higher inflation (Their) signal partly failed to convey its important message to consumers to temporarily tighten belts on the consumption of freshly produced vegetables and other foodstuffs The perverse reaction of a major part of the community was to claim compensation in the form of increases in salaries and wages based on the perceived increased cost of living "

He called inflation "a silent tax" which redistributes wealth and income from savers to borrowers and pointed out the costs of decisions made solely to offset inflation





□ Firms prefer to invest in projects with short-term pay-offs, and

□ Savings go "to those institutions that can provide some protection against inflation and the investment of resources in assets such as commercial buildings Such initiatives and resources could no doubt be put to uses far more beneficial to society as a whole, but, at the same time, no less remunerative to the individuals in an environment of price stability "

Though inflation's destructive impact is clear, a link between low inflation and high growth has not been incontrovertibly established An analysis by US-based Citibank of 20 advanced industrial countries showed no consistent relationship (see graph) Japan, with one of the lower average inflation rates, had the highest growth But Switzerland, also with lower average inflation, had the lowest growth And Italy, with average inflation more than three times that of Germany, grew an average 23% faster over 20 years

Bank Deputy Governor Jaap Meijer says "Most industrial countries have been actively fighting inflation for only just over a decade, so it may be too early to reach conclusions " But he argues that where low inflation has not produced higher growth, it is probably because inflationary perceptions have outlived inflation and distorted investment patterns "There is a growing body of evidence for a correlation between low inflation and high growth "

But we can at least conclude that lower inflation won't hinder growth — unless monetary policy is expected to do the job on its own

When a central bank tries to keep growth in money supply within certain limits, it puts a ceiling on nominal growth Real growth depends on the proportion of the increase eaten away by inflation

The rise in GDP from R264bn in current prices in 1990 to R327bn in 1992 represented only higher prices In 1988, when GDP grew a real 4,2%, nominal growth was 20,4% The 16 percentage point difference reflects a number of factors (including rising consumer and producer prices and deteriorating terms of trade) unrelated to real growth

The trick is to change the mix and achieve more real growth, within nominal limits set by monetary policy — as reflected in money supply guidelines for 1993 of 6%-9%

Essentially, inflation occurs when too much money chases too few goods If supply meets demand there are no inflationary pressures The problem is in achieving the balance between supply and demand, particularly in SA, because

□ Decades of import substitution have created inefficient industries producing goods at uncompetitive prices,

□ For almost a decade, wages have risen faster than output,

□ Foreign exchange controls have built up a concentration of power in industry So businesses can maximise profits by putting up prices rather than increasing supply, and

□ SA industry depends on imported capital goods and technology and, often, imported skills to provide services When foreign exchange reserves run low, it becomes difficult to import what is needed

A policy aimed at remedying these structural defects would increase supply and reduce inflation Stals's financial stabilisation is only part of a broad package of economic reforms promised by several policymakers, including Finance Minister Derek Keys They are designed to reduce tariff protection against imports and free distribution channels Political reforms hold out the potential for increasing productivity, eliminating exchange control and attracting capital inflows to pay for capital imports

Causation moves both ways and lower inflation will play a valuable role in promoting growth By preserving the value of the currency, it will make imports more affordable, by reducing cost pressures, it will make exports more profitable, by increasing investor confidence, it will cut capital outflows.

An important accompanying requirement is that government spending must be reduced If government persistently puts money into the economy which the Bank has to siphon out again, the already high burden of public debt will rise further Despite monetary discipline, in recent years fiscal profligacy widened the gap between government revenue and spending and created further inflationary pressures

If monetary policy does not have to strain against these historic inflationary pressures, growth will not be choked off

Inflation of 5% is a practical and desirable target in the near future Experience abroad has shown that when desirable policies are in place — as is happening here now — after an initial delay, inflation falls fast

It will assist that process — and hasten a return to sustainable prosperity — if decisions based on the prospect of lower inflation are taken now

For 20 years, of course, the sceptics have been right But there has been an important — perhaps historic — shift in economic fundamentals which sceptics could ignore at considerable cost ■

Star 1/5/93

Inflation rate edging up

153

SVEN LÜNSCHE

THE inflation rate edged higher in March ahead of what was likely to be an even steeper VAT-induced rise in April.

The Central Statistical Service reported yesterday that the March inflation rate — measuring average consumer price increases in the year to March — was 9,7 percent, compared with 9 percent in February

The larger-than-expected rise was attributed mainly to soaring education costs. Fees for Model C schools rocketed 174,8 percent and university fees went up 14,3 percent.

Other large price increases were recorded for furniture, transport and reading matter, while lower mortgage rates led to a 1 percentage point decline in the housing index The cost of food was 0,6 percent lower in March compared with February, while the overall monthly consumer price increase was 1,5 percent

Economists expect inflation to return to double-digit figures for April, when VAT and the fuel price were increased

Surprise jump in inflation to 9,7%

SI Times (Buss) 2/5/93

By ZILLA EFRAT

INFLATION rose to a surprising 9,7% in March — up from February's 9% Many economists had forecast an increase of 8,7%.

The increase took the wind out of some good economic news. (153)

Finance Minister Derek Keys announced earlier that gold and foreign-currency reserves had turned around in April after plummeting to a two-year low of R7,5-billion in March.

The worst could be over for South Africa's reserves, especially because the drought has been broken.

Rebuilt

But Nedbank chief economist Edward Osborn expects the balance of payments to remain under pressure for the year as a whole

A major reason is SA's foreign debt repayments which could be as high as $1,5-billion in 1993 and largely fall outside the standstill net. The higher interest premium paid on SA's debt points to a general repayment of loans more than a rolling over of debt

Southern Life chief economist Mike Daly says net reserves will have to be rebuilt from their present one month's import cover to at least two months before interest rates can fall This might happen only by the yearend at best

Disastrous

Positive factors, however, are the strengthening rand price of gold and falling German interest rates where many of SA's loans are sourced, as well as possible International Monetary Fund assistance if a political settlement is reached

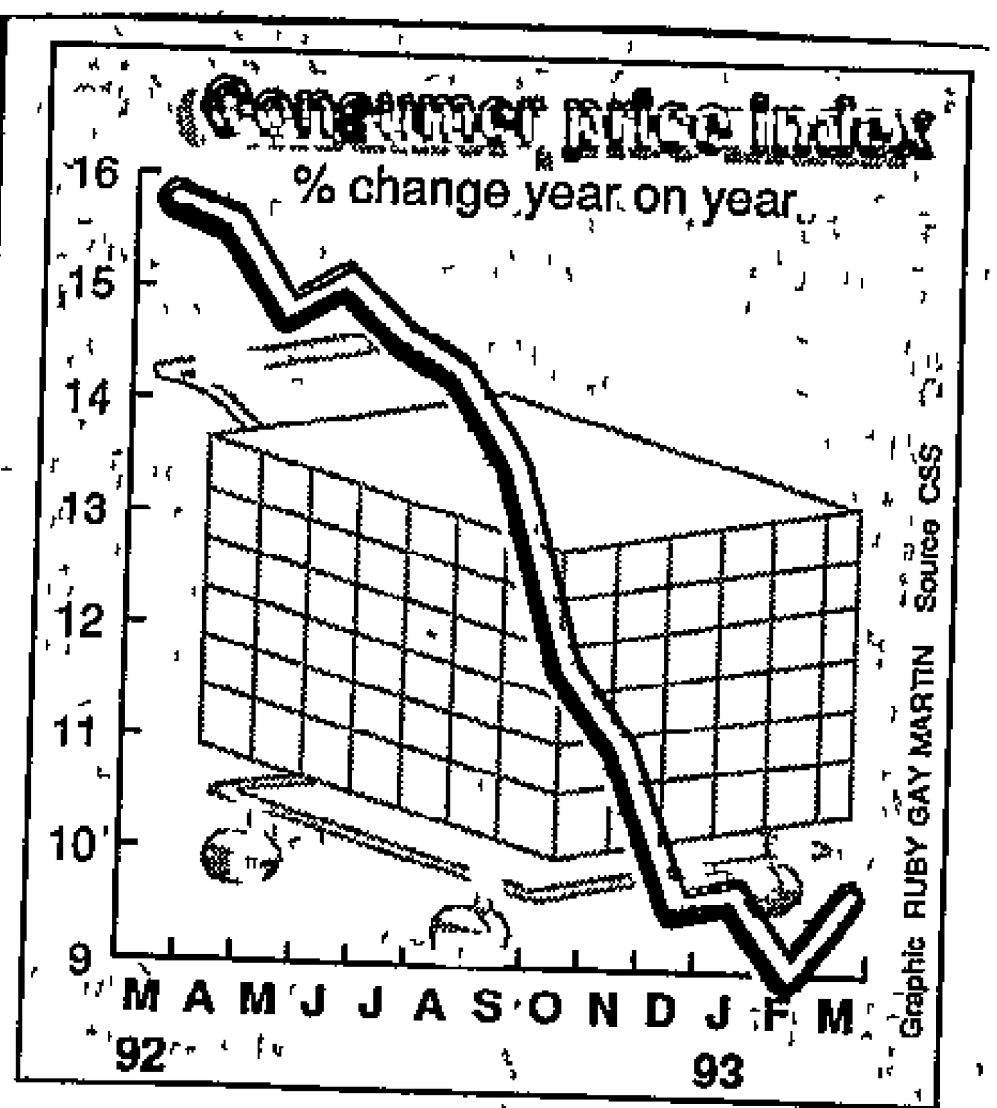
Economists say the mixed news highlights how little room Reserve Bank Governor Chris Stals has to manoeuvre

He may wish to lift interest rates to protect the reserves and rand exchange rate, but that could be disastrous for the real economy.

Some economists say Dr Stals' limited scope for action could cause the rand to depreciate in real terms against a basket of currencies for the first time since 1989.

The exchange rate has shown a 4% nominal weighted drop in the first four months this year — 1% in real terms

March money supply growth, which will be announced in the coming week, is expected to remain below the Reserve Bank's 6% to 9% guideline



Inflation of single digits on way out

SHARON WOOD (153)

SA may have waved goodbye to single digit inflation for the next year with Friday's announcement of a jump in consumer price inflation to 9,7% in March from 9,0% in February. Sowetan 3/5/93.

Economists said at the weekend that inflation could increase to 12% in April and would not reach single digit territory again this year. They said the March figure was significantly higher than general expectations of about 8,5%.

Economists also ruled out the possibility of another interest rate cut this year.

Sanlam chief economist Johan Louw revised his forecast for the average inflation figure for the year up to 11% from 9,7%.

The cost of education was the main reason for the large 1,5% month-on-month rise in consumer prices, compared with the 0,3% increase in February. A change in the Model C schools fee structure boosted education costs by 64,5% month-on-month

Economists were divided on whether education would put further pressure on consumer prices this year. Louw said it would have a once-off impact on the Consumer Price Index (CPI) But Absa economist Christo Luus was worried that education prices would become a pressure point in the future, particularly if fees rose again in a year's time

Food prices, usually the biggest contributor to inflation, declined The index eased 0,6% month-on-month, pulling food inflation down to 10,4% Food inflation has more than halved since last year, when it

☐ To Page 2

Inflation

Story 3/5/93 (153)

☐ From Page 1

was 28,9% Foodstuffs contributing to the fall in month-on-month food inflation were fruit (down 6,6%), fish (-1,8%) and vegetable (-1,6%) prices

Luus said the reduction in food inflation indicated that this factor was now under control Louw expected food prices to fall further in the second half of the year because of technical factors Increases were being calculated off a high base in 1992

A lower mortgage rate resulted in housing prices falling by 1,0% during March, translating into a 2,9% fall in housing costs since March last year But Luus said the latest inflation figure significantly reduced the possibility of another interest rate cut this year

The capital market reacted unfavourably to the new data. Shortly after the figures were released rates on the Eskom 168 stock hardened to 15,13% The Eskom stock ended the day even weaker at 15,155% from a previous close of 14,960%

Star 3/5/93

Long-term prospects for inflation brighten

By Sven Lünsche

Although the inflation rate is expected to show a VAT-induced rise above 10 percent in April, economists are convinced that it has decisively broken the 10 to 17 percent range of the past 18 years.

The Central Statistical Service reported on Friday the March inflation rate increased to 9,7 percent compared with nine percent in February On a monthly basis the consumer price index (CPI) rose by 1,5 percent despite a 0,6 percent decline in the cost of food.

The larger-than-expected rise was mainly due to soaring education costs. The CPI for education surged 64 percent between February and March this year, reflecting an increase in Model C school and university fees.

The increase in VAT from 10 to 14 percent, higher excise duties, more expensive fuel and rising postal rates are expected to return inflation to between 10 and 11 percent in April.

Nevertheless, economists expect a continuation of the longer-term downward trend once these short-term effects have been absorbed

In Southern Life's latest Quarterly Economic Comment economist Mike Daly says inflation was expected to average about 10 percent this year compared with 14 percent in 1992.

"Once the impact of VAT falls out of the year-on-year comparison in April 1994, the rate is expected to fall quite sharply to seven percent.

"Inflationary pressures are not expected to pick up significantly until the latter part of 1994 at the earliest," Daly says.

Sanlam economist Johan Louw says the factors that contributed to the sharp deceleration in inflation in the past nine months will still be present this year.

Labour costs

These factors include.

- The continued recession.
- The lower rate of increase of real labour costs as a result of slower wage rises and higher productivity.
- Improvements in agricultural conditions, leading to lower food price rises
- The reduction in bond rates
- The moderate inflation rates of SA's trading partners.
- The steadiness of the real effective rand exchange rate.
- Continued financial discipline, as reflected in the moderate expansion of the money supply and credit granted.

INFLATION FM 7/5/93 ·

Down to the core

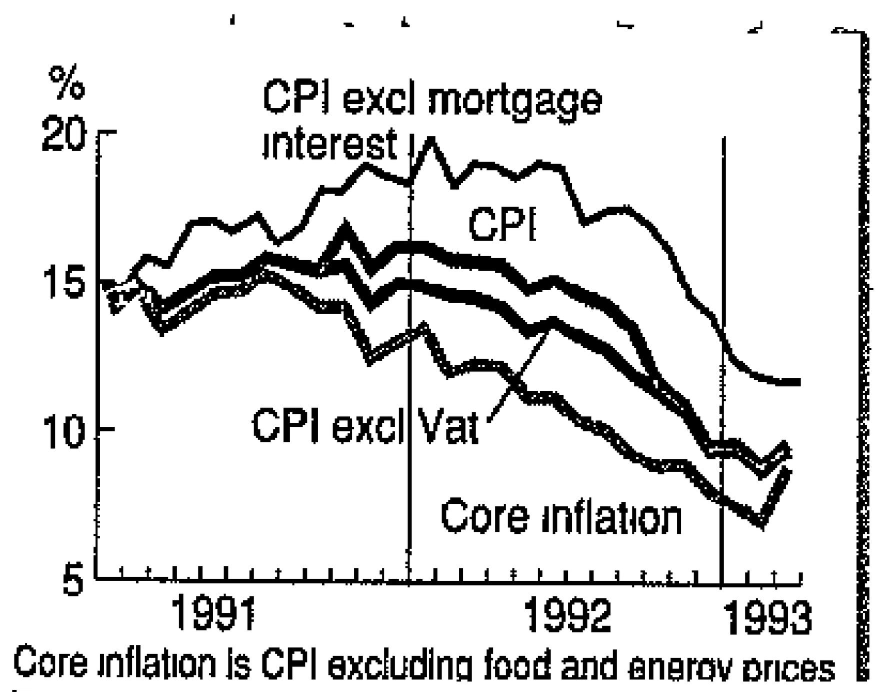
153

Policy-makers and planners, whether they be the monetary authorities or in private business, tend to look at overall 12-month changes in the consumer price index in making their decisions But economists frequently warn of the dangers of focusing exclusively on the overall rate because movements in the consumer price index can be distorted by sudden, once-off changes in the price of some items

A typical example was the imposition of Vat, in October 1991, on many foodstuffs previously not subject to GST The index rose sharply in October that year but the rate of increase decelerated equally sharply in October last year Also, changes in administered prices from time to time, can and do affect the overall rate

Diff'rent strokes

CPI



Core inflation is CPI excluding food and energy prices

FM 7/5/93

To give a more accurate picture of the underlying rate, a number of other statistics are produced Absa's economic research department looks at core inflation, which excludes food and energy Absa economist Pierre Morgenrood says core inflation is "an American concept Economists there felt food and energy were largely responsible for distortions in the overall level" (153)

In SA, food prices have been particularly volatile over the past 12 months because of the effect of drought on supply and because of Vat Energy prices — made up of fuel prices and the electricity prices administered by Eskom and the municipalities — have also been volatile These would be subject to changes in the fuel levy as well as to changes in international oil prices, and sudden falls in the exchange rate of the rand

Morgenrood says core inflation has its shortcomings. "It doesn't take into account other prices indirectly affected by rises in fuel or food prices"

The graph shows the overall rate has not been particularly volatile, in spite of swings in food and energy prices, but core inflation has consistently been lower than overall inflation

Economists have also recently pointed to the impact the housing component has on inflation — at 20,5% of the weighting in the index Almost two-thirds of the housing index comprises mortgage interest payments, which will tend to rise when the Reserve Bank raises the Bank rate, either as an anti-inflationary measure or to protect the balance of payments Equally, cuts in official interest rates, designed to spur demand, will cause a fall in the overall index

Nedcor Bank chief economist Edward Osborn recently drew attention to the role of recent declines in the mortgage rates in bringing inflation below 10% *(Economy* February 26) He argues that mortgage payments are not strictly consumption spending, they represent the cost of purchasing an asset Therefore they should not be incorporated in the index — a practice followed in the UK Alternatively, a rental equivalent could be used — as in the US

Usage of the various measures of underlying inflation depend on price shocks in any given period The Vat rise, from 10% to 14% in April, is expected to add another two percentage points to the overall rate over a

FM 7/5/93.

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12-month period So focus will return to the Vat-free rate However, this time the zero-rating of food should make this component less influential

Osborn says "Excluding sales taxes is a selective measure, and ignores other indirect taxes such as excise and import duties and fuel levies which are important and an inextricable part of the tax structures"

In March the overall 12-month inflation rate rose to 9,7% from 9% in February The rise in the month was 1,5% in spite of falls in food (-0,6%) and housing (-1%)

The uptick was caused by rises in other items, notably education, which would not be excluded from either core or mortgage-free inflation According to the Central Statistical Service there was a 64,5% jump (both in the month and in the year) in the education index "caused by increases of 174,8% in school fees (mainly due to the implementation of Model C schools), while university class fees increased by 14,3%" If the item is stripped from the calculation, overall inflation would have been 9,5%, which is still higher than was hoped ■

THE WEEK AHEAD by Simon Willson

Crude oil's stain could stay on PPI

B'DAY 10/5/93

(153)

FOR the first time in almost a year oil has surfaced as a major factor swaying import prices, and the oil price may extend its influence to cover the producer price figures for March due at the end of this week.

Headline producer inflation surged to a five-month high of 8,3% in the year to February from 7,4% in January, propelled mainly by a jump in the import price component of the producer price index (PPI). After falling 0,4% in January import prices leapt 1,3% in February, and a round-up of the usual suspects brought in the weaker rand and higher oil prices.

However, the rand has an alibi in the form of a real effective depreciation in January of only 0,1% from December. Pinning the rap on the oil price, however, looks an open and shut case by comparison. The evidence may be circumstantial, but it is compelling nevertheless.

The main chart shows the correlation in the past three years between the price of North Sea Brent blend, the oil market's most traded crude, and the annual percentage change in the import PPI, which has a 19,5% weighting in the overall PPI basket. This match-up has to be made irrespective of whatever secretive tapping of domestic oil stockpiles may be taking place.

There is a satisfying connection between the end-1990 takeoff in Brent as war loomed in the Gulf, and the near-simultaneous bounce in imported inflation to nearly 20%. This was followed by a mirror-image drop in import price growth as the Gulf effect dropped out of PPI a year later.

In the second half of 1992 the oil market tightened again when Saudi Arabia surprisingly held back an expected demand for higher production quotas, and accepted an extension of output limits agreed among oil producers the previous February. This boosted Brent to a 1992 high of $21,40 a barrel in mid-June last year, and set up the oil price movement that is now affecting the PPI.

Overproduction and cheating on quotas by oil producers, combined with slowing growth in the G-7 countries excluding the US, served to undermine oil prices in the second half of 1992. From its June high, Brent dived to a low of $16,60 seven months later, dragging the imports PPI lower. It is Brent's current recovery from its January lows below $17 that seems to be prodding import prices higher again.

As the chart inset shows, Brent rose $2,08 (or 12,5%) in the last nine trading days of January — just in time to hit a PPI survey in early February. The bad news is that Brent did it again a month later, jumping $1,93 (or 11%) in the 12 days to March 4 — just in time for the March PPI survey. As the inset indicates, Brent has calmed down and should not feature so prominently in PPI for much longer.

The twice-yearly Opec meetings have been the main movers of the oil price. An effective cut in Opec output at the February meeting boosted prices in the same month. Opec meets again in June.

A repeat in the March PPI of the oil effect that propped up the February outturn should be mitigated by a relatively high base for the March 1993 year-on-year percentage change. The PPI rose 1,2% between February and March 1992 — the year's second-highest monthly increase.

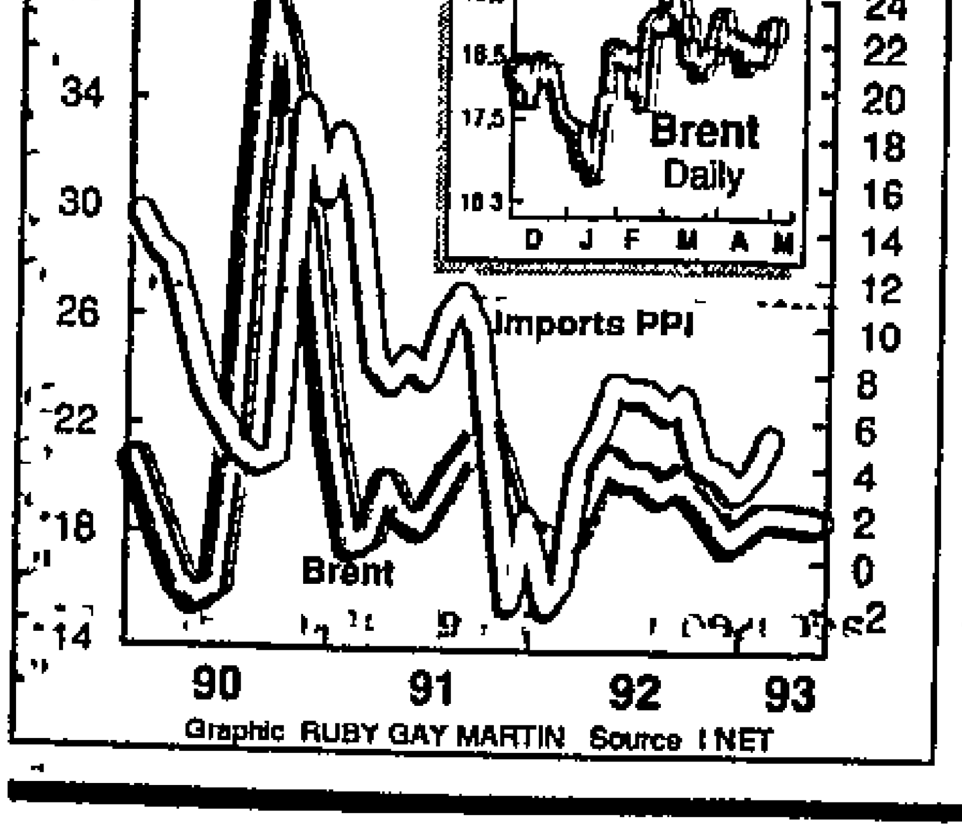
Internationally, data due for release this week may determine whether the stalled US economic recovery is largely the result of freak winter weather in the first quarter or a sign of deeper structural problems. Key US indicators this week cover the activity of both industry and consumers.

On Thursday US retail sales for April are published. The 1% fall recorded in March sales was the biggest drop in 26 months, but was attributed to the US eastern seaboard's worst winter storms this century keeping shoppers off the streets. For this theory to hold good, there will need to be an appreciable uptick in April sales arising from both last month's purchases and those postponed from March.

US industrial production data for April follow on Friday. Output failed to rise for the first time in five months when it stayed flat in March, and the weather was again partly blamed. The lengthening in April's average manufacturing workweek released with the US employment figures on Friday is a good portent for the month's factory output, as it suggests overtime was required to fill orders. US industry ran at 80,1% capacity in February — the first time it had topped 80% since 1990/91 — but the rate fell back to 79,9% in March. The US recovery will not really be rolling until there is less than 20% idle capacity.

Inflationary inputs to the British economy from the fall in sterling since last September may be shown to have peaked in the April UK producer price figures due today. Sterling had a good April, rallying to break up through the DM2,50 level near the month-end from its record late-February low of DM2,3120.

Headline UK producer inflation in the year to March was unchanged at February's 3,7%, but hid a surge in March's annual imported inflation to a five-year high of 8,3%. In view of sterling's subsequent ascent, the March high may yet prove to have been the peak.



KANTOR COMMENTS

Stamping out inflation

Fm 14/5/93

(153)

Brian Kantor is professor of economics at the University of Cape Town

SA has done something remarkable recently and I hereby claim to be the first to notice it We have issued our first zero coupon, inflation-linked, perpetual bond Moreover we have done so in units of as low as 45c Yes, I'm referring to the stamps of no par value without a convertibility date, issued by the Post Office and now available at some discount from major supermarkets

As the Post Office has told us, they hereafter regard old stamps as a perfect substitute for new ones, to be issued in due course at higher prices So the stamps, as durable as any security made of good paper can be, and maybe better for the adhesive stuff on the back, will be good as long as South Africans post letters

Please rush out and get yourselves the near perfect revenge against rising prices Stamps after all are much cheaper to store safely than canned food And do so before the supermarkets put up their annoying "supplier out of stock" signs Annoying because it is such a poor excuse for retailers to blame someone else for their failure or more likely unwillingness to hold more or enough inventory

Of course, if you come to trade the stamps, the pure inflation profit you make will attract the attention of the Receiver of Revenue However, it will be hard for the Receiver to claim a share if you actually use a stamp in 20 years' time, for which you paid a mere 45c, but which by then might cost R100 000

The big boys, even though subject to tax on their dealing profits, will be able to take full advantage of the new opportunity Pages of stamps issued for, say R10 000, can support an infinite number of further transactions in stamp derivatives which are bound to develop

Bond dealers, lock away enough pages of stamps at another respected institution, get a certificate of receipt and start trading them over any maturity structure that is convenient for hedging inflation risks The mail order companies will be eager buyers of options with long dated maturities

The economy, in this simple way, will have achieved everything Reserve Bank Governor Chris Stals has been pounding away at for so long You do not need low inflation to reduce the risk of long-term contracts if you have a low-cost hedge against variable inflation

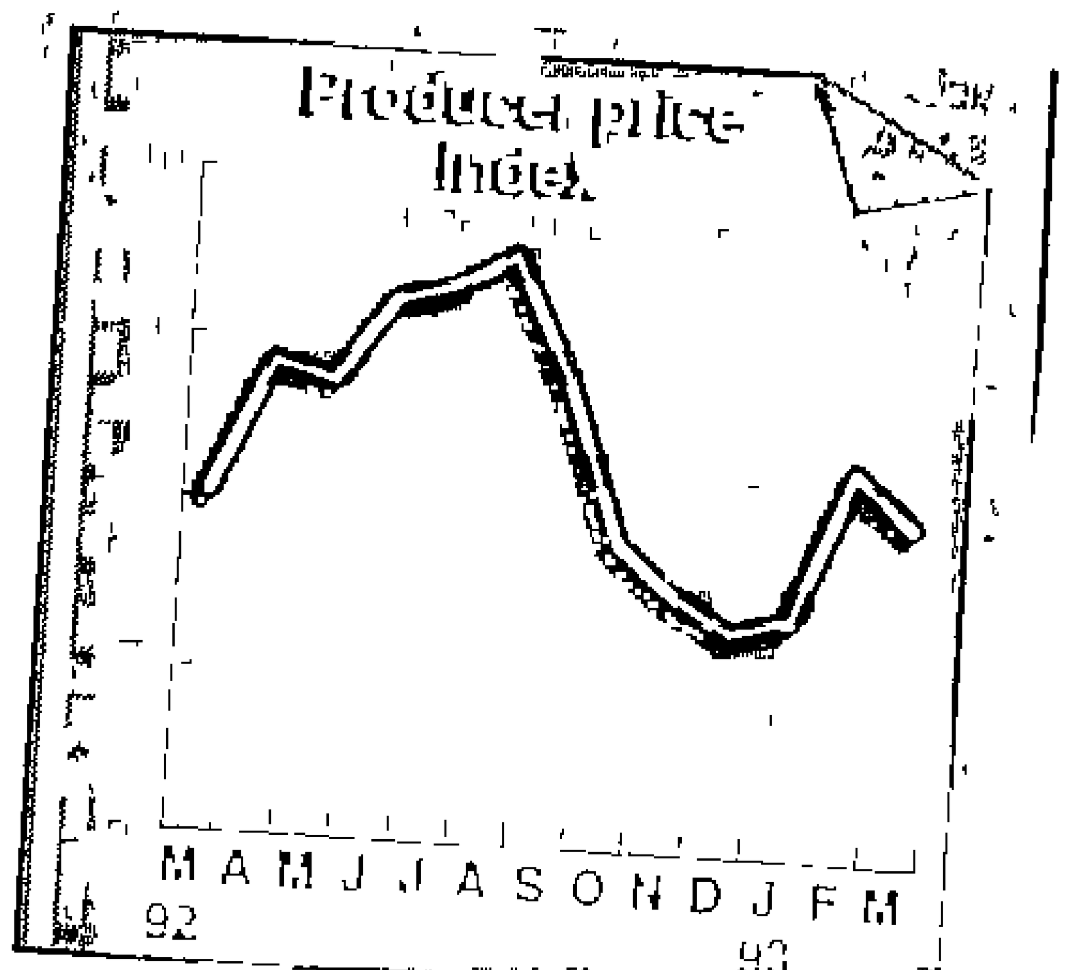
But the stamps are not simply an inflation-linked bond, they are much more They provide a hedge against higher taxes which rise with wage awards to public-sector employees The more the State gives away to the people who work for it, the higher the price of stamps

The Post Office has therefore now provided the kind of opportunity already available to every customer of Pick 'n Pay or any other listed retailer, the opportunity to buy the company's shares if you are concerned at paying too much at the store

The volume of supermarket purchases we make justifies completely such a hedging strategy (Similarly food manufacturers, if they believe retailers have a bargaining edge, can always buy into the retailers) No wonder Pick 'n Pay chairman Raymond Ackerman arranged to split his shares, being another example of how he satisfies his customers

By the same token the fact that he has not bought into food manufacturing, while the food manufacturers have gone for good retailing, does perhaps tell us something about who calls the shots in the food chain Of course, if he were to go further and offer to issue Pick 'n Pay shares as well as stamps at the parcel counter, he would soon lose control of the company

As he always does what his customers want, we must infer that few of his customers would prefer that



Graphic LEE EMERTON Source CSS

Hope for sustained decline in inflation

Business Day Reporter

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HOPES of a sustained decline in underlying inflation were bolstered at the weekend by news that the year to March rise in producer prices had slowed to 8% from 8,3% a year ago

BDay 17/5/93

Latest figures released by the Central Statistical Service (CSS) show that the month-on-month rise in producer inflation, as measured by PPI, was just 0,2 percentage points from February this year

The prices of locally produced goods rose 8,5% in the 12 months compared with 9% previously

Imported goods rose 5,6% over the year, and 0,2 of a percentage point on February's figure.

CSS said there had been a slowing in price increases of agricultural produce, fish and electricity There was an upward trend in coal, alcohol and textiles

Rand Merchant Bank chief economist Rudolf Gouws said it was encouraging that price rises had slowed across the board The data confirmed that inflation was still in a downward trend.

"This latest figure proves lower inflation is not a flash in the pan."

Producer inflation had become established around the 8% level and once consumer inflation was over the VAT hump, he saw it following the same trend as PPI

Consumer inflation is expected to rise to about 11% in the next few months because of tax hikes.

But after 12 months these effects will be worked out of the CPI and inflation should resume its downward trend

BUSINESS

Car prices still race ahead of inflation

W mail 14/5-20/5/93 (153)

The rise in car prices seems inexorable. **REG RUMNEY** *takes a closer look*

DESPITE lower demand, car prices continue to rise. The prices of some of the most popular basic car models have outstripped inflation over the past three years

Toyota Corolla 1,3l	48 7%
Citigolf	59 4%
Fox 1,6l	56 3%
Mazda 323 130	58 8%
Mercedes Benz 230E	48 7%
Laser Sport 1600i	40 7%
Opel 140 Cub	55 2%
Uno Fire	48 9%
#Inflation	44 8%
Yen/rand depreciation*	40 5%
DM/rand depreciation*	20 7%

*Average April 90 to April 93 #March 90 to March 93

We have compiled a table of the list prices of selected cars over a three-year period from April to the first week of May this year. The prices include 13 percent GST in 1990 and 14 percent VAT now.

For comparison, the table shows inflation as measured by the Consumer Price Index over those three years

Also, we have calculated imported inflation through the depreciation of the rand against the yen and the Deutschemark over the three-year period. Depreciation of the rand has often been cited as a contributory cause of car price inflation, since a certain percentage of the components of all cars is imported.

The graph shows that the prices of some popular models have not only outstripped inflation but also outpaced the devaluation of the rand.

Also, the rand/yen devaluation was double that of the mark, but this is not reflected in the price rises The prices of some German-sourced cars rose higher than the prices of some Japanese-sourced cars and vice versa

Gauging car price increases is made difficult by both the introduction of new models and changes in the specifications of existing models. To compare apples with apples we have taken only those 1990 models which are still produced

Even then, comparison is bedevilled by specification changes For instance the specifications of the Mercedes 230E Automatic have changed since 1990 Mercedes Benz management board member Peter Cleary says that some of what is now standard equipment on the 230E was optional three years ago, such as the Meridian two-year free maintenance package which would otherwise cost R5 800, a Becker radio costing R1 949, and an anti-theft system costing around R1 200 Stripping these sort of things out gives a price increase between January 1990 and January 1993 of 41,5 percent

Cleary accepts, however, that the consumer has no choice about whether to have the new standard items or a cheaper car and so a straight price comparison, without taking into account minor changes, has validity

Why the price rises when the number of new cars sold is falling?

The prospect is of manufacturers selling fewer and fewer cars at increasingly higher prices Cleary reckons that low car sales are not only related to price, but to the weakness of the economy

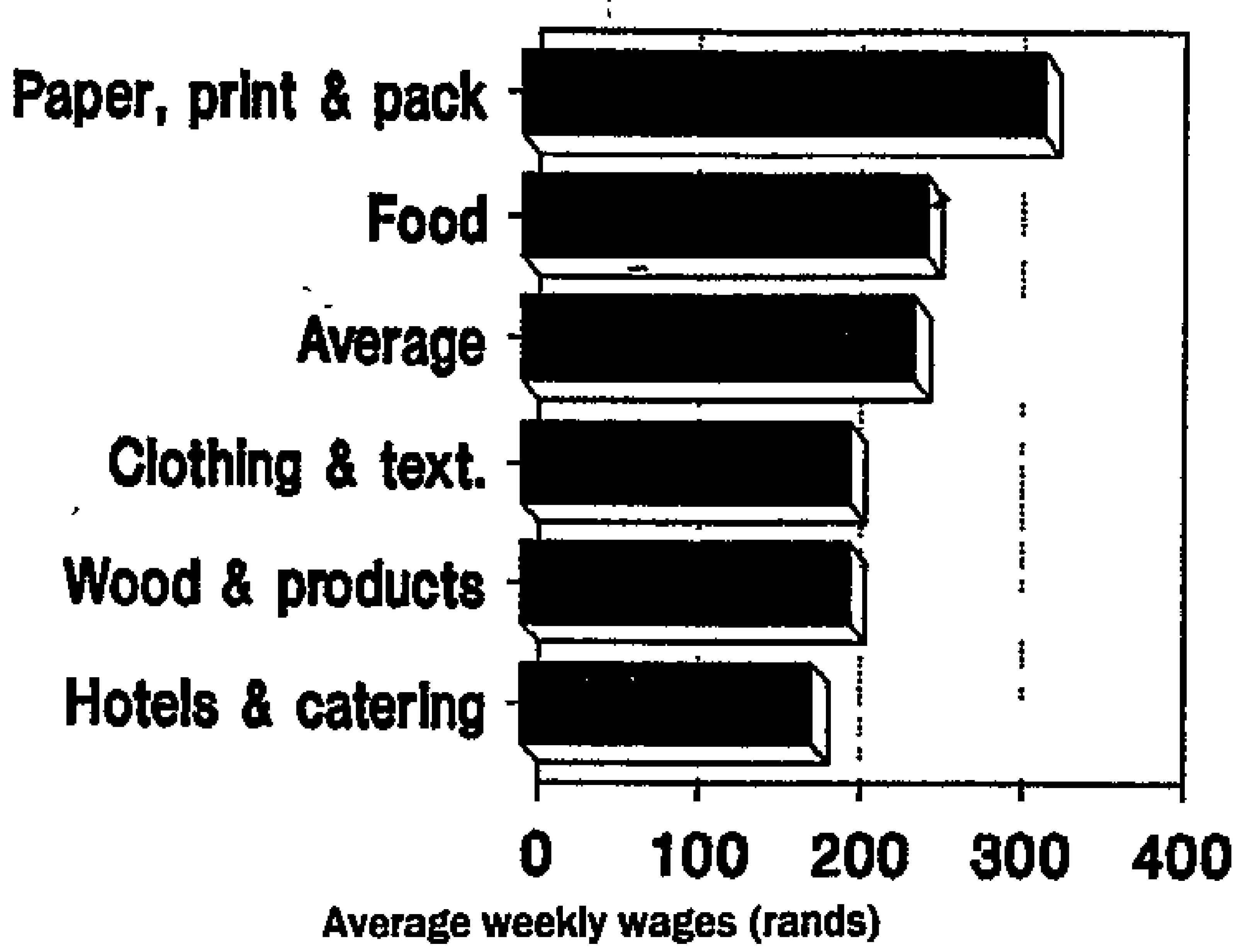
The reasons for the seemingly inexorable car price spiral are varied and complex Two are the falling rand and wage increases in the motor industry higher than inflation The 110 percent protective duty on imported fully built-up cars, keeping out competition from imports, is another But a big cause is the government's Phase 6 "local content" programme This, a misnomer in that its aim is to save foreign exchange rather than increase local content, has its own inbuilt cost-raising factors

If a manufacturer cannot achieve the stipulated 75 percent local content he pays punitive duties Or he can export motor components — such as pollution-preventing autocatalysts — to get credits which count as local content Failing that he can automatically achieve higher local content simply by putting up the wholesale price of the vehicle The local content, by value, is arrived at through a formula which allows this

Toyota marketing manager Brand Pretorius reckons that until the rand stops depreciating and some change is made to Phase 6, prices will continue to surge Over the past 12 months the rand has depreciated 30 percent against the yen, he notes.

A government task force on the motor industry is expected to report at the end of this year on, among other things, affordability.

2000.



Pay rises still topping inflation rate

By Paul Bell Star 21/5/93
Labour Correspondent

The fall in inflation has not been accompanied by a decline in wage increases.

According to a survey by the Labour Research Service (LRS), annual wage settlements averaged 13,9 percent between September 1992 and March this year.

Inflation over the same period averaged 10,2 percent — making a net gain for workers of 3,7 percent.

(153)

In its survey of 112 companies for its biannual review, the LRS says 72 percent of respondents awarded increases of 10,3 to 20 percent, while only 20 percent of the sample made awards below the inflation rate. The average wage was R243 per week, or R1 023 per month.

Paper, printing and packaging workers were the highest paid, at R323 per week. Food manufacturing paid next best, at R250.

Worst off are the hotel and catering industry — a sector which, incidentally, is currently affected by industrial action — where, according to the LRS, workers are said to earn an average R180 per week.

CG Smith lifts earnings, repeats payout

By Stephen Cranston Star 21/5/93

CG Smith was able to increase earnings per share by four percent to 461c in the six months to March.

The dividend has been maintained at 117c.

This was achieved despite an eight percent decline in the contribution from its main profit source, CG Smith Foods, which in its own results reported earnings per share of 151,2c and an eight percent cut in dividend to 36c.

CG Smith's turnover rose by seven percent to R9,5 billion.

Chairman Robbie Williams says trading conditions were tougher than expected. Operating profit was up just one percent to R719 million.

But a reduction in interest payments allowed pre-tax profit to rise by five percent.

The group was a beneficiary of the new structure which took R40 million off the tax bill.

Weak consumer demand and high raw-material costs reduced earnings at Tiger Foods.

Severe drought conditions encountered by the sugar industry led to a 21 percent fall in the earnings of CG Smith Sugar. Its tonnages were off 16 percent in the 1992/3 season and an estimated 25 percent for the 1993/4 season.

This was partly offset by a strong performance from the group's US-based operation, Monitor Sugar.

ICS did well to achieve a marginal improvement in earnings, despite falling volumes and surpluses in milk, red meat and chicken.

Star performers were Adcock Ingram and Logos Pharmaceuticals, which benefited from the success of new products and continuing focus on cost containment and operating efficiency. Their contribution increased by 40 percent.

Oceana Fishing profited through a strong performance from the cold storage division and restored profitability in the shipping and clearing operations.

Nampak's sales volumes fell 1,8 percent, but tight cost control, good asset management, lower interest rates and a reduced effective tax rate enabled it to improve attributable earnings by 22 percent.

Profits were maintained by Bevcan, Foodcan and Sacks, while the glass division achieved a modest profit.

Plastics was adversely affected by lower sales in the soft drink industry of PET bottles. The corrugated division was affected by the switch to plastic crates by SA Breweries.

There were improvements in the tissue and printing divisions, but declines from paper manufacturing and merchanting.

The textile market was also affected by difficult trading conditions, with profits declining in the fabrics and industrials divisions.

There were continued improvements in the carpet division. Island View Storage benefited from higher imports by customers.

The disposal of Crossley Carpets for R37 million and a drop in borrowings led to a substantial reduction in Romatex's interest costs. Its taxed profit improved by 42 percent.

CG Smith's cash flow from operations improved from R374 million to R592 million. Net cash flow after investment in future operations was R227 million (R117 million last year).

Gearing improved from 25,1 percent to 21,9 percent.

Williams does not expect any improvement in trading in the near future, but feels earnings for the full year are likely to show a small improvement.

21/5/93

THE WEEK AHEAD by Simon Willson

Rise in April inflation may be muted

B DAY 24/5/93. (153)

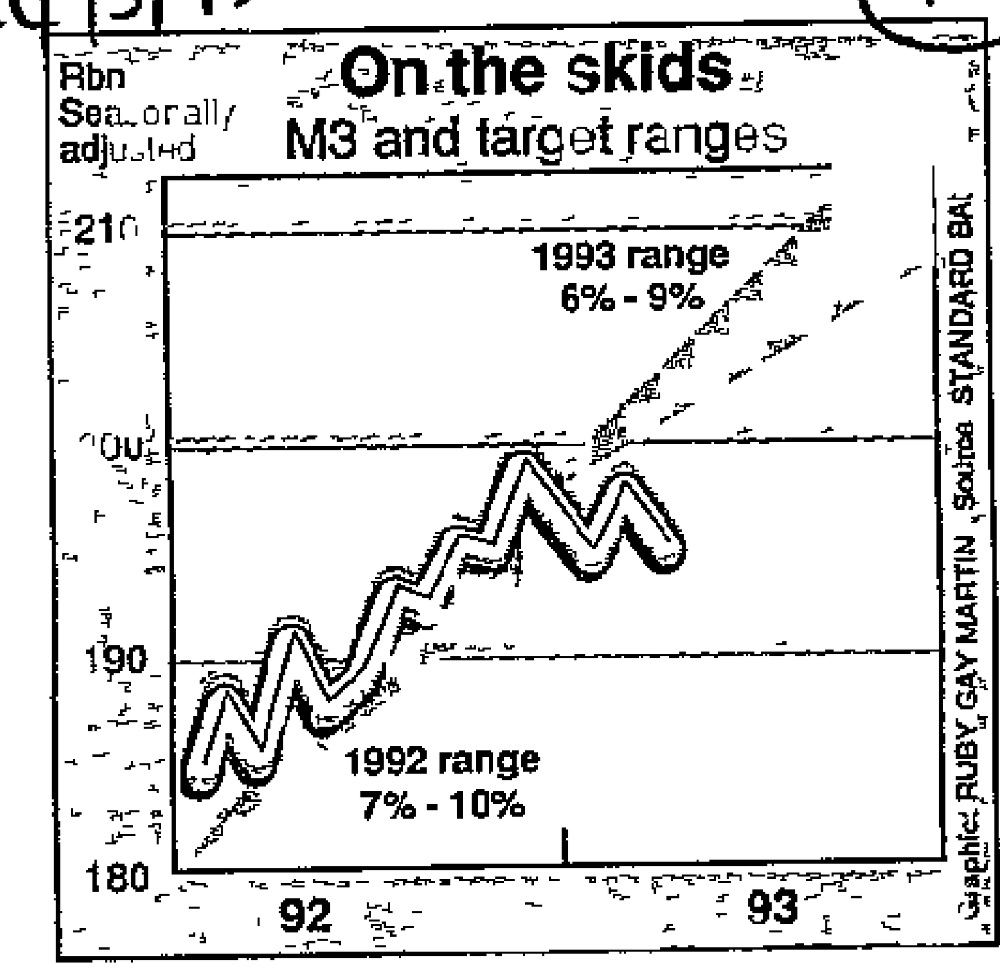
THE full effect of the VAT increase announced in the Budget may not be reflected in the April inflation rate, due for release at the end of this week

Initial market projections of a sharp rise in inflation last month were based on the assumption that the full impact of higher VAT would hit the **April consumer price index** (CPI) But the rise in April inflation from March's 9,7% could fall short of the 2,5-3 percentage point jump that has been widely expected

Forecasts of a three-point leap in April inflation were encouraged by the date — April 7 — on which VAT rose from 10% to 14% The monthly CPI survey by the Central Statistical Service (CSS) monitors prices in the first week of the month, and the effective date for the VAT hike looked conveniently set to catch the higher tax effect in the CPI

Furthermore, the CSS carefully changed its survey procedure to ensure that April's inflation rate built in the VAT increase Instead of monitoring prices on any day in the first week of April, the survey covered solely prices effective on April 7 — supposedly those including the higher VAT.

However, it seems many of the most influential respondents to the CPI survey quoted prices with VAT at 10% instead of 14% Apparently most of the large retailing chains extended lower VAT-rate prices on high-volume lines over the long Easter weekend that followed the raising of VAT



This ensured that outlets and items with the biggest weightings in the CPI basket excluded higher VAT as a factor.

Service industries and smaller retailers in the CPI survey evidently quoted prices inclusive of higher VAT, but their weightings in the basket are smaller than those accorded the high-turnover national grocery chains and retailing multiples Price restraint therefore looks likely to receive a much higher than expected profile in the April inflation figure

The other higher prices arising from the Budget may also have a muted effect on the year-on-year inflation rate The raised excise duty on alcoholic drink and the higher fuel ~~levy will~~ show up in higher ~~monthly~~ inflation in April rather than March, but should make little difference to the annual rate. This is because the Budget in 1992 contained almost identical increases in petrol and drink prices

The **April money supply** figures are also due this week As the chart shows, a sluggish annual rate of expansion in the M3 aggregate has dragged broad money supply's growth trend some way below the Reserve Bank's 6%-9% guideline range for the year Last year, by contrast, M3 was seldom far from the Bank's 7%-10% range In March annual M3 growth, at 5,15%, was little changed from February's 5,18% but the change from the base of the guideline year slipped to -1,79% from March's 0,68%.

Monetary stagnation has coincided with a five-month run of declining foreign reserves, which has helped drain foreign exchange from the economy The upturn in the reserves in April and the bull trend in the gold price may now contribute to a higher rate of broad monetary growth To the extent that higher gold proceeds have been lodged with banks, the gold boom could show up as higher private sector deposits Any increase, however, would be net of loan repayments by mining houses

Internationally, the rally in US statistical releases from poor first-quarter showings should continue this week **US durable goods orders** for April are published on Wednesday, and will be hard pushed to repeat their March fall of 3,7% — the biggest drop in 15 months. The March figure seemed to be affected by the adverse US weather in the first quarter since the change was not concentrated in the volatile transportation sector but was based across industry A rebound is due

Tomorrow **US consumer confidence** for May is released, having already ended successive monthly falls throughout the first quarter by bouncing up 4,5 points in April to 67,7, consumer sentiment's best showing since January Reversing first-quarter falls is plausible, but not much has happened yet in the slow US recovery to enable the confidence index to improve to its December highs above 78

On Friday the first quarter is examined when **first-quarter US GDP** is given its first revision Instead of rising a preliminary 1,8%, the economy would have shrunk 0,3% without a solid contribution from inventory accumulation, which tripled its rate of the previous quarter Subsequent data for the March quarter have shown consumption to have been so lacklustre that stocks could be revised up again, which would boost growth in the revision at the expense of subsequent quarters.

Towards the end of the week Japanese April unemployment is out, and may show why the Bank of Japan has been intervening to cap the yen's rise Headline unemployment was 2,3% in March but trends show joblessness will rise

Star 21/5/93

Inflation rate set to shoot up

Finance Staff

The inflation rate for April is set to shoot back into double digits because of the increase in VAT, Reserve Bank Governor Dr Chris Stals warned yesterday

Speaking at a conference in Somerset West, Stals said inflation could rise from 9,7 percent in March to about 12 percent in April, as a result of the 40 percent rise in the VAT rate to 14 percent.

But he was confident inflation could sink back to single digits later in the year

"The only danger is that it could escalate if there are higher wage demands as a result of the temporary rise in inflation," he said.

Despite the possibility of a short-term hike in inflation, Sanlam's chief economist Johan Louw is optimistic that the favourable trend in the gold price could lead to a drop in interest rates later this year

The higher gold price and better agricultural conditions should in time contribute to a marked improvement on the current account of the balance of payments, Louw says in Sanlam's latest Economic Review.

A surplus of at least R4 billion is expected for the year, compared with R4,27 billion last year. (153)

This, together with possible improvements in the capital account, may lead to lower interest rates later this year

However, a marked recovery in the economy this year remained unlikely, Louw writes, as indications of an approaching upswing remain limited

Domestic investment — the engine of economic growth — had decreased by more than a third over the past four years. Real consumption spending by private individuals was also dropping sharply now.

Despite considerable improvements in the outlook for agriculture and a recent rise in export values, it therefore remained unlikely that the economy would improve markedly this year.

Factors agitating against an upswing included weak foreign economies, the dampening effect of the budget, continued monetary discipline, and the continuous violence, labour unrest and political uncertainty.

Star 27/5/93

Hefty pay rises seen undermining inflation fight

By Sven Lünsche

There is a real danger that a renewed strong upturn in wages and salaries could derail recent achievements on the inflation front, Frankel Max Pollak Vinderine economist Mike Brown warns.

Writing in a research document by the broking firm "The Transition Economy", Brown says the average pay per worker has remained above the inflation rate for the entire period of the downturn. (see graph)

This is confirmed by a Labour Research Service survey showing wage settlements in the six months to March averaged 13,9 percent, compared with an inflation rate average of 10,2 percent

"The trend suggests unemployment levels have failed to reduce high expectations in wage settlements, pointing to inefficiency and rigidity in the labour market," Brown says.

"Although there is some anecdotal evidence that wage demands are settling at closer to, or even below, the inflation rate, the history of the past five years indicates that some caution must be expressed about wage-push inflation" (153)

Quoting from a recent World Bank report, Brown emphasises the point that a surge in wages in a recessionary climate accelerates rather than alleviates unemployment

The World Bank concluded "Black wages have largely responded to influences other than market forces that have led to an increase in real wages, despite high unemployment in the black community.

"White wages, on the other hand, have adjusted much more strongly to market forces and have apparently maintained white employement close to its full employment level"

The bank ascribes the sharp rise in black wages to

- Increased union activity which may have raised real wages by as much as 15 percen per annum between 1979 and 1990
- Convergence in skill levels of the black and white labour forces
- Reduced discrimination and pressure on employers to reduce wage differentials.

Apart from payroll inflation and tax-induced inflation, Brown suggests economic trends point to lower average annual inflation of 10,7 percent for 1993 and 8,5 percent next year.

Higher inflation forecast

BDm 28/5/93 (153)

TIM MARSLAND

A SURGE in government spending and the large net deficit in the balance of payments put upward pressure on inflation, the Afrikaanse Handelsinstituut (AHI) said yesterday

Releasing the AHI's second quarter inflation barometer, economist Johan Rossouw said it showed a reading of 11% compared with 10,8% in the last quarter

He said 11% was a reasonable expectation for the next 6-12 months, implying that CPI rates above 11% in the near term would overplay the fundamental inflationary forces.

Economists believe inflation, as measured by CPI, is likely to top 12% for the year to April.

Rossouw said the rise was mostly because of the markedly negative impact of two main trends in recent months. These were sharply higher government spending and a surge in the fiscal deficit The large net deficit in the balance of payments with "visible" decline in the real exchange rate of the rand also contributed.

He said this underscored the crucial significance of discipline in government spending.

He said the figures had been helped by disinflationary trends such as the fall in the M3 money supply growth rate to about 5%, large spare capacity, single-digit PPI inflation, and the slowdown in the rate of wage increases and unit labour costs.

He said if the improved fiscal and balance of payments data should emerge in the coming months, inflationary pressures could subside.

The AHI expected a one percentage point cut in Bank rate in September, depending on government spending, the fiscal deficit, the exchange rate and the violence.

Inflation set to top 11% by next year

(153) 28/8/93

By AUDREY D'ANGELO
Business Editor

INFLATION is likely to average 11% between November and May next year — although higher indirect taxes are expected to push it above this in the shorter term — Afrikaanse Handelsinstituut chief economist Nick Barnardt says

But, because real interest rates are still high, he expects a 1% cut in bank rate around September.

Barnardt's forecast is based on his "barometer" measure of underlying inflation, which registered 11% in the second quarter of this year compared with 10,8% in the first quarter.

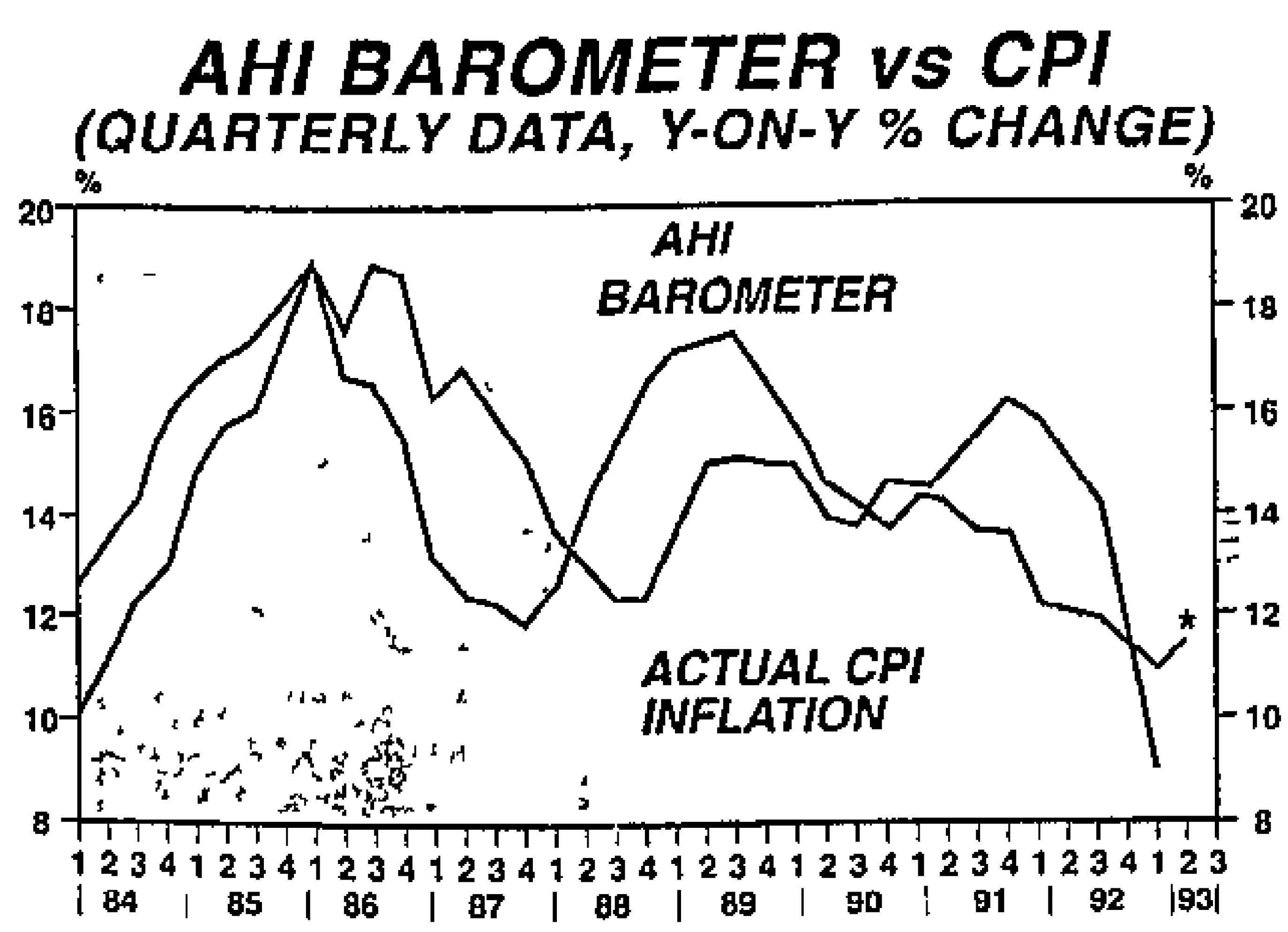
This, he says, implies that consumer price index (CPI) rates above 11% in the near term "would overplay the fundamental inflationary forces in the economy"

The rise in the barometer, in spite of recent disinflationary trends, is almost entirely due to "a surge in government outlays and in the fiscal deficit, and the large net deficit in the balance of payments (BoP) with the accompanying visible decline in the real exchange rate of the rand"

It underlines the crucial need for discipline in government spending and for an improved BoP

"It is clear that if improved fiscal and BoP data should emerge in coming months inflationary pressures could subside quite perceptibly, bringing a return to single digit CPI inflation in the course of 1994 into prospect.

"This could be enhanced by technically favourable factors such as lower fresh produce prices and lower interest rates."



TURNAROUND The AHI barometer of underlying inflation — which combines a range of inflation-related variables into a single composite index — began to turn up in the first quarter of this year and the rise was continued in the second quarter

Barnardt says the monetary authorities "deserve to be congratulated for the flexible way in which the unusual financial circumstances of the past nine months have been handled

"Despite a huge outflow of net foreign reserves and a ballooning fiscal deficit, official lending rates were not increased but were in fact reduced and the exchange rate was allowed to absorb part of the pressure

"This is in line with international practice when a domestic recession is in sway"

However, "real interest rates are still high in relation to the depressed economic conditions

Consequently as soon as the net foreign reserves begin recovering and the fiscal deficit shows signs of subsiding interest rate levels can be expected to fall

"Bank rate could be cut by 1% around September. If inflation falls back into single digits during 1994 a further bank rate cut could occur around the middle of next year

"This would bring prime rate of 14,25% probably representing the nadir of the declining phase which began early in 1991

"After this interest rates will probably remain flat for some time, possibly followed by the commencement of a renewed upward phase during 1995."

Barnardt points out two risk factors to this scenario are the possibility of a sharp appreciation in the US dollar and an upsurge in violence and instability around the national elections due to be held in the first half of next year.

"Both these factors could trigger severe short-term capital outflows, thus exerting upward pressure on money market interest rates and putting a floor under any further declines in official lending rates"

Inflation barometer showing signs of renewed pressure

Star 28/5/93

By Claire Gebhardt (153)

Inflation is on the uptrend, according to the latest reading from the Afrikaanse Handelsinstituut's (AHI) Inflation barometer.

The barometer registered its first uptick in almost two and a half years in the second quarter, with a reading of 11 percent — up from 10,8 percent in the first quarter.

As the barometer is a leading indicator of underlying inflation, this suggests 11 percent as a reasonable expectation of inflation over the next 6 to 12 months.

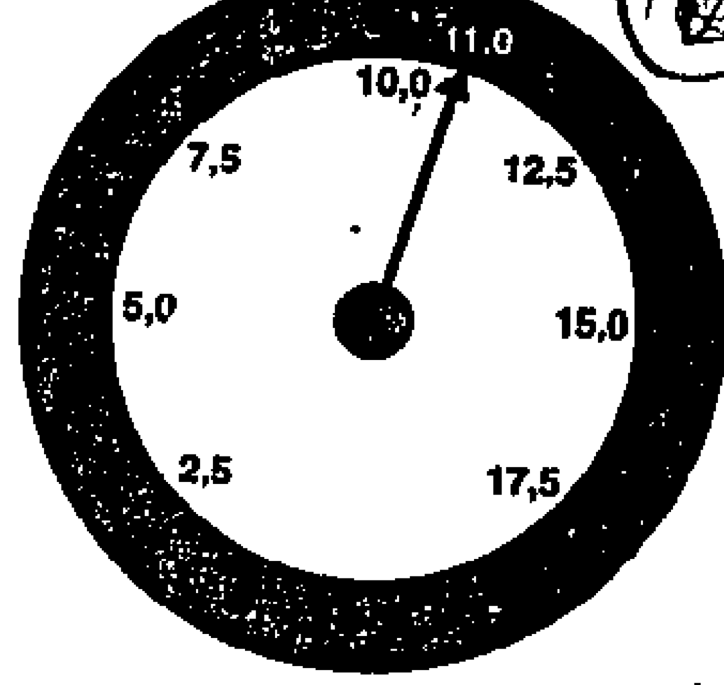
April's figure, however, is likely to be over 12 percent, says chief economist Nick Barnardt.

He attributes the higher reading to the inflationary impact of a surge in government spending, a high fiscal deficit, balance of payments (BoP) difficulties and exchange rate depreciation

"If improved fiscal and BoP data emerge in coming months, inflationary pressures could subside quite perceptibly, bringing a return to single-digit CPI inflation in the course of 1994"

Barnardt says that despite a huge outflow of net foreign reserves and a ballooning fiscal deficit, official lending rates were not increased, but were in fact reduced, and the exchange rate was allowed to absorb part of the pressure.

"This is in line with international practice when a domestic recession is in sway, as embo-



The AHI's inflation barometer reading for the second quarter of 1993

died by M3 growth falling below the official guideline range."

But real interest rates are still high in relation to the depressed economic conditions, he says

Consequently, as soon as the net foreign reserves begin recovering and the fiscal deficit shows signs of subsiding, interest rate levels can be expected to fall.

Bank rate

Given this scenario, the bank rate could be cut by one percent around September.

"If inflation falls back into single digits during 1994, a further bank rate cut could occur around the middle of next year"

This would bring prime rate to 14,25 percent, probably representing the nadir of the declining phase which began early in 1991.

"After this, interest rates will probably remain flat for some time, possibly followed by the commencement of a renewed upward phase during 1995."

Barnardt warns that the major risk factors are a sharp appreciation in the US dollar and a renewed upsurge in domestic violence around the 1994 SA election.

"This could change the entire picture and result in severe short-term capital outflows on the BoP, which will exert upward pressure on money market interest rates and put a floor under any further decline in official lending rates."

The AHI notes that South Africa's consumer price index (CPI) has been on a rollercoaster ride in recent months and years, as has the relationship between the CPI and producer price index (PPI) inflation rates.

After a fall in the CPI to 13 percent in mid-1990, the rate shot up to above 16 percent in 1991 in response to fuel price increases, soaring food prices and VAT. At the same time, the PPI rate dropped towards single digits.

Late in 1992 and early 1993 the CPI rate fell sharply to 9 percent on the back of lower housing costs, the favourable response of food inflation to improved rainfall, and the fading effect of VAT, almost eliminating the CPI/PPI gap of the preceding year.

April's inflation figure, however, could come in close to 12 percent, given increased education costs, fuel prices and VAT. This would imply a renewed widening of the CPI/PPI inflation gap.

past four months compared with net

abolished, says Mr Cross.

ST Times [BUSS] 30/5/93

Hope for cheaper money

CONSUMERS stopped shopping after the Chris Hani assassination, leading to plummeting demand for credit and a year-on-year money-supply growth rate of only 3,35% in April

(153)

This is way below the Reserve Bank's money-supply target range of 6% to 9% and down on March's 5,66%.

Econometrix economist Azar Jammine says "This puts a downward influence on inflation and could imply pressure on Reserve Bank Governor Chris Stals to drop interest rates."

Dr Jammine warns that the fall in money-supply growth may end soon "The higher gold price has lifted the reserves and the effects of this have not filtered through into money-supply figures"

Falling reserves since the beginning of the year contributed to the money-supply growth fall, says Dr Jammine.

Nedcor economist Edward Osborn says money-supply figures were kept artificially low by R8,5-billion being taken out of the system through the issue of government stock.

This brought the money-market shortage to an extraordinarily high level.

Russians lift diamond demands

RUSSIAN diamond mines are again claiming the right to sell fewer of their gems through the Central Selling Organisation (CSO). Head of the Committee on Precious Stones and Metals says restrictions on prices and output imposed by the diamond cartel "no longer suit" miners. They want to sell up to 20% of output to Israel, India, Belgium and America.

THE WEEK AHEAD by Simon Willson

Buss. day 11/6/93

Extended data prepared for April CPI

153

APRIL's inflation rate is expected towards the end of the week, after delays associated with broadening the survey of consumer prices to make sure the effect of the VAT hike shows up in the figure.

In its quest for a thorough study of the impact of VAT's rise from 10% to 14%, effective on April 7, the Central Statistical Service (CSS) April price survey was more detailed than usual.

It was extended to cover all items that feature in the consumer price index (CPI) — including those normally surveyed less often than once a month

The expansion of April's monthly CPI survey to accommodate prices usually monitored quarterly or biannually is primarily responsible for the delay in publishing the inflation rate, although the VAT hike itself will also have contributed

Respondents to the price survey were asked to quote prices effective from April 7 and inclusive of VAT at 14%, but many of the larger outlets withheld VAT-related price increases until after the April 9-12 Easter weekend. Deciding which price to quote to CSS has probably held up some of the CPI questionnaires

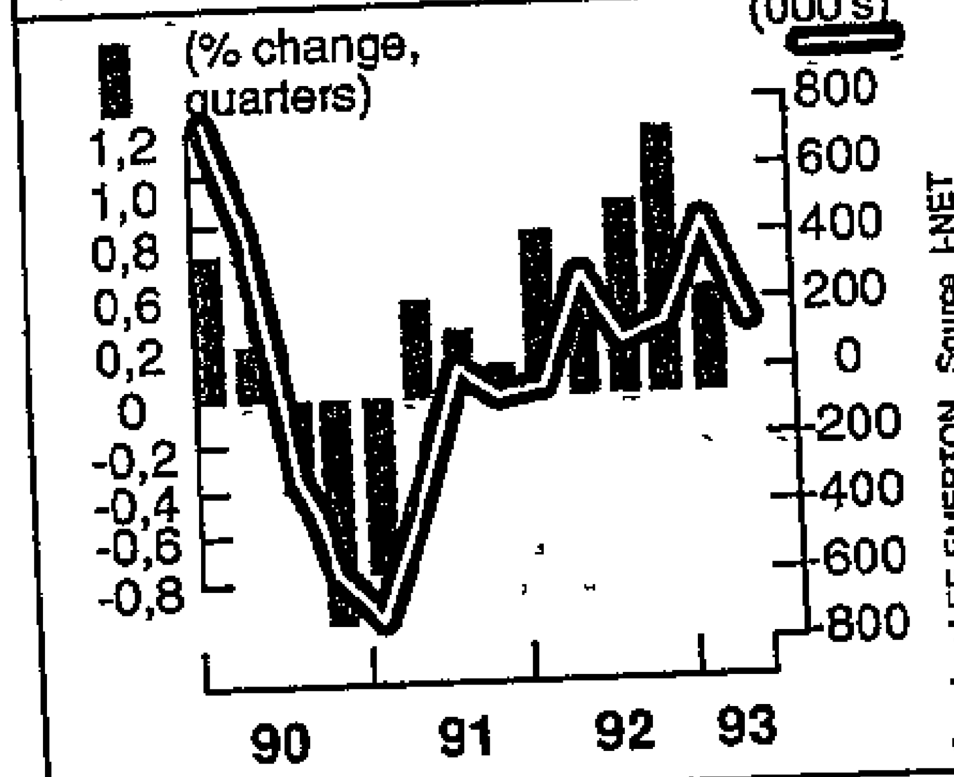
When **April's annual inflation** figure emerges it is likely to undershoot initial expectations of a three percentage-point rise from March's 9,7%, mainly because of the proportion of prices in the survey incorporating VAT still at 10%. Reserve Bank Governor Chris Stals said last week he expected an outturn of about 12%

Internationally, the week's most watched date release in the financial markets is likely to be Friday's **US employment report** for April.

After falling by a tenth of one percent for eight successive months from a high of 7,8% in June last year, US unemployment has remained at 7% for the past three months.

This has heightened perceptions that the US recovery from the 1990-91 recession has lost momentum, and has raised concern in US trading partners about demand prospects in the world's largest economy

Lost momentum
US GDP, non-farm payrolls



As the chart shows, there is more than a passing relationship between US growth and the change in recruitment outside of the agricultural sector

Expressed quarterly, recruitment — as measured by monthly non-farm payrolls — closely follows quarterly GDP

An appreciable increase in payrolls could be in the pipeline because the average manufacturing workweek hit a 25-year high in April, raising the likelihood that employers would have to recruit to shorten the workweek

If payrolls regain the momentum they picked up last year, growth can be expected to respond If payrolls drop back, the chart suggests a matching impact on growth and another lacklustre quarter for US GDP after the dismal 0,9% revised growth in the three months to March

Elsewhere, **German first-quarter GDP** is due on Thursday The western German economy is already in recession, having contracted in the last two quarters of last year, and another fall is likely to have occurred in the March quarter

The German government last week estimated that the drop would be 1% Another fall would be food for thought for the Bundesbank council meeting that also takes place on Thursday

A widespread feeling that ousted UK Chancellor Norman Lamont had already brought recovery to the British economy could be reinforced tomorrow when **UK money supply** figures for May are published Growth in narrow-money M0 has topped its 0%-4% 1993 target range for two consecutive months and, at 4,8% in the year to April, is one of the UK's financial signs of life

Tomorrow's data will include a preliminary May M0 growth rate and a final April annual growth rate for the broader M4 monetary aggregate, whose preliminary April readout was 3,5%

Inflation back in double figures 153

C4RG 4/6/93

THE inflation rate has shot back into double figures with the year-on-year increase widening to 11 percent for April

The jump, after four months of single-digit inflation, was sparked by the increase in VAT to 14 percent and fuel price rises at the beginning of April.

But with the depressed state of the economy and continued tight monetary policy, inflation should soften to single digits.

Another bleak month as more people eat less

S T Times [Buss] 6/6/93

(128)

(153) (180) (229) (320)

By TERRY BETTY

IT WAS a black April for retailers as food sales plummeted.

Some report a drop of as much as 20% in rand terms after the Hani assassination.

Although a few chains reported 5% growth in the rand value of sales, volumes were lower, continuing the miserable trend of the first quarter

OK Bazaars marketing director Arthur Solomon says "The drop was felt across the board — even bread and potatoes were seriously affected"

This is in sharp contrast to an expected retail sales increase of 1,83%

Central Statistical Service (CSS) confirms the decline Retail sales for the first three months of 1993 increased year on year by a mere 0,37% in rand terms.

A Tiger Oats spokesman says "We have never had such a bad four months as those since January"

However, Tiger says there are signs that manufacturing volumes are recovering

People did not even try to drown their miseries in alcohol

Western Province Cellars financial director Kosie Herbst says sales were 4,5% below budget and 3% off April's in rand terms.

Beer sales were also depressed, says an SA Breweries spokesman But the 1991 increase in excise duties had a more serious effect on volumes

May did not bring a release of pent-up demand Pick 'n Pay chairman Raymond Ackerman says sales remained low at the beginning of May, although they started to pick up later

Scant retail demand is shown by lower-than-expected consumer-price index and money-supply figures

CPI figures released on Friday show an 11% inflation rate for April.

Credit Guarantee economist Luke Doig says inflation was expected to be closer to 12% because of the 4% VAT increase on April 7

Target

After factoring out the impact of VAT, the underlying inflation rate is closer to 9%, showing consumers are not spending money

Mr Doig warns that VAT's full impact will be reflected in the May inflation figures because many retailers did not increase prices immediately

Year-on-year money-supply growth rate was 3,35% in April, way below the Reserve Bank's target range of 6% to 9% It shows a drastic decline in consumer demand for credit

Retailers blame the aftermath of the Hani assassination as well as the number of April public holidays for poor sales

Fedfood marketing manager Rob Paine says April had three public holidays and several trading days were lost in sensitive locations.

"Shops that were on march routes or in turbulent areas had to close doors or face looting"

Mr Herbst says some of his group's bottle stores were forced to close

Mr Paine says that even people in areas far from the violence were too scared to go outdoors

He says lack of confidence is also a cause of poor trade

"People stop shopping, even for basic foods, as soon as there are reports of violence"

Many shops were unable to obtain stock

"A normal trading month was turned into half a month in terms of trade"

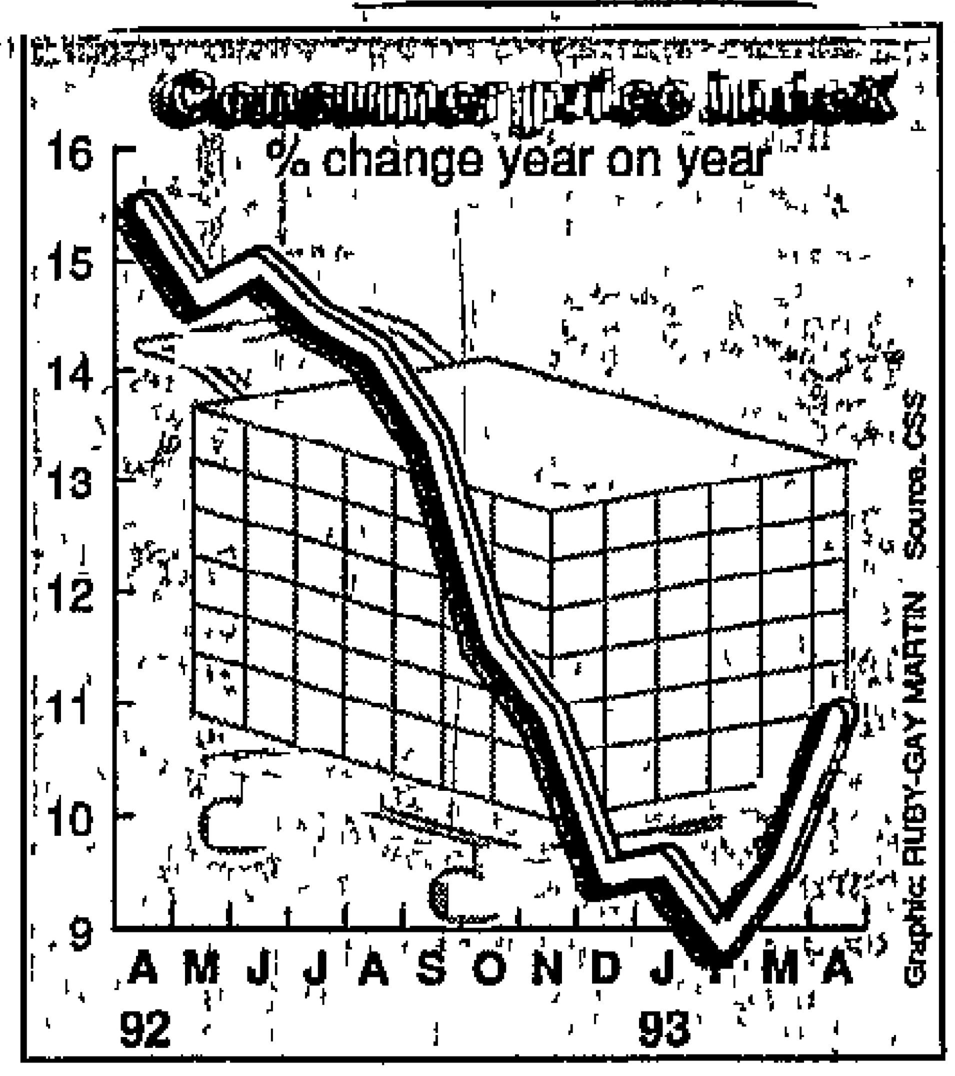
Other implications of falling confidence are that people buy down or take smaller packs

Mr Paine says "There is less hoarding of food because families live from hand to mouth

"Instead of a huge monthly shop, people are using baskets and buying goods as they need them"

Retailers also report declining customer loyalty Customers shop where they believe bargains are to be had

Consumers benefit because retailers are using discounts to gain a greater share of a shrinking market



CPI holds hope of potential rate cut

Buss Day 7/6/93

TIM MARSLAND

CONSUMER prices rose a "surprisingly low" 11% for the 12 months to April, highlighting the potential for a cut in Bank rate, economists said at the weekend.

The Central Statistical Service reported on Friday that April's inflation rate — as measured by the CPI — was 1,3 percentage points above the 9,7% in March The month on month increase for April was 2,5%.

The CSS said the total effects of the new VAT rate had not yet been reflected in the CPI and noted many retailers had not increased their prices to reflect the new VAT rate by April 7 — the day of the survey.

The increase in the transport category, at 5,6%, was due to the higher fuel price. A 15% monthly increase in communication costs was due to higher postal tariffs.

Economists said this, coupled with lower money supply growth and the improvement in reserves, strengthened the case for a cut in Bank rate

(344)

UAL economist Dennis Dykes said the figure was better than expected, but much of the VAT-related increase had still to filter through to prices

(153)

It was encouraging that the inflation rate excluding VAT showed a monthly rise of 0,6%, indicating that the underlying trend in inflation remained under control.

Standard Bank chief economist Nick Czypionka said some stores might have delayed raising prices in line with the VAT increase, distorting the figures. If the current trend of slowing inflation continued, there could be room for a rates reduction.

● Comment. Page 6

SABC wage dispute settled

27/6/93

JOHANNESBURG — The SABC and the SA Broadcasting Staff Association have resolved their wage dispute

The corporation announced on Friday night a settlement had been reached in terms of which employees will receive an 8,25% rise plus a "small" ~~cash bonus~~ — Sapa

~~EBO~~ 153

Food inflation 'falling steeply' — Ackerman

153

CT 9/6/93

By ARI JACOBSON

FOOD inflation has risen by a meagre annualised 3,8% (including VAT) in the first half of this year, according to Pick 'n Pay chairman Mr Raymond Ackerman

Mr Ackerman said the retail group's estimates showed that food inflation was falling "steeply"

He said the Food Logistics Forum, a national body formed by manufacturers, retailers and consumer organisations, had proved successful in curbing inflation

GDP growth rate of 2,1% predicted

B/Day 10/6/93

LINDA ENSOR

CAPE TOWN — An average annual GDP growth rate of 2,1% in the five years from 1993 to 1998 has been forecast by Stellenbosch University's Bureau for Economic Research.

This projection is relatively moderate compared with the growth rates forecast by government's normative economic model and comes off the 0,9% average annual growth achieved in the 1987-92 period.

Outlining the bureau's forecasts at a seminar yesterday, director Ockie Stuart said a negative growth rate of 0,5% was anticipated for this year and 2,3% for next year (153)

An average inflation rate of 10% in 1993, 8,5% in 1994 and 13% in 1995 was predicted. Stuart said the BER expected a one percentage point drop in interest rates this year and a two percentage point drop in the last quarter of next year.

Included in the five-year projections to end-1998 were an annual average rise in consumer spending of 1,5%, government consumption expenditure (1,5%), fixed investment (3,7%), gross domestic expenditure (2,1%), exports (4%) and imports (4,5%)

Extrapolating from historical demographic and job creation trends Stuart said the rate of unemployment in 1998 was forecast at 50,4%. He pointed out that over the past 10 years job creation has increased by an average of 1% annually

Regarding the trend in the value of the rand in the five years to 1998, the BER's Pieter Laubscher said he expected an average annual depreciation in the rand of about 6%-7% against the dollar, 8%-9% against the pound and about 11% against the yen.

Stuart did not foresee any lessening of the tax burden which would continue to remain high because of the need for social spending on housing and social services as well as infrastructure

For this reason he did not see much scope for a decrease in the budget deficit this year

In fact he believed thatthe size of the deficit had been underestimated because tax revenue was likely to fall short of expectations

BER forecast that by 1998 taxes would represent 31% of GDP compared with the 26% of 1992.

The social spending which a new government would probably undertake, would make the emphasis given to fixed investment by the normative economic model difficult to attain, Stuart said.

SA inflation rate far from worst

Star 18/6/93

By Neil Behrmann

LONDON — South African inflation is still higher than that of most Asian developing countries, but is well below the rate in South American and other African countries

The Bank For International Settlements (BIS) annual report says average Asian inflation last year was 7,5 percent.

Thailand's was 4 percent, Malaysia's 4,7 percent, Indonesia's 7,5 percent, the Phillipines's 9 percent and India's 11,8 percent.

China's inflation has accelerated to 14 percent from 6,5 percent last year and to an average of 17 percent in 35 cities.

Average African inflation, excluding South Africa, is 40 percent, estimates the BIS, while Latin American consumer prices rose by 355 percent last year and by 982 percent in Brazil

(153)

The BIS says SA's average inflation was 14,5 percent in 1992, but it has decelerated considerably since then

Although the consumer price index in April jumped to 11 percent because of an increase in VAT, SA's underlying inflation rate is 9 percent

Moreover, with producer price inflation at 7,9 percent, there is a reasonable chance that increases in the consumer price index will fall in coming months, says Standard Bank Investment Corporation.

Consumer price growth in the main industrialised countries accelerated in April to a monthly rate of 0,4 percent from 0,3 percent in March, says the Organisation for Economic Cooperation and Development (OECD)

FM 25/6/93

(153)

ASSET PRICES FM 25/6/93

Double declutch

153

Because the origin of the recent bout of asset inflation differed from that of previous periods, it has proved unresponsive to monetary policy measures, applied successfully in the early Eighties in most major economies This has distorted the current business cycle and delayed the recovery of the international economy.

The issue is dealt with in the annual report of the Bank for International Settlements, published last week. The bank for central bankers points out that an "additional policy lever" exists at a micro level· prudential supervision and regulation

It says asset inflation in the Seventies came at a time of low and even negative interest rates. In the Eighties, "when rates were positive and much higher," the driving force was deregulation of financial institutions. By promoting competition during the Eighties, deregulation expanded credit beyond levels seen in previous economic upturns. This drove up asset prices which fuelled expectations about "the future income stream from investments."

On the supply side. "Financial intermediaries' willingness to lend increases when asset prices rise because of borrowers' improved ability to provide collateral. In the later stages of asset price booms, anticipated capital gains can become the dominant force and be disconnected from underlying fundamentals in the real economy

"The downturn can then be triggered by a broad range of factors, including ~~a slowdown~~ in economic activity or a tightening of monetary policy." In the next phase of the cycle, asset prices slump and retard a recovery. What distinguishes the experience of the Eighties, says the Bank, "is the breadth and severity of this phase, following the major expansion of credit during the decade."

The report says that when asset prices and the general price level respond differently to the same credit conditions, it is difficult for monetary authorities to decide on appropriate policy. They "may have to weigh the risk of failing to restrain speculative behaviour, on the one hand, against that of an unwelcome contraction on the other. This dilemma rose most obviously in Japan, where evident signs of speculative excess co-existed with low inflation."

Similar symptoms have been seen in other countries at various times over the past decade. "In Sweden and Finland, for example, asset-prices increased by more than 200% in real terms in 1980-1989, only to have a substantial part of the rise reversed in the last three years In the UK, the upswing can be traced back to the mid-Seventies: an increase of around 150% from trough to peak was only moderately affected by the recession in the early Eighties Asset price swings in other countries, notably Australia, have also been steep relative to their own past experience and have had serious effects on the financial system and the economy."

An anti-inflation commitment, though necessary at a macro level, might not be enough to prevent inflation and subsequent deflation of asset values and the destabilising effect of these swings on economic activity "As illustrated by the experience of the Nordic countries and the US savings & loan industry, unless prudential safeguards are strengthened in a liberalised, more competitive financial environment, to complement market discipline, the emergence of distress is a major risk"

Apart from the complicating monetary policy implementation, financial distress in institutions incurs costs — which are borne by the taxpayers And it prompts government intervention. So one of the "paradoxical consequences of deregulation," says the report, is that it could lead to "more, rather than less, government involvement"

In its review of April 1992-March 1993, the report describes remedial measures taken·

- ☐ Strengthening capital standards in line with the Basle capital accord;
- ☐ Improving disclosure,
- ☐ Bringing nonbank financial companies under an upgraded supervisory umbrella, as in Japan,
- ☐ Overhauling the supervisory system, as in Finland; and
- ☐ Pricing deposit insurance, as in the US "In January 1993, the Federal Deposit Insurance Corp for the first time charged risk-related deposit insurance premiums" These are based on levels of capitalisation and regulators' supervisory evaluations ■

THE WEEK AHEAD by Kelvin Brown

Price rises likely to be restricted

B Day 28/6/93

ALTHOUGH the delayed effect of the Budget's VAT rise should exert upward pressure on the May inflation rate due out later this week, the recession is expected to restrict price rises in the coming months

In April annual consumer inflation rose to 11% from 9,7% in March Economists had been expecting a figure of 12% as a result of the VAT rise. It appeared many retailers withheld VAT-related price increases until after the Easter weekend The pre-Budget VAT rate also applied to purchases of durable goods delivered before 24 April As the survey was done on April 7 these delayed price increases were not reflected in the figures

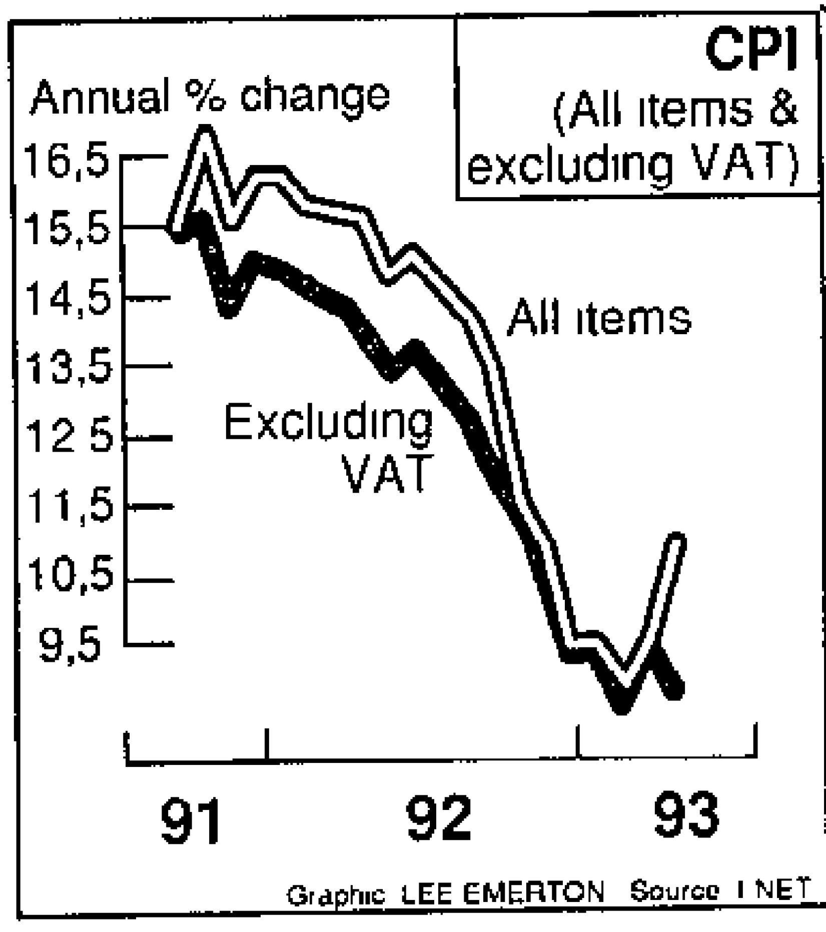
The rest of the VAT rise should come through in the May figures, say economists UAL economist Dennis Dykes is expecting delayed VAT-induced price increases to add 0,4 percentage points to May inflation

He predicted the VAT increase from 10% to 14% would add 2,3 percentage points to the monthly inflation rate in April But the figures disclosed that VAT added only 1,9 points to monthly inflation

Dykes says he expects the overall monthly rise to be 1,2% with yearly inflation around 11,5%

What about the rest of the year? Recent Reserve Bank comments seem to indicate that the authorities' forecasting model shows lower inflation in the next 18 months

In its latest quarterly bulletin the Bank says that although the rate of increase in the consumer price index (CPI) rose in March and April "this upward movement should be transitory, provided these movements do not fuel expectations of accelerating inflation" (153)



Sanlam senior economist Pieter Calitz agrees with the Bank's assessment "I feel very positive about inflation for the next couple of years"

Calitz bases his assessment on the fact that the recession is putting downward pressure on costs and prices "Retailers are not in a position to pass on price increases, and major cost factors like salaries are unlikely to rise while the economy continues to decline"

The effect is particularly noticeable on food inflation, which has fallen dramatically over the last few months to 8,5% in April after being at 30% at one time last year

By far the largest cost element for many companies is salaries, says Calitz Salaries have increased by 6%-8% this year, a much lower rate than in the past

Calitz expects inflation to slow down in the last quarter of this year, as it will be compared with the corresponding period in 1992 when inflation was especially low "From then until the recent VAT rise works itself through the index, inflation should show significant declines"

Further downward pressure on inflation could come from a cut in interest rates "If inflation performs as predicted and reserves remain stable a one-point drop in official interest rates should occur nearer the end of the year Due to the large weighting housing prices carry in the index, a one-point cut in mortgage rates would cause a half-point fall in the inflation rate," says Calitz

On the international front the focus is on Japanese and US economic indicators this week Economists will be keeping their eye on Japanese May retail sales for signs of a bottoming out of the recession in Japan

When first-quarter GNP figures were released earlier in the month the government announced the recession had turned Economists disagreed, saying latest economic indicators for April and May suggested otherwise There are few reasons for private demand to show any sustained growth in the coming months

Several important US indicators are due out in the week The May leading indicators index, May consumer confidence index and June purchasing managers' index will indicate if growth in the economy is showing any signs of accelerating

Inflation rate dips to 10,6%

Business Staff (153) ARG 30/6/93

THE rate of inflation slowed for last month to a year-on-year rate of 10,6 percent, signalling an early return to single digit inflation after reaching 11 percent in April

The slowing of the rate is contradictory to the widespread predictions from government and private sector economists that the Consumer Price Index would hit about 12 percent in May when the full impact of the increase in VAT and the petrol price took effect

The slowing of the inflation rate reflects the extremely low state of the economy with prices being reduced or increases delayed to spur sales

Central Statistical Services announced today that the all-items consumer price index rose by 0,4 percent in May from April after rising 2,5 percent from March to April

Inflation pointer to Bank rate cut

B/Day 1/7/93

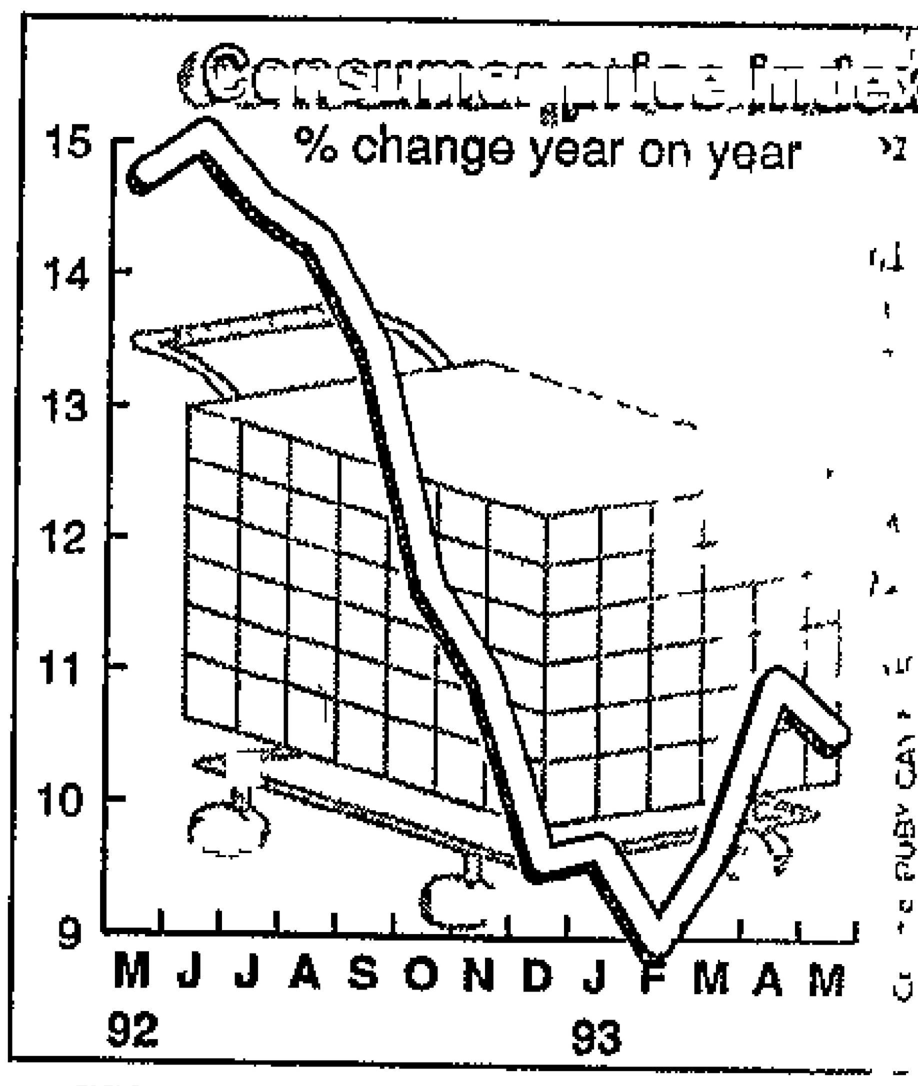
TIM MARSLAND

CONSUMER inflation slowed to 10,6% in the year to May compared with April's 11%, prompting economists to call for a quick drop in Bank rate (153)

The Central Statistical Service (CSS) said yesterday the inflation rate for the year to May, as measured by the consumer price index (CPI), was 10,7% against April's 11% and March's 9,7%. The month-on-month rise in May was 0,4%

CSS said last month that the full effects of the higher VAT rate had not been reflected in April's figure, which led most economists to forecast a rate of between 11,5% and 12% for May

CSS head Treurnicht du Toit said he was satisfied that May's data were accurate and said the decline indicated the sharp downward pressure on underlying inflation. He pointed out that some food items had been zero-rated for VAT, which contributed to the slower price rises.



CSS figures show food prices rose ... 7,4% in the year to May, with fruit and ... prices dropping 5,1%.

☐ To Page 2

Inflation

B/Day 1/7/93

☐ From Page 1

Economists were surprised at the figures but said this gave the Reserve Bank room for a cut in Bank rate now.

AHI chief economist Nick Barnardt said the latest figure was "extremely encouraging", especially since the inflation rate excluding VAT was 8,4% for May. Seen against a prime rate of 16%, this implied a real interest rate of 8%, and he questioned whether this was realistic. "SA's cost of money must be one of the highest in the world," he said. (153)

He noted problems remained with the reserves, although this was a "fact of life".

FNB senior GM Viv Bartlett said banks were unlikely to pre-empt a Bank rate cut by lowering their own interest rates first. The current high month-end money market shortages meant the banks were unlikely to lead rates down. The high shortages had forced short-term rates up, putting banks' margins under pressure.

Absa economist Dominic Sutton said the lower inflation rate indicated extreme weakness in the economy and could mean retailers were being forced to absorb the higher VAT by slowing the implementation of the new VAT rate.

Consumer Council head Jan Cronjé said consumers could look forward to a drop in Bank rate.

Capital market rates fell 15 points at the long end of the market in bullish trade. Dealers said institutions had been major players in the market and some noted buying from London. The popular Eskom 168 ended at 14,53% from 14,65%.

Inflation rate reflects weak SA economy

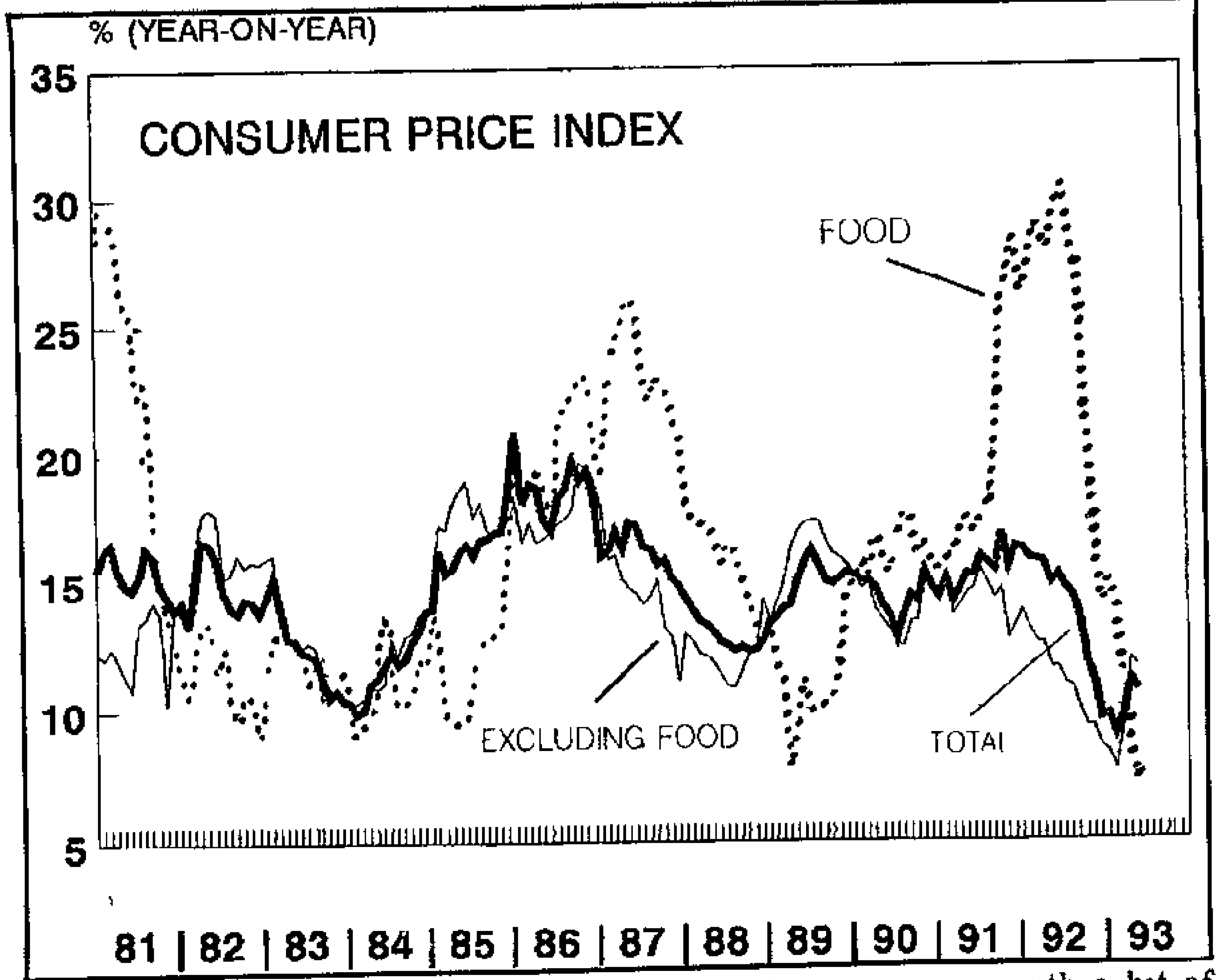
(153) CT 1/7/93

By AUDREY D'ANGELO
Business Editor

AN unexpectedly low inflation rate for May shows the weakness of the economy — which is putting downward pressure on profit margins — as well as the effect of the ending of the drought

The consumer price index (CPI) rose by 10,6% year on year compared with 11[illegible] in April It rose by only 0,4% between April and May compared with 2,5% the previous month when VAT and other indirect prices rose

[illegible] economists said yesterday this meant inflation could dip to single digits before the end of this year and should average only 10% for 1993



They pointed out that only the drain on foreign reserves, caused by the political situation now prevented another cut in interest rates

The index for food price inflation rose by 7,4% year on year compared with 8,5% in April and a horrific 27,8% in May 1992 when the drought began to bite The index for food rose by only 0,2% month on month

Food forms a large proportion of the CPI for the lower income group, which rose by only 9,7% year on year compared with 10,2% in April and 14,7% in May 1992

The CPI for the middle income group rose by 10,6% year on year compared with 11,2% in April The CPI for the upper income group rose by 11% year on year compared with 11,5% in April

One of the biggest rises was in the cost of education, which rose by 64,5% year on year

The cost of reading matter rose by 20,3%, of non-alcoholic beverages by 18,9% and of alcoholic beverages by 12,3%

The index for clothing rose by 8,4% The cost of housing fell by 1,7%, reflecting lower interest rates

Southern Life chief economist Mike Daly pointed out that if the cost of housing were excluded as it is in Britain the CPI would have been 13,2% year on year

But the CPI was well below market expectations

"We are going to end up with an average inflation rate spot on 10% this year or — with a bit of luck — even below that I believe it will be down to 7% by April next year"

However, Daly warned that if the rand continued to fall at the same rate as in recent months the high cost of imports could affect inflation

Boland Bank economist Francois Jansen said the lower CPI showed the effect of the recession and stringent monetary policy on people's ability to buy at higher prices

It was significant that essentials such as food had not risen as much as non-essentials bought by people in the higher income groups, who were less sensitive to prices

Discussing the effect of the weakening rand on the cost of imports Jansen said "The full effect of a fall in the rand is not usually shown in the imported component of the PPI. Importers either negotiate for more favourable prices or switch to cheaper suppliers."

Metropolitan Life economist Chris Visser said the main reasons, for the declining CPI were that food prices were normalising and consumer resistance prevented prices from rising 'The only people who can widen their profit margins are [illegible] banks."

Discussing fears of imported inflation, Visser said he did not expect higher import prices to cause the kind of cost-push inflation SA suffered in the 1980's

"The major imported component of our inflation rate is fuel and the oil price has fallen quite a lot"

Old Mutual economist Johan Els said the effect of the ending of the drought was coming through And the disinflationary domestic environment was preventing prices from rising

Glad tidings as inflation rate takes another tumble

Star 1/7/93

(153)

By Claire Gebhardt

In one of the best pieces of economic news for some time, the inflation rate fell again in the twelve months to May — to 10,6 percent

Latest Central Statistical Service (CSS) figures show that the consumer price index (CPI) registered a 0,4 percentage point decline from April's figure of 11 percent.

Non-VAT inflation was 8,4 percent

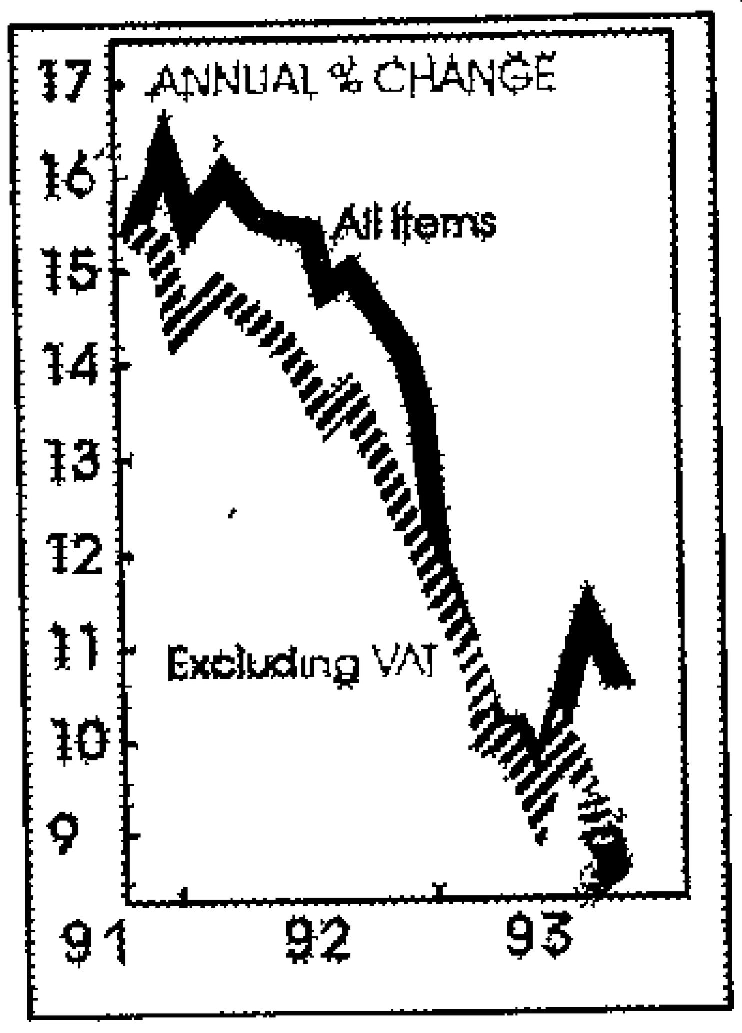
For the month, consumer prices rose by 0,4 percent, largely because of increases in the price indices for housing, health costs and transport

Afrikaanse Handelsinstituut economist Nick Barnardt said yesterday the figures were a pleasant surprise and reflected current monetary discipline

"If money supply is growing at 3,7 percent, there is a limit to which economic participants can raise prices and wages

"Given a CPI of 10,6 percent and non-Vat inflation of 8,4 percent, this puts the VAT input at 2,2 percent

"The VAT factor will fall out of the figure in April next year, which means that if there is no further VAT increase, inflation could fall to 7 percent or 8 percent at that time



"By the end of next year inflation could be 5 percent.

Barnardt said it was crucially important that business adjusted price and wage decisions to this figure.

He said falling inflation put a question-mark over a prime rate of 16,25 percent

"If inflation is 10,6 percent, we're looking at a real interest rate of 8 percent in a totally depressed economy.

"With the economy going down further and further, the political situation is almost certain to explode"

Calling for a review of interest rates, he said a cut would stimulate growth and lead to higher employment and this could stabilise the capital outflow

Econometrix director Azar Jammine said the figures were unexpectedly low and indicated that companies were not passing on the increase in VAT

"The drop enhances the possibility of an interest-rate cut, but at the moment the foreign reserves are just too shaky to lower interest rates.

"But the good news is that money will buy people a few more goods and services

"In this sense the inflation figure will contribute to turning the economy around"

The Consumer Council welcomed the lower figure and said a drop in Bank rate would benefit the economy and bolster consumer spending

Executive director Jan Cronje said consumers would be gladdened by the relatively low inflation rate of 7,4 percent for food.

But he warned that the favourable figures were n t a signal for consumers to spend injudiciously

INFLATION AND GROWTH (153) FM 2/7/93

Breaking out of the spiral

The broad monetary aggregate M3 has fallen for the second month in a row — from R199bn in March to R197bn in April and R194,7bn in May If the latest preliminary estimate from the Reserve Bank is confirmed, 12-month money supply growth is running at only 3,72% And, from the mid-November base, there is a seasonally adjusted annual decline of 1,56%, against a guideline range of 6%-9% growth

So the battle against runaway growth in M3, which peaked at a 12-month rate of 27,9% in August 1988, is well and truly won

This improves the outlook for low inflation in the medium term It might blip up for a variety of reasons, mainly technical, in months ahead, but this will be countered for a while by lower oil prices on international markets *(Economy* June 25) And it may show renewed strength when the economy recovers and gains momentum — particularly if government spending continues to rise faster than revenue collections and GDP But, over the next year, it should rise far more slowly than in the past

This is an appropriate point to evaluate monetary policy and the economic outlook

Though an outflow of capital has been partly responsible for the recent fall in money supply, a decelerating growth trend has been in place for some time and is now reflected in lower inflation

Comparative stabilisation of prices is a triumph for monetary policy The downside is that, if it is not accompanied by reforms in the goods market, economic recovery will be constrained

The rate at which money increases puts a limit on nominal growth in the economy But it can't determine what proportion of nominal growth is real and how much is due to rising prices Other policies are needed to maximise real growth

In an ideal (and largely theoretical) economy, with no constraints on the supply of goods, money supply growth would closely track real growth

If supply of goods matches demand over a period, there can be no build-up of underlying inflation There can be temporary or cyclical disturbances when supply and demand for goods are out of kilter but, in the longer term, if productivity improves along with demand, there is no reason for prices to rise continuously

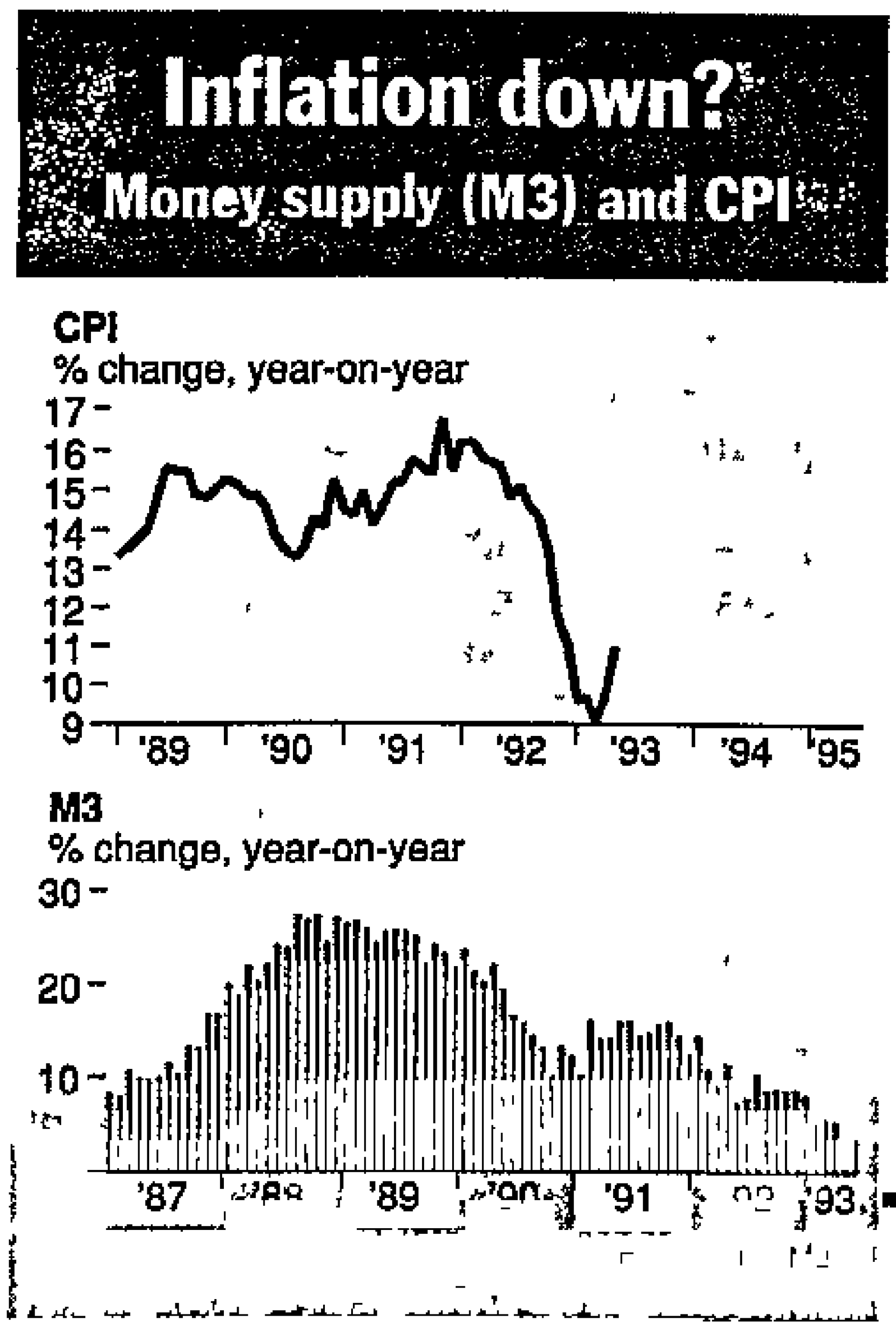
Profits and wages & salaries can rise, without causing inflation, if productivity rises at the same pace This would be a truism but for the widespread perception that an inflation-beating rise in returns (profits or remuneration) means beating inflation Unions that negotiate across-the-board wage rises out of line with the increase in productivity and businesses that routinely jack up prices without adding additional value are cheating themselves Inflation will erode their nominal gains

There is no ideal economy Even Germany and Japan, which at times reported no inflation and strong growth, have become economic casualties But that's no reason for not attempting to remove the grosser distortions in the SA economy

These include tariffs that prevent cheaper imports from competing with domestic goods, exchange controls that force a handful of domestic companies to dominate the market because of a dearth of other investment opportunities, and downward rigidity in wages

With inflation falling, there is room for nominal interest rates to fall further But, if this is to achieve growth, the other problems will have to be tackled promptly

□ In the 12 months to April, the narrower monetary aggregates grew as follows M0 14,2% to R14,4bn, M1A 26% to R41,9bn, M1 16,7% to R71,3bn, and M2 2,1% to R168,4bn ■



LIQUIDATORS

Creditors rebel

Some creditors of KPL-Etsa, an electronics company in liquidation, have petitioned the Master of the Supreme Court to replace the provisional liquidator, claiming that he — Ernst & Young's Philip Reynolds — is showing undue preference to the major creditor, First National Bank The Master was due to give a ruling this week

Though not unprecedented, the action of creditors who petitioned the Master's office last week, protesting Reynolds's attitude, is unusual and well-orchestrated Apparently at Reynolds' behest, the attorneys originally involved in the matter, Eiser & Kantor, have been augmented by Bell, Dewar & Hall

Reynolds declines to discuss the issue, except to say that he regards it as *sub judice* and the action of the creditors, in copying their faxes to the *FM*, amounts to trial by the media, which he finds distasteful

The underlying issues were reported in the *FM (Economy* March 19 and 26) Creditors claim they were misled by FNB reports on the status of KPL-Etsa when the bank was aware of the company's precarious financial position Creditors also argue that the bank was in virtual control of the company in its final trading months and that FNB may have been trading recklessly The bank says it will oppose any action based on such allegations

Thirty creditors have petitioned for Reynolds' removal, stating "We are extremely dissatisfied with the appointment of Mr Reynolds I hereby wish to stress that this is to be regarded as a formal request to remove Mr Reynolds from his office of provisional liquidator in terms of Section 379(1)(d) of the Companies Act However, should our complaints in this regard not be given the appropriate attention, we would have no option other than to approach the court in terms of Section 379(2) of the Act."

At the root of the controversy is the question of whether money in the estate of KPL-Etsa may be used by proven creditors to bring proceedings against the bank on the grounds of the bank's alleged reckless trading Eiser says Reynolds did make funds available for a reckless trading hearing, which has not yet been adjudicated The new attorneys will not comment Nor would the Master's office say anything

One of the creditors, Peter van Broekhuizen, of HY Designs, claims it is improper that creditors who have proven claims cannot use money in the estate — "rightfully ours" — to pursue their action against FNB ■

FINANCIAL SERVICES FM 2/7/93

In from the cold

Financial Services Board executive officer Piet Badenhorst is to investigate how to measure the strength of financial conglomerates His report, due next year, is intended to establish "to what extent the financial strengths of the various components in financial conglomerates complement each other", Optimism on access to foreign funds

Stals forsees single digit inflation in '94

BDay 13/7/93

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GRETA STEYN

RESERVE Bank Governor Chris Stals presented a generally optimistic view yesterday of SA's inflation and balance of payments prospects for the rest of this year and, barring unforeseen political circumstances, into 1994

He said in an interview SA was heading for single digit inflation again A further encouraging factor was that major foreign debt payments for the year had been completed on July 7 He also expressed "faith and confidence" that SA would have access to new foreign capital to meet its heavy debt commitments next year.

Pessimism over the effects of the VAT increase on inflation had been unjustified and inflation, at 10,6%, was lower than expected A single digit rate was possible before the end of this year and once the VAT increase fell out of the figures in April next year, SA could "easily" have an inflation rate of below 10%.

SA could "feel good" about the performance of the inflation rate, but inflation had not been the key issue policymakers faced In a reference to monetary policy, he said "The main problem was pressure on our gold and foreign exchange reserves"

But the remaining big foreign debt payment for the year had been completed last week, taking away a major source of pressure on the reserves "Our reserves have started increasing," he noted, but added it was too soon to discern a trend

Only two small payments, in August and December, of debt inside the standstill net remained to be made. In addition, the current account balance was also expected to put in a satisfactory performance

He did not wish to be drawn about reaching a final agreement on the standstill debt, but confirmed SA's creditors had requested a substantial "upfront" payment on about $5bn which is being renegotiated Foreign banks were handling the negotiation of a final agreement with the same approach as granting a new loan, when a substantial upfront payment would be needed. For a new loan, the payment would not form part of the capital but in this case it would be seen as redemption of the principal amount

● STALS

The foreign debt deal will not be finalised until broader political consensus has been attained

Asked whether the expected huge debt commitments next year would force SA to apply austerity policies to generate a big surplus on the current account, he said "One has to have faith and confidence that SA will be able to secure enough rollovers to get through The second half of next year could see the situation improve, as IMF and World Bank funds should become available We are assuming that there will be enough new inflows to cover our obligations, otherwise economic activity will be depressed"

To Page 2

Stals

BDay 13/7/93

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From Page 1

He believed that once elections were over and a new government's Budget and economic policies had won international approval, access to foreign finance would be easier While growth of 1% this year was possible, depending on agricultural output, the rate could rise substantially next year — assuming political stability

Asked about market talk of heavy intervention in the foreign exchange market last week, Stals said completion of the debt payment had influenced the market The Bank had made its presence felt to smooth out the distortions He believed the market would be more comfortable now that the debt payments had ended

Inflation takes another knock

Star 15/7/93

By Claire Gebhardt

A drop in annual producer price inflation (PPI) to 7 percent in May from 7,9 percent in April is another milestone in the fight against inflation. (153)

Economists said yesterday the better-than-expected figure, coming on top of a drop in consumer price inflation (CPI) to 10,6 percent in May, could translate into lower prices across the board two to three months down the line.

Latest Central Statistical Service (CSS) figures show that the rate of price increase for locally produced commodities slowed to 7,1 percent for May against 8,3 percent in April

Although the monthly index remained unchanged from April to May, the seasonally adjusted index showed a decrease of 0,3 percent over the two months.

Imported inflation was 6,3 percent in May — up 0,4 percent from 5,9 percent in the previous month.

UAL economist Dennis Dykes said inflationary pressures were obviously under control given the lengthy recession and weak money supply figures.

"Though some would say the PPI figure increases the potential for a Bank Rate cut, the Reserve Bank is likely to hold off given the foreign reserves position"

Dykes said the imported inflation was surprisingly low.

"On exchange rate considerations alone I would have expected it to be 10 percent given the decline in the value of the rand since the end of January against both the dollar and the yen."

Sanlam economist Pieter Calitz said wage settlements were at their lowest levels in years and producers were pricing more realistically

"The effect of the weakening rand could start coming through later on in the year in the imported inflation component, but this will be offset by lower domestic producer inflation."

Calitz said he expected to see single-digit figures for the CPI from September next year.

"The average inflation rate for this year will be about 10 percent, dropping to 9 percent next year."

Osborn fears 1994 revival in inflation

S Times (Buss)

By CIARAN RYAN

18/7/93

INFLATION could reverse its downward trend in 1994 as, among other factors, the effects of a falling rand work through the system, says Nedcor chief economist Edward Osborn

"I fear we have deluded ourselves into believing that the back of inflation is being broken," says Mr Osborn

Optimism was fuelled by the fall in headline inflation from 13,5% in September 1992 to 9,6% in December 1992 The fall was the result of the inclusion of the heavily weighted mortgage interest in the index

Mortgage interest has a weighting on 11,51% in the consumer-price index (CPI) By lowering interest rates, the Reserve Bank is able to "administer" lower inflation

Mr Osborn says if mortgage interest is removed from the index, the underlying inflation rate is 13,7% compared with a headline rate of 10,6%

"The improvement in 1991 and 1992 may well be explicable in terms of the impact of the recession, lower wage awards, heightened competition and the like," says Mr Osborn

(153)

"It would appear likely that there will be a swing-around in the fresh-food category and a resumption of an upward trend, but nothing as extreme as 1991-92

"It would not be unreasonable to expect the resumption of an upward trend in underlying inflation in 1994," Mr Osborn says

Stals told 'communicate better'

LINDA ENSOR

CAPE TOWN — Reserve Bank Governor Chris Stals should do more to communicate the need for wage and price restraint in his fight against inflationary expectations, Southern Life chief economist Mike Daly says in the latest issue of the quarterly Economic Comment. BIDay

Daly said provided the inflation rate was sufficiently low, there was scope for real economic growth within low nominal GDP growth.

However, with the exception of the first quarter of 1990, the real wage per capita had increased every quarter since the start of the recession, despite the high levels of unemployment, he said (153)

The quicker there was voluntary pricing adjustment, the sooner real output and employment could start to recover, indicating, Daly said, that in a real sense the recession need not have happened.

Daly noted that there was an apparent trend for pricing behaviour, especially in the labour market, to be moderated "if only because of untenable pain levels and not necessarily because of a belief that prices in general will be rising at a slower rate."

He predicted the inflation rate would average 10% this year and, assuming there were no further indirect tax increases in the next Budget, would fall sharply to 7% in April next year, as the impact of the rise in the VAT rate fell out of the year-on-year comparison 28/7/93

A threat to this scenario would be the further depreciation of the rand pushing up the price of imports.

Within this scenario, as well as the possibility of a R3bn IMF loan before the end of the year, there would be scope for at least one more 1% cut in interest rates

Daly believed there were some tentative signs that the economy had stopped contracting and that there was a bottoming out of activity. He forecast a fall in GDP of 0,5% this year and a GDP growth rate of 1,7% next year. Provided recent trends in the rand gold price were maintained, the effects on the broader economy would come through in the second half of next year Daly expected a low point for the rand of R3,50 this year.

"Inventory rebuilding, a boost to the mining sector via the depreciating rand, lower inflation and short-term interest rates and some fairly substantial funding of job creation and public works projects, should boost growth, especially in the second half of 1994 and into 1995," he said

The international environment remained unfavourable for basic commodity exports, and there was unlikely to be any significant export growth this year compared with last year

There were indications that prices might have bottomed, Daly said

Economic growth of 2,8% was forecast for the US economy this year and 3% next year, 1,2% and 3,3% respectively for the Japanese economy, and -2% and 1% for Germany. Overall economic growth for the major industrialised countries was expected to average about 1,2% this year and 2,7% next year

Inflation 'could drop to 5%'

(153) ARCT 28/7/93

By MAGGIE ROWLEY
Deputy Business Editor

INFLATION could drop to five percent by the end of next year or early 1995, leading economists forecast yesterday

City economist Mr Erwin Rode said the fight against inflation had been successful and "we are now staring victory in the face"

"A five percent inflation rate, as measured by the Consumer Price Index, is a very real possibility as long as the lid is kept on monetary supply," he said

He said after a long battle, inflationary expectations had eventually been squashed

"I think the reason it took so long is that we have had double digit (inflation) for about 20 years and inflationary expectations had become ingrained It needed a long hard recession and lower inflation figures for people to get the message "

He pointed out that, excluding VAT, inflation had been running at an average of 7% in the past six months

Fears that a recovery in the economy would fuel inflation were unfounded, he said

Single digit inflation in the pipeline . . .

(153) CT 30/7/93

By MAGGIE ROWLEY

THE slowing of the inflation rate to a 10% increase in June from 10,6% in May has paved the way for single digit inflation in the coming month, economists said yesterday.

Almost without exception economists predicted that single digit inflation figures could be expected by April next year and could fall further to around 5% by the end of 1994 if anticipated cuts in bank rate were forthcoming.

Excluding VAT, inflation was now running at about 7,9% and once the latest VAT increases had worked their way through the system by April next year, inflation should be running at around 6% or 7%, they said.

According to June figures released by the Central Statistical Services, increases in housing and transport were the main contributors to the 0,4% month on month increase.

Food price increases continued to slow, recovering from an alarming [illegible] trend of almost 30% a few months ago. They softened to a 6,3% increase year on year against 7,4% in May. But the high cost of education was unchanged in May, and 64,5% up on the year.

The few exceptions to slower food price increases were sugar, which rose 22,5% year on year and fish up 13% — but the end of the drought saw vegetable prices dropping 18,2% year on year.

The increase in the petrol price levy, coupled with the lower exchange rate for the rand impacted on transport costs which rose by an average of 15,3% year on year.

Household fuel and power was also up significantly at 19,5%.

The cost of housing, while falling year on year by 1,7%, rose 0,4% in June from the previous month.

Inflation for lower income groups was lower at 8,8% year on year aginst 10% for middle income and 10,7% for higher income groups.

Southern Life chief economist Mike Daly said the latest figures indicated that the country was now playing a totally different ball game with regard to inflation.

"The most important thing about these figures is that they are the first confirmation that despite the VAT and fuel price increases we are now on target for an average inflation rate of below 10% this year and to 6% or 7% in April next year — the lowest level of inflation since 1972/3.

"And it would appear by all accounts that inflationary expectations have been broken."

He pointed out that the housing index was moving up month on month and because it was so heavily weighted this could have an effect on the inflation rate.

However, if the anticipated cut in the mortgage rate was forthcoming this would again contribute towards the downward trend.

For inflation to drop to 5% would require mortgage rates dropping 2%, he said.

Boland Bank chief economist Louis Fourie said it was clear that the economic recession had impacted on pricing and it was no longer possible to pass on inflated prices to consumers who were becoming increasingly price sensitive.

It would also appear that increases in imported goods due to the lower exchange rate of the rand were not being passed on to consumers.

Taking a more conservative view, Old Mutual economist Ursula Maritz said they were expecting an average inflation rate of 9% for 1994 with a low of 8% in April next year.

She pointed out that due to technicalities, the year on year inflation rate could rise slightly towards the end of the year — however a monthly average increase of around 0,5% was anticipated.

"Money supply growth is weak and inflationary forces definitely point to a further downward trend."

S|Times [Buss]

Signs point to cheaper cash as inflation slows

1/8/93

(153)

By CIARAN RYAN

RESERVE Bank Governor Chris Stals is bullish about the economy on good inflation and gold news

He rules out an early cut in interest rates even though the consumer-price index fell from 10,6% to 10% in June But a cut is possible once the reserves improve

Economists predict a bank-rate cut within two months.

Board of Executors Merchant Bank, which has a small, elite mortgage book, has dropped its bond rates from 14,5% to 14% in anticipation of a bank rate cut.

The big four commercial banks dismiss talk of a bond rate war

Dr Stals says "The capital outflow is still a bit worrying and is draining liquidity from the money market. But the higher gold price and lower inflation give us more room for manoeuvre'

Reserves are down to $2-billion after debt repayments of about R500-million in July They are expected to improve as proceeds from gold and other precious metals and commodities sales are repatriated

The financial markets, spurred by upbeat news on inflation and gold's breach of the $400 an ounce, have discounted a cut in bank rate by dropping three-month bankers' acceptances to 11,8%

Gilt rates also dropped this week.

Economists predict a return to single-digit inflation for July The lower figure for June was the result of food price increases falling from 7,4% in May to 6,3%

Money-supply growth is down to about 3% against a targeted 6% to 9% because of low demand for credit

Dr Stals says that in spite of transferring Treasury deposits of R6-billion to the money market in the past two months, the shortage averaged R3-billion to R4-billion because capital outflows continued to drain liquidity

The banks say their bond rates will stay at 16% until clearer trends emerge

"We will not pre-empt a cut in the bank rate," says Duncan Reekie, Standard Bank's general manager for home loans "We need further indicators from the market and the Reserve Bank that rates are dropping."

Board of Executors economist Rob Lee says rates are bound to drop

"Underlying inflation is down to 7,9% if one excludes the VAT increase in April With prime overdraft at 16,25%, we have positive interest rates of over 8%, which is severe"

Nedbank economist Magan Mistry says the CPI is likely to fall to 9,5% in July, bottoming at 9,4% in October and rising — because of seasonal factors — to 10,7% in December.

Stripping mortgage interest payments out of the CPI, underlying inflation is 12,5%, only slightly positive on a bank rate of 14%.

"Evaluated on this basis, there appears to be less room to move on interest rates," says Mr Mistry

Dr Stals warns against leaving items out of the CPI — "the figures become meaningless"

Econometrix's Tony Twine says the inflation figures indicate the severity of the recession.

"The worrying part about it is that all the factors which contribute to inflation are still there — Government deficits, concentration of economic power, industry protection and inflationary expectations'

FOOD INFLATION

Fm 6/8/93

Squeezing lemons

Economists expect food inflation to come down even further this year, from the 6,3% recorded in the 12 months to June This is chiefly because the current weakness in the economy is expected to continue for at least the rest of the year Modest expectations of growth at the start of the year have been scaled down Absa Bank predicts a decline in real GDP for the year of 1,1% (153)

Sanlam senior economist Pieter Calitz points out that spending power is being eroded by the high level of real interest rates (nominal rates with inflation stripped out) and taxes

And established retailers are having to fight to maintain their share of the existing market, in the face of increasing competition from the informal sector and from producers selling direct to the public, such as the Organisation of Livestock Producers (see *Business & Technology*)

Mixed diet

June food inflation by categories

	Percentage change May 93	June 92	CPI Weighting %
Food	0,1	6,3	18,04
Processed	[illegible]	14,1	11,69
Unprocessed	-0,1	1,4	6,05
Grain products	[illegible]	10,2	2,92
Meat	-1,4	11,7	8,17
Fish and other seafood	2,0	12,0	0,70
Milk, cheese and eggs	1,0	4,4	2,28
Fats and oils	-0,3	6,9	0,97
Fruit and nuts	[illegible]	[illegible]	1,18
Vegetables	[illegible]	[illegible]	1,62
Sugar	1,2	22,5	0,48
Coffee, tea and cocoa	10,[illegible]	17,2	0,59
Other	0,3	10,2	[illegible],57

So it's unlikely retailers will be able to pass on higher prices to consumers

Supply side conditions are also favourable. A slightly below average agricultural year (though far better than in drought-affected 1992) is likely in 1993, says Rudi Wilsnach of Standard Bank's agricultural division. "This is mainly because of the good maize crop, expected to be between 8 and 8,5 Mt The improvement in the maize crop this year should increase the gross value of agricultural production by 6%."

Conditions have already improved in other sectors such as fruit and vegetables. This is reflected in the drastic slowing in growth of these price indices since the 50% and 80% recorded respectively in July last year (see table) (153)

Problem areas are sugar and wheat The sugar crop has been damaged by dry conditions in Natal and prices have risen. However its impact on food inflation is relatively small Wheat production has been hit because farmers in wheat-growing areas in the Free State and Transvaal have turned to maize, says Wilsnach

Surprisingly, meat prices have not risen as they generally do in the aftermath of a drought, when farmers rebuild their breeding stock. Wilsnach says the depressed economic conditions, which have created a surplus of meat, have countered this. He expects prices to rise once the economy picks up

Other, more technical, factors will keep the rate of increase in the food index down this year These include the high base created by large monthly increases last year, which should keep food inflation below its current level at least until October, and the one-off effect of the removal of Vat on a number of basic foodstuffs which will remain in the figures until May-June next year ■

MA

Inflation slows down again

ALIDE DASNOIS, Business Staff

NEW signs of a slowdown in inflation came today with the news that producer prices have risen only 6,4 percent between June 1992 and June this year

This compares with an increase of 7 percent over the year to May (153) AUG 12/8/93

The figures were issued Central Statistical Services today

Stellenbosch Bureau for Economic Research economist Marius Hugo said it was encouraging that producer prices had risen so slowly in spite of the fall in the rand

The prices of goods produced locally for South African consumption rose only 6,3 percent over the year to June, compared with 6,8 percent for imported goods.

Mr Hugo said local producers were holding down prices because of lack of demand. This should help keep consumer prices down, he said

"The downward trend in producer price inflation suggests that the Reserve Bank is succeeding with its attempts to make South African goods more competitive on world markets"

He said the Bureau was still expecting a drop in interest rates later in the year

Reserve Bank Governor Dr Chris Stals has been reluctant to cut rates because of the unhealthy state of the country's gold and foreign exchange reserves

Mr Hugo said he expected the reserves to improve in the last quarter of the year, enabling the country to finance the rise in imports which generally accompanies an upswing in the economy

Faint signs of recovery

ST Times (Buss) 15/8/93

By CIARAN RYAN

TWO successive quarters of growth have given a flicker of life to South Africa's economic corpse.

It may not be time to pop the champagne, say economists, but the figures suggest the four-year recession has bottomed out

"One must distinguish between the bottom of the recession and the start of the upturn," says Econometrix's Tony Twine

"Although I am guardedly optimistic, I think the economy is still trundling along the bottom"

Growth in gross domestic product picked up in the second quarter, rising by an annualised 5,1% after a 1,4% improvement in the first three months

However, the economy has contracted by 1% in the past year and by 4% since the recession began

The first-half turnaround owes its impetus to a recovery in agriculture and mining

There is good and bad news about inflation The good news is the drop in the producer price index (PPI) to 6,4% in the year to June from 7% in May The 6,4% figure is the lowest since 1972

The bad news is that demand is diving, forcing companies to lower prices Non-farming and non-mining components of the PPI recorded negative growth

The rand's fall contributed to the continued rise in prices The PPI for imported items was 6,8% in June compared with 3,1% last December, more than a doubling in price increases in the first six months of 1993

Car sales for July jumped to 17 428, 10% higher than July 1992 and 11,5% higher than the 15 622 in June 1993 The increase is ascribed to improving business confidence, anticipation of price increases and inventory build-up

Finance Minister Derek Keys is happy about the economic news, although tempered by gold's fall to $367,50 an ounce from above $400 a few weeks ago

Mr Keys has been right on two counts this year, says a spokesman for his office — first, that inflation would drop below 10%, second, that the economy would turn this year.

(153)

Mr Keys says a positive sign was higher electricity, gas and water sales, normally a precursor to economic growth

Government spending had nothing to do with the economic improvement, he says Mining output continued to increase by 2,25%, but manufacturing growth collapsed from 1,8% to a negative 0,2%

The balance of payments could find itself under pressure if the gold price continues to fall

Reserve Bank Governor Chris Stals says "The balance of payments has improved since July, although it is still vulnerable to the gold price Inflation is falling and will provide room for relaxation of monetary policy"

Budget figures released this week show a deficit of more than R10-billion for the first four months of the year, more than 40% of the R25,4-billion budgeted for

Although this points to another deficit overrun for the year, its size is little changed from a month ago, signalling an improvement in revenue collections A continued economic recovery would improve revenue collection, helping to contain the overrun

Government spending for April to July was R35,6-billion, 10,2% higher than the corresponding time last year The budgeted increase for the year is 8,8%

Receipts for the first four months totalled R25,2-billion, boosted by an additional R7,2-billion in July This is 13% higher than in the corresponding time last year, but still short of the 17,3% budgeted for the year

Income-tax receipts for the first three months of the year were R9-billion, 0,4% higher than in the same time in 1992-93

VAT collections were R5,29-billion, 47,8% more than in the same 1992-93 period

The Department of Finance says the figures reflect "the satisfactory course of collections as well as the impact of the increase in the VAT rate (with additional zero-ratings) to 14%"

Inflation dip brings relief

Business Staff 153 ARG 24/8/93

SINGLE digit inflation is on the cards for the next 12 to 18 months improving the possibility of another drop in interest rates.

This is the view of economists following the return to single-digit territory by consumer inflation for July

The return to single-digit inflation with the year-on-year figure for July being set at 9,9 percent by Central Statistical Services was mainly a result of the poor state of the economy with increased competition among retailers to maintain market share

The consumer price index was pushed briefly back into double digits by the increase in VAT and petrol prices in March

But the inflation rate never reached the higher level of 12 percent predicted by economists at the time or had the holding power because of the state of the economy

Although lower inflation was initially tied to interest rates by Reserve Bank Governor Chris Stals, he has recently moved his yardstick to the state of the foreign exchange reserves.

An easing of the pressure on the forex reserves is not seen as likely before the end of the year

And it is clear the commercial banks will not drop lending and deposit rates until they get the nod from Dr Stals by means of a drop in the bank discount rate

But the good news from economists is that inflation will continue in single-digit figures for the next 12 to 18 months

For the public, this means money will stretch a little bit further in the months to come

The last dip into single-digit territory was in March, just before the introduction of VAT, when inflation was running at 9,7percent

Economists said yesterday the lower inflation figure was the combination of a "mother of all recessions" and Draconian monetary policy

But the cost in terms of lost growth and unemployment has been high

Shock figures from the Reserve Bank's latest economic report indicate that 46 percent of the active population is jobless.

Latest Central Statistical Service (CSS) figures show that the annualised consumer price index (CPI) eased 0,1 percentage points, mainly on a 2 percentage point drop in food price inflation to 4,3 percent in July

Food inflation of chain stores was 4,8 percent, against the 5,6 percent of other retailers

Excluding food, however, inflation took a slight upturn in July on the back of higher municipal rates, fuel and transport costs

Sanlam economist Johann Louw says the month-on-month CPI increase in July was 0,8 percent, compared with 0,4 percent in June

"But we still see inflation on a declining trend and are forecasting a rate of 9,8 percent for the year as a whole

"Next year it will be about 9 percent"

Mr Louw says the state of the economy justifies lower interest rates, "were it not for the balance of payments"

He says it is unlikely that there will be an improvement in the capital account, given the ongoing violence

"We'll probably have to wait for year-end for an improvement in reserves, on the back of IMF assistance, before we see a cut in Bank Rate"

Absa senior economist Adam Jacobs says the cost of lower inflation is dangerously high

"It would obviously have been better to have achieved a lower rate on the back of higher productivity, rather than a tight monetary policy and a devastating recession

"Unemployment at 46 percent is dangerously high and leads to all kinds of instability, which is not ideal for growth."

He says if VAT is excluded, inflation is running at 7,8 percent, "an indication of what we could have achieved if VAT had not been hiked"

Annual inflation declines to 9,9%

B/Day 24/8/93

KELVIN BROWN

CONSUMER inflation declined to 9,9% in July as food price rises slowed further after the end of the drought, economists said yesterday.

The Central Statistical Service (CSS) reported yesterday that annual inflation — as measured by the change in consumer price index (CPI) — fell for the third month in a row to 9,9% from 10% in June

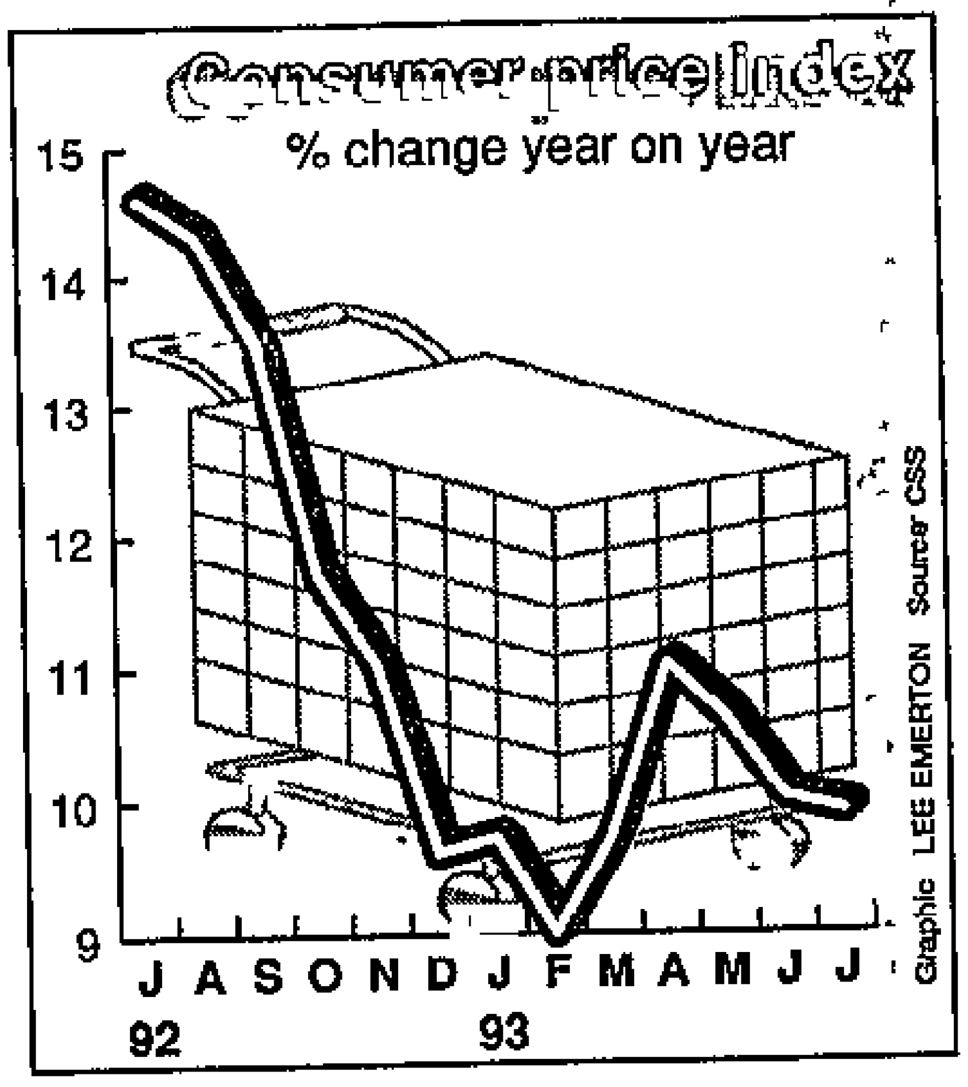
The last time inflation stood below 10% was before the VAT increase in April

The lowest rise in annual food prices in decades was largely responsible for the fall, economists said The percentage change in the food price index fell to 4,3% in the year to July from 6,3% in June. Excluding food, the increase firmed to 11,5% from a previous 11% (153)

Economists said the high 0,8% month-on-month increase in inflation from a previous 0,4% was not an indication of change in the inflation trend One-off rises in municipal rates and bus tariffs were largely to blame for the higher monthly surge.

These erratic increases caused the index's housing category to increase 2%, while public and hired transport rose 3%, and fuel and power 2% in the month.

Rand Merchant Bank economist Rudolf Gouws said the latest figure was not surprising "SA has had a couple of months of extremely low figures so at least one month of a poorer performance in inflation was to be expected."



The underlying trend remained subdued for the next couple of months Gouws said there was a chance inflation would start rising again at the end of the year when it was measured off a "very low base".

Absa economist Adam Jacobs said annual inflation should fall at a slower rate in the next few months The overall trend was still downwards as the economy remained weak He predicted the CPI would fall to 8,5% closer to the end of the year

However, Jacobs agreed it could start rising from the year-end

Inflation rate slips back into single digits

(153) CT 24/8/93

By AUDREY D'ANGELO
Business Editor

THE consumer price index (CPI) resumed its downward trend in July. It fell to 9,9% year on year from 10% in June.

The month on month rise was 0,8%, due mainly to a 0,3% rise in housing costs — because of the higher municipal rates — and a rise of 0,2% in transport costs.

The rate of increase in food prices slowed to 4,3% year on year, the lowest since 1971, compared with 6,3% in June and 30,5% in July last year

Because food makes up a larger proportion of their cost of living, the index for the lower income group went up least. It rose 8,1% year on year compared with 8,8% in June and 15,6% in July last year.

The index for the middle income group went up by 9,8% compared with 10% in June and 15,4% in July last year

The index for the upper income group went up by 10,8% compared with 10,7% in June and 14% in July last year.

Welcoming the fall in the CPI, economists said it was a good sign that inflation had returned to single digits so soon after the 14% rise in VAT

But they pointed out that the apparently steep slowing down in the rate of food price inflation to its lowest level in 22 years was due to technical factors. It was rising from a very high base in July last year, when food prices soared because of the drought.

Johan Els of Old Mutual said that vegetable and fruit prices had declined steeply compared with a year ago Vegetable prices were now 18,5% less than in July last year and fruit prices 3% less But meat cost 10% more than a year ago

Els said the outlook for inflation for the rest of the year seemed good The weakness of the economy prevented prices from rising much He expected inflation to average 10% this year and to dip lower next year.

Southern Life chief economist MIke Daly said the figures were "roughly in line with expectations"

The high municipal rates bills all over the country were "a once-off adjustment — in fact, from the size of them, a once-in-a-few years adjustment — which have had a big effect Transport costs have gone up significantly and other increases are modest."

Daly said he expected low inflation for the rest of this year.

Boland Bank economist Francois Jansen said the lower food price inflation, due to technical factors, would be "a difficult figure to sell to women, or to anyone doing the shopping"

But he expected inflation to average 10% at most for 1993 and with luck it could be below this Single digit inflation for the year would give "a fantastic psychological boost."

Sanlam chief economist Johan Louw said the CPI was "somewhat higher than I expected. It is interesting that, excluding food, it would have been 11,5% compared with 11% in June."

Louw said he expected the CPI to fall back to 9,5% next month and to remain in single figures until December when, for technical reasons, it might rise above 10%.

Inflation rate falling again

By AUDREY D'ANGELO
Business Editor (153)

INFLATION is falling again, according to Central Statistical Service figures. The consumer price index (CPI) came down in July to a year-on-year increase of 9,9%, compared with 10% in June CT 24/8/93

The CPI rose 0,8% between June and July. Higher municipal rates were one reason for the month-on-month rise.

● Inflation rate back into single digits — Page 11

Lower figures likely to continue for 12 to 18 months

Star 24/8/93

Inflation back to single-digit level

153

BY CLAIRE GEBHARDT

Consumer inflation for July has dipped back into single-digit territory again to 9,9 percent, despite the inroads of VAT

And the good news from economists is that it will continue in single-digit figures for the next 12 to 18 months

For the public, this means money will stretch a little bit further in the months to come

The last dip into single-digit territory was in March, just before the introduction of VAT, when inflation was running at 9,7 percent

Economists said yesterday the lower inflation figure was the combination of a "mother of all recessions" and Draconian monetary policy.

But the cost in terms of lost growth and unemployment has been high.

Shock figures from the Reserve Bank's latest economic report indicate that 46 percent of the active population is jobless.

ALTHOUGH the fight against inflation is slowly being won, it is exacting a heavy toll in terms of lost jobs.

Latest Central Statistical Service (CSS) figures show that the annualised consumer price index (CPI) eased 0,1 percentage points, mainly on a 2 percentage point drop in food price inflation to 4,3 percent in July.

Upturn

Food inflation of chain stores was 4,8 percent, against the 5,6 percent of other retailers

Excluding food, however, inflation took a slight upturn in July on the back of higher municipal rates, fuel and transport costs.

Sanlam economist Johann Louw says the month-on-month CPI increase in July was 0,8 percent, compared with 0,4 percent in June

"But we still see inflation on a declining trend and are forecasting a rate of 9,8 percent for the year as a whole.

"Next year it will be about 9 percent."

Louw says the state of the economy justifies lower interest rates, "were it not for the balance of payments".

He says it is unlikely that there will be an improvement in the capital account, given the ongoing violence.

"We'll probably have to wait for year-end for an improvement in reserves, on the back of IMF assistance, before we see a cut in Bank Rate."

Absa senior economist Adam Jacobs says the cost of lower inflation is dangerously high

"It would obviously have been better to have achieved a lower rate on the back of higher productivity, rather than a tight monetary policy and a devastating recession

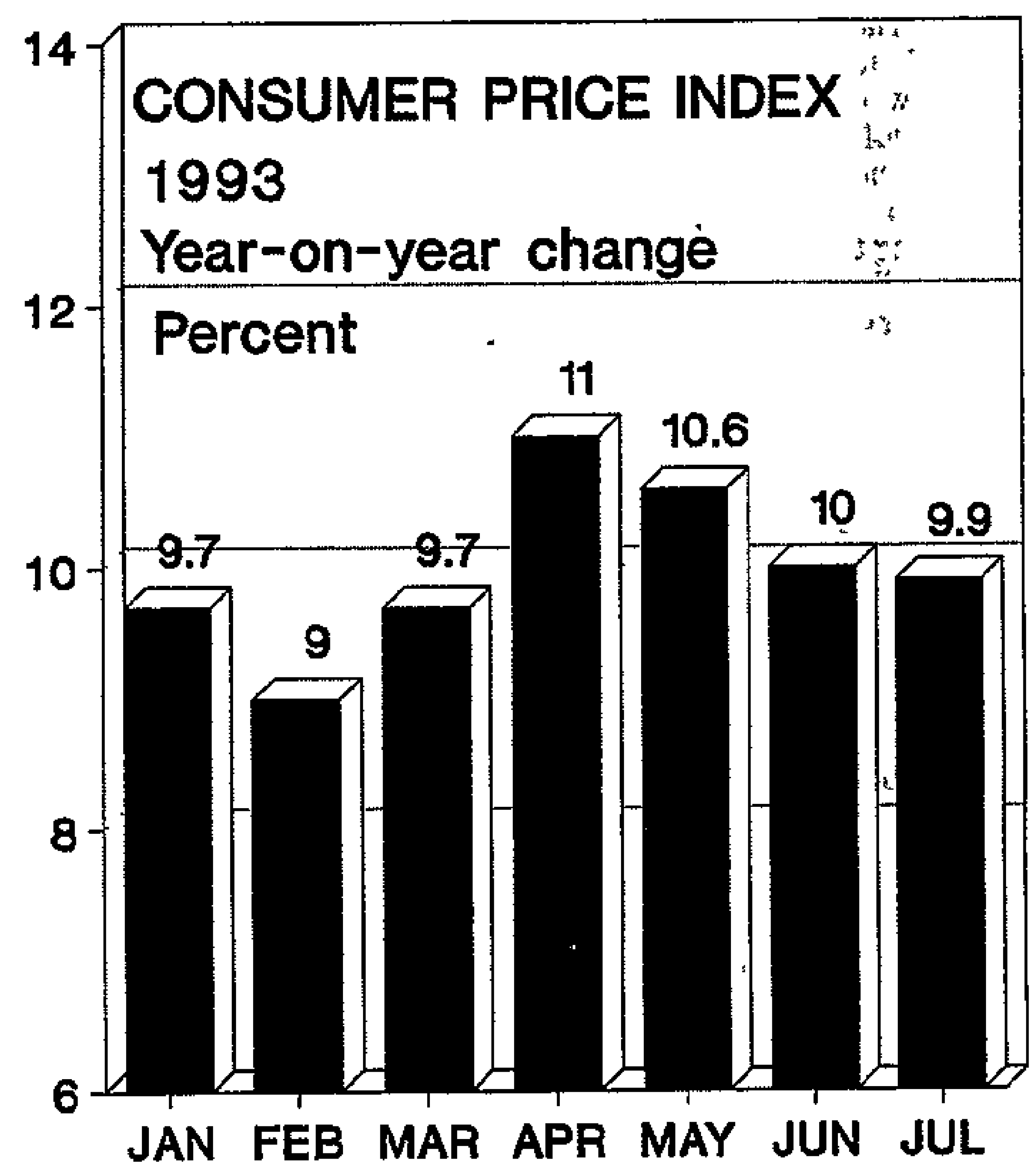
"Unemployment at 46 percent is dangerously high and leads to all kinds of instability, which is not ideal for growth "

He says if VAT is excluded, inflation is running at 7,8 percent, "an indication of what we could have achieved if VAT had not been hiked"

Overall

The Reserve Bank report notes that the rate of increase in the overall CPI index declined from 15,3 percent in 1991 to 13,9 percent in 1992 and to 10 percent in the first six months of this year.

"The costs must be weighed against the inefficiencies and distortions caused by persistently rising prices, which depress growth potential and increase unemployment in the long run "



'Monetary policy is about growth, about saving and investment'

Star 25/8/93

Inflation fight goes on

(153)

DEFENDING fiscal policy, Reserve Bank Governor Chris Stals is critical of calls for a managed depreciation of the rand.

BY CLAIRE GEBHARDT

Reserve Bank Governor Chris Stals hopes to keep inflation permanently under 10 percent. The rate eased last month to 9,9 percent

Addressing shareholders at the Reserve Bank's 73rd ordinary general meeting yesterday, Stals said stable money was not only a necessary condition for economic growth, but was needed to underpin a new democratic dispensation

"Critics forget that ultimately monetary policy is about growth, about saving and investment, about output and about jobs"

He said criticism of the Bank's anti-inflation policy was based on the fallacious doctrine that a country could have more growth if it was prepared to live with some inflation. Stals sent a warning that excessive government spending in the future would not be masked behind a veil of excessive money creation.

Stals said higher Budget deficits should be financed by raising taxes and/or by borrowing from the capital market and not by the creation of money.

He was sharply critical of the call for a depreciation of the rand to stimulate the economy

He said the effect of a currency depreciation on domestic prices could be dangerous

"Increased costs of production could easily wipe out any competitive gains producers might obtain from a depreciation."

He pointed out that an effective depreciation of the rand since September last year was soon followed by a rise in the rate of increase in the price of imported goods from an annualised rate of 3,1 percent in December 1992 to 6,8 percent in June 1993

Higher wages

A depreciation could stimulate growth and employment only if workers refrained from demanding higher wages as compensation for the rise in imported prices caused by the depreciation

"A depreciation of the currency rarely provides a cure for a depressed economy

"Greater competitiveness should rather be pursued through an improvement in the efficiency of the production processes, and through a reduction in the cost of production of tradeable goods"

The total borrowing requirement of general government rose from R2,1 billion in 1989/90 to R31,7 billion in 1992/93

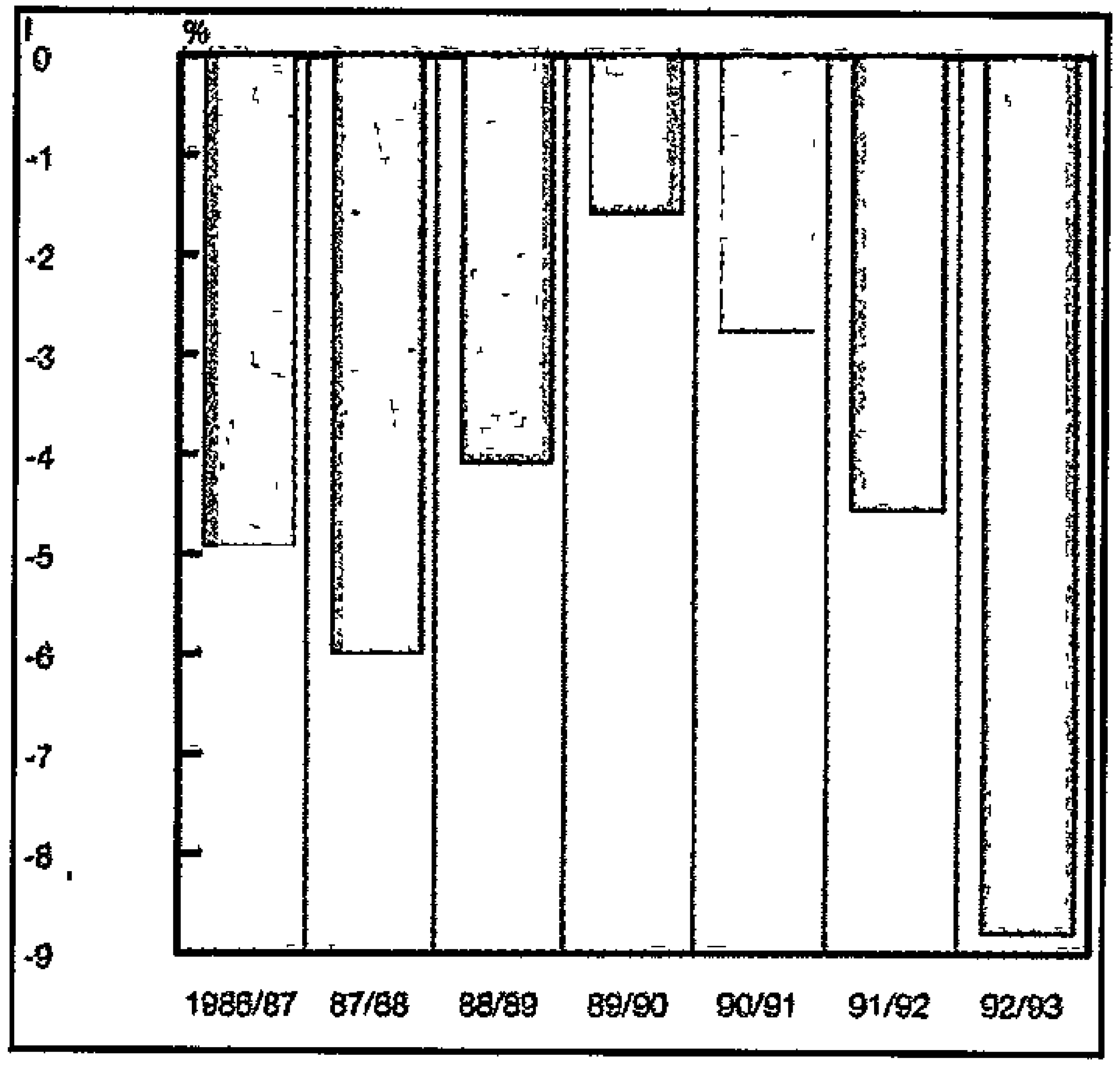
"At this level, the borrowing requirement represented 9,5 percent of gross domestic product (GDP) and also exceeded general government capital expenditure by a substantial margin"

Stals warned that the interest burden on the Budget had probably risen permanently because of the additional borrowings needed to cover the temporary increases in the deficit.

On a more positive note, Stals said good progress had been made in reducing inflation and creating a more stable financial environment in general

"The rate of expansion in the money supply and in domestic bank credit extension has declined to relatively low levels that now provide support for an even lower rate of inflation in the year ahead

"The decline in the rate of inflation to a single-digit figure provides sufficient proof that an even lower rate, in line with the low rates now prevailing in most industrial economies, is also attainable in SA."



Deficit before borrowing as a percentage of gross domestic product.

AHI report sees hope for an interest rate cut

KELVIN BROWN

INFLATION was expected to fall to about 9% in the next six to twelve months, leaving scope for at least a 2% cut in interest rates, the AHI said at the release of its third quarter inflation barometer yesterday. BDay

In the second quarter the barometer registered a slight increase to 11% due to high government spending and large deficit, the poor performance of the balance of payments (BoP) and the weakening rand. 26/8/93

AHI senior economist Nick Barnardt said the improvement in the third quarter figure was largely due to a turnaround in the BoP and better fiscal discipline.

The rise in the consumer price index (CPI) should remain in single digits in the first half of next year, Barnardt said. "Particularly low CPI figures could occur from April next year when the effect of the hikes in VAT, fuel levies and excise duties fall out of the index." (153)

However, he warned the situation could change if discipline was not exercised by all participants in the inflation process. "It is particularly important that the improved rand prices of gold and other exports should not be absorbed by higher wage demands which would limit the scope for higher investement in new job-creating export capacity."

AHI Economic and Financial Manager Johan Rossouw said the prospects for an improvement in the economy were at risk from the high level of real interest rates and the rise in VAT in the second quarter. Due to the lagged effect of these factors there was a real chance of contraction in GDP in the second half of 1993.

However, these negative factors were outweighed by the the good trade surplus, the low inflation figure, an increase in share prices and the perception that long-term interest rates would fall.

The AHI forecast real growth in GDP between -0,5% and 0% this year and at more than 2% in 1994.

Star 26/8/93

Economic signals are the best in years

(153)

BY CLAIRE GEBHARDT

THERE is scope for as much as a two percent cut in the official interest rate within the next six to eight months

The Afrikaanse Handelsinstituut's (AHI) inflation barometer, which measures underlying inflationary pressures, has dropped to 9,1 percent — its lowest recorded level.

Releasing the third-quarter reading, chief economist, Nick Barnardt said this suggested that underlying inflation had entered single-digit territory for the first time in 20 years

He said a single-digit consumer price inflation (CPI) rate was likely during the first half of 1994

Barnardt said there was scope for as much as a 2 percent cut in the official interest rate in the next six to eight months

"Though this will depend on developments in the balance of payments (BoP), we expect the current account surplus to exceed capital outflows in the third and fourth quarters

Barnardt said a decline in government spending from about 30 percent in the first quarter to 13 percent in the second quarter, and a concomitant narrowing of the fiscal deficit, had helped to ease inflationary pressures.

Also positive were a decrease in monetary expansion to around 4 percent, PPI inflation of around 6 percent, a perceptible decline in long-term interest rates in recent weeks and lower wages, salaries and labour cost inflation

"These positive trends considerably outweigh the further depreciation of the rand exchange rate, the rise in export prices and the slight increase in the fuel price under-recovery in recent months "

AHI economist Johann Rossouw said surprisingly low inflation figures in recent months, higher JSE prices and a perceptible decline in long-term interest rates were positive for an economic recovery

"The average prices of gold and platinum have ~~improved~~, while the world price of oil, South Africa's biggest single import has fallen "

"A perceptible improvement in the overall terms of trade, together with higher export and lower import volumes, produced an outstanding trade surplus in the second quarter "

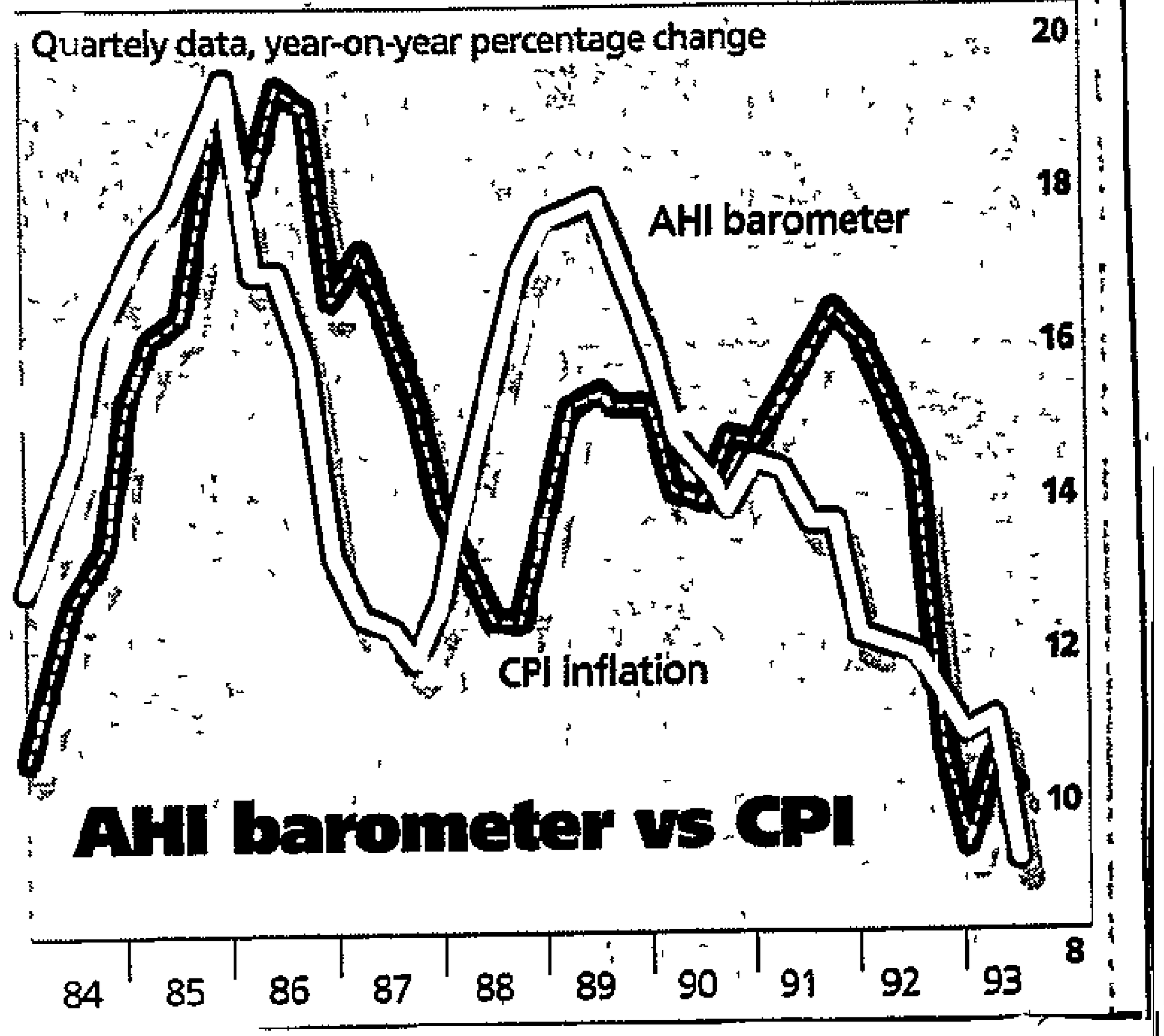
Vulnerability

But Rossouw cautioned that the economy remained extremely fragile and vulnerable to exogenous shocks

Severe capital outflows continued on the balance of payments (BoP), causing a further decline in South Africa's foreign reserves in the second quarter.

"This tightened money market liquidity, and was reflected in the real prime rate — prime less non-VAT CPI inflation — rising to an 8-year high of 8,34 percent, currently the highest in the world "

Rossouw said that although the restrictive effect was partly mitigated by the weaker exchange rate, it represented a significant tightening of monetary conditions.



AHI barometer vs CPI

Getting together ... A proposed new union will help self-employed women, such as hawkers
PHOTOGRAPH: RUTH MOTAU

153A WM 27/8-2/9/93

Union to help self-made women

Ferial Haffajee

THE first phase of establishing a union for self-employed women will get off the ground in October with the launch of an advice centre to assist women hawkers, women who run their own businesses but do not employ anybody and women who do contract work

The union — which will be launched and named in the middle of next year — is an effort to bring together women who work in those sectors of the economy where there is no union organisation

Broadly, the union describes its potential membership as "women who earn their living without a regular or salaried job" It will not be for unemployed women or a small business development initiative, as many people have assumed

The union will bring self-employed women together by setting up a network of members and helping them to get access to skills training, credit and loan facilities, legal assistance as well as health care advice and assistance

The Association for the Establishment of a Self-Employed Women's Union (Afesewu), which is doing the preparatory work for the union, says the aim is to help women make choices and to negotiate to improve their lot.

Areas they will focus on include earnings, working conditions and securing access to social security benefits like unemployment, sick and maternity benefits for self-employed women. They will also investigate means of providing child-care, housing and food security for their members.

"Although there is no traditional employer-employee relationship in the case of these workers the aim is to make women and their work visible," says the association.

"Negotiations will be done with whoever controls people's working conditions and we will teach women to negotiate for themselves " So women hawkers may negotiate with local authorities, while women who do contract work have to negotiate with contractors Members will be trained to lobby for changes to restrictive legislation and regulations

Subscriptions to the union will include a R10 joining fee and will cost R2 a month. A union organiser will start recruiting members when the association opens its advice office in October.

The union will not be expanded to include self-employed men. "The intention is not to deal with the entire informal sector, but to build working class women's leadership," says Pat Horn, a representative of the association.

She says even in unions where women make up the majority of the membership, women leaders do not dominate. Instead, she says, most male hawkers work with women partners and the union will encourage men to send women to join the union.

The union will also have links with the women's groups of existing trade unions and already the organisers have met officials from both the Congress of South African Trade Unions and the National Council of Trade Unions

They are "very excited" by the idea, says Horn, because this union will be able to organise sectors which are completely unorganised The formation of the union was inspired by the Self-Employed Women's Association in Ahmedabad, India.

Star, 31/8/93

Drive to train city's hawkers

■ BY CYRIL MADLALA

The Johannesburg City Council yesterday embarked on an intensive 10-day campaign to educate the CBD's 4 000 hawkers on the city's new informal trading policy aimed at the orderly management of street trading

Intensive law enforcement will follow immediately in areas where hawkers have been trained.

The new regulations include·

■ Limiting trading sites to 2 sq m and demarcation of hawker pitches in certain areas.

■ Prohibiting trading outside shops selling similar goods

■ Prohibiting trading in parks and within 10 m of an intersection.

■ Allowing for pavements to be leased by businesses to manage street trading

"The aim is to allow businesses the freedom to determine the kind of street trading which takes place on their pavements, and the hawkers benefit by this as well," explained Johannesburg's urbanisation director Cedric de Beer

Hawker squad . . . the Johannesburg City Council yesterday embarked on a 10-day campaign to educate the CBD's 4 000 hawkers on the city's new informal trading policy.

PICTURE PETER MOGAKI

(153A)

Businesses which intended to prohibit street trading would not be allowed to lease pavements, De Beer said. The concept was already working successfully with pavements leased by Anglo American in Diagonal Street and at the Carlton Centre

The first 10 days of the campaign will concentrate on hawkers in Eloff, Jeppe, Bree, Hoek, Plein, Klein and Wanderers streets The city's "hawker squad" will distribute brochures in English, Zulu and Sotho while training informal traders

Trading will not be allowed in certain areas, such as pavements outside residential premises, without the occupiers' consent

Vendors may not place tables over dustbins, spill fat or grease on the pavement, or allow smoke to become a nuisance

They have to remove their shelters and equipment after trading

De Beer said environmental issues also concerned the council, and part of the campaign was to promote anti-litter awareness

Hawkers interviewed yesterday said they welcomed the education campaign as long as they could continue trading

Star 7/9/93

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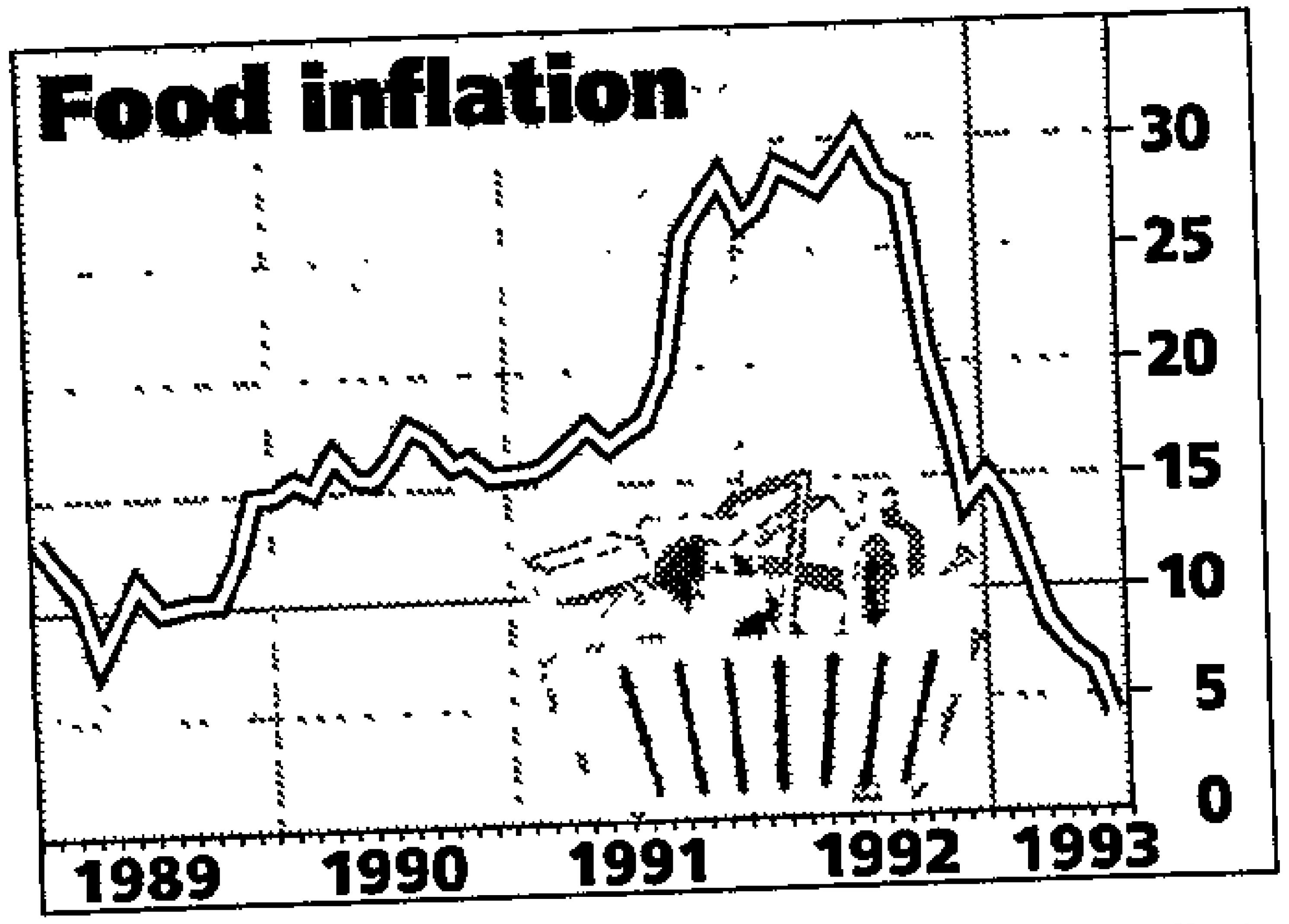
Stiff competition holding back price rises

Food inflation pounded

WHAT goes up must come down has proved true of food prices, once the engine driving the high inflation rate

BY BRUCE CAMERON



Cape Town — Food inflation has plummeted as manufacturers, retailers and wholesalers compete for the shrinking spending power of hard-pressed consumers

Retailer Raymond Ackerman says that in his 37 years in retailing he has not seen tougher trading conditions, which, added to the end of the drought, have checked the rate of price increases

Ackerman, who last year took on several government departments over the methods of assessing the inflation rate, is now in some agreement with the official rate

He puts inflation in his stores at 4 percent.

Food inflation — set at more than 30 percent less than a year ago — is now rising at less than five percent a year, according to the Central Statistical Service figure for July. The all-item index was 9,9 percent in July

Ackerman says that if it were not for increases in administered prices, such as those for petrol and agricultural products, South Africa would be deflating

Food prices, which once pushed all-item inflation to 16 percent, are now at the cutting edge of the downtrend.

Old Mutual senior economist Rian le Roux says the effect of the end of the drought has been particularly significant in fruit and vegetables.

At the height of the drought, vegetable inflation reached 88,7 percent and fruit 50,8 percent

Vegetable prices are now deflating at a rate of 18,5 percent a year and those of fruit by three percent But they are still not back to where they were two years ago

The recovery in the agricultural sector has been extremely rapid

Consumers can look to general inflation and particularly food inflation dropping further and staying down for a while.

The lower rate of inflation will also have an impact on inflationary expectations, Le Roux says

Ackerman says reasons for the drop in the rate of inflation include the intense competition among retailers at one level and among their suppliers at another

Special offer

Price increases by manufacturers are no longer being set at 30 percent as they were a year ago, but are now within the all-item inflation rate

In the supermarkets a special offer war is on, with Pick 'n Pay, for example, offering a wide range of special prices over "our every-day low-price policy on all products"

Competition has also been increased in the retail sector by the rapid growth of the informal sector, particularly hawkers and spaza shops

It has been estimated that the informal sector now accounts for R4 million to R5 million a year in sales

Ackerman feels the sector should be encouraged

Another reason for the fall in inflation is the enormous contraction in consumer spending, with the "tightest squeeze in my 37 years in supermarkets".

Not only are consumers spending less on food, but spending patterns have swung away from luxury products.

There is also a battle of the brands between retailers' own brands and branded products, and between foreign and local brands

In-house brands can now be almost half the price of branded products.

Branders are beginning to realise they cannot automatically increase prices every year

Ackerman says the Meat Board is helping by allowing South Africans to take up the surplus of meat built up in the drought years when farmers cut back their herds

'Price for lower inflation too high'

(153) CT 18/9/93

By AUDREY D'ANGELO
Business Editor

THE price SA will pay for lower inflation could be too great — "particularly in these times of political reform" — if it is kept down by high interest rates alone, Sanlam chief economist Johan Louw warns

He says in his September Economic Survey that although monetary policy has played an important part in bringing it down, inflation should be fought on a wider front through increased productivity, moderate pay rises and stronger competition

"Since there are a number of factors which could result in the next upswing being sluggish and hesitant, we believe that it will be advisable to reduce official interest rates — which are currently relatively high in real values — at the earliest opportunity"

However, Louw said yesterday afternoon that newly released trade figures had made a cut in interest rates before the end of the year less likely

"But I still think we might get a 1% cut in interest rates before the end of the year provided we get assistance from the International Monetary Fund (IMF)."

Discussing exchange rates, Louw says the calculations of the IMF and the Reserve Bank both show that the real effective rand is undervalued. Therefore, unless there are further shocks from the capital account, a further real depreciation of the rand is not expected

But the trade-weighted rand will depreciate in line with inflation differences between SA and its main trading partners over the next 12 months

Food hikes at lowest since '70

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CT 23/9/93

Business Editor

FOOD price inflation has slowed to its lowest level since May 1970, bringing down the consumer price index (CPI) for August to 9,3% year-on-year compared with 9,9% in July

The food index fell to 3,4% year-on-year compared with 4,3% in July — and 28,5% in August last year when the drought was at its worst.

The ending of the drought improved supplies, and some foods, including fruit, nuts, vegetables and fish, have become cheaper.

Economists said they expected inflation to average 10% for 1993 and to be lower next year

Consumer Council director Mr Jan Cronje said the declining inflation rate justified another interest rate cut. But Southern Life economist Mr Mike Daly did not expect such a cut as capital was still flowing from South Africa

● CPI dips — Page 10

Food prices slow consumer inflation

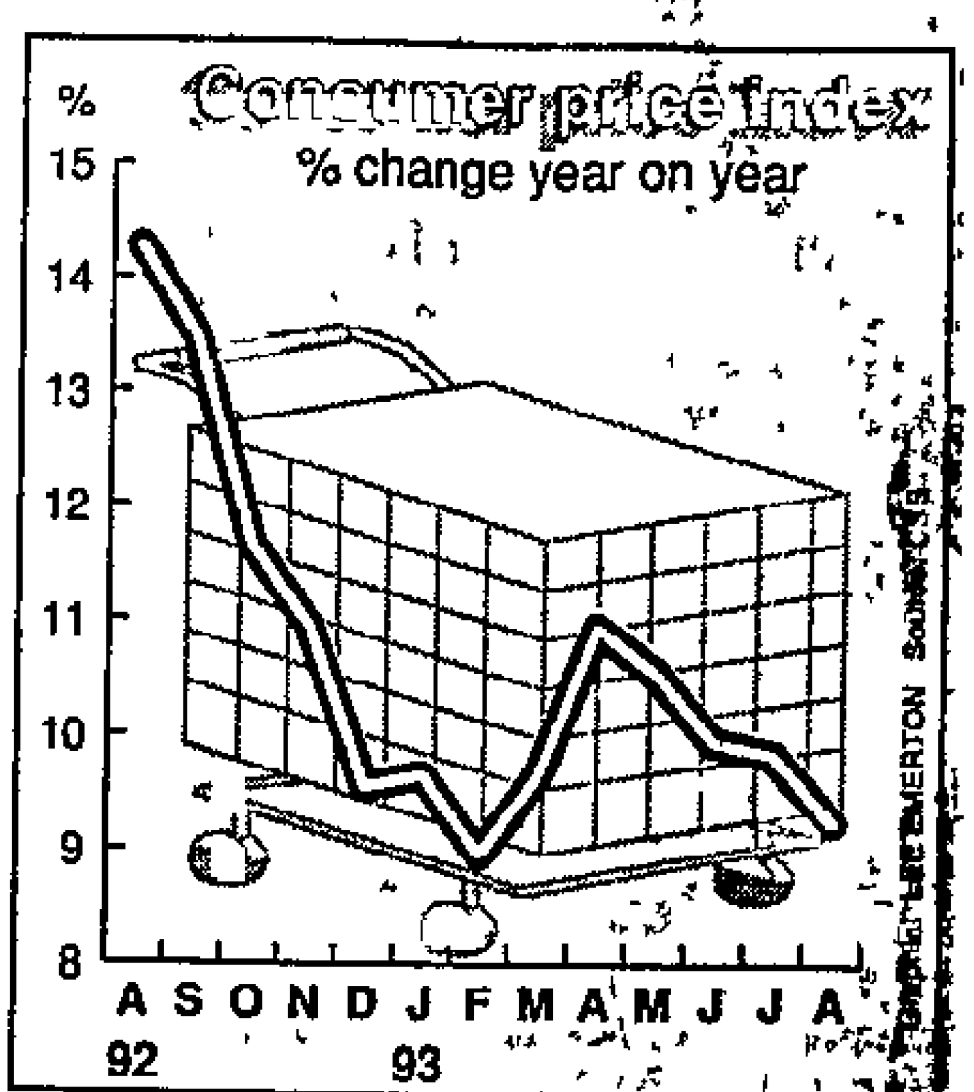
KELVIN BROWN

CONSUMER inflation slowed further to 9,3% in the year to August as lower food price rises continued to keep headline inflation in check, economists said yesterday

Figures released by the Central Statistical Service showed that the annual inflation rate — as measured by the consumer price index (CPI) — declined for the fourth month in a row, dropping to 9,3% in August from 9,9% in July. Month-on-month inflation fell to 0,5% last month after rising to 0,8% in July (153) ([illegible])

The lowest annual percentage increase in food inflation since May 1970 was the main contributor to the good inflation figure, said economists. The rise in the food index — which carries the second highest weighting in the CPI — eased to 3,4% in the year to August from 4,3% in July

Economists said a fall-off in the advance of annual housing prices to 0,8% in August from 1,2% also played a role in lowering the percentage change in the CPI. The housing index has the largest weighting in the index at 20,5%.



Nedbank senior economist Edward Osborn said, excluding mortgage interest payments and fresh food prices, inflation continued dropping to satisfactory levels The core inflation rate stood at 12,[illegible]% last month against 13,4% in the year to July.

He expected the downward inflationary

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Inflation

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☐ From Page 1

trend to continue as recessionary conditions and low wage rises prevented any flare-up in the rate of price rises.

The depreciating rand and the recent increase in the fuel price were the only factors which could exert upward pressure on prices in the next few months

But Osborn warned the declining inflation trend could be reversed next year when fresh food prices would start increasing again off a low base. "The effect of the drought on fresh food prices would have worked through the system by then." (153)

Mathison and Hollidge economist Tracy Ledger said retailers were likely to cut margins in the fourth quarter. "There is no sign of an increase in consumer spending in the coming months."

She said even a fall in interest rates was unlikely to lead to more spending as cutbacks in the labour market and political uncertainty made consumers reluctant to increase purchases.

Consumer Council executive director Jan Cronje said the sustained fall in the inflation rate was a factor in favour of the Reserve Bank lowering the Bank rate

([illegible])

● Comment: Page 4

CPI dips on lower food price inflation

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Business Editor

A SLOWING down in the rate of food price inflation brought the consumer price index (CPI) down to 9,3% year on year in August compared with 9,9% in July It rose by 0,5% month on month Seasonally adjusted, the monthly increase was 0,3%

The food only index fell to 3,4% — the lowest annualised figure since May, 1970 — compared with 4,3% in July

Southern Life economist Mike Daly said that excluding VAT the CPI would have been only 7,2%

CT 23/9/93

"We are well on target for the CPI to come down to 6% or 7% by the middle of next year, when the effect of the higher VAT rate will fall away."

In view of this, real interest rates were very high But the Reserve Bank would not be justified in cutting them in view of the danger to the balance of payments from continuing high capital outflows

If SA received a loan from the International Monetary Fund it would be needed to cover debt repayments.

Sanlam chief economist Johan Louw said the CPI was lower than he had expected

The decline in food inflation was important "We foresee the inflation rate falling to 9% next month But it might go up somewhat in October, when the higher petrol price feeds through

"The CPI might go up for technical reasons towards the end of the year but we should get very good figures in the first half of next year"

Old Mutual economist Johan Els said transport costs had gone up by 1,3% but housing inflation was still a low 0,8% year on year

The petrol price increase, which would feed through in the October figures, would be very small But there might be a slight upswing in the CPI year on year in December because it would be from a low base

Reduced standard of living stalling growth

CT 30/9/93 **Business Staff** 153

THERE has been a 1,5% annual decline in the average standard of living since 1982 even though population growth has slowed, according to the Amalgamated Banks of SA (Absa).

This is indicative of 13,8% decline in per capita gross domestic product (GDP) to 1992, according to the bank.

"This erosion of the country's standard of living has reduced the individual's propensity to save and dramatically altered spending patterns," it said in the latest Absa Economic Spotlight.

The solution, the bank argues, is to stimulate economic growth by "better utilisation of existing factors of production"

FM 1/10/93 (153)

CPI FM 1/10/93

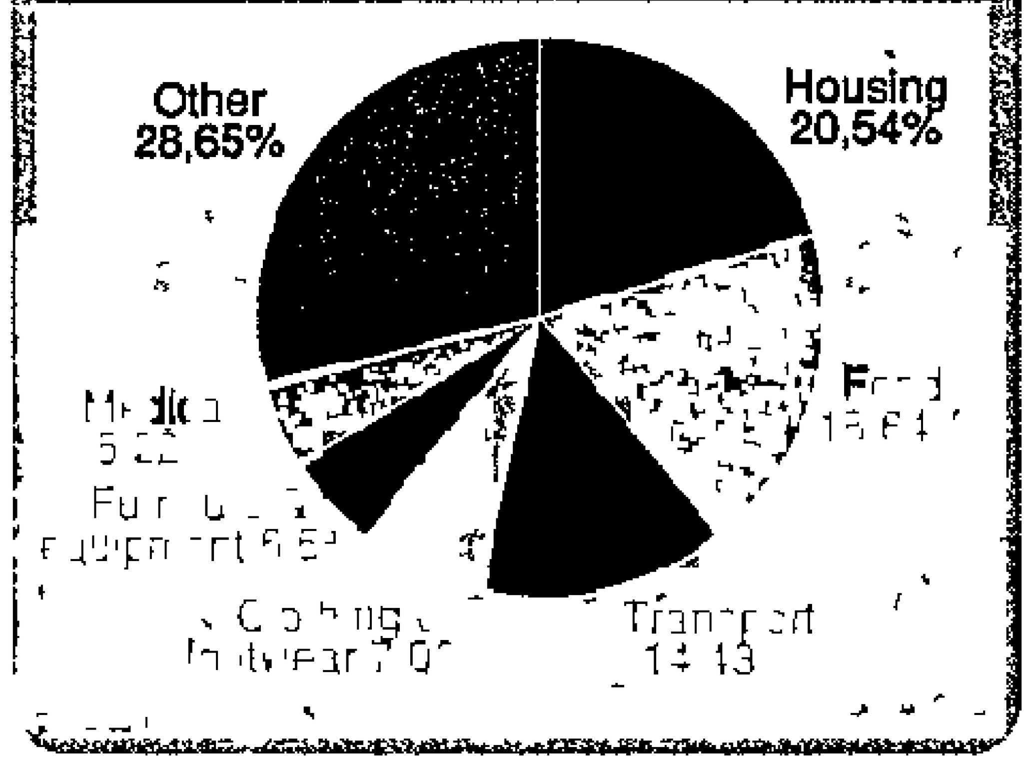
Weight watching

Inflation was 9,3% in August, down from 9,9% in July, as all major components of the consumer price index rose at a slower rate (see graph) (153)

Even transport inflation, which is in double digits, fell in the 12 months to August — to 15,6% from 15,7% in the 12 months to July More meaningful declines in inflation were seen in housing, which rose only 0,8% in August, after a rise of 1,2% in July and food which fell to 3,4% from 4,3%

The big slices

Weighting of components in the CPI



A breakdown of food shows that meat, which has the biggest weighting in the food index — contributing 6,17 percentage points of food's 18,64% in the total index — rose 9%. But this was accompanied by a 20,1% fall in vegetable prices and a 7,6% fall in fruit and nuts — which between them make up 3,06% of the total index. Milk & cheese, with a weighting of 2,28%, rose only 2,9%.

The outlook for food inflation remains encouraging, provided there is normal rainfall this summer

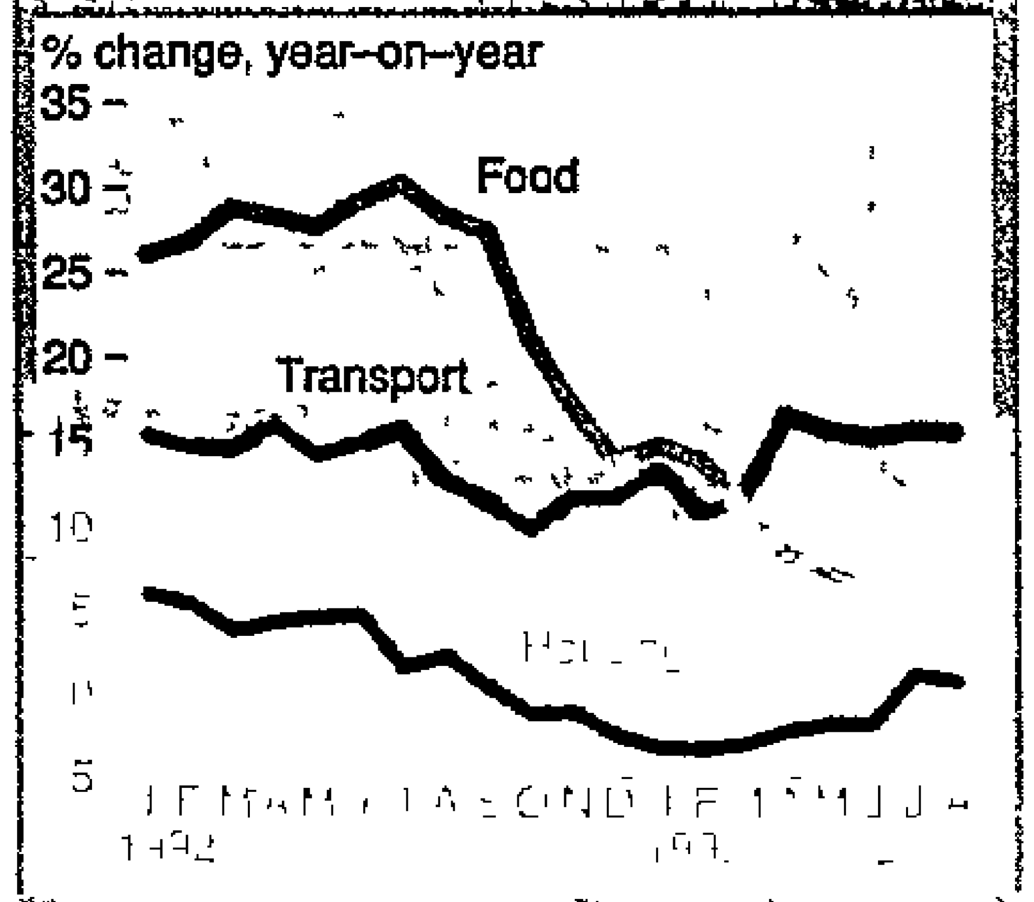
The housing index, after rising earlier in the year, due to increases in the non-interest component, is once again subsiding. Interest rates, which represent 11,5 percentage points of 20,54% housing weighting, are not likely to rise in coming months. So pressures on this index will be subdued.

The latest petrol price increase will, of course, push up the transport index, as it did earlier in the year (and its effect will ripple through to other components) This figure is going to stay in double digits in the forseeable future.

But the outlook for the other components, and inflation overall, remains encouraging ■

And how they're doing

Food, housing and transport indices



PPI Fm 22/10/93

Inflating inflation

The September increase in the fuel price was unavoidable, Mineral & Energy Affairs Minister George Bartlett said last month, citing the rand's depreciation as the main reason Yet latest figures on producer inflation, from Central Statistical Service, tell a different story (153)

Despite the rand's 18% fall against the dollar in the 12 months to August, the prices of imported commodities rose only 4,5% in this period There can be only one explanation for the small increase, a substantial fall in the price of a major import, probably denominated in dollars. And when we look, we find the price of benchmark North Sea Brent crude dropped about 14%

At the end of August 1992, Brent sold at around $19,8 a barrel. At the end of August 1993 it was down to $17. So the commodity moderating producer inflation was oil.

Now for the rand factor At the exchange rate of US$/R2,7632 in August 1992, Brent cost R54,7 a barrel, this August, at $/R3,3646, it cost R57,2. The 4,5% rise in the rand price is identical to the rise in the imported commodites index. But the cost of petrol at the pump leapt nearly 15% over the 12 months and the additional 7c administered leap in September pushed petrol inflation to 20%

Bartlett, of course, has already shifted ground The flaws in his currency argument were soon pointed out to him by economists, consumers and political foes So he now claims the price of crude is irrelevant because the fuel price in SA is determined by the in-bond landed cost of importing refined fuel from Bahrain and Singapore

Fm 22/10/93

The price of fuel is captured in different ways down the production chain CSS head Treurnicht du Toit explains "The price of crude oil makes up about 54% of the *other mining* component" This index fell 5,4% over 12 months to August "The producer's price of petrol makes up 14% of *manufactured other chemical products*" This rose 8,1% "And the retail selling price of petrol is included in the consumer price index's *vehicle running cost* component" August consumer price figures show a rise of 14,7% This tells us something about the economics of SA's fuel production

Consumers are as unsympathetic about the intricacies of price determination as they were sceptical about the currency argument So Bartlett and government have handed themselves a political hot potato

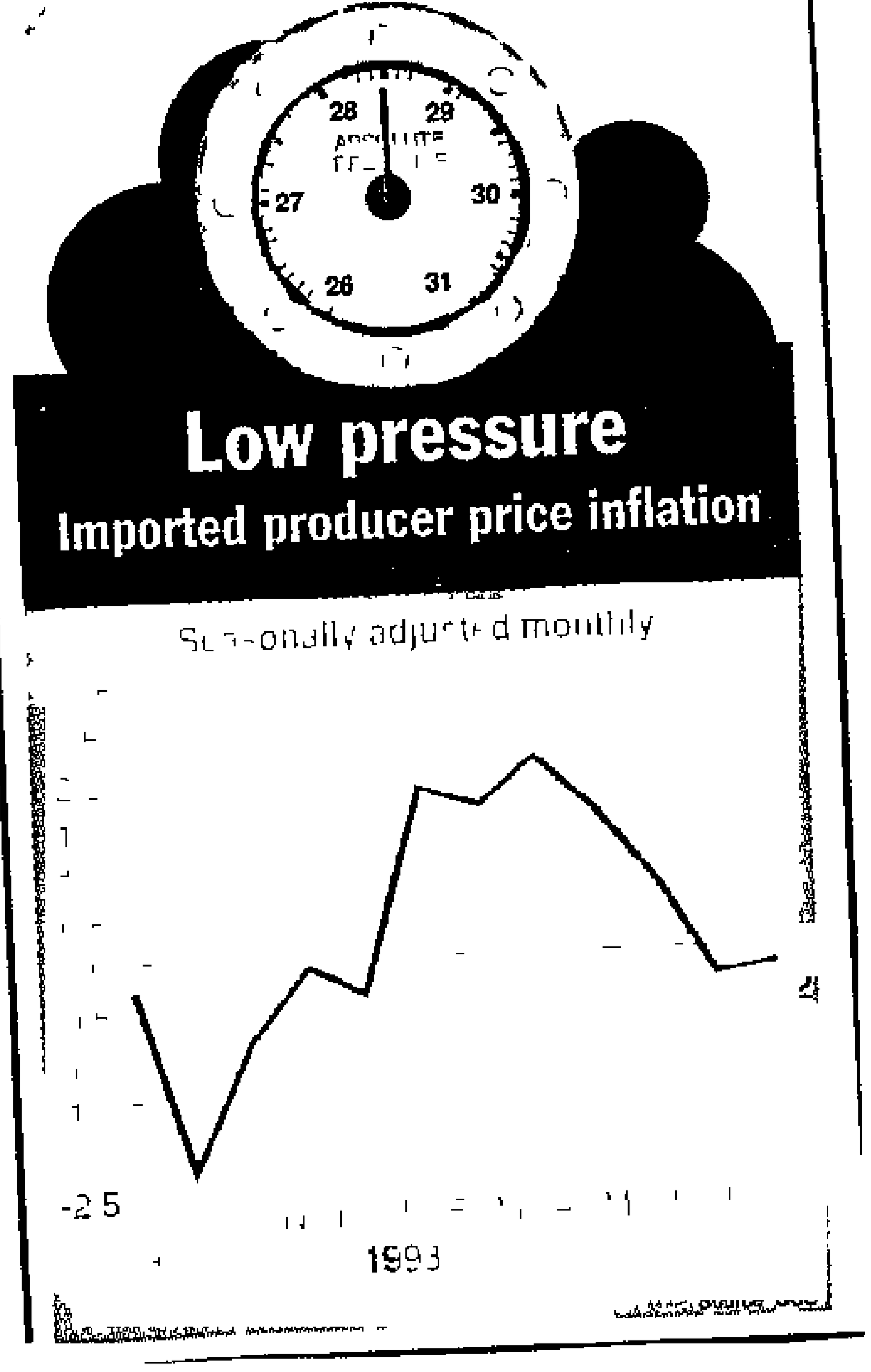
Back to the production price index On a monthly basis, imported commodity prices fell 0,2% in August after a 0,3% decline in July The monthly figures are seasonally adjusted as are those that follow

The price movements of local commodities, though not deflationary, put less pressure on overall producer inflation in August They rose 6,2% in the 12 months and a monthly 0,4% (see graph)

The rise in the overall index fell to a 12-month 5,9% from 6,3% in July The monthly rise was 0,5%, down from 0,7%

A sectoral breakdown of all goods shows the biggest weighting — more than 74% — is that of *manufacturing*. This index rose 8,5% over 12 months A breakdown of this category shows food, with a weighting of nearly 13%, rose 8,5%

The category *agriculture, forestry, fishing & mining*, which has a weighting of nearly 20%, fell 1,5% In this category, food with a weighting of 8,64% was down 0,2% in 12



(153)

months Which tells us something about the economics of food production

Electricity, gas & water, with a weighting of about 6%, was up 5,4% ■

'Inflation rate range 9%-10%'

THE inflation rate in SA will hover between a 9% and 10% increase for the remainder of this year and fall further next year, according to Sanlam's chief economist Johan Louw in the latest economic report.

153 25/10/93

However, Louw pointed out that more than 1,5m new job seekers may find no work in the formal sector during the present economic downswing.

According to the report, supply of labour has outstripped the demand since the early 1980's, but the problem has been aggravated by the length of the present downswing

"While 39% of the economically active population were unemployed or in the informal sector in 1988, the figure rose to 46% by the end of 1992."

The report says the total number of unemployed has risen by 1,8m.

Louw says it is particularly worrying that people with tertiary qualifications, artisans and matriculants are increasingly among the unemployed.

On the balance of payments he said that "total gold and other foreign reserves now cover imports for only about 1,1 months A significant economic recovery could therefore not be accommodated without a strong inflow of foreign capital "

Louw added that "a drop in the bank rate before the end of the year depends largely on an improvement in the reserves"

Consumer relief as the cost of living rise eases

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PRCG 25/10/93

BRUCE CAMERON, Business Staff

THERE is relief in sight for hardpressed consumers as the economy starts to pick up and the belt-tightening economic policies of the past four years start to pay dividends

The latest good news is the inflation rate has levelled out with a month-on-month increase between August and September being pegged at 0,5 percent for a second month in a row, giving a year-on-year increase of 9,1 percent.

With only a slight and traditional upturn predicted for the summer months, the inflation rate could drop as low as 7 percent by March next year.

Not only will the rate of prices go up more slowly than last year at the height of South Africa's longest recession, but more good news could be in store for consumers

With Finance Minister Derek Keys announcing at the weekend that the pressure on the foreign reserves was now over, homeowners could see a pre-New Year cut in mortgage bond rates

The weekend also saw the announcement of a major recovery in the gold-mining industry, which has scored from both the higher dollar gold price and the weaker rand.

CT 06/10/93

Inflation now down to 9,1%

INFLATION fell for the fifth consecutive month, to 9,1% in September, leading economists to predict an inflation figure of below 7% by early next year But senior Deputy Governor of the Reserve Bank Mr Pierre Groenewald reacted cautiously yesterday to an upbeat speech by the Minister of Finance, Mr Derek Keys — who said he was no longer worried about the foreign reserves.

● See Page 12 (153)

Drop in food prices pushes CPI down

CT 26/10/93

Business Editor

THE fall in inflation is due mainly to the fact that food prices have dropped with the ending of the drought — and they will soon move up again, Nedbank chief economist Edward Osborn pointed out yesterday

But he and other economists said they expected the Consumer Price Index (CPI) to resume its downward trend next year

The CPI for September, as measured by the CPI was 9,1% year-on-year compared with 9,3% in August, Central Statistical Services (CSS) figures show

The increase between August and September was 0,5%. After seasonal adjustment it was 0,3%

The CSS reported. "The food price increased by 2,4% from September 1992 to September 1993 This rate is one percentage point lower than the corresponding rate of 3,4% for August 1993"

But the monthly increase in the food price index was 0,8% compared with 0,4% in August

"The increase of 0,8% was due mainly to increases in the price indices for grain products (1,2 %), vegetables (2,9%) and fats and oils (2,7%) A single decrease of 0,1% occurred in the price index for fruit and nuts"

According to the CSS, food prices at chain stores increased by 2,7% year-on-year compared with those at other shops which increased by 3,1% But the monthly rate of increase in food prices at chain stores was 0,9% compared with 0,5% at other shops

Osborn said the September figure was "pretty satisfying, but we must expect it to bounce back to 9,3% in October"

This, however, should not cause alarm and despondency

Osborn explained the drought had "played havoc with the CPI" by causing "a huge climb" in the cost of fresh food — meat, fruit and vegetables — in 1991 and 1992, so that their return to more normal prices this year had caused them to show negative growth of minus 3%

Lowest

This had pushed down the CPI when in fact the underlying inflation rate without fresh food or housing would be 12,9% year-on-year

But now fresh food prices were edging up and the September CPI was probably the lowest level it would reach this year.

Sanlam chief economist Johan Louw said he expected the CPI to move up to 9,5% in October and November on technical factors, because the rate of food price increases had slowed at this time last year.

But there would be a big decline, possibly to 7%, in April when the effect of raising VAT to 14% passed out of the system

Bonds, hire purchase may follow

New hope as inflation dips

Star 26/10/93

(153)

ECONOMISTS predict lower interest rates as the fight against rising prices pays off

BY CLAIRE GEBHARDT
ECONOMICS STAFF

Consumers can take heart from the fifth consecutive monthly decline in the nation's annual inflation rate.

September's 9,1 percent figure confirms that South Africa has finally got a grip on rampant inflation.

And economists predict that the inflation rate could fall to about 6 percent by the middle of next year — a huge decline from more than 20 percent in 1986.

They also note that the strong downward trend in inflation is likely to result in a reduction in interest rates before the year-end And mortgage bond, hire purchase and overdraft rates may follow.

September's consumer price index (CPI) is 0,2 percentage points down from August's 9,3 percent, according to the latest Central Statistical Services figures.

This means that the inflation rate has declined to single-digit figures for six of the past nine months.

September's inflation rate dip comes on the back of a slower rate of increase in prices over a wide front, lower food price increases and falling housing costs.

Food and housing have heavy weightings in the CPI — 18,5 percent and 20,5 percent respectively.

The food price increased by 2,4 percent from September last year to September this year, compared to August's 3,4 percent increase

The monthly rate of increase in food prices at chain stores was 0,9 percent, as against 0,5 at other retailers

Although the fuel price increase of September 15 is not reflected in this month's CPI, Sanlam economist Johann Louw says the impact on October's figure is likely to be marginal

Absa economist Adam Jacobs believes the latest figure enhances the possibility of a Reserve Bank rate cut before year-end.

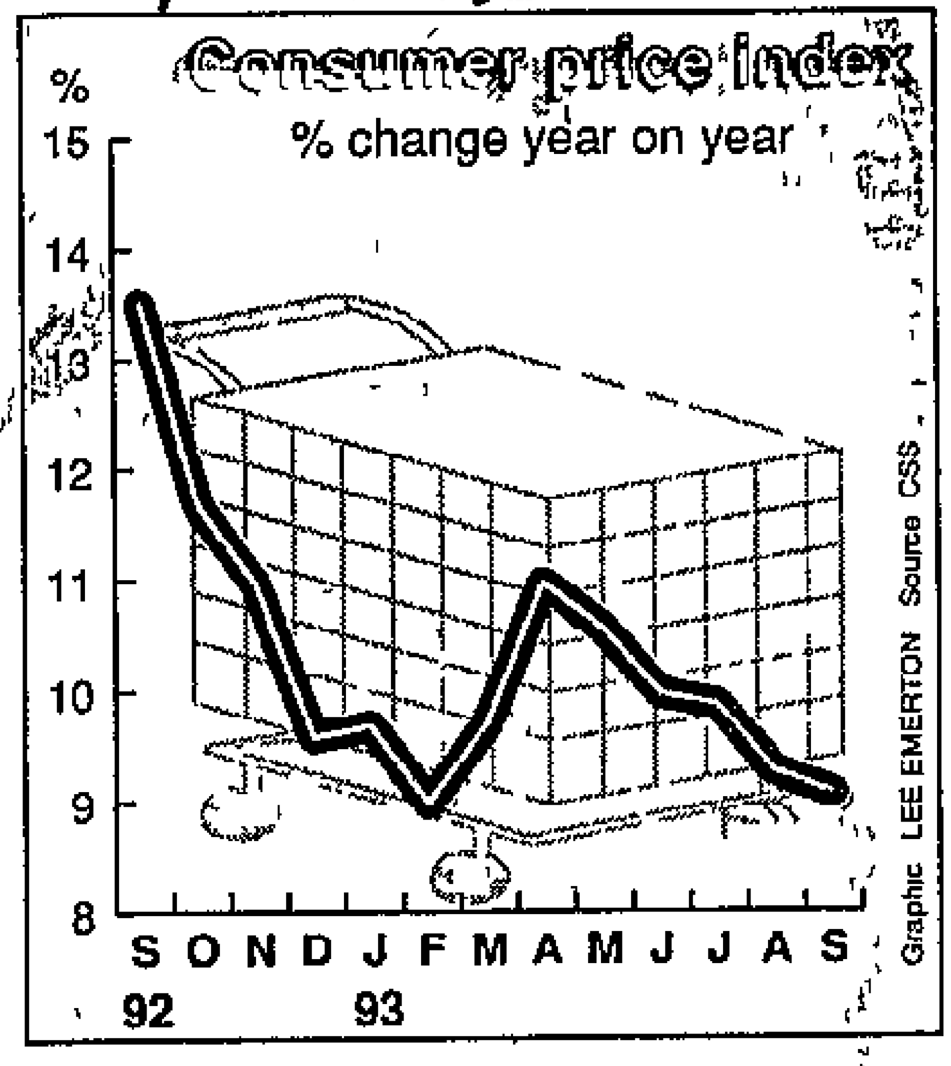
Econometrix's Dr Azar Jammine says the Reserve Bank's fight against recession — now in its fifth year — has finally paid off.

The challenge after next year's election will be whether a new government will be able to keep the inflation rate down by controlling government spending "in the face of tremendous pressure to satisfy the expectations of the masses", Jammine says.

Inflation rate stays on downward path

B Day 26/10/93

KELVIN BROWN



INFLATION fell for the fifth consecutive month to 9,1% in September, leading economists to predict an inflation figure of below 7% by early next year.

Central Statistical Service figures yesterday showed the annual inflation rate — as measured by the consumer price index (CPI) — fell to 9,1% from a previous 9,3%. This was the lowest inflation figure since February The latest figures did not include the fuel increase on September 15 as price information referred only to the first seven days of the month

Smaller increases in food prices due to better agricultural conditions continued to push down the inflation figure. Food inflation eased to 2,4% in the year to September after standing at 3,4% in August. (153)

The month-on-month increase in the CPI was unchanged at 0,5%. Indices for food, housing, furniture and equipment and transport went up. Economists were not surprised by the uptick in food inflation to 0,8% from a previous 0,4% as a one-off increase in the food index was to be expected after months of declining prices.

Absa economist Adam Jacobs said, on a seasonally adjusted annualised basis, the latest figures pointed to an increase in prices of only 3,7%. He predicted inflation

☐ To Page 2

Inflation

B Day 26/10/93

☐ From Page 1

would fall below 7% by the middle of next year. Excluding VAT, inflation stood at 7,1% in the year to September.

Jacobs said inflation was likely to start rising only when there was a substantial recovery in the economy. Even then a disciplined monetary policy would prevent an excessive rise in prices. (153)

Rand Merchant Bank chief economist Rudolf Gouws said the latest figures confirmed the underlying trend in inflation was still down. A one-off rise in inflation could occur in December when it would be coming off a very low base.

Wage and salary increases were now in single digits, the economy was sluggish, the rand was more stable and monetary policy remained tight, he said.

Gouws was not worried about the slight uptick in monthly food inflation. The rains made it unlikely that food inflation would accelerate dramatically in the near future.

Stals warns of inflation, poor rand

CT 30/10/93 (163)

JOHANNESBURG — Reserve Bank governor Dr Chris Stals warned yesterday it would be impossible to create a more equitable spread of income and wealth if inflation were unchecked and the value of the rand against other currencies deteriorated.

He told the Financial Mail investment conference here that the country could ill afford government overspending, balance of payments deficits and the inflationary pressure of excessive wage increases in the run-up to and following the elections

Dr Stals stressed the importance of financial stability as a precondition for sustainable economic growth

He said people would not save more when there is high inflation and savings were vital to finance the huge expenditure needed for the country's capital and human development

Dr Stals said he was confident that financial stability could be maintained in a new South Africa provided the country relied on financial disciplines prescribed by the International Monetary Fund and the World Bank.

Also at the conference, ANC secretary-general Mr Cyril Ramaphosa praised Finance Minister Mr Derek Keys and Dr Stals

He said he could not predict what the future held in store for them, but added "They are outstanding people who have had a lot of confidence invested in the way they handle things."

Mr Ramaphosa said a future government which he expected to be headed by the ANC would follow fiscal policies "that will enable growth to be sustained"

He said he was sure the interim constitution would be finalised within a week and the concerns of the Freedom Alliance allayed

"We are left with seven days to reach a settlement We expect the Freedom Alliance to grasp the negotiations nettle and put forward proposals on how their concerns can be met."

Mr Ramaphosa said the ANC had no intention of dismissing the alliance's fears, but multi-party negotiators would complete their work by November 5 as scheduled

Elections

He ruled out suggestions — principally made by President F W de Klerk — of a referendum to break any negotiations deadlock

Mr Ramaphosa was also frustrated by the alliance's fear of the process of change and "the voice of the electorate".

"We've just been involved in a shadow-boxing negotiation with them without finding out what they really want

"We look forward to the day elections are behind us so we can begin rebuilding our country

"The business community demands it and the economy is crying out for this type of settlement." — Sapa

Inflation rate 'to drop to 5%'

MATTHEW CURTIN

EXCHANGE controls would go before the April election and SA was heading for a drop in the inflation rate to 5% next year, financial consultant Joel Stern told a Wits Business School breakfast meeting yesterday. B/Day

Stern, founder of New York finance consultancy Stern Stewart & Co, said wholesale commitment to free market economics was the only guarantee of success in SA.

Crucial for encouraging foreign investment was the lifting of exchange controls which would without doubt cause some capital flight from SA but would also trigger a flood of overseas money into the country. 3/11/93

Stern, a frequent visitor to SA and occasional lecturer at the business school, said his belief, first hatched in the late '70s, that the abandonment of apartheid, the lifting of sanctions, and deregulation could put SA on to a high economic growth path was undaunted. (153)

Inflation expected to average 7,5% in 1994

LINDA ENSOR

CAPE TOWN — The inflation rate was expected to fall to an average 7,5% next year — the lowest level in 20 years — providing a 1,5% fillip to real private consumption expenditure, Southern Life chief economist Mike Daly said in the life assurer's quarterly Economic Comment

He cautioned, however, that his forecast assumed no further increase in indirect taxes in the next Budget.

Sharp falls in the inflation rate had already supported the growth in disposable incomes. Daly revised his projected decline in private consumption expenditure this year to 0,5% from the previous 1,5%, given the resilience of the economy in the face of violence and political tensions.

The readmission of SA to IMF and World Bank facilities provided scope for an increase in domestic expenditure which could reach 3% to 4% in 1995, generating positive per capita real GDP growth for the first time in six years.

Assuming an improvement in the balance of payments position and the successful outcome of the April elections, three cuts in Bank rate would be possible over the 12 months from this December. Daly said this would boost economic growth to between 1,5% and 2% in 1994 and through a reduced mortgage bond rate, bring down the measured inflation rate to about 6% by April.

However, if there was turmoil surrounding the elections, pressure on the balance of payments would continue and only one cut in Bank rate could be expected. B/Day

Daly noted that local business confidence remained fragile and consumers' stress levels had risen, though the downward momentum of the economy had been arrested in the first half of the year 4/11/93

Gross domestic fixed investment (GDFI) would decline for the fourth year in succession to bring the ratio of GDFI to GDP to another new low of about 15,7%. (153)

"We believe that manufacturing production has finally entered positive growth territory as of the third quarter, and that real output growth of 3% to 4% will be achieved in 1994. Industrial company earnings growth should achieve 12% next year and some 18% the next, provided further interest rates cuts take place

"Private real GDFI growth could then average 5% next year after a drop of the same amount this year, and should be appreciably higher in 1995."

A consumer price index inflation rate of between 9% and 9,5% was forecast for the fourth quarter.

INFLATION

FM 5/11/93

Don't make the wrong comparisons

It is certainly nice to have inflation back in single figures, after nearly two decades of double digits, and the benefits of a 1% cut in Bank rate But there's no cause yet for complacency Inflation in our main trading partners is now at a 30-year low of 2,5%

That is the comparison which counts It serves no purpose to compare us with, say, Brazil, where inflation has been curbed but is still well into double digits. For we don't trade much with Brazil or with other Third-World countries less successful than we have been in stabilising prices. (153)

Even at 9% — half of what it was about three years ago — our inflation is such that we will need R4 to buy US$1 within a few years. In 1980 R1 bought $1,20. We have some way to go and some sober policies to implement to return to that happy position.

Low demand within the economy, especially for bank credit, suggests that further falls in inflation could be swift, especially if higher indirect taxes can be avoided early next year The process will gather momentum in the months ahead and, provided there is no mishap, inflation could be halved again by this time next year.

If that happens, further cuts in Bank rate will become possible, especially with IMF drought compensation in the kitty That compensation is unlikely to be undermined by the misgivings of a cheeky union over wage restraint being included in the conditions.

By the second quarter of 1994, Bank rate could be down to single digits, especially if European rates are easier

Of course, the Bank will have to keep a close eye on the reserves, which are still relatively low, and on the buoyancy of M1 if an element of asset inflation is to be avoided But, with the trade balance still in surplus and a final debt repayment package in place, the time is coming when Church Square, while maintaining its admirable policy of certainty and stability, could start pressing interest rate frontiers with more vigour

Stable prices would also make a reduction in exchange controls a less terrifying prospect for Pretoria If foreigners' assets are allowed to come and go at will, their propensity to invest will rise substantially ■

HANGING IN THERE ... World oil prices yesterday held much of the gain made in an explosive rally earlier this week December futures for the world benchmark Brent Blend traded at $16,15 per barrel at the close

Martin Sweet

Escalating inflation likely in the new SA

153

CT 5/11/93

By AUDREY D'ANGELO
Business Editor

INFLATION is likely to rise to higher levels in the new SA as government spending patterns change, Martin Sweet, GM in the legal and tax department at Southern Life, said yesterday.

And an inflation level of 15% would mean that a fixed pension of R1 000 a month this year would have the buying power of R247 in 10 years' time.

Sweet was speaking at a seminar on retirement benefits organised by Seminars Inc of Claremont, at the Woodstock Holiday Inn.

Pointing out that high inflation makes it essential for everyone to have another source of income to supplement a company or State pension, Sweet said there was no precedent for any tampering with retirement funds after a change of government.

"Often — given the transitional stage we are approaching — people voice concern that a new government is going to attach their retirement funds as part of a perceived move towards nationalisation and that their hard-earned nest-eggs are going to form part of a greater redistribution of wealth from the haves to the have-nots

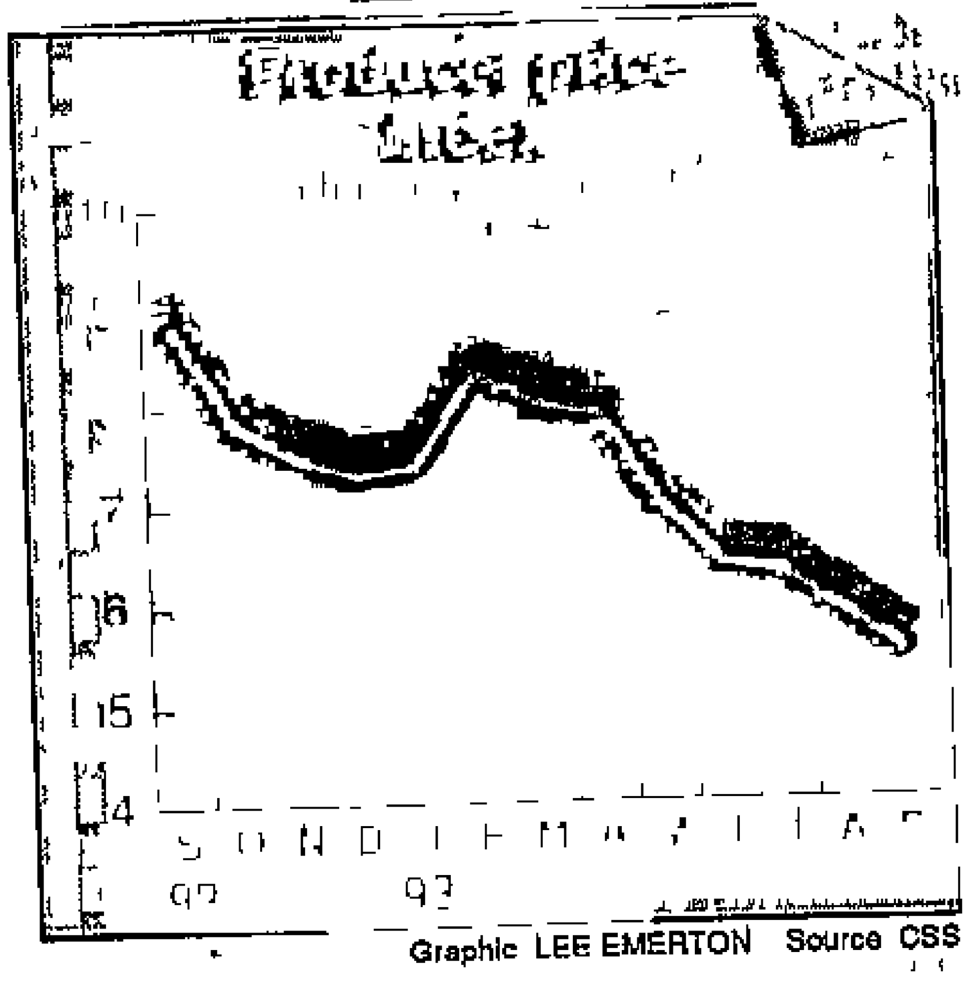
"The chances of this happening are remote Worldwide, pension interests have remained sacrosanct even when there have been changes of government.

"In SA the retirement funds industry is massive and likely to have attention focused on it as a potential source of revenue

"However, this is likely to take the form of a move towards socially desirable investment whereby a percentage of the funds themselves are redirected towards those areas of investment which are going to provide benefits for disadvantaged communities, for example housing and electrification

"Individual members of funds are not going to lose their vested rights to receive what is legitimately theirs."

Sweet said a new government might provide a "safety-net" social pension for citizens with no income But this would truly be a subsistence level pension with absolutely no extras available.



Graphic LEE EMERTON Source CSS

Producer inflation hits 20-year low

B/Day 12/11/93

KELVIN BROWN

INFLATION at the producer level dropped further to 5,5% in September, the lowest level in more than two decades.

Figures released by the Central Statistical Service yesterday showed the year-on-year percentage change in the producer price index (PPI) eased for the seventh consecutive month to 5,5% from August's 5,9%. The monthly rise slid to 0,2% (0,5%).

Economists said a fall in the percentage change of the imported component of the PPI — which carries a weighting of 19,5% — helped pull inflation down. The annual rate of increase for imported commodities sank to 3,8% (4,5%). The fall in locally produced goods was less at 5,9% (6,2%).

UAL economist Dennis Dykes said imported price inflation appeared to be dropping due to zero producer inflation among SA's main trading partners and an easing in oil prices. (153)

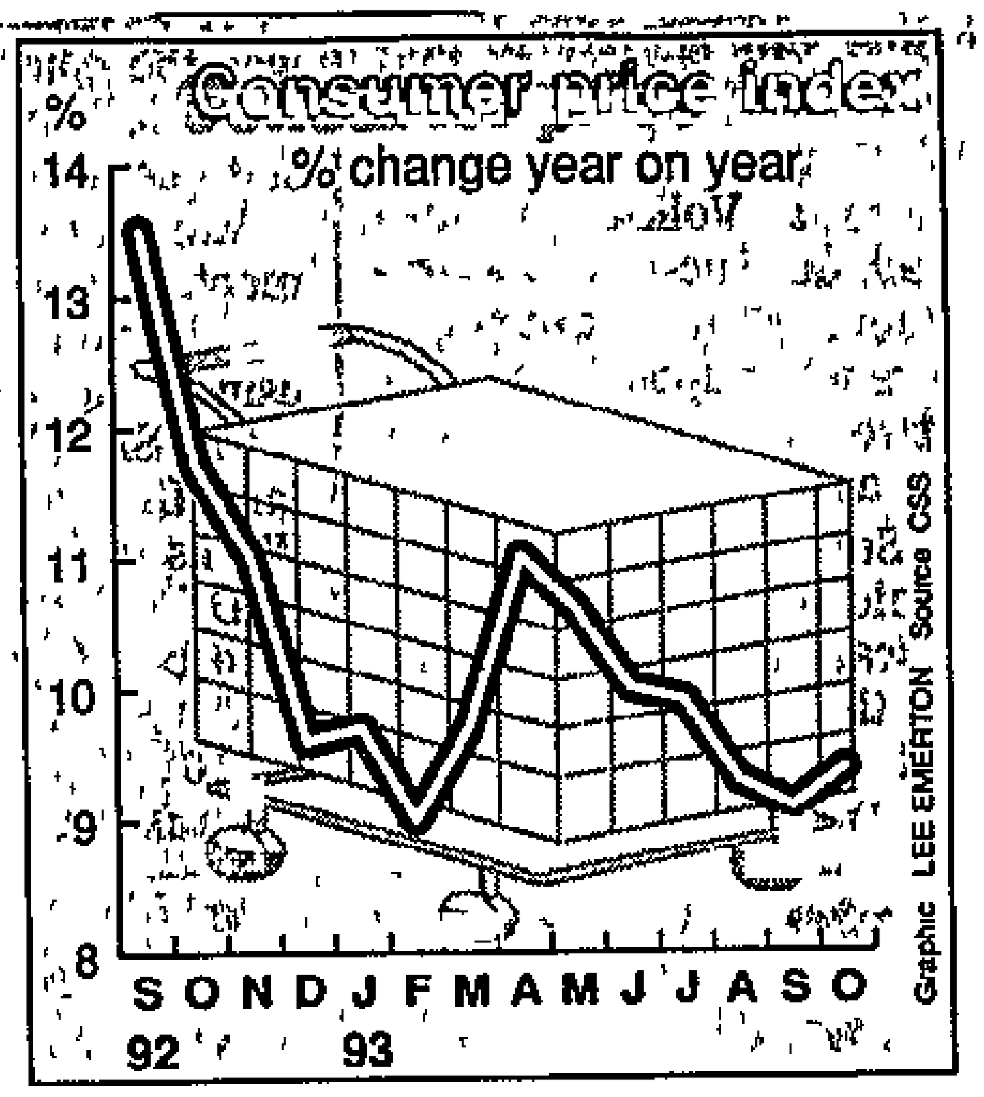
Oil, in the mining and quarrying products category, has the fourth highest weighting in the PPI at 7,6%. In the year to September the percentage change in this catagory dropped to -6,5% (-5,4%).

Dykes said the lower oil prices and zero producer inflation overseas appeared to outweigh the effect of the rand's 18% depreciation against the dollar.

But producer inflation could be reaching the turning point.

"We might get one more month of falling inflation after which it should start rising slowly as the index comes off a low base."

Mathison & Hollidge economist Tracy Ledger expected imported inflation to contract further in October when the rand strengthened 3% and oil prices fell further.



Fuel hike causes inflation 'hiccup'

KELVIN BROWN

THE recent petrol price increase pushed October inflation — as measured by the percentage change in the consumer price index — to 9,4% compared with 9,1% in September B/Day 25/11/93

But economists said the rise was "a slight hiccup" due to the fuel price rise and said inflation would continue on a downward trend. They said annual inflation had also picked up, as the index had come off a lower base. (153)

The Central Statistical Service (CSS) said the month-on-month rise was up at 0,7% last month from 0,5% in September. The main contributors to the monthly rise were transport and food.

The CSS said transport rose 1,2% in the month from a previous 0,5%, because of the 7c/l increase in the petrol price on September 15 The monthly rise in food inflation was unchanged at 0,8%.

The effects of the petrol price rise did not come through in September as price changes are measured only in the first seven days of a month.

Sanlam chief economist Johan Louw expected inflation to fall to about 9,2% in November as the reduction in mortgage

□ To Page 2

Inflation B/Day 25/11/93

□ From Page 1

bond rates came through.

Inflation would pick up if there was a recovery in the deflationary trend in food and housing Excluding these two components inflation stood at 13,6% in October.

Southern Life chief economist Mike Daly said deflationary forces were likely to persist into the better part of next year

Unions were accepting more realistic wage increases and real interest rates remained at high levels (153)

If the exchange rate remained stable, SA could also continue to benefit from the low level of inflation in overseas countries

Access to IMF funding would help the Reserve Bank protect the value of the rand, he said.

Bank Governor Chris Stals had also indicated he was keen to maintain a tight monetary policy and had talked about cutting inflation to about 5% next year, Daly said But a pickup in the economy could begin to exert upward pressure on prices late next year

"Company margins have been squeezed to the bone so they will be itching to increase these margins as soon as they can"

Inflation slinks back up to 9,4% increase

CT 25/11/93 (153)

By MAGGIE ROWLEY
Deputy Business Editor

AS EXPECTED, increased food and transport costs pushed inflation up in October for the first time in six months to an annualised 9,4%

However the trend was still downwards and inflation, as measured by the Consumer Price Index, should back to around 9% in November, economists said

According to figures released by Central Statistical Service yesterday, South Africa's all-items Consumer Price Index (CPI) rose 0,7% in October from the previous month after a 0,5% rise in September

This brought inflation, as measured by CPI, to an annualised 9,4% from 9,1% in September.

Seasonally adjusted, the month on month increase in October was 0,5%

Inflation for the lower income group was up 0,6% month on month to a yearly increase of 7,6%, for the middle income group it was up 0,7% month on month to a yearly increase of 9,1% and for the upper income group it rose 0,6% month on month to yearly increase of 10,3%

Old Mutual economist Johan Els said the October figures were not a surprise as the rise had been expected due to increased petrol and food prices The petrol price was increased by 7c a litre on September 15

Food prices showed a monthly increase of 0,8% for the second consecutive month and an annualised increase of 2,9%, up from 2,4% in September.

The main contributors were vegetables (up 2,8%), fruit and nuts (up 1,6%), fats and oils (up 1,5%) and grain products (0,9%). Fish and other seafood recorded the only decrease in food prices, dropping by 1,4% month on month.

Els said excluding food, housing and VAT, inflation in October was still below 8%.

He and Nedcor economist Edward Osborn said the good news was that inflation could be expected to fall back to 9% or 9,1% in November as the impact of lower home loan rates and the 2c drop in the petrol price, as of October 26, were felt before rising again in December to around 9,7% "at worst" on technical factors.

Osborn said they were expecting inflation to fluctuate between 9,1% and 9,7% until March next year before falling in April when the effect of the VAT increase had worked through the system

By April, inflation should be running at below 7%, said Osborn and Els.

However a further increase in VAT during next year could not be discounted.

Inflation rate uptick a hiccup

(158)

ARGUS 25/11/93

BRUCE CAMERON
Business Staff

THE reverse in the downward trend in the inflation rate for October is a blip on the screen.

Economists were confident today that the inflation rate would be back on the downward track with predictions of prices rising by a comparatively low 8 percent early next year and by less than 7 percent later in the year

Central Statistical Service announced yesterday that the year-on-year inflation rate at the end of October had been fixed at 9,4 percent

At the end of September prices year-on-year were going up at a lower 9,1 percent

The figures showed prices increased 0,7 percent in October compared with 0,5 percent in September

This is the first upward movement in the CPI since the VAT increase in April pushed inflation to 11 percent

Food prices increased by 2,9 percent year-on year, largely as a result of higher price rises for vegetables, fruits and nuts, fats and oils and grain products

The inflation rate for pensioners is 9,5 percent — 0,1 percentage points higher than the official inflation rate

But Old Mutual economist Johan Els said today there was nothing to be worried about

"We expected the trend to reverse because of the increase in the fuel price"

Food prices also pushed the rate up, rising 0,8 percent in October

Mr Els predicted the rate of inflation would be in a downward trend again next month as a result of lower interest rates, particularly on mortgage bonds

He expected inflation to be below eight percent by early next year.

Frankel Pollak Vinderine economist Mike Brown said month-on-month figures were fairly volatile and that November's inflation figure could fall to 8,8 percent on lower interest rates and the slight cut in petrol prices

December's figure, however, could move back to 9,4 percent because of statistical problems — "There was virtually no increase in the inflation rate between November and December last year"

Mr Brown said he expected inflation to fluctuate between 8 percent and 9 percent in the early part of 1994 and to fall back to 6 percent or 7 percent in April when VAT falls out of the figure

"Another VAT increase in the Budget in August could however push inflation up marginally"

Southern Life economist Mike Daly said inflation figures continued to be encouraging and underlined the fact that there was a disinflationary squeeze as a result of tight monetary policy.

Mr Daly said he was forecasting an average inflation rate next year of between 7,5 percent to 8 percent — "a 20-year low"

Inflation edges slightly higher

Star 25/11/93

■ BY CLAIRE GEBHARDT

Consumer price inflation (CPI) edged higher in October for the first time in six months, according to figures released by the Central Statistical Service yesterday.

The annualised CPI in October rose to 9,4 percent from 9,1 percent in September.

This is the first upward movement in the CPI since the VAT increase in April pushed inflation to 11 percent.

Economists said yesterday the slight uptick had been expected, given the September 15 petrol price increase, and that it was not cause for concern.

Food prices increased by 2,9 percent year-on year, largely as a result of higher price rises for vegetables, fruits and nuts, fats and oils and grain products.

The inflation rate for pensioners is 9,5 percent — 0,1 percentage points higher than the official inflation rate.

Frankel Pollak Vinderine economist Mike Brown said month-on-month figures were fairly volatile and that November's inflation figure could fall to 8,8 percent on lower interest rates and the slight cut in petrol prices.

December's figure, however, could move back to 9,4 percent because of statistical problems.

"There was virtually no increase in the inflation rate between November and December last year."

Brown said he expected inflation to fluctuate between 8 percent and 9 percent in the early part of 1994 and to fall back to 6 percent or 7 percent in April when VAT falls out of the figure (153)

"Another VAT increase in the Budget in August could however push inflation up marginally."

Southern Life economist Mike Daly said inflation figures continued to be encouraging and underlined the fact that SA was in a disinflationary squeeze as a result of tight monetary policy.

"The good figures are helping prevent inflationary expectations and wage settlements are becoming more realistic, in line with the tough economic conditions prevailing."

Daly said he was forecasting an average inflation rate next year of between 7,5 percent to 8 percent — which would be a 20-year low.

4th quarter inflation tipped at 7,4% — AHI

THE 'futuristic' inflation barometer, undertaken by Afrikaaner Hadelsintituut (AHI), shows that fourth quarter inflation is in "a marked decline" at a 7,4% increase

(153) CT 27/11/93

This is a ~~very~~ promising performance, when matched against the 9,1% increase in the third quarter and the 11% rise in the second quarter

The inflation barometer consists of 18 macroeconomic variables weighted in a single index and from there the index attempts to gauge consumer price inflation (CPI) in six to 12 months time

AHI's chief economist Nick Barnadt points out that "this reading confirms the considerable progress in reducing inflationary forces in SA towards a level equal to that of the country's major trading partners"

Barnardt adds that it is also indicative of single-digit CPI, on average, during the first half of 1994

Inflation poised to fall further

BIDay 29/11/93

THE improved fiscal deficit, lower long-term interest rates and the stabilisation of the rand exchange rate could help reduce inflation further next year.

ROBYN CHALMERS

The Afrikaanse Handelsinstituut inflation barometer reading for the fourth quarter of 1993 said a CPI inflation rate of close to 7% was on the cards for mid-1994. (153)

Figures from the Central Statistical Service showed that, for the first time in six months, consumer price inflation edged higher during October to 9,4% against 9,1% in September

However, economists said the rise was the result of the recent petrol price increase. They saw it as a slight hiccup and believed inflation would continue downward next year.

The impact of the VAT increase would fall away next April, economists said, leading to the CPI taking a sharp drop If VAT was taken out of the current inflation rate, it would fall to about 7%.

Also, Reserve Bank Governor Chris Stals has said he would like an inflation rate of 5% next year by maintaining a tight monetary policy.

Sapa reports that the reading for the fourth quarter of this year was 7,4% compared with 9,1% in the previous quarter

Additional factors which could lead to a lower official inflation rate include the continuing slowdown in wage costs, the retreat in the producer price index, and a further softening of inflationary expectations

The Afrikaanse Handelsinstituut said the barometer reading indicated there was further scope for reductions in short- and long-term interest rates following the April election next year.

However, it warned that uncertainty and possible instability in the run-up to the elections, the renewed appreciation of the US dollar and large foreign debt repayments due early next year could postpone another Bank rate cut until after April.

"Furthermore, should credit and money supply extend their recent jump, with an ongoing boom in business and import activity, the Bank rate would not be cut further and real interest rates would rise in 1994."

‘Lower CPI means lower investment returns’

153

CT 3/12/93

Business Editor

Chairman Mike Levett

TOTAL assets under management by Old Mutual have risen to “significantly above R100bn” since the financial year end, chairman Mike Levett told policy holders at the AGM yesterday

But he warned that falling inflation would mean lower nominal returns on policies

“The past year has seen a decline in the inflation rate — a trend which I expect to continue in the coming year

“For our industry this has further implications because inflation has a significant influence on the level of investment returns

“Simply put, the lower the inflation rate the lower the nominal returns earned for policy holders

“Of course, we will strive to maintain excellent levels of real returns. Nevertheless, the industry must educate policyholders to understand that their actual nominal pay-outs may turn out to be less than was expected when inflation was high.”

Levett said the Mouton Report on pensions and retirement benefits had highlighted the importance of pension increases in times of high inflation.

There was also a need to level the playing field between the public and private sectors because of the tax advantages now enjoyed by civil servants at the time of their retirement

“The principle also applies to retirement vehicle alternatives In this case a view must be taken on the relative merits of lump-sum benefits and income-type benefits Once there is clarity on this issue it will be possible to address the differing tax treatment of pension and provident funds ”

Levett said it was also important for the private sector and its employees to be encouraged by tax incentives to make provision for their own retirement “If fiscal incentives are removed the system breaks down ”

FM 3/12/93 (153)

under 6,2% this week — and added a dampener for gold, though Monday's drop derived as much from a new scare about silver

Following Xerox's new silver-free process (with limited specialist applications) announced last month, Polaroid came out with one of its own Polaroid's Helios dry-process laser imaging system will apply to part of the medical X-ray market, which accounts for 8% of silver consumption

Few analysts saw the Xerox-Polaroid developments as a body blow, but silver took a 6,5% knock and, with it, gold and platinum both dropped as US commodity fund computerised programs sent out sell signals ■

FM 3/12/93

INFLATION

Home front

There is little pressure on consumer prices and, despite an uptick in October, to 9,4% from the 9,1% recorded the previous month, the annual inflation rate is expected to continue the downward trend which started after a peak of 16,8% in October 1991

An indication of future direction comes from recent figures In the three months to July, these rose a seasonally adjusted 1,9% — which is an annualised 8,3%, and in the three months to October, they rose only 1,2% — an annualised 7,4% This shows inflation is continuing to lose momentum (153)

October's 0,5% (seasonally adjusted monthly) rise, from 0,3% in September, was due mainly to the administered fuel price increase of 7c/*l*, captured in official statistics for the first time that month

A contribution also came from a slight increase in food prices after sharp falls in earlier months, according to Central Statistical Service, which released the figures last week

In the months ahead, almost everything is pointing to a falling inflation rate Producer prices rose only 5,5% in the 12 months to September (the latest available figure) So retailers are not being squeezed by suppliers

The fuel price was later adjusted down 2c, which will be reflected in the November figures

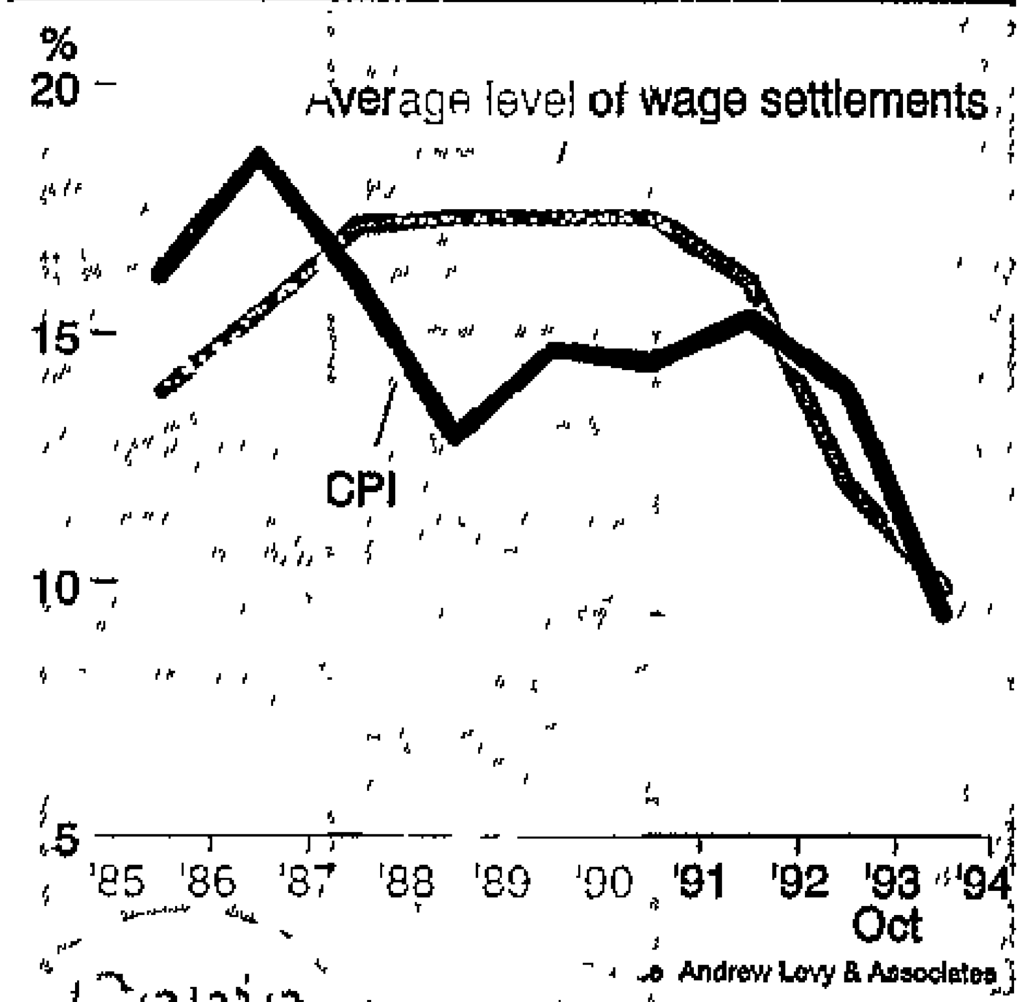
Good summer rains have fallen in most parts of the country so far this season If the pattern persists food prices will stay low For the next few months prices will be rising off the high base recorded in the drought months, so food inflation will be subdued The drought effect will start to fall out of the statistics about March

The exchange rate of the rand has stabilised At the start of the week one US dollar cost less than R3,40, which is fractionally less than it did in mid-September The rand also remained stable against a trade-weighted basket of currencies

Oil prices are still falling on international markets after Opec producers declined to cut output last week The benchmark North Sea Brent crude fell sharply 14,13% when the news was announced (see p36)

A wage settlement survey, by Andrew

Wage settlements: down and still falling



Levy & Associates, shows the average increase in the year to June was 10% This is below the forecast range for the year of 10,5%-12% Since June "a number of important benchmark settlements have been achieved which would certainly indicate that settlements are moving to single digits," says the report which accompanies the survey

These include Iscor at 6%, Eskom 10%, Transnet 7%, the metal industry 7%, rubber & tyre 10% and Posts & Telecommunications 5,8% The Bureau for Economic Research at Stellenbosch University has forecast the rise in wage rates in the third and fourth quarters will be about 9,8%

Real interest rates — nominal rates adjusted for inflation — remain high Prime, at 15,25%, is more than five percentage points above the inflation rate

Growth in the broad monetary aggregate M3, though accelerating, remains below the inflation rate and below the guideline range for the year of 6%-9% In the 12 months to October it rose 5,1% to R205bn — a provisional estimate This is up from a revised 4,28% in September

Measured from the base of the current target year, which is mid-November 1992, growth to October was an estimated 4,9%, to a seasonally adjusted R206bn M0 rose 5,13% in September and M1A 6,89%, M1 declined 0,01% and M2 rose 1,35%

International inflation continues to fall This means imported prices will remain relatively steady unless the currency resumes its slide

Most important for the course of inflation is the role of inflationary expectations Now these are adjusting to the change in the pattern of price increases, they are reinforcing the downward trend In the longer term, there are inflationary hazards But only an unexpected development would propel inflation to double digits in the months ahead There is a general expectation that the rate will fall several percentage points in the first half of next year ■

RISK MANAGEMENT COMPETITION

The penultimate week of the Actsa Risk Management Competition saw some hectic trading, but contestants battled to make headway in the face of whipsawing gold and gilts markets

The resurgence of bearish sentiment in gilts caught participants off guard The E168 closed at 12,20% Wednesday last week and was back at 12,56% by Friday Traders with long positions of 200 contracts — the maximum allowed by the Simtex rules — lost up to R400 000

In the Trading section, Kaps' profits fell back from 27% the week before to 19%, letting RMB Trading back into pole position Not much separates the top four as they go into the last two days of trading, and JCI or Smarties could well pull ahead to challenge the two leaders

In the Hedging section, Gencor Jewels now have a decisive lead The JSE Overall index is up 7,6% in the seven weeks since the start, equivalent to over 60% annualised, while equities in contestants' portfolios are up less than 3% JCI is the only team ahead of target which, assuming it's easier to lose money than to make it, may put it in a position to make a late charge for the winning post

The competition ends this week More than R85 000 in prizes sponsored by Rand Merchant Bank, Reuters, Standard Merchant Bank, Investec and the *FM* are being awarded along with the Actsa Risk Management Trophy and the *FM* Top Trading Desk Trophy

COUNTDOWN

Hedging Trophy

		% of target
1	Gencor Jewels	99,18
2	RMB Hedgehogs	97,82
3	SARB Internal Audit	97,36
4	Hesketh (Natal Univ/NBS)	96 59
5	JCI	105 43

Trading Trophy

		Portfolio return %
1	RMB Trading	21,0
2	Kaps	19,1
3	JCI Karoo Mines	17,3
4	Smarties	15,4
5	Treasury Bull	6,7

Inflation drop!

New government has to maintain fiscal discipline

CIPress 12/12/93

153

INFLATION could decline to around seven percent by the second quarter of 1994 and average out at about 8,5 percent by the year-end, according to the latest issue of ABSA's *Economic Spotlight*

The possibility of the inflation rate declining in the new year, along with an improvement in the country's foreign exchange position, means the bank rate could fall by another two percentage points to 10 percent, without sacrificing too much in terms of aggregate demand management

However, inflationary pressures in the latter half of 1994 and huge demands in terms of socio-economic expenditure imply that the lower turning point in the interest rate cycle should be reached by mid-1994

The bank says that if the Reserve Bank's autonomy is guaranteed in a new constitution and acknowledged by a new government, one could look forward to a structural reduction in inflation and nominal interest rates, providing government finance is brought under control

ABSA says that assuming market forces maintain the real effective exchange rate of the rand at the past year's average level, its nominal effective exchange rate will depreciate by at least five percent in 1994, in line with the differential between the expected inflation rate of 8,5 percent and that of SA's major trading partners, which is expected to be about 3,5 percent

The current below-target increase in the money supply is expected to continue in the near future, but should come within the Reserve Bank's nine percent range during the first half of 1994, as credit demand starts to grow

ABSA contends that the Reserve Bank may further lower the growth in the money supply range to between five and eight percent

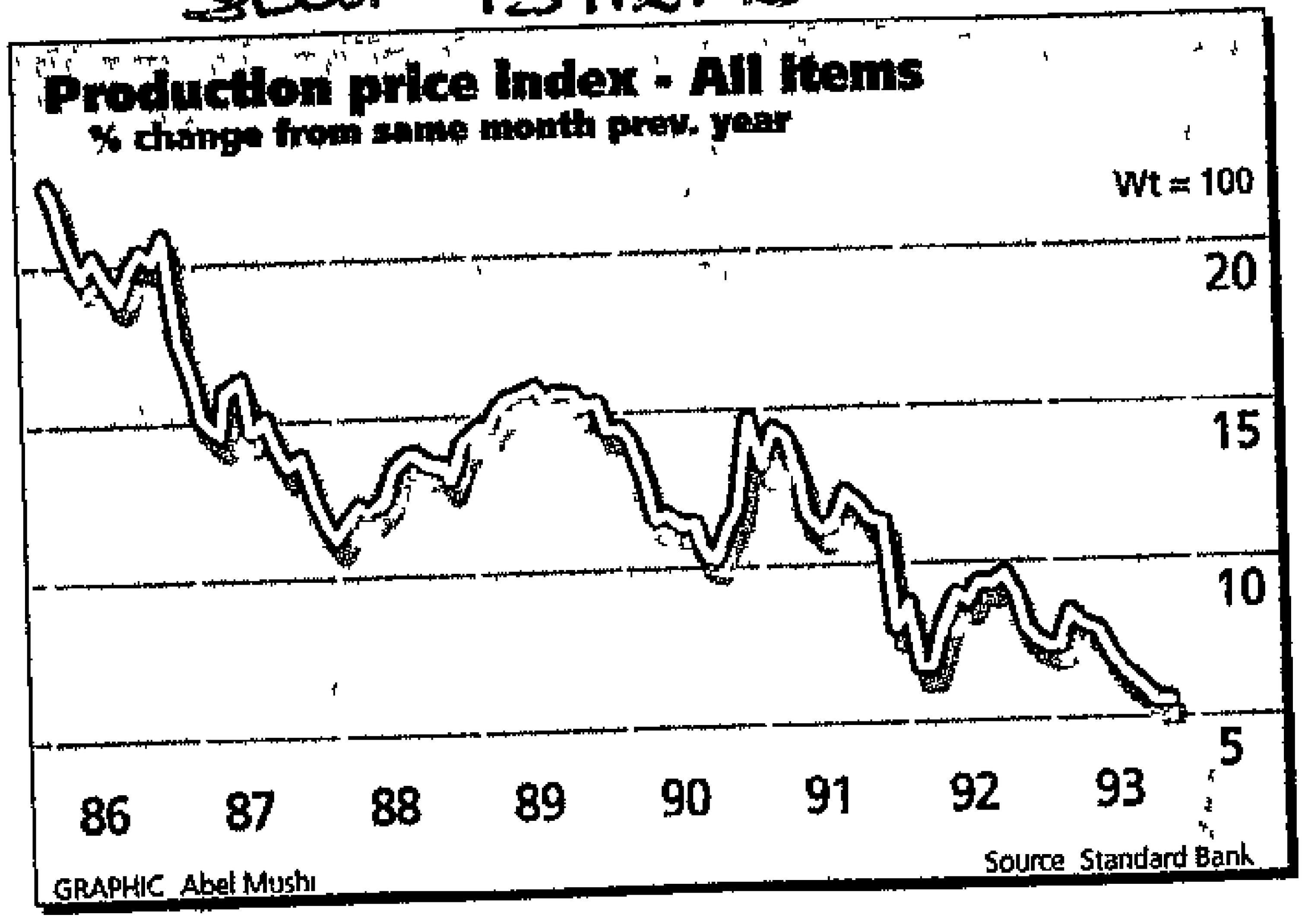
Containing inflation further will also depend on the ability of a new government to maintain fiscal discipline by encouraging saving

Of course the cost of not combating inflation effectively will be considerably higher

Inflation tidings mixed

Star 13/12/93

By DEREK TOMMEY



The latest production price indices contain cause for cheer and for concern

The good news is that the downward trend is continuing.

The annual growth in the index for all commodities for South African consumption slowed to 5,4 percent in the year to October from 5,5 percent in the year to September

The increase between September and October was 0,4 percent — equal to an annual rate of less than 5 percent, and suggesting that a further decline is likely in the November figures as well.

The bad news is that South African prices are still rising faster than overseas prices, which means there can be no let-up in the campaign against inflation.

The production price index for locally produced commodities for South African consumption showed a year-on-year increase of 5,7 percent in the year to October, against 5,9 percent in the 12 months to September

Against this, the prices of imported goods for local consumption grew by only four percent in the year to October.

This marks a seeming deterioration from the 3,8 percent increase in the 12 months to September 153

But the Central Statistical Service reports that the increase in the cost of imported goods between September and October was 0,3 percent — or just over 3,7 percent on an annual basis.

It says that seasonally adjusted, imported prices actually fell by 1,3 percent between the months of September and October.

South African commodities showing major price increases in October were forestry products (1,9 percent), leather and leather products (4,1 percent), footwear (2,1 percent), petroleum and coal products (2,6 percent), basic metals (1 percent), transport equipment (2 percent) and scientific instruments (2,6 percent).

Prices of food products and equipment and products used in mining and quarrying declined in October.

Inflation 'could drop below 7%'

BDay 15/12/93

KELVIN BROWN

INFLATION could fall below 7% next year as the current low level of salary and wage increases suggested inflationary expectations were being broken for the first time in many years, economists said yesterday.

Settlements received by unionised workers averaged about 12,7% this year, while skilled workers received increases of 9,1%, data released by the Labour Research Service showed

Economists said companies and workers appeared to be changing their expectations about price increases as inflation had fallen almost consistently since the end of 1991, unlike the erratic behaviour of prices in the '80s. (153)

Consumer inflation — as measured by the percentage change in the CPI — has been on a downward trend for almost two years. But they said it would be possible to confirm this trend only when employment conditions improved and the economy picked up more strongly.

Old Mutual chief economist Dave Mohr said the fall in consumer inflation was an important element in wage negotiations as it "would have lowered the base level the parties based their demands and offers on"

AHI economist Johan Rossouw was confident inflation would continue falling at least until the beginning of 1995 as monetary policy remained restrictive and disinflationary forces prevailed

● Comment: Page 6

Inflation on track for 7% average in 1994

CT 23/12/93 (153)

By AUDREY D'ANGELO
Business Editor

INFLATION as measured by the consumer price index (CPI) continued its downward trend in November, and economists forecast it will average 7% or 8% next year.

It eased in November to 9,2% year on year compared with 9,4% in October and 11% in November last year

The monthly rise was 0,2% compared with 0,7% in October, with the food only index rising by a steep 3,9% year on year compared with 2,9% in October.

The food index rose by 0,7% month on month with the highest rises in meat (1,1%), fruit and nuts (1,9%) and vegetables (1%).

However, economists pointed out that food prices were rising from a low base and that meat was certain to be more expensive this summer because farmers were restocking their herds after the drought.

The CPI without food would have risen by 10% year on year. This shows that, on average, food prices have risen less than others in the past 12 months and are helping to slow inflation.

The CPI for the higher income group was 10,1% year on year compared with 10,3% in October and 10,2% in November last year

For the middle income group it was 9% year on year compared with 9,1% in October and 11,6% in November last year

For the lower income group it was 7,6%, unchanged from October, compared with 12,3% in November last year.

Bond rates

The figures were welcomed by economists, who pointed out that they did not yet reflect the lower bond rates which came into effect this month. They forecast further falls next year.

Southern Life chief economist Mike Daly said he had been pleasantly surprised by the small monthly increase

"It means that the average inflation rate for 1993 will be about 9,7% It will be the first single digit average for about 20 years.

"Next year, when the effect of the higher VAT has worked through the system, it will average about 7%. That is very encouraging — it shows that we have largely broken the pattern of inflation as we know it in SA."

Daly said he was not surprised to see that meat prices were rising "We have had good rains and now farmers will be building up their herds and sending fewer animals for slaughter

"I expect to see food price inflation rising steadily, but not dramatically, through next year.

"And I expect to see the CPI running up dramatically in the third quarter because companies will widen their margins as consumer demand increases"

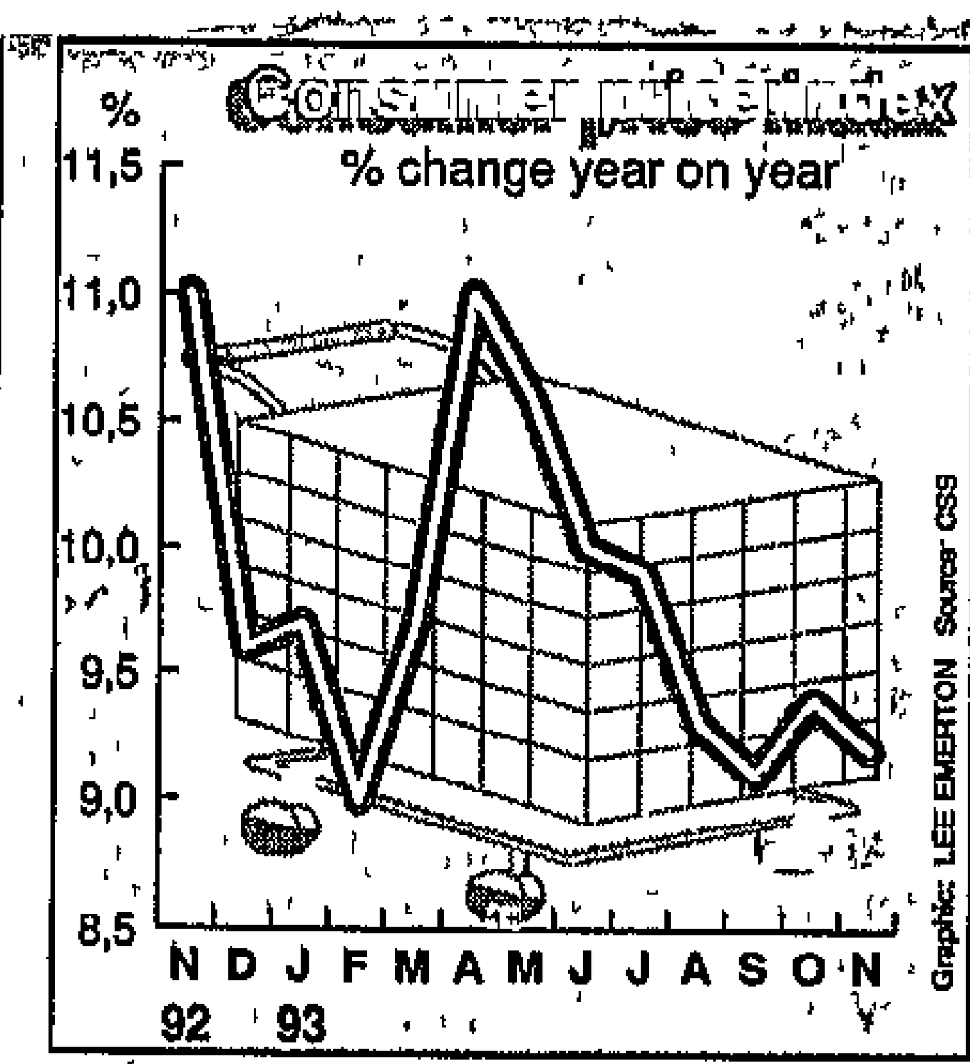
Old Mutual economist Ursula Maritz said the figures were "quite encouraging.

"We are looking at an average of 9,7% for the year, coming down to 8% next year."

However, she said, she found it worrying that "there does seem to be an acceleration in the underlying inflation rate for food."

Boland Bank economist Francois Jansen said the figures were "broadly in line with our expectations"

He expected inflation to average 8% next year. "The outlook for 1994 is very positive. We can expect single digit inflation for the next 18 months"



Inflation headed for a record low

B/Day KELVIN BROWN 23/12/93

THE fall in inflation to 9,2% in November put SA on track for a figure of 6% — the lowest in more than two decades — in the first half of next year, economists said.

Central Statistical Service (CSS) figures released yesterday showed the annual inflation rate — as measured by the percentage change in the consumer price index (CPI) — fell to 9,2% from a previous 9,4%.

On a monthly basis prices moved up 0,2% due to an increase of 0,7% in the food component. This was the lowest monthly rise in the CPI since December last year when no price changes were recorded.

Economists said inflation should fall further this month as the total effect of the decrease in mortgage rates came through.

Absa was the only bank to lower its interest rates before the CSS measured price changes in the first seven days of the month. There was no monthly change in the housing index as the impact of Absa's cut in home lending rates was offset by a rise in the rent of flats and houses.

Old Mutual economist Ursula Maritz said the rise in food prices was worrying as these had a significant 18,6% weighting in the index. (153)

Monthly food inflation accelerated to an average 0,8% in the past three months from 0,4% the previous four months.

In November annual food inflation rose to 3,9% from a previous 2,9%. Excluding food, inflation eased to 10,8% from 11,3% in the 12 months to October.

Southern Life chief economist Mike Daly

☐ To Page 2

Inflation

B/Day 23/12/93 ☐ From Page 1

said rising food prices would be offset by lower price rises in other items for some time to come as strong downward pressure was still being exerted on other prices.

The latest rise in food prices was being driven by higher meat prices as farmers restocked their herds after the drought.

He predicted inflation could fall below 6% next year when the effect of VAT's rise fell out of the CPI. A pick-up in inflation was expected only near the year-end, unless indirect taxes were increased in the next Budget, expected in August.

"Retailers would start increasing their margins as the recovery gathered strength in the second half if the political situation turned out to be favourable." (153)

Signs point to coming dip below 9 percent

Inflation rate declines again

Star 23/12/93

153

DATA released by the Central Statistical Service reveal that the rate would have fallen even further, were it not for a sharp increase in the price of certain foodstuffs

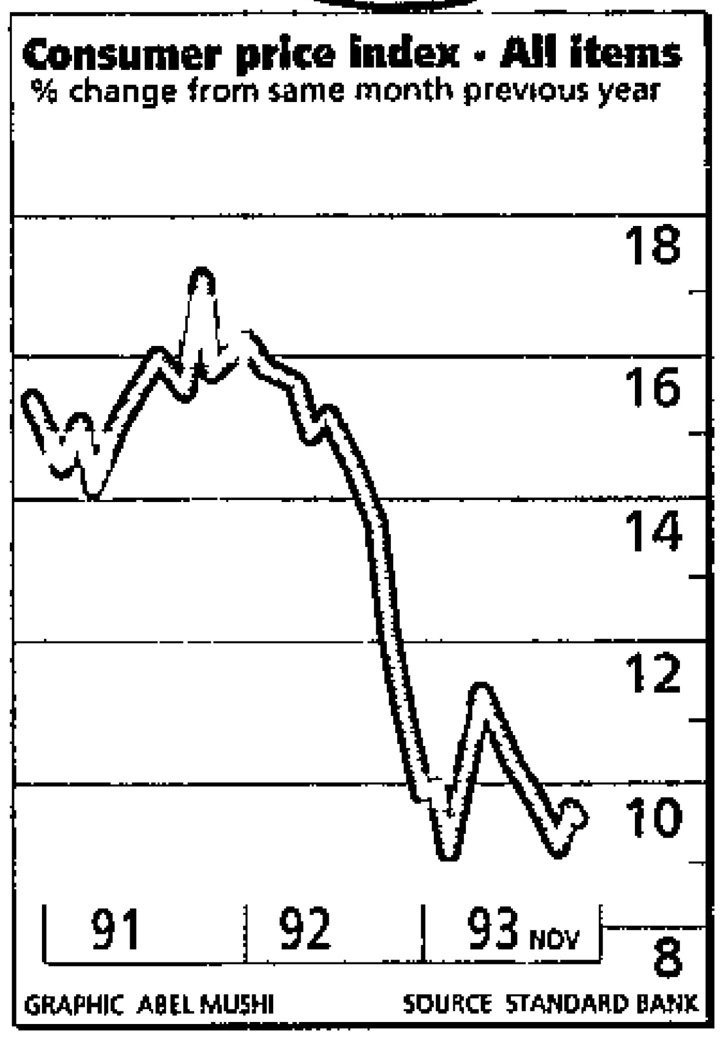
■ BY JOHN SPIRA

The November inflation rate was 9,2 percent — 0,2 percentage points down on the October statistic — and there are now strong signs that the figure will dip below the 9 percent level early in the new year

The downward trend in the cost of living has been in force for two years and although the November rate remains a touch above the low of 9,1 percent recorded in September, several factors point to an extension of the trend over the next few months

■ The decrease in interest rates on mortgage bonds is not reflected in the November number

And housing has a heavy weighting (20,5 percent) in the consumer price index.



■ The petrol price has since dropped another 2c a litre

■ Wage settlements and salary adjustments are at their lowest levels for several years.

■ The rate of increase in the producer price index continues to fall, with the most recent (October) figure down to 5,4 percent

■ Inflationary expectations are being steadily downgraded.

Economists are now predicting that the inflation rate will fall to between 6 and 7 percent by mid-1994, thereby providing scope for further interest rate cuts — all of this being good news for consumers, who have suffered much pain and reaped little gain during most of the country's four-year economic recession.

In 1986, the inflation rate was above 20 percent

The inflation data released by the Central Statistical Service reveal that the rate could have fallen further in November, were it not for a sharp increase in the price of food.

Food prices moved up a full percentage point to 3,9 percent in November from October (that's an annualised 47 percent) as a result of a one percent monthly rate of increase at chain stores and a 0,4 percent increase at other retailers

Main culprits were meat, fruit and nuts, vegetables and grain products

The overall consumer price index (CPI) rate was lowest in the Port Elizabeth/Uitenhage and the Vaal Triangle regions at 8,5 percent, while the highest inflation rate of 12 percent was recorded in the Free State Goldfields

November year-on-year inflation was lowest (7,6 percent) for the country's lower-income group

It was 9 percent for middle-income earners and 10,1 percent for the higher-income group

Lower inflation and fewer job losses forecast

Star - - 29/12/93

Good times ahead

(153)

BY CLAIRE GEBHARDT

Partially cloudy but clearing That's the economic forecast for Mr and Mrs Average South African in 1994.

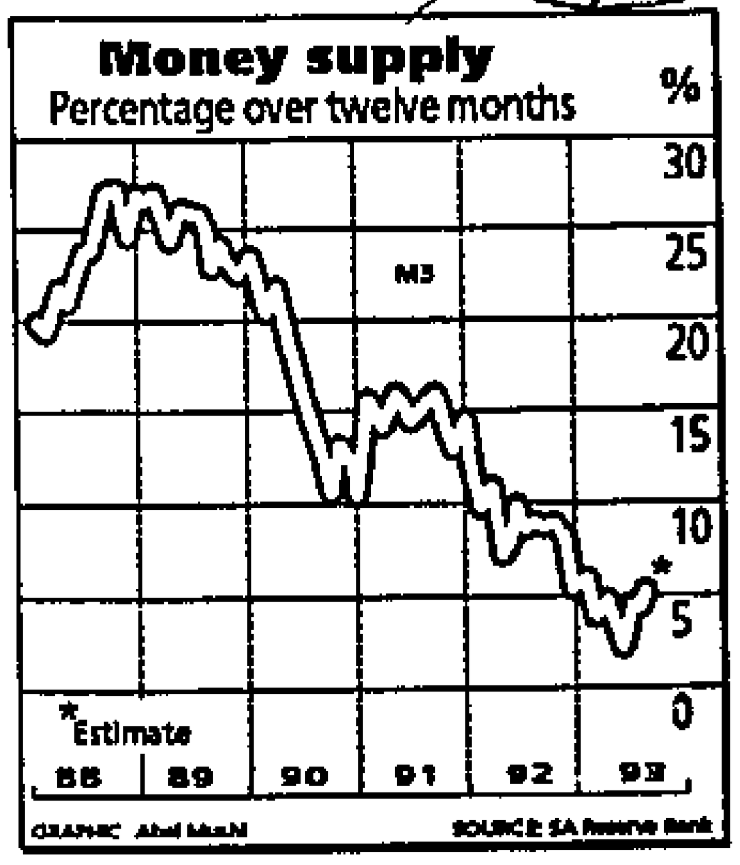
Positive factors waiting in the wings next year include higher than expected growth of between 2,5 percent to 3 percent, falling interest rates, lower inflation and a leaner and meaner corporate sector which may put retrenchment plans on hold.

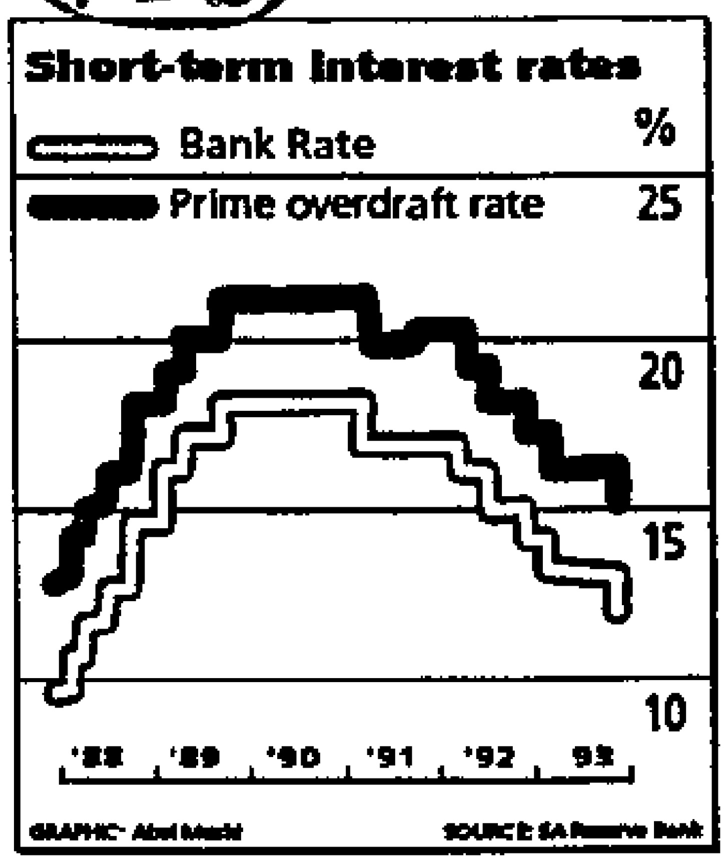
Inflation has kept below the 10 percent level for some time now — November's rate was 9,2 percent and there are indications that the rate could be as low as 5 percent by year end.

Consumers appear also to have put to good use the disposable income which came their way in the wake of October's interest rate and mortgage bond rate cuts and lower food prices.

Credit Guarantee economist Luke Doig says civil debt figures are at their zenith, indicating that individuals are getting their financial affairs in order.

On the salary side, those fortunate enough to get an increase will probably find that few managers are looking at more than 10 percent in 1994, against an expected inflation





rate of 7 percent in April once VAT falls out of the figures

Employment is unfortunately a lagging indicator so there will probably not be a pick-up in jobs for a number of months.

Doig is opting for just one bank rate cut next year - "probably one percentage point at the end of March given concerns about the balance of payments"

"We'll have the usual round of prime rate and mortgage bond cuts but any increase in disposable income might have to be forked out on higher education costs."

UAL economist, Kau Msimango says the interest rate outlook depends on how independent the Reserve Bank will be after the elections

"The Reserve Bank will have to pursue its monetary policy with consideration to growth factors if a government of National Unity gives more emphasis to growth.

Msimango says this means that the Reserve Bank could be asked to set money supply targets at levels which would support growth targets.

"We're looking at two scenarios, the first being that government will have to spend immediately on education, health and housing which will give a boost to inflationary expectations and send inflation back to double-digit levels, if monetary policy is lax.

"The second assumption is that the governor of the Reserve Bank, Chris Stals, will still be in power and independent and will, to some extent, be able to offset the inflationary expectations with strict monetary policy."

Msimango says consumers will definitely be better off next year as job creation programmes get underway.

"Low cost housing, mass electrification and certain private sector projects coming on stream in 1994 will increase the consumer base enormously, dent the unemployment problem and give rise to enormous business opportunities.

"We're forecasting growth of probably three percent next year so the economic prospects are very good."

Economic think-tank, Econometrix, sees inflation declining further in 1994 because of the lagged effects of the recession but is predicting an increase again from 1995.

This will be in line with a booming economy and a turnaround in the downward trend of monetary growth.

"Although inflation should be lower in 1994, prime rate may not decline by more than another one percentage point because of the likely ongoing shortage of foreign exchange reserves"

Econometrix says this is the likely outcome of huge foreign debt repayments amounting to R6,8 billion and a reduced current account surplus resulting from higher imports associated with faster economic activity"

INFLATION – 1994

Inflation may fall to 6,5%, says Absa

MUNGO SOGGOT

INFLATION could drop as low as 6,5% by midyear, Absa says in its Quarterly Economic Monitor.

A fall in the consumer price index (CPI) inflation rate could be expected in April "as the inflation-increasing effect of VAT, which came into effect in April 1993, will then be neutralised" B/Day 10/1/94

But Absa predicted that both the CPI and producer price index inflation rates could rise to over 10% by the end of next year

The bank said certain product groups still had higher inflation rates. Vehicle prices had risen 18,4% in the 12 months to October 1993, and vehicle running costs had climbed 17,7%.

Absa said a growth rate of at least 2% in 1994 could follow the projected 1% growth rate for 1993

Looking further ahead, the report forecast a growth rate of almost 4% for 1995 "against the background of improved international growth and the demand-stimulating measures that can be expected from a new government".

However, capital market rates could fluctuate considerably with SA's political uncertainty.

As the markets might discount future government policy directions, Absa said capital market rates might not fall further and could begin rising in the coming months.

The report said the Bank rate could decline by a further two percentage points this year, but that the first decrease was not expected before the end of May.

Absa expected government expenditure for the financial year to exceed the budgeted amount by R4,6bn

It was difficult to predict the future course of government finance, "as this is the one area where a future government is most likely to leave its mark" (153)

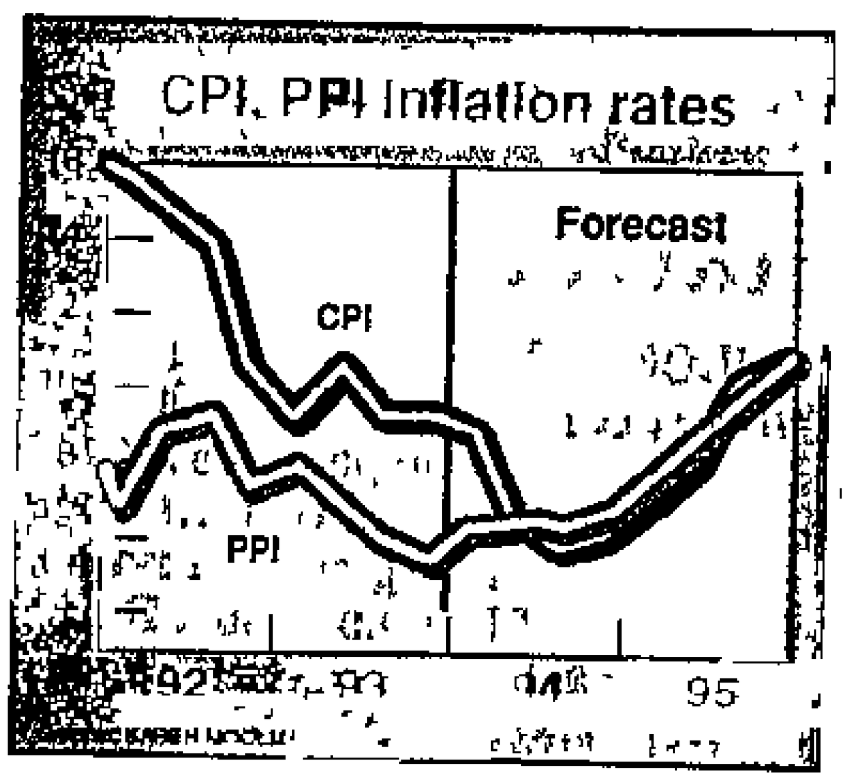
Capital account prospects were also uncertain, "owing to potential political developments".

Absa predicted further capital outflow this year and in 1995, but said it would be less than last year

The exchange rate of the rand should be fairly stable in the months ahead, the report said

But, as the US dollar strengthened against other major currencies, the rand might decline against the dollar, remaining more stable against the other currencies.

The future of the exchange rate would be determined by the next government's economic policies, and the country's political and social stability. The fate of the financial rand, the phasing out of tariff protection, the lowering of export subsidies and surtax on imports would all have an impact on the exchange rate



Good, going down!

Sowetan 20/1/94

By Mzimkulu Malunga

INFLATION could drop to below seven percent by the middle of the year (153)

The Amalgamated Banks of the South Africa's quarterly economic monitor says modest salary increases expected this year and stable food prices — due to improved agricultural conditions — are some of the factors contributing to low inflation (the rate at which prices escalate)

The projected downward trend on the inflation front would also encourage the Reserve Bank to cut interest rates by two percent

Absa also predicts a two percent economic growth which is expected to rise to four percent next year

Absaexpects the Government to overspend by at least R3 billion

The bank says the actual expenditure will be way over the R28 billion mark· the government had allowed for a R25 billion excess

The price of gold is expected to settle around the R1 400 mark this year

INTERNATIONAL INFLATION

Who's who

FM 21/1/94

(153)

Inflation continues to rise in developing countries and fall in industrialised ones Overall, world inflation is rising marginally but remains well down from the 1990 peak of 21,3%

Not all countries report inflation promptly So IMF figures are a few months out of date But, in June, the latest month for which enough figures are available to allow for a consolidated figure, world inflation was put at 12,4%, up from 12,2% in May

For the 23 industrialised countries, the latest complete set of figures is for the first quarter of 1993 — 2,9%

Second-quarter figures, complete except for Switzerland, put inflation at 2,7% The latest month with a consolidated figure is August at 2,8% but figures for nine countries were not included

Since 1992, the only industrialised country with double-digit inflation has been Greece, at 12,8% in September That month

- ☐ Iceland notched up 5,3%;
- ☐ Spain 4,3%,
- ☐ US 2,7%;
- ☐ France 2,3%;
- ☐ Norway 2,2%, and
- ☐ Netherlands 1,8%

In August.

- ☐ Portugal recorded 5,8%;
- ☐ Germany 4,2%;
- ☐ Luxembourg 3,7%,
- ☐ Belgium 3,2%;
- ☐ Japan 1,9%,
- ☐ Canada 1,7%, and
- ☐ Denmark 1,2%

In July

- ☐ Sweden was at 4,6%,
- ☐ Austria 3,5%,
- ☐ Finland 2%, and
- ☐ UK 1,4%

cont p34

FM 21/1/94

(153)

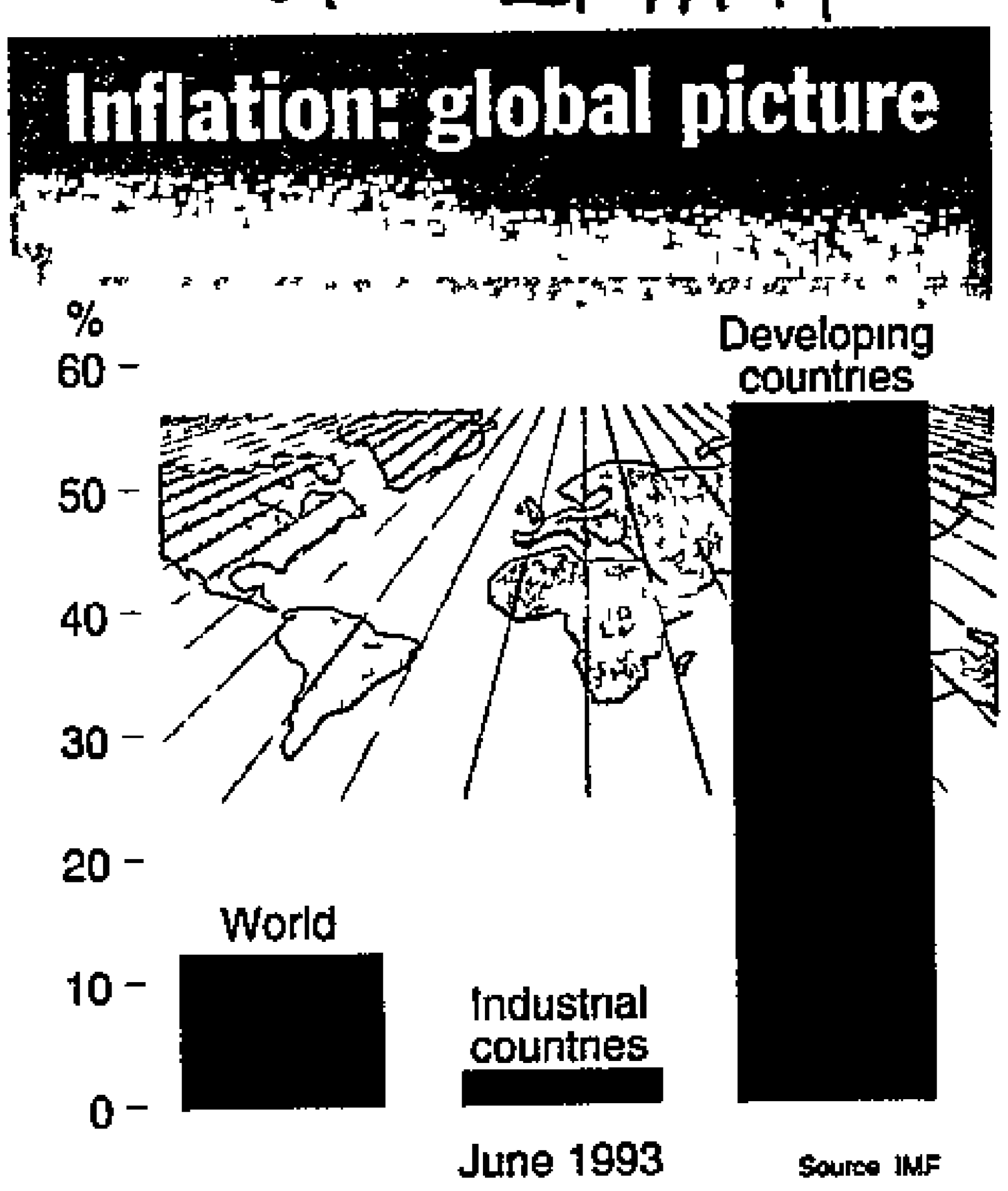
In June, Italy's inflation rate was 4,8% and, in May, Switzerland reported 3,6%

In the developing world, a number of IMF member countries persistently fail to report First-quarter inflation was 51% and second-quarter 54,3% Of the 121 countries, the figures of 43 were not included in the published figure for the first quarter and 66 were missing in the second

No consolidated 1993 figures for Europe's developing countries are available, inflation in 1992 was 75,5%. Yugoslavia has not reported since 1991 and Romania since 1990 Of the recently published figures, the highest was 65% in Turkey in May

Only five of 15 Middle Eastern countries report regularly Egypt, Iran, Israel, Jordan and Saudi Arabia. First-quarter inflation was 10,4% and second-quarter (from which Jordan's figures were missing) was 11,9%. The highest inflation rate was that of Iran — 22,6% in August

In the western hemisphere, first-quarter inflation was 161,4% and second-quarter 184% Figures for 11 of 33 countries are missing from the first and 16 from the second.



Of countries which report regularly, Brazil has the most serious problem Inflation rose to more than 1 782% in July, the latest reported month, from 1 663% the previous month. Many other western hemisphere countries are bringing hyperinflation under control. Peru reported 48,5% in August, down from more than 7 000% in 1990; Argentina had 11,7% in April, down from more than 3 000% in 1989 and 2 000% in 1990. No 1993 statistics are available from Nicaragua but inflation was reported at 20% in 1992, down from over 7 000% in 1990

In Africa, first-quarter inflation was at 37,8%. Of 42 reporting countries, 15 were not included A second-quarter figure has not been published

The highest reported inflation rate is Zaire's, which topped 2 000% in April, down from 3 077% in the first quarter It is followed by Zambia with July inflation at 246,3%. ■

Mediator called in to end press pay dispute

(153) CT 22/1/94

A MEDIATOR was called in yesterday in a bid to defuse a pay dispute at Nasionale Tydskrifte which has threatened production of the country's two biggest-circulating magazines

About 200 workers have occupied the plant in the city centre since Wednesday, including a key graphics-production section, a Paper, Printing, Wood and Allied Workers' Union spokesman said yesterday

Nasionale Tydskrifte chief executive Mr Salie de Swardt said a Supreme Court judge had declared the occupation unlawful in an order against the strikers on Thursday night

He said production of You and Huisgenoot, which together had a weekly circulation of 850 000 copies, had been jeopardised by the strike

Workers had timed their action to coincide with production of these publications and Landbou Weekblad, he said

The union spokesman confirmed that strikers were "highly emotional"

Mr De Swardt said the company is amenable to mediation — Sapa

Lowest inflation rate in 20 years

CT 28/1/94 (153)

By AUDREY D'ANGELO
Business Editor

THE consumer price index (CPI) edged up slightly to 9,5% year on year in December, from 9,2% in November. The month on month rise was 0,3%.

But the average inflation rate for 1993 remained the lowest for 20 years at 9,7%. This is the first time it has been below 10% since 1973, when the average was 9,6%.

Economists pointing out that inflation had fallen from an average of 13,9% in 1992, said the small December rise was no reason for concern. They expected the fall to continue this year.

They pointed out that both mortgage rates and the petrol price [illegible] to come down in the months ahead.

Figures released by the Central Statistical Service yesterday showed that the year on year inflation rate was highest for the higher income group at 10,3%. It was 9,3% for the middle income group and 7,9% for the lower income group.

The food inflation index was 5,2% year on year compared with 3,9% year on year in November. The biggest rises were in coffee, tea and cocoa (14,6%), sugar (12,6%), fats and oils (10,5%) and meat (10,1%).

But the rise in the food index was from a low base. And year on year inflation without food was 10,7%.

Pointing this out, Boland Bank economist Francois Jansen said this meant that food had risen less than other commodities "and has in fact had a restraining effect on inflation".

Jansen said he was "delighted" that the average inflation rate for 1993 was so far below that in 1992. "For a country like SA it is a good performance to bring inflation down by such a big margin from the average of 13,2% the previous year.

"It will have a very positive psychological effect. We are too prone, in this country, to talk ourselves down into the dumps.

"I am sure that inflation this year will average between 6% and 8%."

Sanlam chief economist Johan Louw said the CPI for December was slightly higher than he had expected.

But the "substantial" rise in the food only index was due mainly to seasonal rises and technical factors — there had been virtually no rise in food prices in December last year. He expected inflation to average 7% this year.

Old Mutual chief economist David Mohr said he expected inflation to average less than 8% this year. There were likely to be two cuts in the mortgage rate and two in the petrol price this year.

Inflation at lowest level in 20 years

(153)

ARG 29/1/94

ALIDE DASNOIS
Business Staff

RISING fruit and meat prices bumped the inflation rate up slightly in December, but for the year as a whole inflation is at its lowest for 20 years And economists are predicting further falls in the inflation rate to 7 percent this year

Central Statistical Service figures released this week show the consumer price index (CPI) rose 0,3 percent in December, bringing the rise from December 1992 to 9,5 percent Over the year to November, the inflation rate was 9,2 percent

Food prices rose only 5,2 percent over the year, held down by falls in the prices of fruit and vegetables as the drought ended But meat prices were up 10 percent on year-ago levels, prices of fish products up nearly 9 percent, of grain products 8 percent and of fats and oils 10,5 percent

The fuel price cut on December 17 was not taken into account in December and will be reflected in the January CPI

Rising unemployment has contributed to lower wage increases, notes Southern Life economist Sandra Gordon, who expects the inflation rate to average 7 percent in 1994

Lower food prices and slower rates of increase in housing costs because of lower mortgage rates helped to reduce inflationary pressures in 1993 The price of services — especially education and medical fees — rose much faster than the price of goods over the past few months, she points out

Inflation should stay below 10 percent until early 1995, unless indirect taxes are increased again in the next Budget, she says

■ Ernie van der Merwe, the head of the Reserve Bank's economic unit, says imported inflation could rise this year as political uncertainty and further capital outflows weaken the rand, reports Sven Lunsche in Johannesburg "On the other hand, we could see foreign investors return after the election, which would strengthen the rand and bring down the cost of imported goods," says Mr van der Merwe

Economists predict 7 percent rate for current year

Star 28/1/94

Inflation at a 20-year low

(153)

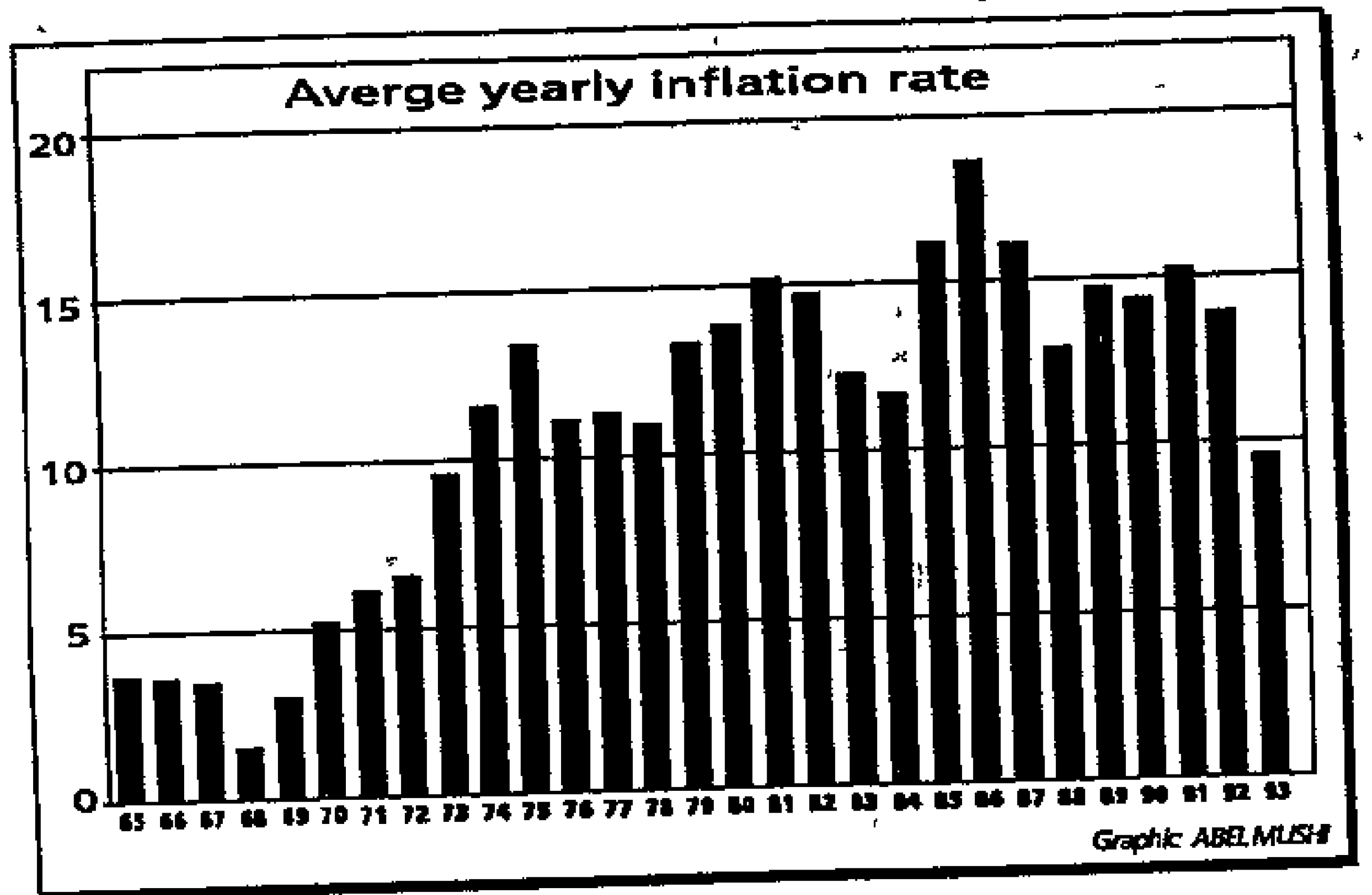
■ BY SVEN LUNSCHE

Consumer prices last year rose by an average 9,7 percent — their lowest rate of increase in 20 years and a marked drop from the 13,9 percent inflation rate in 1992

Economists were quick yesterday to credit the Reserve Bank's cautious monetary policy for the fall and predicted a further decline to about seven percent this year.

But the weather gods also deserve a pat on the back. After a disastrous drought in 1992, which boosted food prices by an average 25,3 percent, good rains and the subsequent boost to farming brought down food price increases to a mere 6,8 percent, their lowest since the 3,9 percent rise in 1971

One of the major contributors to the overall fall was the



price index for housing, which has a weighting of 20 percent in the consumer price index (CPI)

Housing costs actually showed a decline of 0,1 percent last year as a result of lower mortgage rates and building material costs

Most economists expect inflation to drop below seven percent in April, when the VAT increase falls out of the year-on-year equation — statistically this will lead to a 2,2 percentage point drop in the rate from March to April.

Economists also predict that inflation in 1994 will average about seven percent.

The head of the Reserve Bank's economic unit, Ernie van der Merwe, is broadly in agreement with his colleagues from the private sector, but warns that political uncertainty and further capital outflows could weaken the rand, thereby boosting imported inflation.

"On the other hand, we could see foreign investors return after the election, which would strengthen the rand and bring down the cost of imported goods," he says

Running against the consensus, is UAL economist Dennis Dykes

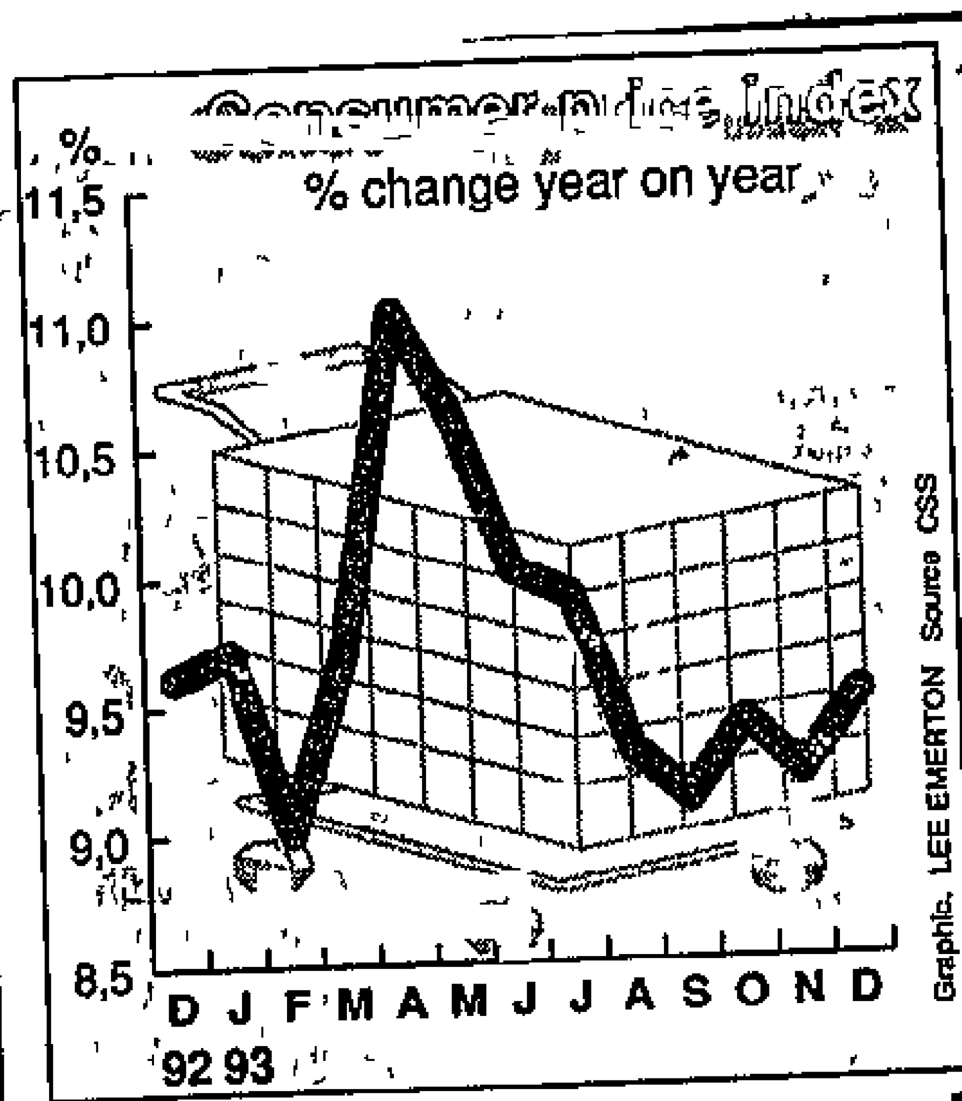
Warning that trade unions and producers will try and recoup some of their lost wages and margins when the economy picks up, he forecasts an average inflation rate of eight percent

The release of 1993 inflation figures yesterday coincided with the publication of the Central Statistical Service's CPI for December

Inflation last month rose slightly to 9,5 percent from 9,2 percent in November, while food price inflation was up from 3,9 percent to 5,2 percent last month.

The CSS says the monthly increase of 1,1 percent in the food index was mainly due to higher price indices for meat (2,8 percent) and fruit (5,5 percent). This was slightly counteracted by decreases in the indices for vegetables (3,5 percent) and dairy products (0,2 percent)

The CSS says the fuel price cut of December 17 was not taken into account in December and will be reflected in the January CPI



Inflation expected to drop below 7%

KELVIN BROWN BDay

DECEMBER's annual inflation rate, as measured by the percentage change in the consumer price index (CPI), rose slightly to 9,5% from 9,2% in November.

However, the average rate for 1993 was at its lowest in 20 years. The rate dived to 9,7% from more than 13% the previous year, according to Central Statistical Service data released yesterday. 28/1/94

Economists said SA could look forward to smaller price rises in 1994 as moderating pressures were set to force the average inflation rate down to less than 7% for the year — a level not seen since 1972

They were not worried about the slightly higher year-on-year figure last month as technical factors were behind the rise.

December's slightly higher month-on-month figure pushed the annual figure up as the change in prices was calculated from December 1992, when no price changes were recorded (153)

On a monthly basis, prices were up 0,3% in December from a 0,2% increase in November. This occurred as the decrease in the housing index — attributable to the effect of the cut in mortgage lending rates — was offset by a rise in the price index for food, transport and all other items.

Mathison & Hollidge economist Tracy Ledger predicted inflation would average 6,5% in 1994.

There was little pressure on the demand side as consumer spending was expected to remain subdued for a while because of political uncertainty

The inflation rate would fall drastically

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Inflation

BDay 28/1/94

☐ From Page 1

in April when the effect of last year's rise in the VAT rate fell out of the calcuations.

It would start picking up only near the end of the year as the recovery gathered momentum, Ledger said. (158)

Absa economist Adam Jacobs said he was not concerned about inflation in the year ahead "When December's month-on-month rise of 0,3% is annualised it gives an extremely low figure of 3,7%."

An increase in production stemming from a recovery in the economy would not result in higher prices for some time. There was still a lot of excess capacity that had to be used, which would decrease unit costs further.

Economic fundamentals for a further reduction in the inflation rate were favourable, he said.

CPI Fm 4|2|94

Honeymoon for singles

In January-February the inflation rate may remain around December's 9,5% but, thereafter, it should subside and remain in single digits until the end of 1995 (153)

Technical factors will reduce the 12-month rise in March and April This is because growth will be off a relatively high base, following big month-on-month increases in the corresponding months of 1993 (the latter the result of the increase in Vat from 10% to 14%). So inflation could fall to as low as 6% by April

It should drift back up to 7% by year-end, says Sanlam economist Pieter Calitz However, the figure could be lower if the balance of payments position improves in the latter half of the year (see *Leaders)* An improvement in foreign exchange reserves would provide room for cuts in official interest rates, leading to lower mortgage rates and a further slowing in the housing index

Much will depend on the behaviour of the food index — its weighting of 18,6% in the consumer price index makes it the second most important component after housing at

Cont → p38

Fm 4/2/94

20,5%

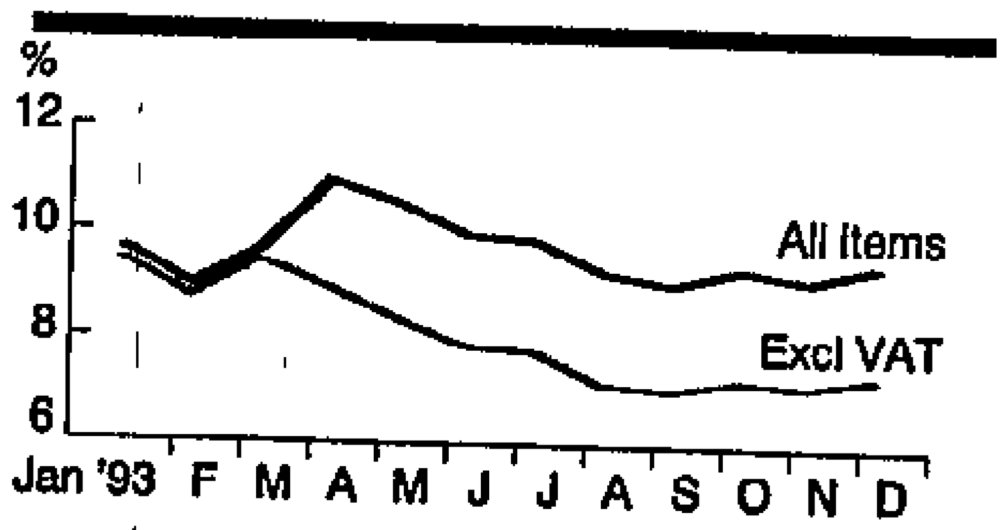
In 1992, following the drought and Vat-related increases in prices, food inflation reached a high of more than 30% in July. Good rains in 1993 and the zero-rating of many items reduced food inflation to 2,4% by September.

But, since then, food price rises have accelerated and food inflation rose to 5,2% in December — with an increase of 1,1% between November and December alone

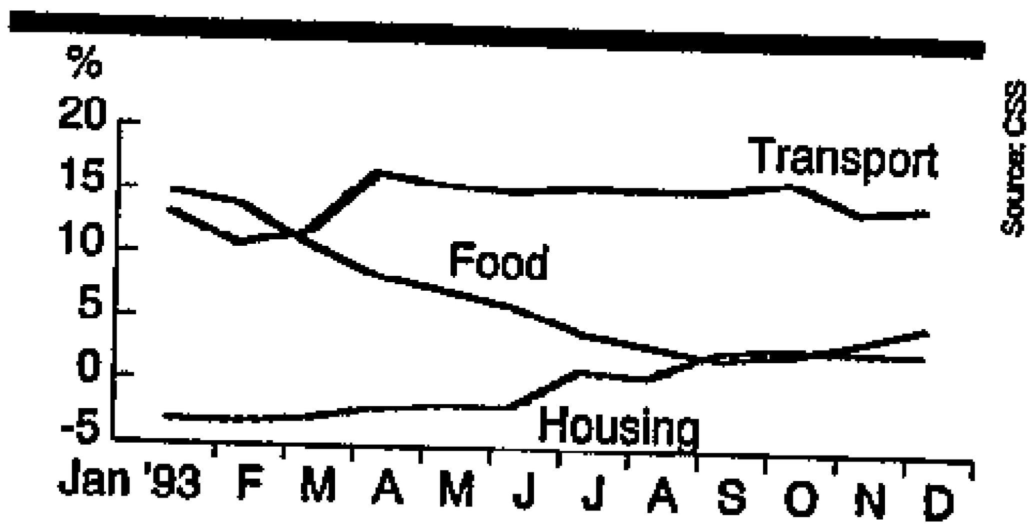
This trend could continue for a few months, particularly if livestock farmers hold back animals from slaughter in order to build up herds· the meat index rose 2,8% on a month-on-month basis in December (the annual rate of increase is 10,1%) But, thereafter the supply will improve and prices should fall.

In some food items, the monthly uptick in prices could be a correction following the sharp falls earlier in the year. This seems to be the case for the item fruit & nuts. In spite of a month-on-month rise of 5,5% the index was still 16% lower than it was 12 months before If good rains continue, supplies of

CPI: staying in single digits



...but categories differ



fresh produce will remain high, giving little scope for higher prices (153)

Excluding food and housing, inflation for December was 13%. This is due mainly to a 14,6% increase in transport (weighting 14,4%) Within this item, vehicle prices rose 17,8% and running costs 13,2%

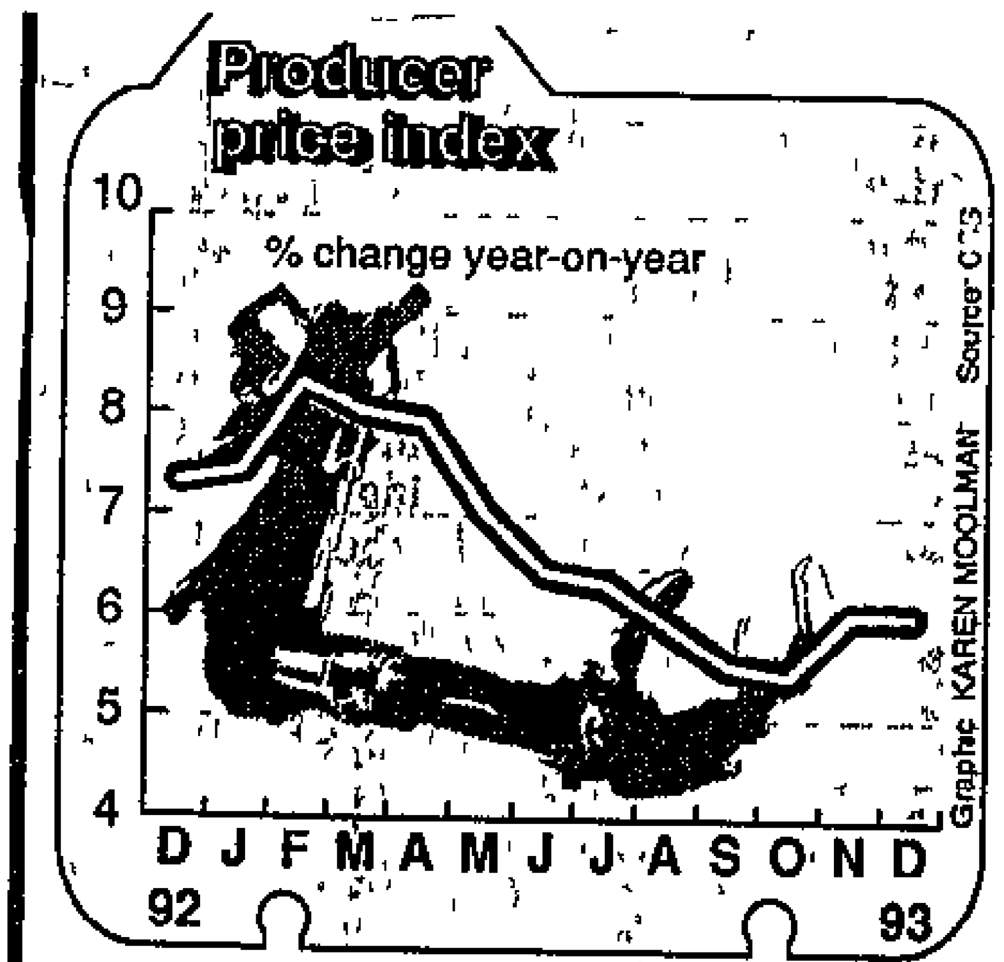
Also boosting the overall figure was medical care & health expenses (weighting 5,2%) which rose 12,6%.

A number of other components remained in double digits:

- ☐ Household operations were up 15,9%,
- ☐ Fuel & power 13,9%,
- ☐ Communication 15%;
- ☐ Education 64,5%; and
- ☐ Personal care 11,4%

Most of these items have, however, shown some decline from earlier levels

In 1995, once excess capacity in industry is used up and demand increases, upward pressure could begin to be exerted on prices. "And," says Calitz, "we should see the effect of increased spending on social upliftment by then So inflation should be back above 10% by the end of that year." ■



Producer inflation hits 22-year low

SAMANTHA SHARPE

PRODUCER inflation hit its lowest point in 22 years last year with an average annual rate of increase in the production price index of 6,6%. BIDAY 16/2/94

Central Statistical Service figures released yesterday showed producer inflation was 6% in the 12 months to December. The month-on-month increase was down at 0,2% against 0,6% in November (153)

Economists attributed the slower month-on-month rise to the drop in oil prices, which took place late in November, and a more stable exchange rate

The lower oil price, which was reflected in a relatively large monthly decrease of more than 2% in the mining and quarrying category, offset inflationary pressure in the domestic manufacturing sector.

The imported component of the PPI rose at an annual rate of 4,1% — 0,3 percentage points lower than November's 4,4% Economists said international deflation was also keeping a brake on the price of

To Page 2

Inflation

BIDAY 16/2/94

From Page 1

imported manufactured goods

Locally produced commodities showed a 0,1 percentage point decline on the previous month's 6,4% annual rate of increase

Large monthly increases were reflected in agricultural products and manufactured food price indices Meat prices were leading the agricultural rise as farmers replenished stock after the drought, said Southern Life economist Sandra Gordon (153)

She said there would be upward pressure on the overall rate of increase in producer prices this year as producers took advantage of increased domestic demand as economic recovery set in But this could be offset by lower oil prices and a stable exchange rate

Old Mutual economist David Mohr said there was every reason to believe that producer inflation had, for the time being, bottomed around the 6,0% level

Inflation explosion predicted

153

ARG 19/2/94

DAVID BREIER
Weekend Argus Political Staff

■ Critics warn there is only one way the African National Congress can provide millions of houses and jobs without increasing tax — hyper-inflation.

SOUTH Africa risks hyper-inflation if the African National Congress carries out its plans to implement vast social reconstruction without raising taxes, critics have warned.

Since the ANC published its manifesto recently, political analysts have been at a loss to explain how they could make such extravagant election promises without increasing taxes

There has been a trend to dismiss the manifesto as empty politicking But there are growing fears that the organisation is painting itself into a corner from which an ANC-dominated government can only escape by "printing money" to pay the bills, creating massive inflation

The ANC's election manifesto promises to create 2,5 million jobs and build a million houses within five years as well as to provide 10 years of free and compulsory education

But, it promises not to increase the tax burden Instead, it undertakes more "efficient" collection of company tax

Democratic Party leader and former Anglo-American director Zac de Beer said "It always has been a major concern that an ANC-dominated government would bend under pressure from the masses to provide the necessary comforts of life by spending money which does not exist"

Dr De Beer said this could only by done by borrowing from banks — increasing the money supply or, in effect, printing money

He said this inevitably would lead to inflation and to the further collapse of the rand

This, in turn, would increase the landed cost of imports, fuelling inflation further, leading to the "collapse in the value of the currency," and the economy could "grind to a halt", he warned

Dr De Beer said the ANC's manifesto was to some extent offset by the "fairly sound statements on macro-economics" by finance spokesman Trevor Manuel, who has said they would not allow deficit-before-borrowing to exceed six percent of GDP — it is now about five percent

"One hopes the macro-economists will get the upper hand and the election promises will be broken," said Dr De Beer But, he warned that broken election promises could lead to instability if expectations were not met

"We're damned if they do and damned if they don't," he said

The ANC manifesto undertakes to finance development through a Reconstruction Fund and to "encourage" the private sector to put money into public ventures

However, militant members of the ANC alliance now are agitating for the fund to be financed by the previously mooted wealth tax which the ANC appears to have dropped

This week, the National Union of Mineworkers, the biggest affiliate of ANC ally Cosatu, called on the government to levy a wealth tax on individuals to build up the proposed Reconstruction Fund

The NUM also resolved that the new government should empower the fund to borrow money through a reconstruction bond

ANC spokesman Carl Niehaus denies that their reconstruction and development programme, in the absence of higher tax rates, inevitably would result in inflation.

He emphasised that more tax would be brought in through more efficient collection from business He said no more than the current R23-billion would be spent on education.

Mr Niehaus said jobs and houses would be created through labour-intensive public works projects

(News by D Breier 122 St Georges Mall, Cape Town)

No end in sight to rising food prices

B/Day 21.2.94

SAMANTHA SHARPE

PRODUCER prices for agricultural and manufactured food continued to rise in the 12 months to December.

The latest Central Statistical Service figures showed producer price inflation for food in the agricultural sector was 3,4% in the 12 months to December and 8,9% in the manufactured food sector.

Both figures confirmed a rising trend in year-on-year producer price inflation since September 1993, when the agricultural sector reflected year-on-year food price deflation of 0,8% and the manufactured food sector's costs showed a 6,4% increase.

Old Mutual economist David Mohr said the trend in rising food inflation was largely attributable to higher meat prices. The breaking of the drought last year had encouraged farmers to replenish their herds, reducing supply and driving prices up.

The economy's positive performance in the fourth quarter, reflected in the latest GDP figures, showed a broad-based market recovery The increase in demand for had put further pressure on meat prices

Economists said December's substantial year-on-year vegetable price increase was the result of figures worked from a lower statistical base following the break in the drought and improving demand.

CPI figures for December showed food price inflation at 5,2% and a month-on-month rate of increase of 1,1% between November and December. Food prices were expected to continue to rise as supply had been reduced by unusually heavy rains, which had damaged crops (153)

Simpson McKie food sector analyst John Biccard said increased demand, linked to the economy's positive performance since the third quarter of 1993, would put pressure on food retail prices. Supermarkets were no longer having to cut their margins because of depressed consumer spending. As demand picked up retailers were able to bump up their prices, and it was unlikely that the consumer would pay less for food in the next few months

Shock increase in SA inflation for January

CT 24/2/94 (153)

By MAGGIE ROWLEY
Deputy Business Editor

A SHOCK increase in inflation during January saw the Consumer Price Index surge to 9,9% to nudge double digit figures from 9,5% the previous month

The disappointingly high 1,5% month-on-month increase in the CPI sent tremors through the capital market which had been expecting the inflation figure to have fallen to around 8,8% to 9%, with long-term bond rates tumbling almost immediately on the news, said dealers

January's 1,5% rise following a 0,4% month-on-month increase in December has been blamed by economists and the Department of Finance largely on one-off medical and postal communication tarriff increases

They argue that although the figures were disappointing, the inflationary trend remains downward although Southern Life economist Mike Daly said January's higher base could put paid to expectations of the inflation rate falling to below 7% later this year

According to figures released yesterday by the Central Statistical Services, the month-on-month increase of 1,5% is composed of increases in medical care and health expenses which contributed 0,5% of the increase, increases in food prices (0,4%), communication (0,2%), fuel and power (0,1%), transport (0,1%) and all other items (0,2%)

The 1,8% monthly rise in food prices was due in the main to hikes in the cost of nuts, vegetables, meat and fats and oils

Food prices at chain stores showed an annual increase of 6,2% and a monthly increase of 2,1% while those at other retailers registered an annual increase of 4,7% and a monthly increase of 0,9%

Asked for comment on the higher than expected inflation figures, Finance Minister Derek Keys, who last week admitted he was "gloating" over positive economic indicators, said the major contributor was the one-off increase in medical care and health expenses Last year's increase in school fees had had a similar effect on the CPI, he said

"The fact is the rate remains below 10% in spite of the VAT anomoly but nevertheless shows the importance of maintaining the Reserve Bank stance on monetary policy to ensure that the recent gains we have achieved are not dissipated"

Jurie van Tonder, director financial planning at the Department of Finance admitted that the figures were disappointing "to myself and no doubt Minister Keys"

He too said medical tarriff increases were the main contributing factor but said the increase in food prices — with food inflation having risen in January to about 6% from 5% in December — indicated that retail profit margins were up. This would have to be watched, he said

Boland Bank economist Louis Fourie said from the figures it would appear that retailers had lifted margins on greater than warranted expectations that consumer spending power had improved

"A good sign however is that the increase in food prices is not coming from the production side and I think we are still on track for an average inflation rate of 7% to 7,5% this year"

Mike Daly said that last week's Producer Price Index indicated that agricultural prices were up

Both Daly and Fourie believed the underlying inflation rate was still downward and lower inflation figures should be forthcoming in the next few months

"We are still on target for 7% inflation for the second quarter with this gradually moving up to 8% or 8,5% towards the end of the year as demand strengthens," said Daly

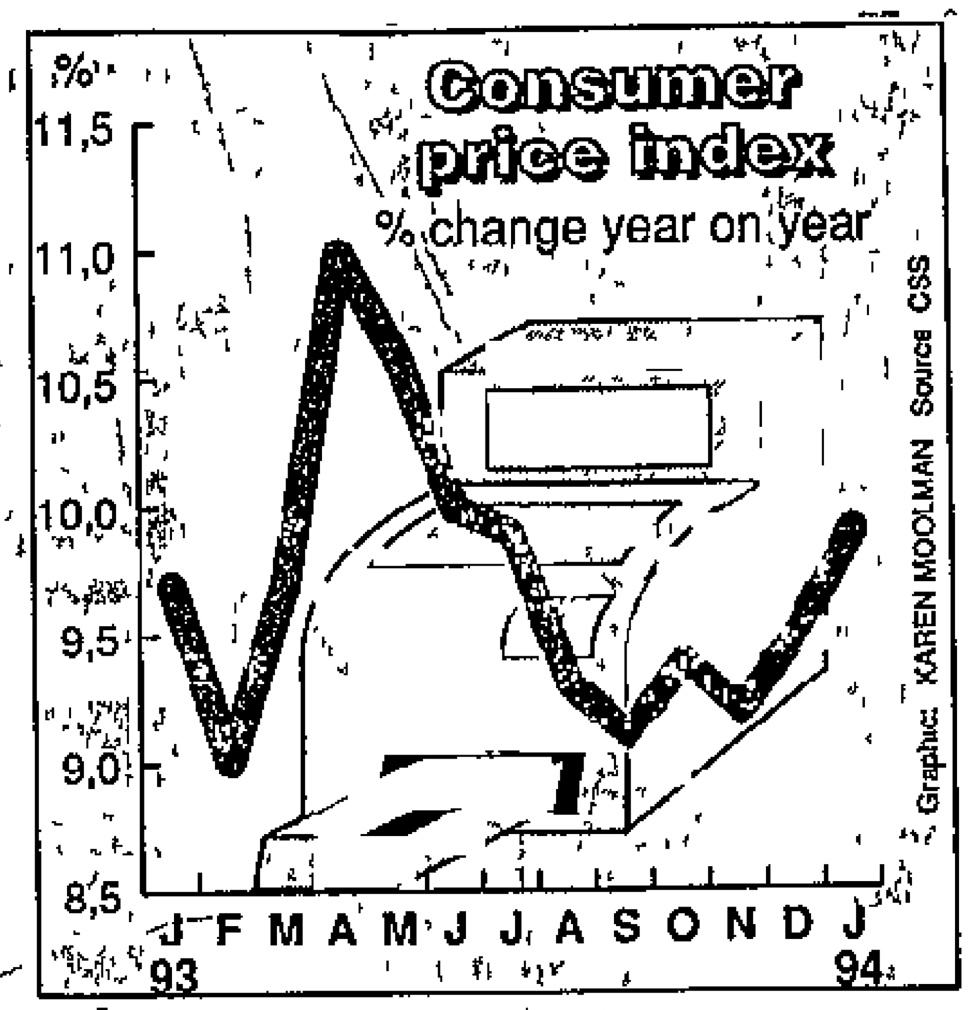
Capital market dealers said the reaction of medium and long-term bonds to yesterday's CPI figures was immediate and jittery

The market had been expecting figures to go in the opposite direction with the "worst expected" January CPI figure having been 9% to 9,5%

A Standard Bank dealer said the market "got a fright" from the figures and even when explanations were forthcoming from the CSS as to the impact of medical tarrriff increases on the index, the market failed to react back again

"But by then the market was reacting to the furthering weakening of the finrand

"The capital market is very volatile at the moment, it is very jittery and is responding to any political news that is coming through which could push rates either way."



Consumer inflation creeps upwards

B/Day 24/2/94

KELVIN BROWN

CONSUMER inflation rose to 9,9% in January from 9,5% as higher prices for medical care, health expenses and food pushed the rate up, Central Statistical Service figures showed yesterday. (153)(244)

The latest pickup in consumer inflation — as measured by the consumer price index (CPI) — took economists by surprise.

But some analysts described the rise as "a temporary hiccup" that would be corrected in April when last year's VAT increase took the rate back below 7%.

Others said it could be the start of an upward trend in inflation as the recovery in the economy appeared to be giving re-

☐ To Page 2

Inflation

B/Day 24/2/94

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tailers an excuse to increase margins

Technical reasons also played a role in the rise, as the change came off a low base.

The CSS said month-on-month prices rose 1,5%, compared with 0,5% in December. Medical care and health expenses firmed 8,8% from 0,2%, while food prices increased to 1,8% from 1,1%. (153)(244)

Economists said prices of medical and health care expenses tended to be erratic as price changes were measured only every few months Food prices had returned to an upward trend.

Nedbank chief economist Edward Osborn said manufacturing prices had come down nicely to 9,9% in January, but services price rises were still averaging about 17,5% Services had been fuelled by the latest rise in medical services.

Ed Hern Rudolph strategic economist Nick Barnardt said the pickup in price increases at chain-stores to 2,1% from (1%) in December was worrying.

AHI says 5% inflation is possible this year

B/Day 24/2/94

SAMANTHA SHARPE

AN INFLATION rate as low as 5% for the second quarter of 1994 is possible, according to the AHI's latest inflation barometer reading.

The small increases in consumer and producer inflation in the past six months indicated a possible year-on-year PPI inflation rate of about 4%, said the AHI.

Further reductions in the inflation rate boded well for future cuts in interest rates, with a possible decrease of as much as 2 percentage points in the Bank rate.

The balance of payments and money supply growth, however, might keep rates high.

The low level of foreign reserves would be put under further pressure by capital outflows and increased imports, the AHI said.

Long-term rates would also be affected by the inflation data with reductions possible in long rates, especially if there was a smooth political transition.

The political climate would have a direct bearing on medium-term inflation, it said.

The stability and rationality of the next government would have a critical effect on the SA capital account, said the AHI.

(153)

Further capital outflows in the next few months would cause further depreciation of the rand and increase import and export prices, which would have a knock-on effect on local price inflation.

This was illustrated in 1984-85 when a 50% depreciation of the rand resulted in the PPI and CPI rising to above the 20% level.

Erratic price rises affected inflation

B/Day 28/2/94

KELVIN BROWN

INFLATION fell to 9,2% in January if erratic price changes in categories that are not regularly measured are excluded from the calculations.

Economists were shocked when the Central Statistical Service (CSS) announced last week that the annual change in the consumer price index (CPI) had jumped to 9,9% in January from 9,5% in December.

The confusing factor was that price rises were recorded for medical care and health expenses as well as communication. Price changes in these two categories are not always measured at this time of the year.

The CSS does not measure price changes in every category that makes up the CPI on a monthly basis. The prices in some categories are measured only every three months or even once a year

Excluding these "funnies", economists said the month-on-month figure would have been 0,8% and not 1,5%, while the annual figure would have been 9,2%.

A CSS spokesman said a rough schedule was used to determine when in the year price changes in different categories were measured.

But the CSS deviated from this when prices of items changed that were not often measured, he said

For example, when the VAT rate was increased to 14% in April last year the CSS measured prices in all the categories that made up the CPI.

The spokesman said this was what happened in January with medical and health expenses and communication

(153)

The CSS traditionally measured prices in these categories at a different time.

But medical tariffs for private patients and medical aid tariffs were increased by 19% and 15% respectively from the beginning of this year while Telkom also upped its rates from the beginning of the year

Old Mutual economist Johann Els said that the latest rise in inflation could be described more as a "hiccough" as a result of erratic price rises in the medical and communication categories.

This could mean the inflation rate could be lower after April than was first thought, as some price changes had come through earlier in the year than was usaully the case, he said

Before the release of the latest figures, inflation was expected to fall to between 6% and 7% in April as the effect of last year's increase in the VAT rate fell out of the calculations.

BDay 1/3/94

Low inflation forecasts could be optimistic

153

EDWARD OSBORN

ABOUT a year ago I was none too popular for pointing out that the sharp downturn in inflation in the second half of 1992 was due in large part to the combined influence of fresh food prices falling back from the excessive peaks induced by the drought and the self-fulfilling inclusion of mortgage interest. I appealed for greater attention to be given, in the first place, to the underlying inflation calculation excluding mortgage interest as is done in the UK and, secondly, to the core inflation excluding fresh foods as well, because of the quite different non-economic climatic forces at work.

Of course, it was pointed out that it is quite wrong to pick and choose items to get a different result. After all, it is the headline inflation figure that influences expectations, which is the all important function of the publishing figure However, I was striving to obtain a clearer understanding of the structure of inflation developments, which would in turn be of value in making better forecasts of inflation and prospective interest rate changes, and which would get away from the standard facile sweeping claims about the success of monetary policy

Indeed, this approach has revealed that during the course of 1993 core inflation was at about 12,5% until it was pushed up by the April VAT increase to 14,8%, since when it has receded to the present 12% to 12,5%. It was the strong downward tug of fresh food inflation, reaching its nadir of minus 3% in September 1993, and the negative impact of mortgage interest year-on-year changes that succeeded in keeping the inflation rate at or below 10%.

I have recently taken the analysis a bit further along the lines of identifying services as opposed to manufacturers, as it is likely that quite disparate considerations apply to each of them. The results are most interesting and, in particular, bring to light the surprisingly high proportion of services in the CPI structure.

Roughly, the weighting structure of the index is 10% fresh foods, another 10% other food, 40% manufacturers — making but half the index manufacturers or processed products, 30% services and the last 10% mortgage interest.

Clearly, it is quite inadequate to explain inflation purely through broad macro arguments based on either monetarist or cost/competitive considerations when these have, at best, application to only half the index. Forecasting on this basis, too, is going to be inappropriate. It is most likely to lead to too sanguine a view of prospects, with recent inflation figures, money supply, and competitive conditions pointing to sustained low inflation. The contribution of services and fresh foods could dictate otherwise

The table shows the structure of inflation during 1993 (quarter ends, year on year).

Fresh food inflation came right down to negative figures as the prices recovered from the extremes induced by the drought and are now thrusting upwards vigorously, especially as impelled by fresh meat prices. We have projected it to reach a rate of 16% by December.

Other food inflation has also come down strongly and that of manufacturers more gradually during 1993. They will benefit from the VAT increase falling out in April. After then, the prospects are wide open for argument and speculation, but we have decided on a slow upward movement as the opportunity for restoring profit margins arises, and have forecast 9,5% and 9,6% respectively for those categories for the end of year Those forecasts are the result of individual item forecasts.

Services inflation during 1993 was affected by large increases in medical charges and, of course, the exceptional increase of 64,5% in education fees in March 1993 with the introduction of Model C schooling. Medical expenses have gone up again quite strongly in January 1994, but there will not be a repetition of the education hike Our end-of-year forecast for services is 14,2%, although the rate will come down to about the 12% level for some six months after April. The further rise in the last quarter, we believe, will be a result of a number of reasons, including reviews of public transport and communication fees, recreation charges and rentals.

Finally the huge impact of declining mortgage rates is evident from the table. We have built in an assumption of a further one percentage point drop in rates in May, which will give a minus 6,8% inflation contribution for mortgage at the end of the year.

The upshot of these segmented forecasts is an end-of-year forecast for headline inflation of 10,5% despite the low of 7,9% forecast for April. But should the optimists be right in expecting other food and manufacturing to maintain their April inflation rates through to the end of the year, the headline inflation figure will work out at 7,9%.

Either way, there will be little cause for a further reduction of Bank rate, especially in the light of the country's straitened balance of payments situation There will, however, be some risk of a hardening of rates towards the end of the year.

☐ **Osborn is chief economist of the Nedbank Economic Unit.**

%	Weight	Dec 92	Mar 93	Jun 93	Sep 93	Dec 93
Headline rate	100	9,6	9,7	10,0	9,1	9,5
Fresh food	9,3	12,9	8,9	2,8	-3,0	2,3
Other food	9,3	15,6	13,7	10,2	8,3	7,9
Manufacturers	41,7	11,1	10,6	12,6	10,8	10,3
Services	27,0	11,8	15,8	17,0	17,3	16,3
Mortgage int.	12,7	-16,3	-15,8	-15,8	-11,1	-9,0

Graphic KAREN MOOLMAN Source NEDBANK ECONOMIC UNIT

Focus on Business

Low inflation will stay, says institute

Sowetan 3/8/94

By Mzimkulu Malunga

■ BIG WORRY Dwindling reserves as well as an increasing money flow:

THE INCREASE IN the general price level will be around 7 percent this year, says the Afrikaanse Handelsinstituut

A slowdown in Government spending, lower labour costs and the declining oil prices are factors mentioned in the AHI's quarterly Inflation Barometer as the major contributors to low inflation, the rate at which prices escalate

Surprisingly, despite the high level of electioneering in the country — in which parties make rosy promises — the inflationary pressures are relatively low As a result the new government is likely to inherit the lowest consumer inflation in 20 years

Like many economic commentators, the AHI projects a 2,5 percent growth this year, rising to around 4 percent next year

Though there was a 1 percent economic growth last year, the organisation's economic analysts say there is nothing to write home about as this nominal growth came in the light of prolonged recession that lasted almost five years (158)

Another promising factor is the good performance shown by the world's major economies, particularly the United Kingdom and the USA

As these countries are South Africa's major trading partners, their economic growths have a positive impact on this country's exports

On the domestic front business will benefit from rising consumer demand as the economy grows In view of improved economic growth conditions, the employers can expect tough wage negotiations this year, says AHI However, worrying indicators remain the dwindling gold and foreign reserves as well as the increasing money supply into the economy

CPI FM 4/3/94

Stand alone

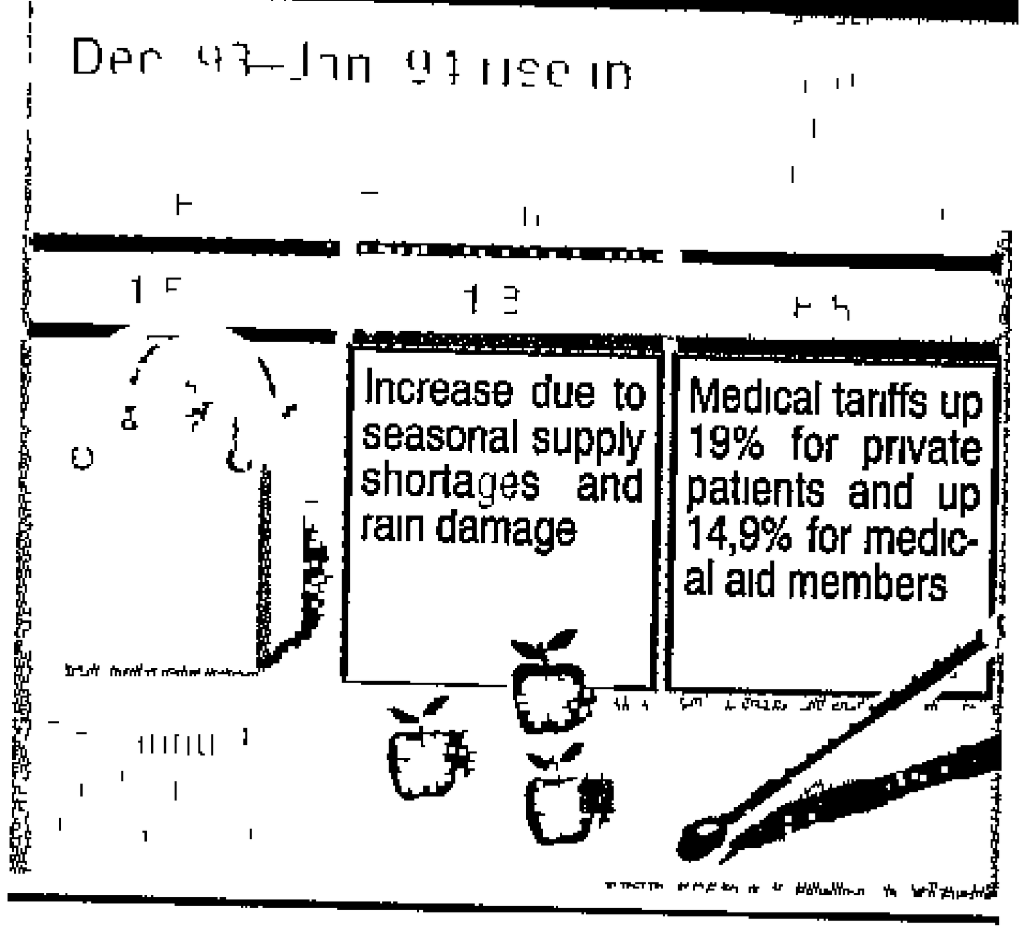
Figures on inflation are released each month by Central Statistical Service On occasion they need detailed analysis but, sometimes, there are only a few salient points to be made This was the case in January when monthly rises in two components of the consumer price index boosted the total monthly increase to 1,5% (see graph) after many months in which inflation was under 1% This pushed the increase in the index, in the 12 months to January, up to 9,9% from the previous month's 12-month rate of 9,5%

We will carry the *Inflation Barometer* each month, if necessary with accompanying text, but if all the information can be encapsulated in a graph it will stand alone

(153)

INFLATION BAROMETER

CPI: monthly pressure points



'More inflation busters needed'

(153) ARG 15/3/94

Business Editor

INFLATION will only be kept under control by close co-ordination between government, big business, trade unions and the Reserve Bank

Reserve Bank governor Chris Stals told a meeting of Southern African bankers, including five other central bank governors at a closed-door conference organised by the Financial Mail in Somerset West today that the Reserve Bank on its own could not control inflation

Making the opening speech of the conference, Dr Stals said in practice it was difficult for a central bank to refuse to print the money demanded by unsound macro-economic actions of power groups.

It would be difficult for a central bank to refuse to produce money in the face of undisciplined fiscal policies of government, excessive wage increases forced by trade unions, and "imported" inflation in the case of a relatively open economy

Dr Stals, however, warned that central banks should nevertheless guard against using their special powers to create money, to trigger, promote or encourage inflation

He said in many countries the power of the central bank was often exagerated

In a market oriented economy market forces were the prime determinant of local economic activity

"Central banks must work through market forces if they want to influence total market activity in any predetermined direction

"Central banks should, however, normally only lean against the wind and should leave it to market forces to determine financial aggregates"

Dr Stals said central bank intervention in the financial market should be confined to influencing the market and smoothing out undue fluctuations but should not be aimed at influencing real economic activity

"In the long run central banks must abide by market decisions or else risk the danger of creating harmful distortions that will depress the economic growth potential of the country"

Dr Stals said an example was interest rates which should be determined by the demand and supply of "loanable funds"

When shortages in a market arose interest rates would move up and when there was an excess, interest rates would move down

Central banks could influence the level of short-term interest rates but only for a short period Over the long run even the short term rates could not be fixed by the central bank

If a policy were adopted to create more money in order to keep interest rates low this would eventually lead to inflation and ultimately force even higher nominal interest rates

A policy that forced the creation of money would force unavoidable painful correction which would be worse the longer rates were kept artificially low

CT. 15/10/94

Paarl teachers in strike

Staff Reporter [redacted] 162 [redacted]

TEACHERS at Desmond Tutu High School in Paarl are refusing to teach, demanding the Department of Education and Training secure the school after the principal was threatened by a pupil with a firearm

Principal Mr N Nduzo said the pupil was expelled earlier this year for threatening two teachers with a gun

Last week, Mr Nduzo was handing out exam questionnaires to pupils, but refused to give one to the pupil.

"He threatened me with a gun in a classroom filled with pupils. I told him to calm down, some of the pupils were terrified," Mr Ndzuzo said.

Mr Nduzo laid a charge of pointing of a firearm against the pupil

A DET spokesman said yesterday a meeting had been set up with parents, teachers and pupils

Producer price data ominous for inflation

CT 16/3/94 (153)

By AUDREY D'ANGELO
Business Editor

THE producer price inflation index (PPI) rose to 6,7% year on year in January compared with 6% in December and 7,4% in January last year

The month on month rise was an unexpectedly high 0,9% compared with 0,2% in December

"Ominously for inflation prospects in SA, the rise was due mainly to higher prices for locally produced goods, which rose by 7,3% year on year and 1,3% month on month

This compares with a rise of 6,3% year on year and 0,2% month on month in December The year on year rise in January last year was 8,3%

In contrast, the year on year rise in the imported component of the PPI slipped to 3,7% compared with 4,1% in December and 3,9% in January last year And it fell month on month, by 0,8% compared with a drop of 0,1% in December

Economists said they were disappointed by the size of the rise in the local component but they pointed out that there were seasonal factors

Sandra Gordon, chief economist of Southern Life, however, suggested that recent signs of an upturn and increased demand could have encouraged some producers to widen profit margins

She said an 8,8% rise in electricity prices month on month, due to the higher Eskom tariff, had pushed the PPI up A rise in base metal prices and products made of these metals was due to an increased demand for commodities

A seasonal fall in the price of fruit had helped to keep the agricultural food component of the PPI down

The fall in the imported component was due mainly to lower world crude oil prices

Old Mutual economist Johan Els said a number of categories in the domestic component had risen He thought that in many cases this was due to an annual price increase and would not be followed by continuing large rises

"I shall not be worried unless there is a steep increase in the domestic component for February, too I still think the PPI for the year as a whole will average 8%"

Sanlam economist Pieter Calitz said he had expected a year on year rise of about 6,2% The increase in the electricity tariff had been one of the main culprits for the steeper rise

But, since agricultural food prices had been held down by the seasonal drop in fruit prices, he was worried about prospects for later in the year — particularly for meat prices

Calitz said low PPI in overseas countries, in addition to lower crude oil prices, had helped to bring the imported component down "In some countries the PPI is dropping

"I think the PPI in SA will average 7% this year I don't expect to see it rise very much until the last quarter It will be fairly steady until then, when we might see it go up to 8%"

Star 17/12/94

Central banks alone cannot control inflation

■ BY BRUCE CAMERON

Inflation will only be kept under control by close co-ordination between government, big business, trade unions and the Reserve Bank.

Reserve Bank governor Chris Stals told a meeting of Southern African bankers, including five other Central bank governors at a closed-door conference organised by the Financial Mail in Somerset West the Reserve Bank on its own could not control inflation.

Making the opening speech of the conference Stals said in practice it was difficult for a central bank to refuse to print the money demanded by unsound macro-economic actions of power groups.

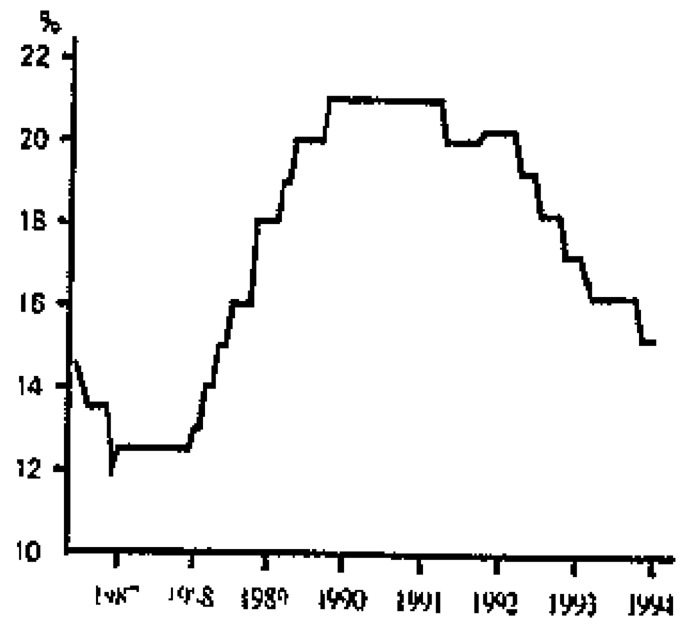
It would be difficult for a central bank to refuse to produce money in the face of undisciplined fiscal policies of government, excessive wage increases forced by trade unions, and imported inflation in the case of a relatively open economy.

Stals however warned that central banks should nevertheless guard against using their special powers to create money, to trigger, promote or encourage inflation.

(153)

He said in many countries the power of the central bank was often exaggerated.

In a market-oriented economy market forces were the prime determinant of local economic activity.



SA's inflation rate

Central banks must work through market forces if they want to influence total market activity in any pre-determined direction.

Central banks should however normally only lean against the wind and should leave it to market forces to determine financial aggregates.

Stals said central bank intervention in the financial market should be confined to influencing the market and smoothing out undue fluctuations but should not be aimed at influencing real economic activity.

In the long run central banks must abide by market decisions or else risk the danger of creating harmful distortions that will depress the economic growth potential of the country.

He said an example was interest rates which should be determined by the demand and supply of loanable funds.

When shortages in a market arose interest rates would move up and when there was an excess, interest rates would move down.

Central banks could influence the level of short-term interest rates but only for a short period. Over the long run even the short term rates could not be fixed by the central bank.

If a policy were adopted to create more money in order to keep interest rates low this would eventually lead to inflation and ultimately force even higher nominal interest rates.

A policy that forced the creation of money would force unavoidable painful correction which would be worse the longer rates were kept artificially low.

Reserve Bank forecasts 3 percent growth this year

Sharp increase in economic activity

Star 2/3/94

BY CLAIRE GEBHARDT

The South African economy has turned the corner after four years of grinding recession and could notch up growth of some 3 percent in 1994, says the Reserve Bank in its latest Quarterly Bulletin.

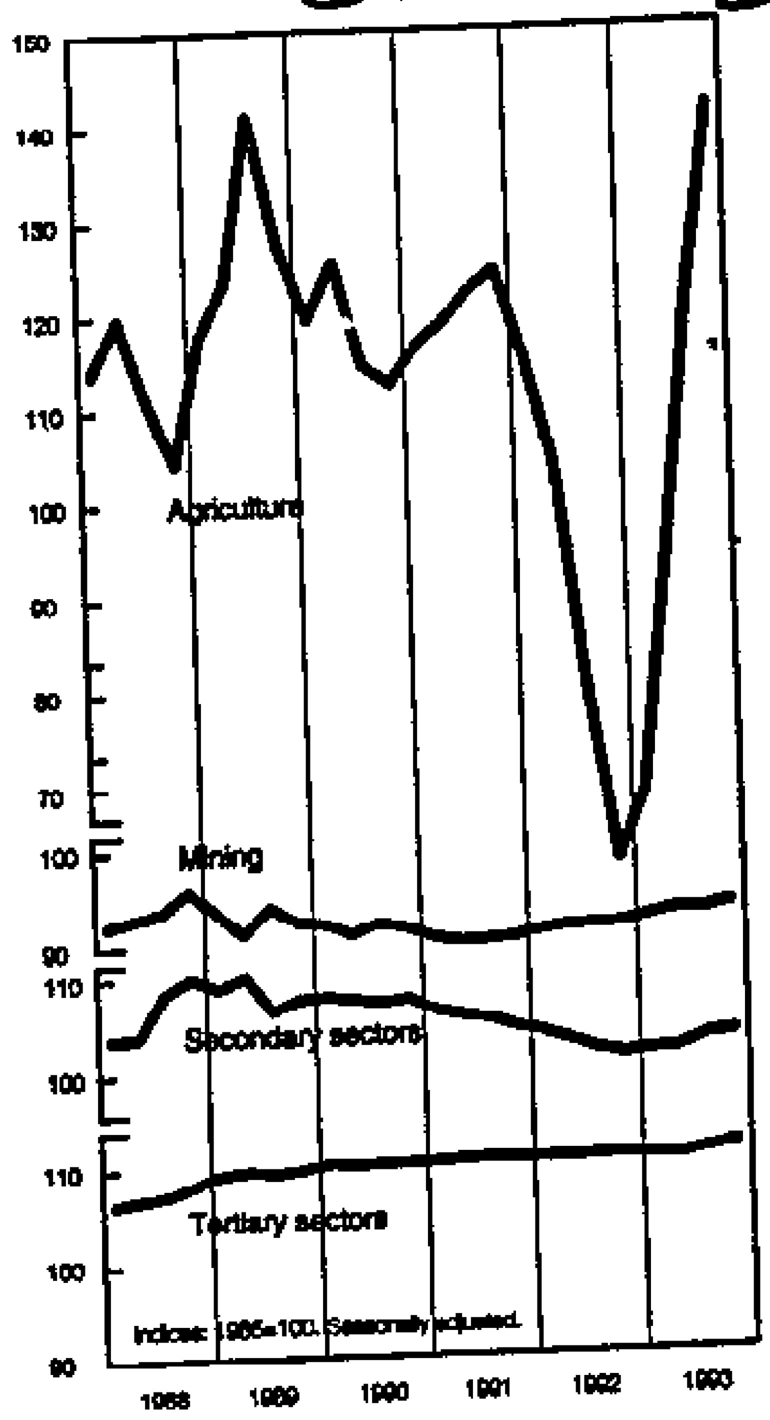
"In 1993 as a whole, the increase in real gross domestic product was approximately one percent — the first year of positive growth in the 1990s"

The Bank notes that the mainstay of the economic recovery has been a substantial 17,5 percent increase in agricultural production following one of the most severe droughts in South Africa's history.

Maize production in particular trebled from 3 million tons in 1992 to about 9 million tons in 1993.

"However in the second half of 1993, the increase in economic activity became more widely dispersed and growth was recorded in the real value added by mining, manufacturing, electricity, gas and water, commerce and finance"

Adding its weight to the revival was a substantial increase in the volume of merchandise exports and net gold exports



Components of real GDP.

"The quantity of goods exported increased by no less than 6 percent in 1993 — considerably in excess of the growth in world trade."

The good export performance more than neutralised an increase in merchandise imports related to rising domestic expenditure and a comfortable surplus was therefore maintained on the current account of the balance of payments throughout 1993, says the Bank.

"Real government consumption expenditure increased by less than half a percent in 1993 compared with an average annual annual rate of 4 percent in the 1980s"

On the inflation front, the rate of increase in the production price index (PPI) fell from 15,2 percent in 1989 to 6,6 percent in 1993 — its lowest level since 1971.

153

Inflation

Similarly, the consumer price index (CPI) fell to the single-digit level of 9,7 percent in 1993 — for the first time since 1973

The revival of economic activity was however restricted by a large net outflow of capital not related to reserves

No less than R16,3 billion was registered in 1993 with over 90 percent in the form of short-term capital

This caused the net gold and other foreign reserves of the country to decrease by R10,3 billion in 1993

"In order to support the level of the foreign reserves and the exchange rate of the rand, drawings of R7,1 billion on foreign credit facilities, including an IMF loan, were made in 1993

"As a result, the gross gold and other foreign reserves declined only marginally"

In the first two months of 1994 the net reserves in fact showed an increase of R1,1 billion notwithstanding the R1,7 billion "bullet" repayment in terms of the Final Debt Accord.

The Bank attributes the outflow to political uncertainty, internal unrest, pressure on the exchange rate of the rand, a strong US dollar internationally and the high cost of foreign borrowing on international capital markets

On the employement front, the Bulletin says retrenchments may have bottomed out in the second half of 1993

The bad news, however, is that no net additional employment has been provided in the formal non-agricultural sectors of the economy for the past ten years

The recession and rationalisation programmes dropped employment by about 350 000 people (5,9 percent) from the first quarter of 1989 to the first quarter of 1993

Star 29/3/94

Encouraging news on inflation front

■ BY DEREK TOMMEY

South Africa is winning the fight against inflation

Official figures issued last night show that the rate of price increases is continuing to slow

(153)

The consumer price index (CPI) (1990 100) rose by only 0,3 percent in February to reach 151,2

This brought the increase in the index in the three months to February to 0,95 percent, which is about two-thirds of the 1,4 percent increase in the same three months last year

On a year-on-year basis, the increase in the CPI was 9,9 percent — the same increase as in January

However, provided the inflation rate shows no steep rise, the annual CPI figure, for statistical reasons alone, will fall substantially in the coming months

Higher food prices accounted for one-third of the rise in February

Transport costs accounted for another third and everything else covered by the Central Statistical Service for the remaining third

Overall food prices rose by 0,4 percent to bring the year-on-year rise to 6 percent — up slightly from January's year-on-year increase of 5,9 percent

The higher February food price index was the result of dearer coffee, tea and cocoa, (up 1,4 percent), dearer grain products (1,2 percent), dearer fish and other seafoods (1 percent), dearer meat (0,5 percent) and dearer milk, cheese and eggs (0,3 percent)

Partially offseting this were small decreases in the price indices for fruit and nuts, vegetables, fats and oils

Thre figures show that the the cost of education saw the biggest price rise in the year to February, jumping by 64,5 percent

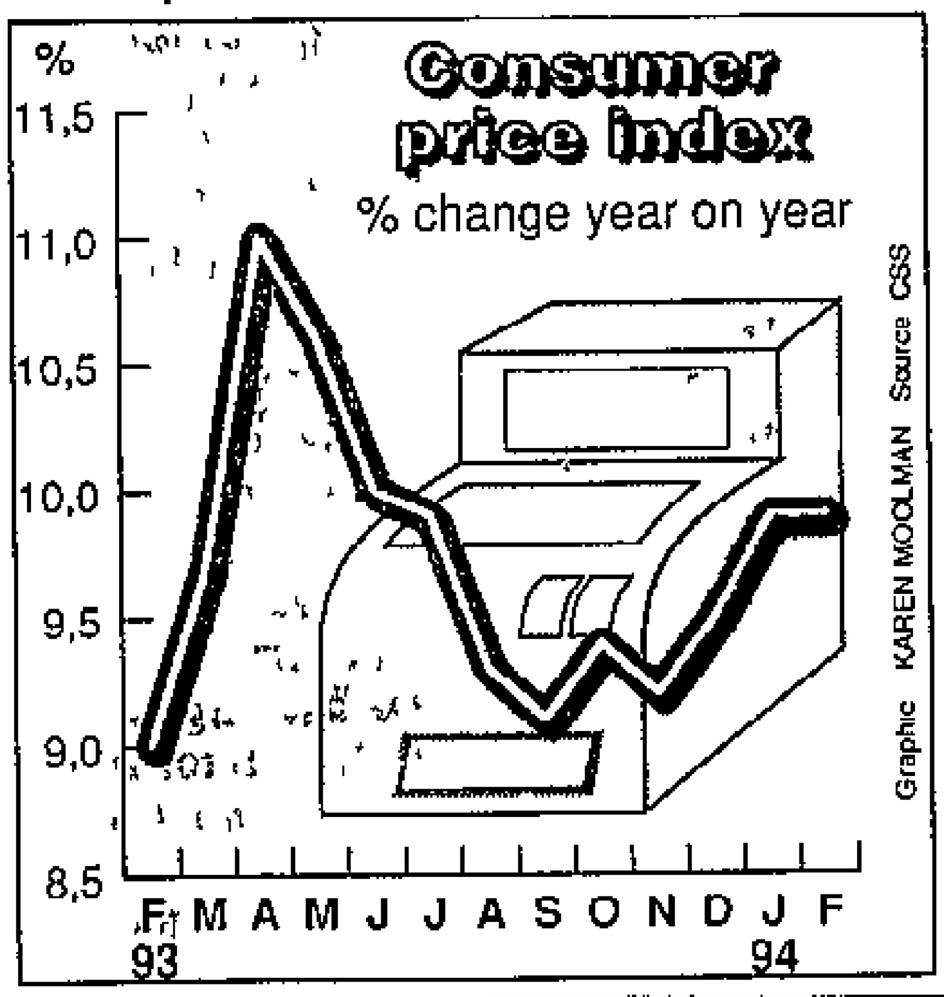
This was followed by a 25,4 percent rise in the cost of communications and a 21,1 percent rise in the cost of domestic servants

Transport costs overall rose 14,3 percent, the cost of vehicles increasing by 17,5 percent Running costs were up 11,8 percent

Medical care and health expenses rose 14,4 percent

But good news is that furniture and appliance prices increased only 7,6 percent, clothing and footwear prices 5,5 percent and house prices 3 percent

Inflation remains at 9,9%



SAMANTHA SHARPE

CONSUMER inflation was unchanged at 9,9% in February The year-on-year change in the consumer price index (CPI) was the same as in January, but the month-on-month rate was lower at 0,3% against January's 1,5%. (153)

The constant rate of inflation took economists by surprise as most had expected a slight uptick to just above 10%.

But one analyst said a high inflation rate was typical of January or February. January's higher than forecast month-on-month figure should have counteracted any excitement over February's better-than-expected result.

☐ To Page 2

Inflation

BDay 29/3/94 ☐ From Page 1

The Central Statistical Service said yesterday the lower month-on-month increase was due to a decrease in the housing index, but this was offset by rises in the price indices for food, transport and other items.

Economists described the overall monthly increase as "fairly good". The performance of the food index, which showed a 0,4% rise in prices compared with January's 1,8%, was also positive.

Coffee, tea, grain products, meat and dairy products were the main culprits in the overall rise in food prices. They were offset by falls in the price indices for fruit and nuts, vegetables, and fats and oils.

Econometrix economist Tony Twine warned that while the non-food CPI was inflating at about 11%, the index excluding food and housing had risen 12%. "This is an unhappy kind of level for people who had hoped the rise in the overall CPI could be cut below 7%. (153)

But Old Mutual economist Johan Els said the latest figures showed that the economy was still on track to get close to an inflation rate of 7% by April or May Inflation's downward trend would not last for the rest of the year.

Food price rises bad for economy

Sowetan 31/3/94

By Mzimkulu Malunga

■ AVERAGE LEVEL Inflation up from seven percent to eight percent:

ESCALATING food prices will have a negative impact on the general price level, says Sanlam's latest economic survey

Earlier projections predicted that on average the general price level, otherwise known as inflation, will be around seven percent but due to a hike in food prices the figure has now been revised to about eight percent

Unfortunately, says Sanlam, as long as the inflation rate remains high, the South African Reserve Bank is not going to abandon its current means of squeezing credit and interest on loan repayments will remain high

However, on a much positive note, there has been a slow-down of the rate at which money leaves the country (153)

Money leaving the country has been one of the major concerns for business in the past few months, particularly because some of it was leaving illegally

Also, the economy is expected to grow by almost four percent this year, says the survey

If the dust settles on the political front, next year could be even better

South Africa's trading position is on an optimistic footing as major economies of the West, with the exception of Japan, are showing signs of recovering

These countries are South Africa's major trading partners and if their economies grow, so will their appetite for imports from this country

CPI FM 1/4/94

Under control

The fall in the monthly inflation rate, to 0,3% in February, confirms that the 1,5% rise in January was an aberration — a big jump in items surveyed only once a year (medical care & health) (153)

March and April present the best statistical opportunities for inflation to fall further Thanks to price increases in education and the introduction of Vat and other indirect taxes, March and April 1993 saw sharp monthly price rises of 1,5% and 2,5% respectively Thus, if the monthly 0,3% rise in December and February are repeated over the next two months, the headline inflation rate will be down to 7,5%, from February's 9,9%

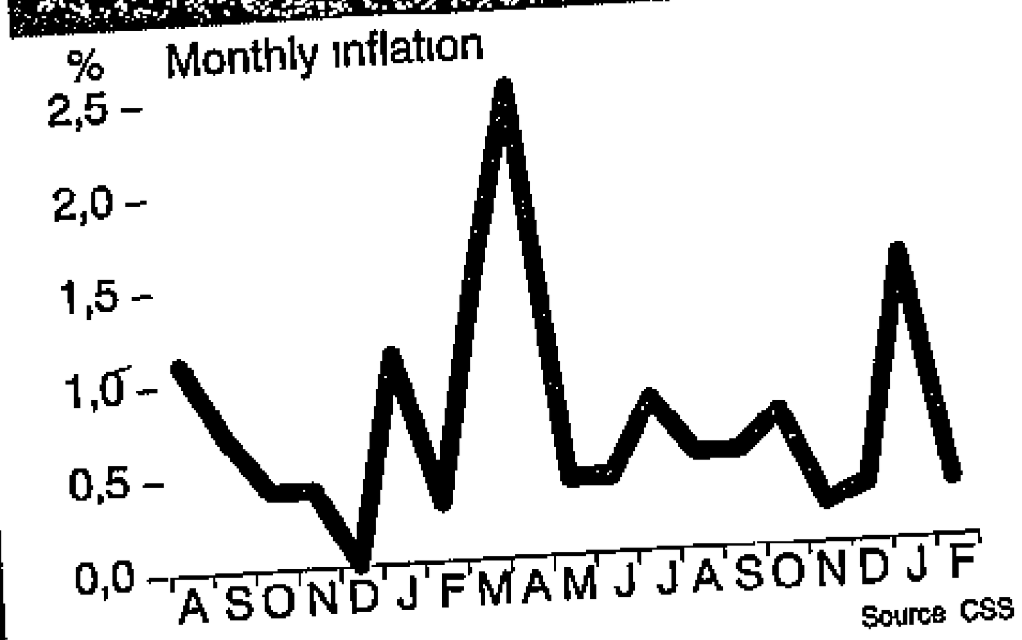
After April, the graph shows, the scope for further inflation rate declines becomes more difficult as the monthly increases from May 1993 are relatively small, leaving little room for improvement Indeed, from April 1993-January 1994, the seasonally adjusted and annualised rate of inflation is 7,4%

By setting M3 money supply targets for 1994 at 6%-9% (see box) and indicating it expects real growth of around 3%, the Reserve Bank appears to be expecting inflation to drop to 3%-6% by the end of the year This is a slightly more optimistic forecast than most

Annual inflation for the lower income groups in February is 8,4% compared with 10,6% for the higher income group Food prices are 6% higher compared with February last year — with the price of fruit and nuts dropping 17,6% and that of vegetables

FM 1/4/94

CPI: still off the boil

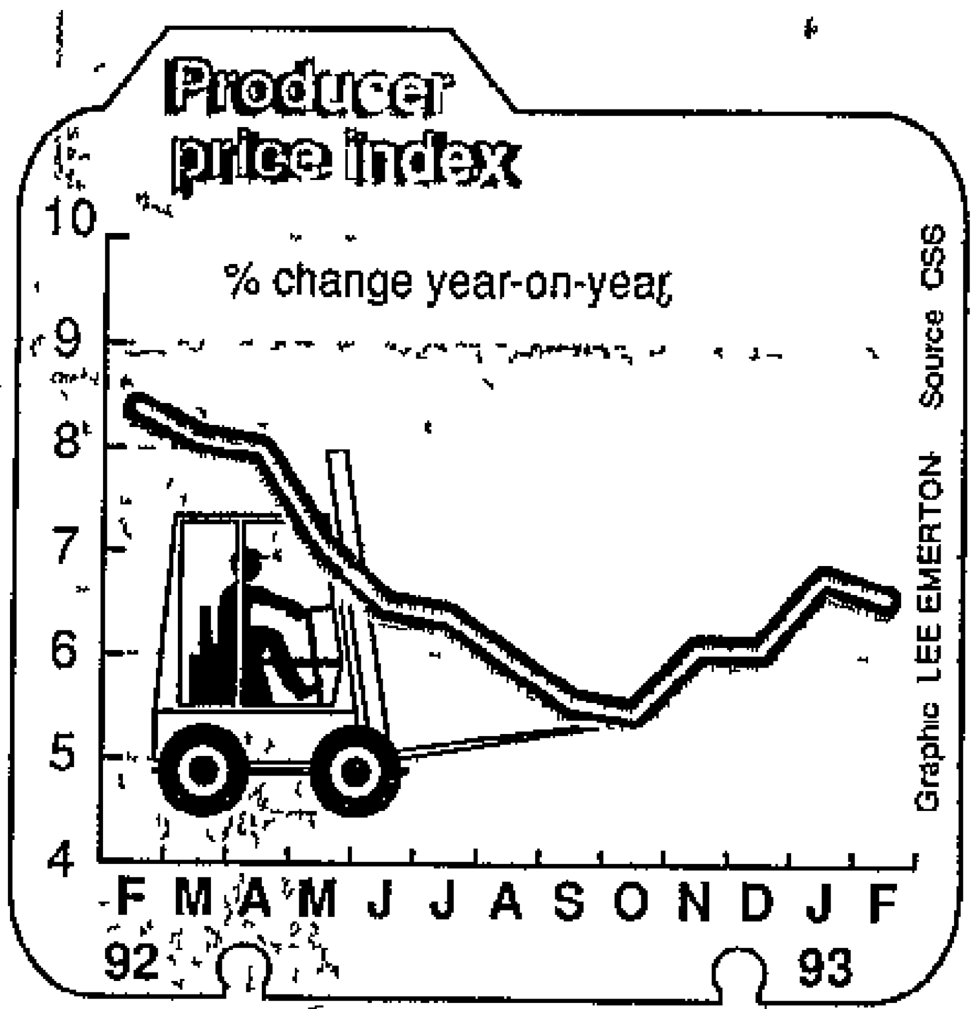


0,9% The steepest food price increases have been coffee/tea/cocoa (15,3%), sugar (12,2%), fats and oils (12,1%), meat (11,4%) and grain products (10,1%) ■ (153)

Producer inflation down marginally

B/Day 15/4/94

SAMANTHA SHARPE



THE upward trend in producer inflation was interrupted in February with a marginal decline to 6,5% from January's 6,7%, according to Central Statistical Service figures released yesterday (153)

Low imported inflation continued to put a brake on the annual change in the producer price index. The imported component of PPI rose at an annual rate of 3,1% — 0,6 percentage points lower than January's 3,7%, with lower oil prices continuing to restrain price increases.

However, economists warned the weak rand could start affecting the PPI in the next few months Producer inflation had

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started an upward trend, having bottomed at 5,4% in October. (153)

The prices of locally produced commodities rose at a faster rate than imported prices. The component showed an annual rate of increase of 7,2% for February, down on the previous month's 7,3%

Economists were surprised at the large increase in producer prices between January and February (1,1%), saying it signalled inflationary pressures were building up. It was the second consecutive monthly increase that worried economists, who described the pattern as "not nice". The future effects of the weaker rand would add to the pressures.

Barnardt said it was possible that year-on-year producer inflation would decline in the short term on technical factors, but warned that the latest figure and recent rand weakness boded ill for reduced inflation in the second half of the year.

"We could well experience a situation later in the year when both the domestic and imported components of the PPI reach the 8% level," said Ed Hern Rudolph economist Nick Barnardt

A large monthly increase in the transport equipment index, led by higher car prices, and in the "other manufactures" index helped push the month-on-month increase higher, the CSS said.

The increase in transport prices was a spillover form the annual vehicle price increases in January, Econometrix economist Tony Twine said Truck prices had been raised after car and LDV prices were lifted in January

MONEY

The unequal burdens of inflation

SI Times [Buss] 17/4/94 (153)

By TERRY BETTY

IF you eat corn flakes for breakfast and have to pay for a child's education, you are prey to the worst products of inflation.

However, meat-eaters who frequently lose golf balls and buy dog biscuits fare far better

Figures compiled by Central Statistical Service (CSS) show the cost of living rose 65% from 1989 to the end of 1993, but that certain prices increased far faster than others

For example, the price of dog biscuits increased by only 15% and that of running a house by 17,6% in the past five years Golf balls cost only 23% more than they did in 1989 and the cost of a rump steak and chuck is only a third higher — far below inflation and cheaper in real terms

The cost of education and white bread increased at almost three times the rate of inflation

Tipplers will be relieved to learn that price increases of beer and wine were below inflation in the five years

If these figures give you a headache, forget about swallowing an aspirin, whose price doubled in five years McGregors Online Information chairman Robin McGregor says the cost of aspirin soared by 846% in 12 years to 1992 compared with an inflation rate for the period of 367%

Mr McGregor says inflation is far higher in products where three or fewer manufacturers account for more than 75% of the market

High up on his list are salt biscuits and cream crackers for which one manufacturer dominated the market.

In Britain, a different rate of inflation applies to different income sectors A yuppie couple will be more affected by the cost of air travel and golf-club subscriptions A large family will feel the effects of the rising cost of education and health care

Figures show that the average cost of living for a four-member family in the UK has risen by 14% compared with 34% for a couple with two incomes and 34% for one with no children The poorest have been hardest hit of all with a 36% increase in the past five years

The CSS figures do not distinguish between young couples and large families, but its statistics do differentiate between the cost of living for middle-income families earning R16 000 to R40 000 a year and low- and high-income earners The CSS also compiles a pensioners index

The middle-income sector shows an 85,2% increase, pensioners are second at 83,6%, high earners at 82,8% and lower ones at 82,5% The consumer-price index for all items was 83% in the five years.

The figures are based on a survey of 100 000 price quotations in 12 metropolitan areas for 700 items, ranging from the works of William Shakespeare to chicken-noodle soup

The prices are broken down into 52 categories, whose weighting is reviewed every five years after a survey of the buying habits of 10 000 families

Econometrix economist Tony Twine says food has the highest weighting followed by householders' costs, which include interest on bonds, rates and taxes, water and electricity and the cost of repairs

He says the weighting has to be adjusted because spending patterns vary with changes in circumstances and income

Mr Twine has done a study, based on Reserve Bank figures, of what people are likely to spend their money on as their incomes increase

Top of the list are TV sets, VCRs, CD players, furniture and appliances and medical services

With an increase in income they are not likely to spend any more on food, beverages, tobacco, education, movies or books

RETAIL PRODUCTS	Average retail price for the year 1989 (Rands)	1993 (Rands)	% Increase
White bread 800g	0,90	2,47	174
Cereal flakes 500g	2,99	6,81	128
Mealie meal	2,29	4,05	77
Beef - rump steak 1 kg	15,59	21,04	35
Beef - chuck 1 kg	9,00	11,41	27
Fresh milk 1 litre	1,25	2,06	65
Potatoes 1 kg	0,99	1,74	76
Teabags, tagless 250g	4,06	6,94	71
Soup, chicken noodle 50g	0,74	1,14	54
SA semi-sweet wine	1,69	3,3[illegible]	78
Beer, lager 1 dozen	10,72	17,31	61
Cigarettes, Virginia (30)	2,08	3,75	80
Day dress, one-piece cotton	55,53	114,21	106
Soap, household 500g	1,56	2,11	35

	Average retail price for the year 1989	1993	% Increase
Aspirin, packet of 100	5,57	10,84	95
TV, colour, 67cm screen	2488,19	3518,47	41
Dog biscuits 1 kg	8,67	9,96	15
Golf balls each	7,62	9,37	23
Ordinary movie	7,10	13,00	83
Ladies haircut, per head	12,47	24,34	95
Tissues, box 100 x 2 ply	1,51	2,40	59
Houseowners insurance, annual per R100	0,19	0,225	18
INDICES (1990 = 100)	**1989**	**1993**	**% Increase**
Housing	91,9	108,1	18
Medical care and health expenditure	84,6	166,4	97
Car running costs	87,5	143,7	64
Transport	87,4	154,4	77
Education	84,2	230,3	174
Consumer price index	87,4	144,1	65

Graphic FIONA KRISCH

Growth in inflation slips back to 9%

(153)

CT 26/4/94

By AUDREY D'ANGELO
Business Editor

INFLATION [illegible] consumer prices [illegible] CPI dropped to 9 [illegible] in March from 9,9 [illegible] in February [illegible]

[illegible]

[illegible] February [illegible]

[illegible] year [illegible] yesterday [illegible] expectation [illegible] year on [illegible] of last year's [illegible] of the system [illegible] Sandra [illegible] on year [illegible] 6,1%

But she warns in her quarterly Economic Review, issued yesterday, that "by mid-year the bottom of the inflation cycle will probably have been reached. Thereafter the inflation rate is expected to rise gradually, reaching almost 9% by year-end and moving back into double digits again — possibly as soon as the second quarter of 1995."

She expects inflation to average 7,9% this year and about 10,4% next year.

Boland Bank economist Francois Jansen said that even though the steep fall in the CPI was due [illegible] for it would [illegible] market [illegible]

He pointed out [illegible] normal [illegible] lower CPI and "a durable trade figure" [illegible] last week would justify a cut in bank rate. But the uncertainty and possible violence of the election period ruled this out in the immediate future.

Jansen said the fall in inflation without a cut in bank rate meant that SA was moving into the higher category of real interest rates.

Sanlam chief economist Johan Louw said the lower CPI would influence inflationary expectations and longterm interest rates. The 7% rise in the food index was a sign that prices were returning to normal levels.

Old Mutual economist Johan Els said there was nothing surprising in the March CPI figures. "But we shall have to keep an eye on imported inflation as the rand weakens."

Pointing out that oil prices were rising gradually, he said that this in combination with a weakening rand could mean higher petrol prices.

Inflation shows disturbing uptrend

Digging deeper into your pocket

Star 26/4/94

BY DEREK TOMMEY

Price inflation is starting to pick up again, the latest Central Statistical Service (CSS) figures show.

Although the year-on-year increase in prices declined from 9,9 percent in February to 9 percent in March, the month-on-month figures show a different story.

Between January and February, prices rose by 0,3 percent — equal to an annual rate of 3,9 percent.

But between February and March, they increased by 0,7 percent — more than double the February rate and equal to an annual rate of 9,4 percent

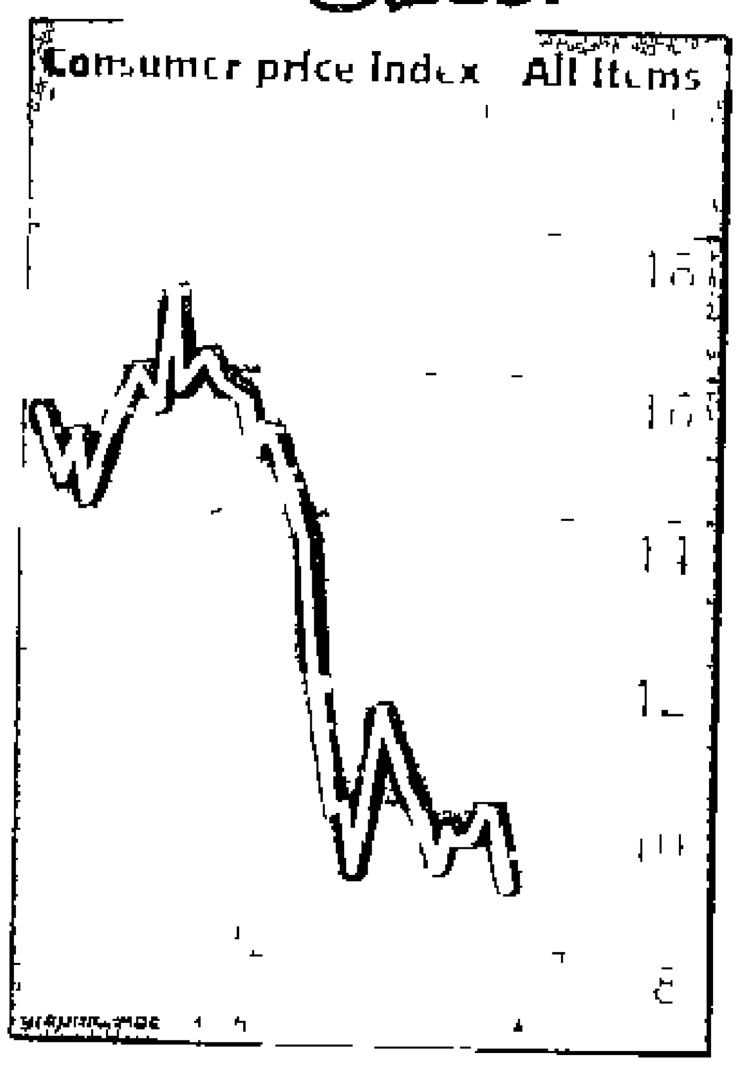
It would be pleasant to believe that the March spurt in prices was an anomaly and that price increases in coming months will revert to their February level

But there are danger signals.

Shoppers are becoming aware that as the economy starts to pick up, most manufacturers and retailers are raising prices to restore profit margins to their pre-recession-ary levels.

Furthermore, the move to higher prices is likely to be stimlated by a substantial increase in the petrol price just after the election, leading to price rises across the board.

The higher petrol will be the result of the almost 10 percent decline in the exchange rate



of the rand against the dollar, and recent increases in crude prices

(153)

The devaluation of the rand will lead to increases in the price of other imported goods

Nonetheless, economists are predicting that on a year-on-year basis the April consumer price index will show a further decline — possibly even to 7 percent, the lowest figure for many years

But this is purely a statistical development caused by the steep increases in prices last April no longer inflating the index.

It will be remembered that last April Vat was raised by 40 percent from 10 percent to 14 percent, the petrol price was raised by 16c a litre and several excise duties were also increased.

The CSS reports that the main factor in the 0,7 percent rise in the consumer price index in March was the higher cost of education

Dearer food, housing and reading matter were other contributors

Food prices rose 0,4 percent last month to show a year-on-year increase of 7 percent

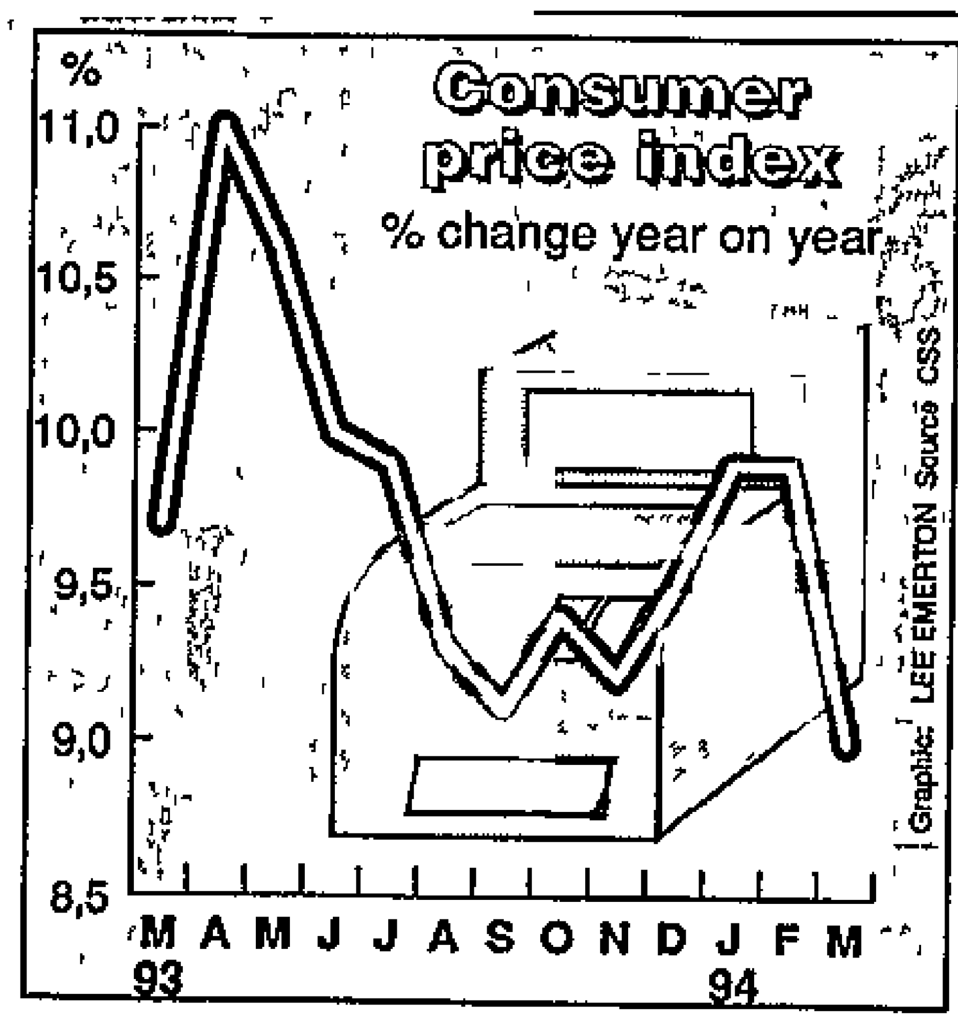
Meat showed the biggest increase, followed by coffee, tea and cocoa, sugar, grain products, milk, cheese and eggs

Other items showing significant price increases were acoholic beverages, housing, household operations, and personal care

On an individual basis, the items showing the biggest year-on-year increases were communications (25,4 percent), domestic workers (21,1 percent), "other" household services (20,6 percent), vehicles (16,1 percent), reading matter (15,8 percent) and medical care and health expenses (14,2 percent)

Possibly because the better-off use the telephone more and employ domestic servants, the year-on-yer increase in the consumer price index for the middle- and upper-income groups was 9,2 percent. It was 8,4 percent for the lower-income group

Pensioners continue to be hard hit by inflation. Their inflation rate in the year to March was 9,7 percent



Inflation fall in line with expectations

SAMANTHA SHARPE

INFLATION took a decisive step down in March, falling to 9% from 9,9% in February, Central Statistical Service figures showed yesterday BDay

The drop in inflation was in line with expectations to "the nearest decimal", economists said. Most had forecast a figure of about 9% as the March consumer price index (CPI) was calculated off a high base. The implementation of Model C schools dramatically increased the education price index between February and March last year. This one-off event led to a high inflation rate for March 1993.

The CSS said March's higher month-on-month rise in the CPI of 0,7% against February's 0,3% was led by increases in the price indices for food, housing, reading matter and education. 153

Month-on-month food inflation, which has been a key factor in keeping inflation in check, was unchanged at a relatively low 0,4%. 26/4/94

Meat prices were higher after farmers kept back livestock in order to replenish their drought-depleted stocks, Old Mutual economist Johan Els said. The latest figures were in line with inflation being about 7% by this month and next, and an average rate of about 8% this year.

Ed Hern Rudolph economist Nick Barnardt said inflation would come down

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sharply after the effect of the VAT increase fell out of the figures this month. This would be the nadir of the inflation cycle as the second half of the year witnessed the beginning of the next upturn in inflation. (153)

However, bullish expectations about the April inflation rate might have to be tempered after the CSS warned that one-off price increases would be included in the rate. Prices to be measured included the cost of water in the PWV area, medical fund tariffs and property insurance.

Barnardt warned that price increases over the past three months translated into an annualised inflation rate of 9,7%. This reflected an underlying inflationary trend that was not all that positive.

Danger signals for inflation

(153) ARG 28/4/94

DEREK TOMMEY

JOHANNESBURG — Price inflation is starting to pick up again, the latest Central Statistical Service (CSS) figures show

Although the year-on-year increase in prices declined from 9,9 percent in February to 9 percent in March, the month-on-month figures show a different story

Between January and February, prices rose by 0,3 percent — equal to an annual rate of 3,9 percent

But between February and March, they increased by 0,7 percent — more than double the February rate and equal to an annual rate of 9,4 percent.

It would be pleasant to believe that the March spurt in prices was an anomaly and that price increases in coming months will revert to their February level

But there are danger signals

Shoppers are becoming aware that as the economy starts to pick up, most manufacturers and retailers are raising prices to restore profit margins to their pre-recessionary levels

Furthermore, the move to higher prices is likely to be stimlated by a substantial increase in the petrol price just after the election, leading to price rises across the board

The higher petrol price will be the result of the almost 10 percent decline in the exchange rate of the rand against the dollar, and recent increases in crude prices

The devaluation of the rand will lead to increases in the price of other imported goods

Nonetheless, economists are predicting that on a year-on-year basis the April consumer price index will show a further decline — possibly even to 7 percent, the lowest figure for many years

But this is purely a statistical development caused by the steep increases in prices last April no longer inflating the index

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Dearer food, housing and reading matter were other contributors

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Possibly because the better-off use the telephone more and employ domestic servants, the year-on-yer increase in the consumer price index for the middle- and upper-income groups was 9,2 percent It was 8,4 percent for the lower-income group

Pensioners continue to be hard hit by inflation Their inflation rate in the year to March was 9,7 percent

■ The new South African government will face intense pressure to spend on services, adding to its debt burden, and will have to battle to turn international political praise into investment commitments, a report from Britain's Overseas Development Institute said

The report by the independent self-funding centre said there would be immediate demands for jobs, housing, electricity, health and education services and land, reports Reuter

"Pressures to increase the budget deficit beyond the level which it considers prudent are likely to be intense," said author and Research Fellow Roger Riddell

He said South Africa's budget deficit to gross domestic product (GDP) ratio had risen sharply in recent years

In 1993-94 the debt to GDP ratio was around 6,4 percent Repayments each year on external debt from 1994-98 will amount to $2 billion — two percent of GDP and eight percent of exports

Mr Riddell, an economist with experience in other post-independent African states, noted South Africa had already started drawing down funds from an $850 million Compensatory Financing Facility from the International Monetary Fund

There would probably be a series of World Bank loans "perhaps amounting to a cumulative $1 billion" in coming months, he said

"Given a likely shift into trade deficit, the need to service already-contracted foreign debt and, currently, extremely low levels of domestic savings, significant capital inflows will be needed to finance capital growth"

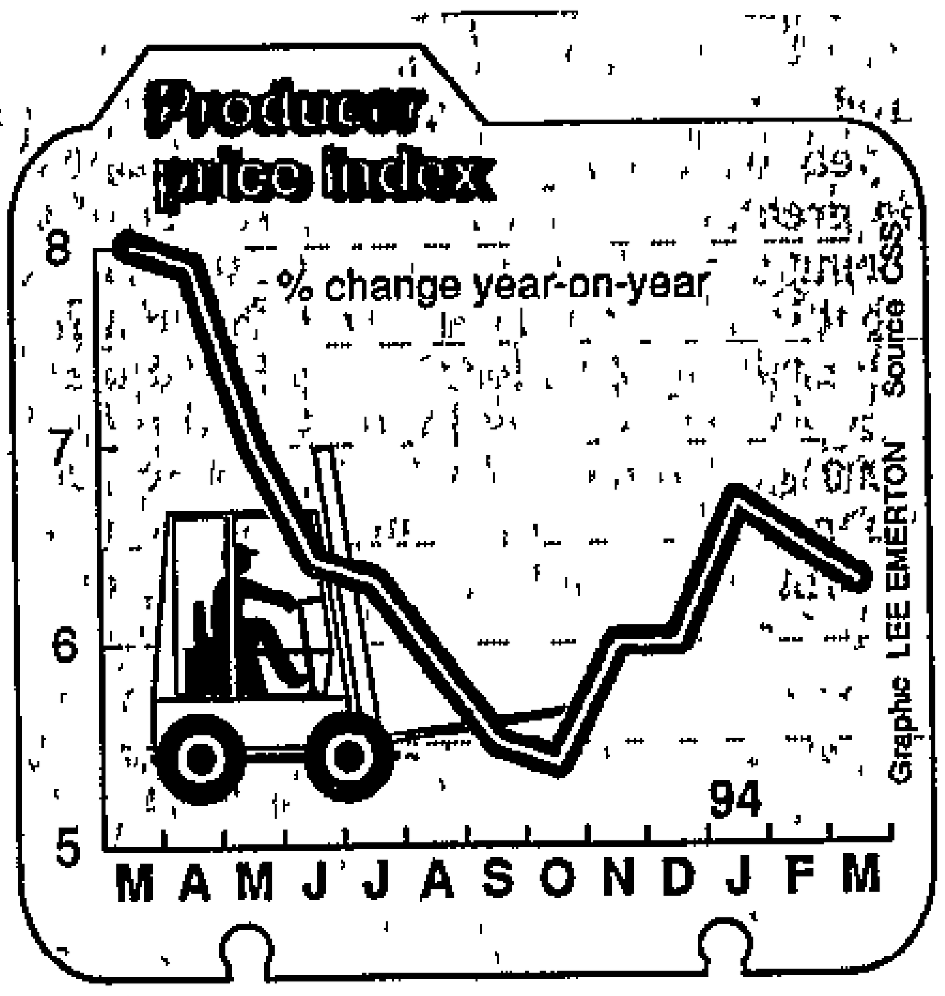
But the new government could build on a degree of optimism among South Africans

"International experience often shows that sound performance is often dependent upon people and nations believing they can achieve the goals they set for themselves."

The ODI report said South Africa's future growth would be linked to key sectors like mining but Mr Riddell noted that the prospects for major mineral exports are "far from bullish"

Gold production was contracting and mining costs increasing Chrome, nickel, zinc, copper and uranium prices were still low and South Africa was losing market share in these areas

"The best mineral export prospects for the long term appear to lie in coal (because of its low sulphur content and low cost) and platinum-group metals (because of rising demand for catalytic converters)," he said



PPI continues its downward trend

B/Day 13/5/94

PAUL RICHARDSON

INFLATION at the producer level fell for the second consecutive month in March, to 6,3% from February's 6,5%, latest Central Statistical Service (CSS) figures show

Economists were pleased, saying the apparent upward trend in the producer price index's rate of change had been decisively interrupted. They said the index's fall between February and March was especially encouraging (153)

According to latest CSS figures, the PPI fell 0,1% on a month-on-month basis compared with a 1,1% increase in February.

Rand Merchant Bank economist Rudolf Gouws said the figure was "very good news in the sense that markets were concerned that a turning point in inflation had been reached".

He expected measurably lower inflation in the coming months

Ed Hern Rudolph strategic economist Nick Barnardt said the latest figure did not contradict the view that the downward trend in inflation had been reversed. He said March tended to be "a low PPI increase month". On a seasonally adjusted basis, the March rise was 0,7%.

Barnardt said the low annual increase in imported inflation was surprising in view of the rand's continuing depreciation

CSS said the imported component of the PPI had risen 2,7% on a year-on-year basis — 0,4 percentage points less than February's 3,1% increase. However, Barnardt said the low increase could not be sustained. The rand's continued weakness and

☐ To Page 2

PPI

B/Day 13/5/94

☐ From Page 1

higher oil prices would probably start to affect the figure

Local commodities prices rose at an annual rate of 6,9% and fell 0,1% month-on-month, while domestic manufacturing prices rose a year-on-year 8,2%. The month-on-month rise in domestic manufacturing prices was 0,1% (153)

The low increase in domestic manufacturing prices was pleasing, Barnardt said, particularly after the sharp increases in the first two months of the year. Nevertheless, the underlying price trend in the first quarter was about 11% for the domestic component and the overall PPI.

The rate of change in the PPI reached a low of 5,4% in October and rose to 6,7% in January, causing economists to say inflation at the producer level had entered a new upward trend

Fm 20/5/94 (244) (153)

PPI

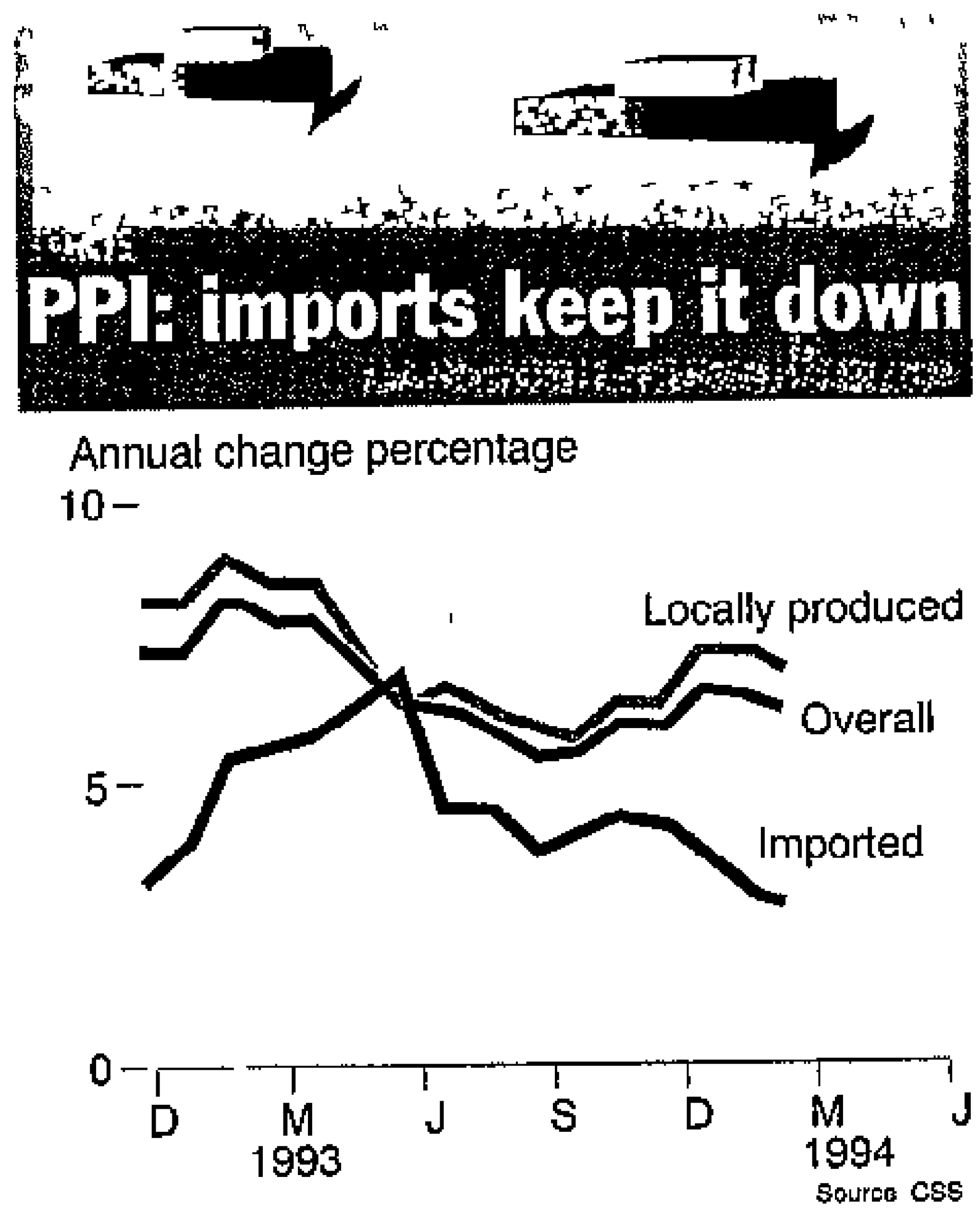
Which way?

March's annual increase of 6,3% in the producer price index, down from February's 6,5%, continued a trend that started when producer price inflation peaked at 15% towards the end of 1989 before falling to present levels

Now producer inflation is probably close to its bottom

March's month-on-month decline in the overall imported index of -0,1% (as well as the modest 2,7% year-on-year increase) can be attributed to declines in oil prices in the previous months Oil is one of SA's leading imports and makes up about a third of the PPI mining & quarrying index The price of North Sea Brent Crude hit a low of US$13 a barrel in February and climbed thereafter to $16,85 at the start of this month, where it has hovered since This move will soon be reflected in a rising PPI import index

Rand depreciation in the first quarter has influenced the imported component of manufacturing, which rose 0,6% in the month of March against a 0,1% rise in its locally produced equivalent



The other major component that will have an impact on producer prices will be agricultural products, which make up 9,5% of the overall index After a year-on-year low of -0,3% in September, inflation in this item had risen to 8,2% in March

Economists say this rise has been mainly because of meat prices Says Absa agricultural economist André Louw, "We are now into the upward phase of the five-to-seven-year cycle of meat prices Farmers are restocking herds after the drought of 1992" The meat index, in spite of a 0,8% decline in the month, rose 20,1% year-on-year

But, says Louw, the move is still being neutralised by falling prices of other agricultural products Grains, for instance, are declining in price after a good summer rainfall This item fell 0,1% in the month or 6,2% year-on-year

He warns "It's difficult to predict movements Certain agricultural prices, such as those for vegetables, tend to be volatile" ■

AHI expects high inflation to drive up interest rates

B/Day 26/5/94

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SAMANTHA SHARPE

ACCELERATING inflation in the second half of the year was likely to drive interest rates higher, the Afrikaanse Handelsinstituut (AHI) said yesterday.

The AHI's inflation barometer, which forecasts the direction inflation will take over the next six to 12 months, showed an inflation rate of 6,8% in the second quarter of 1994 from 5,2% in the first quarter

The significantly higher reading confirmed the message that has been broadcast by balance of payments problems and accelerated money supply growth — that interest rates were set to rise, the AHI said

One of the culprits behind the barometer's reading was exchange rate depreciation.

But recent increases in the price of oil and possible large-scale government spending under the new political administration would drive the rate higher, the AHI said.

It was imperative that the new government maintained strict control of government spending and the budget deficit

The AHI said SA's real GDP could grow at a rate of around 3% this year but the prospect of 4% growth in 1995 would be limited by low gold and foreign exchange reserves

The country's reserves fell by R636m in April following net capital outflows of R16,3bn in 1993.

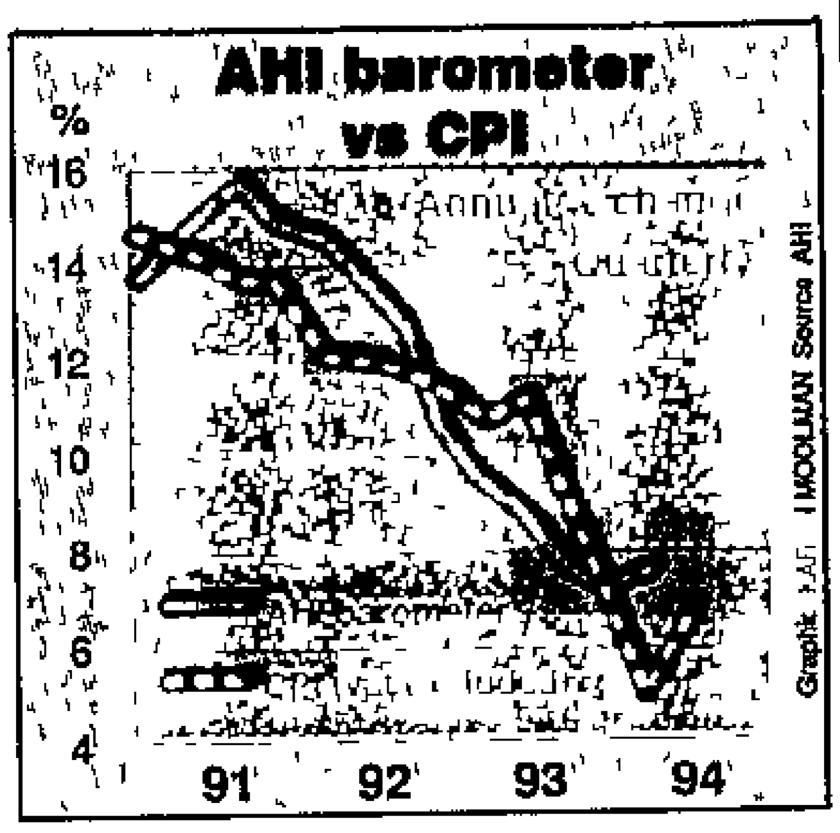
SA would have to recapture once profitable international markets following its return to "normal international economic relations".

Entering these previously lost markets was only the first step towards recapturing them, the AHI warned.

One of the biggest challenges facing the new government in the "honeymoon years" of SA's return to the international fold was the creation of an economy that would sustain itself once the novelty of the elections and the goodwill of the rest of the world cooled.

"SA will have to establish itself as such a dominant force in the world economic arena that the international community cannot afford to pass it over as yet another African country," the AHI said

The positive aspects of the economy were the record levels of share prices on the JSE, increases in private saving and higher levels of business confidence, it said.



Pressures hot up on SA inflation

(153) 26/5/94

By AUDREY D'ANGELO
Business Editor

INFLATIONARY pressures are increasing and the consumer price index (CPI) is likely to move up to 8,5% by the end of this year and above 10% next year, Afrikaanse Handelsintituut economist Johan Rossouw warns.

His Inflation Barometer for the second quarter — prepared as an indication of future trends — shows that growth in the money supply and the continuing depreciation of the rand have reversed the downward trend of inflation in SA

The consumer price index (CPI) for April, due out today, is expected to drop to about 7% from 9% in March

This is because the effect of raising VAT by 4% in April last year will move out of the system

But Rossouw says the underlying inflationary forces "have changed to such an extent that they no longer support the downward trend of the CPI inflation rate but actually point to a possible acceleration in the increase of inflation six to 12 months ahead.

"Despite the reasonably sharp drop in the CPI inflation rate expected for April, a reversal in the downward inflationary trend of the past six months should come into force in the second half of 1994"

Warning that this means there is unlikely to be any cut in bank rate this year, Rossouw says this will be "the first significant climb (in inflation) that can indeed be interpreted as a change in trend."

He explains that a rise in the second quarter of 1993 was "only a temporary rebound owing to large increases in government spending in this quarter and the large net deficit on the balance of payments (BoP) with an accompanying real weakening in the rand exchange rate."

But key factors in the expected rise in inflation this year are a 15% depreciation in the effective exchange rate of the rand and a sharp increase in the M3 money supply, which has moved up by a seasonally adjusted 17% in the eight months to February

"Although credit to the domestic private sector in the four months leading up to January has increased at a slightly lower seasonally adjusted annual rate of 9,2% it is still higher than the monetary guidelines prescribed by the Reserve Bank.

"Factors that can in future contribute to inflationary pressure are the probable increases in fuel prices due to the increasing under-recovery as a result of higher international oil prices, the weakening rand exchange rate and the possible large-scale government spending under the new political administration"

Rossouw points out that foreign exchange reserves dropped by about R636m in April "while the expected increase in imports as the economy grows faster will add further pressure to the balance of payments."

However, he continues, there are positive factors and SA's real growth rate may be 3% this year "although the prospect of yet better growth of about 4% in 1995 may be inhibited by low reserve levels.

"Business prospects are still improving and private consumer expenditure shuld increase moderately for the rest of the year and in 1995.

"The expected higher demand should enable producers to utilize available production capacity more effectively, while exporters should benefit from the further weakening of the rand exchange rate"

Inflation rate drops to 22-year low

(153) ARG 26/5/94

ALIDE DASNOIS
Business Staff

THE inflation rate dropped to just over 7 percent in April, the lowest level in 22 years

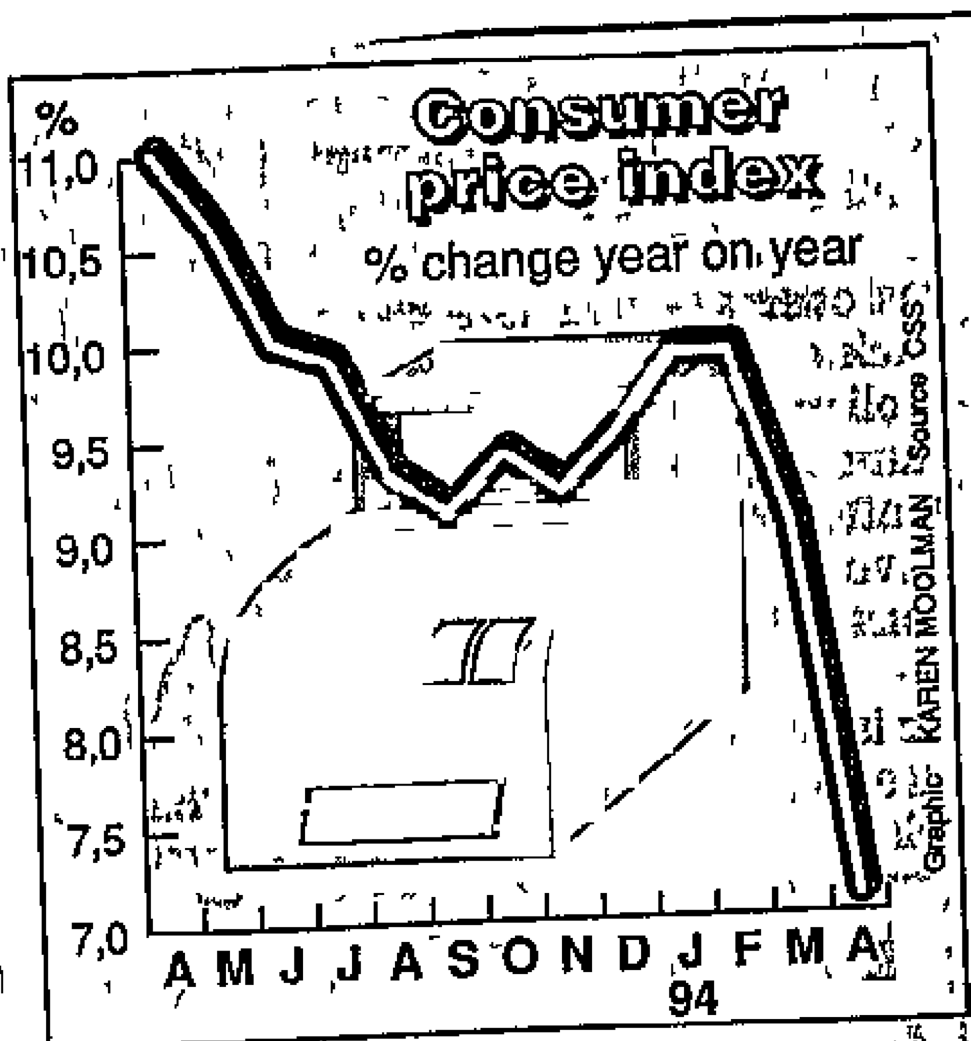
Central Statistical Services figures released today show the consumer price index rose 0,7 percent in April, bringing the rise over the year to 7,1 percent.

This is the lowest rate since December 1972

The figure is in line with predictions. Economists had been expecting the inflation rate to drop significantly in April as the effect of the 4 percent VAT increase in April last year was removed from the figures.

But, warned Old Mutual economist Johan Els, the low rate might be short-lived.

Any new taxes or excise duties introduced in the June budget would affect the consumer price index from July onwards. Higher fuel prices and the fall in the value of the rand relative to other currencies would also push up prices. As the upswing in the economy gathered momentum, the inflation rate would probably rise, reaching an average of 8 percent this year and 9 percent in 1995.



Inflation drops to 21-year low

BDay 27/5/94

SAMANTHA SHARPE

INFLATION has fallen to its lowest level in 21 years, dropping to 7,1% in April from 9% in March, Central Statistical Service figures released yesterday show.

Economists said the decline was in line with market expectations and reflected the fact that a VAT increase was no longer a factor in April.

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The CSS said while inflation had fallen considerably, the month-on-month rise in the consumer price index (CPI) was unchanged from March's 0,7%. The key factors behind the month-on-month uptick were increases in the cost of food, housing and transport. Food inflation edged up to 8,8% from 7% in March.

Econometrix economist Tony Twine said the higher year-on-year rate was due to the increase coming off a lower base. A number of foodstuffs were zero rated in April last year.

Old Mutual economist Johan Els said rising food inflation, led by higher meat prices, would continue for the rest of the year. The rate of increase in food prices could accelerate to 15% by December.

Overall inflation had bottomed out and, while May and June could see inflation hovering at around the 7%-7,5% level, rising prices would translate to an inflation rate as high as 8,5% in December.

Possible tax hikes and an expected increase in the VAT rate when the Budget came out in June would contribute towards higher prices all round, Els said.

Oil price increases and the depreciation

To Page 2

Inflation

BDay 27/5/94

From Page 1

of the rand would also work their way through the producer price index into the CPI in the next few months. Economic growth would add further pressure to the inflation rate.

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A future rise in interest rates could be on the cards if the rise in inflation accelerated, Els said. The US had recently raised interest rates in anticipation of a higher inflation rate.

Southern Life economist Sandra Gordon said inflation could reach 9% by year-end and was more than likely to move into double digits by the second quarter of next year.

The inflation rate for May could be higher than expected after the CSS warned that once-off increases in the price of water in the Vaal Triangle and in the cost of air transport would be included in the rate

April rate 7,1% after 9% in March

Inflation drops to 21-year low

Star 27/5/94

BY CLAIRE GEBHARDT

The inflation rate has droppped to its lowest level in more than 21 years — mainly as a result of a statistical aberration.

Latest figures from the Central Statistical Service (CSS) put April's inflation rate at 7,1 percent, compared with 9 percent in March.

In December 1972, the consumer price index (CPI) touched 6,9 percent

Economists said yesterday the decrease in inflation was symptomatic of the annualising out of the VAT increase from 10 percent to 14 percent in April 1993

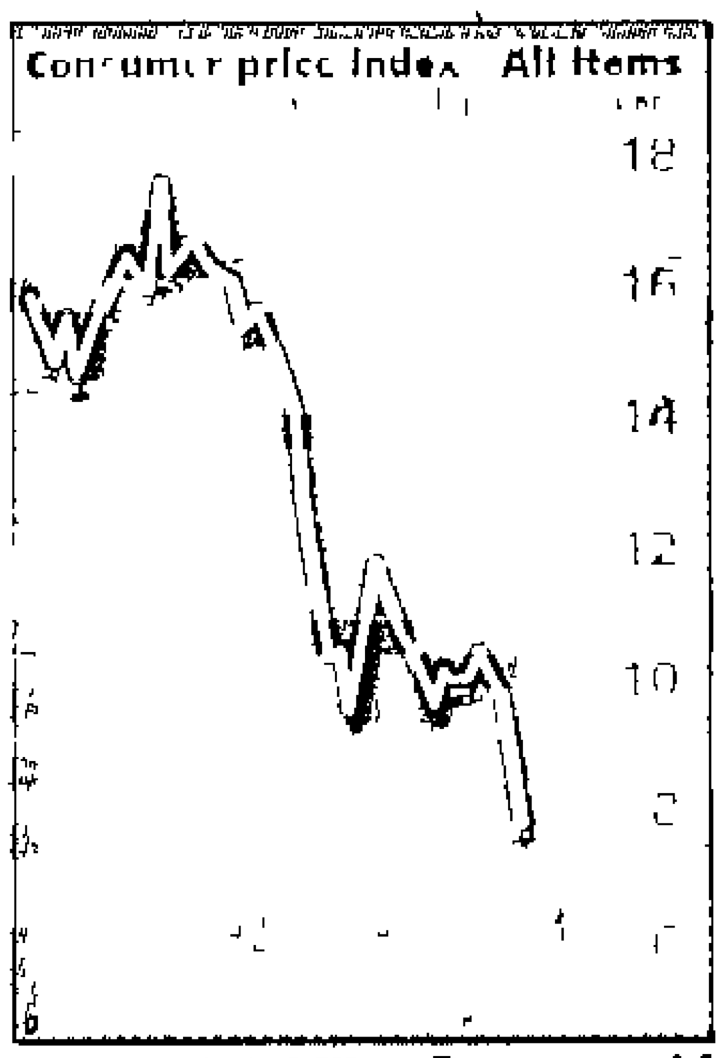
The VAT increase drove the rate of inflation of the CPI up by just over 2 percent

Now that VAT at 14 percent is in both the current and previous year's figure, just under two percent has been removed from the inflation rate.

They warned, however, that an inflationary bias still existed in the economy, and that as the recovery gained momentum, these forces would reassert themselves on both the producer and consumer fronts

Econometrix's Tony Twine said that although the decrease was a colossal move in the visible rate, it had more to do with what happened a year ago than with what happened in April this year

Frankel Pollak Vinderine economist Mike Brown said that warning signals on the inflationary front included the current turn-around in the producer price inflation rate and money supply growth, the restoration of profit margins, the impact of the weaker currency on the replacement of rundown capital stock, persistently high wage and unit cost increases despite massive unemployment, and the inflationary stance of the fiscus.



Credit Guarantee economist Luke Doig forecast that the CPI would be 7,2 percent in May and at a low of 6,8 percent in June

"Thereafter, it should edge back to 9 percent by year-end"

He said that though Finance Minister Derek Keys had said a large number of indicators were under conrol, money supply growth was threatening that claim

"Inflationary pressures will start emeging on both the producer and consumer fronts, with negative connotations for interest rates

"However, the Governor of the Reserve Bank, Chris Stals, can certainly feel that his policies of the past four years have paid a dividend, albeit at the cost of a few companies, jobs and the unemployment rate," he said.

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CSS figures show that the main contributors to a 0,7 percent increase in the CPI from March to April were food (0,3 percent), housing (0,1 percent), transport (0,1 percent), and all other items (0,2 percent)

The food inflation rate for April was 8,8 percent — 1,8 percent higher than the 7 percent for March

The monthly increase of 1,3 percent in the food price index was mainly ascribed to relatively large increases in the price indices for meat (2,6 percent), fats and oils (1,5 percent) and vegetables (2,3 percent)

The price index for fruit and nuts declined by 0,4 percent.

The inflation rate for pensioners was eight percent, with the highest annual rate of increase of 9,7 percent recorded by the Durban/Pinetown area and the lowest of 6,2 percent by Bloemfontein.

Inflation rate at 21-year low

(153)

CT 27/5/94

By **MAGGIE ROWLEY**
Deputy Business Editor

INFLATION as measured by the Consumer Price Index fell to a 21 year low of 7,1% in April against 9% in March due to technical factors and in line with economists' expectations.

The year on year drop — the lowest since the 6,9% recorded in December 1972 — was the result of the effects of last year's VAT increase having worked its way through the equation.

However inflation in the Cape Peninsula was running the highest in the country at an annual rate of 7,8% whereas the lowest rates of 5,7% were recorded in the Vaal Triangle and OFS Goldfields

Inflation rose 0,7% from March with increased food prices being the main contributor and accounted for 0,3% of this increase.

Food prices in April were 8,8% higher than the corresponding month the previous year with the food index showing a 1,3% rise on the previous month.

Meat again remained the main contributor to the higher food prices with the meat index showing a month on month increase of 2,6% and a year on year increase of 13% as farmers kept back

April CPI plummets to 7,1%

stocks to replenish their herds

Fats and oils were up 1,5% and vegetables 2,3% but the price index for fruit and nuts dropped slightly at 0,4%

Other contributors to the 0,7% month on month increase in the CPI were housing (0,1%), transport (0,1%) and all other items (0,2%).

Food prices at chain stores showed an annual increase of 9,1% and a monthly increase of 1,2% while those at other retailers show an annual increase of 7,8% and a monthly increase of 1,4%

Sanlam's chief economist Johan Els said there were no surprises in April's figures and inflation could be expected to hover around 7,1% for May and June where-after the general inflation trend would be upwards as a result of, among other things, the pick up in the economy, increases in excise duties, municipal rates and taxes and a weakening in the rand exchange rate.

Inflation, however, for the year he said should average out at 8% but a return to double digit inflation was possible within the next year to 18 months.

"We are increasingly thinking that upward inflationary trends, coupled with the Balance of Payments situation indicates that the interest rate cycle has bottomed"

Southern Life economist Sandra Gordon also forecast inflation running at about 7% to 7,5% until August rising to around 9% by year end giving an average inflation rate for the year of 8%.

She said that while the economic fundamentals did not warrant it, it was possible that a further drop in interest rates might be forthcoming this year as there were fair arguments for it — namely expected disappointing first quarter economic growth figures — and a drop in interest rates would help along the recovery.

Johan Louw, chief economist of Sanlam, said the sharp increase in the food index to 8,8% in April could have been influenced by the fact that prices were taken in the first seven days of the month and the first week in April comprised mostly holidays where there was a temporary discrepancy in demand and supply

INFLATION Fm 3/6/94

How low can you go?

Inflation was 7,1% in April, according to Central Statistical Service, the lowest in 21 years. It should remain near this point for at

(153)

Fm 3/6/94

least the next three months but could rise slightly within six months if only because monthly increases in the second half of last year were small (153)

Direction next year will depend on a number of factors, including the strength of economic activity (see P31), growth in broad money supply (see P34) and the strength of the rand A depreciating currency will boost the price of imports, which will increase the prices of imported goods and eventually have a knock-on effect on domestically produced goods

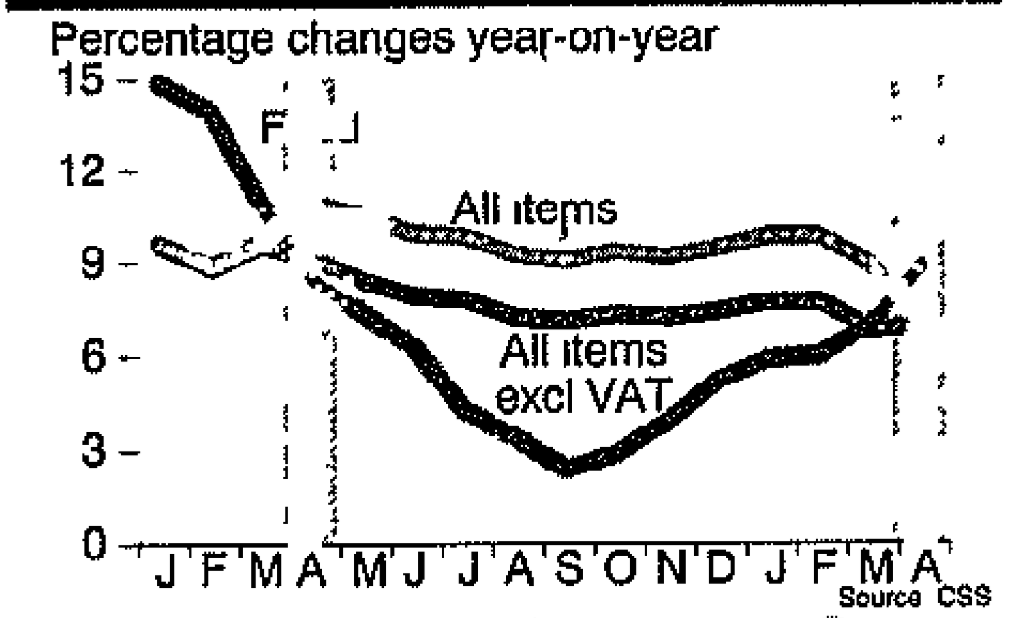
Much depends on discipline imposed by

the monetary and fiscal authorities Standard Bank group economist Nico Czypionka says countries that brought down inflation during the recession have kept it down

But demand pressures in SA will be high Nedcor chief economist Dennis Dykes believes inflation will return to double digits next year "Credit demand is likely to increase strongly from the second half of the year and government spending will be hard to contain "

The sharp drop in April inflation, from March's 9%, is largely technical The Vat rate was raised from 10% to 14% in April last

Vat's influence on inflation



Fm 3/6/94 (153)

year and the effect fell out of the calculation this April (see graph) Underlying inflation, excluding Vat, has been at about the same level since August

The pattern is reversed for food because the range of zero-rated food was extended last April Prices surged to 8,8%, from 7% in March The entire increase cannot be ascribed to Vat Month-on-month, the increase was 1,3% with most of the impetus coming from meat This item, which makes up a third of the food index, rose 2,6% in the month (13% over a year) — expected as livestock farmers rebuilt their stocks after the drought

The other main month-on-month increase was vehicles, up 4% ■

Inflation at 7,2%, but food prices jump

By AUDREY D'ANGELO
Business Editor

INFLATION as measured by the consumer price index (CPI) edged up to 7,2% year on year in May compared with 7,1% in April and 10,6% in May last year The month on month rise was 0,6% compared with 0,7% in April

But food price inflation rose sharply by 10,3% year on year and 1,5% month on month, due mainly to higher meat prices as farmers hold back stock to rebuild herds reduced during the drought

Food prices at chain stores rose by an average 10,4% year on year

Food prices at other stores rose by an average 9,8% year on year

Economists forecast that the CPI will continue to rise but will remain below 10% this year They point out that the Budget was not inflationary, since VAT was not increased and the 5% levy on upper income earners may dampen consumer spending

Pensioners were the hardest hit by inflation in May Their index was 8% year on year

The CPI for the middle income group was 7,6% year on year compared with 7,3% in April The CPI for the higher income group was 7,3% year on year compared with 7,1% in April The CPI for the lower income group was 7% year on year compared with 6,5% in April

CT 30/6/94

The monthly rise in the CPI was made up of food (0,3%), housing (0,1%), transport (0,1%) and other items (0,1%)

The rise in the food index was made up of meat (0,3%), grain products (0,5%), fats and oils (1,5%), vegetables (2,8%) and sugar (3,3%)

(153) (~~314~~)

The price indices for fruit and nuts dropped by (-4,8%) and fish and other seafood by (-0,6%)

The month on month increase for all items excluding food was 0,4% This was made up of clothing and footwear (0,2%), housing (0,5%), household operations (1,1%) and transport (0,5%)

Old Mutual economist Johan Els said he believed inflation had bottomed out.

He forecast the CPI would reach 8,5% year on year by December However, the new government appeared to be sensitive to the effects of inflation The new Budget had "a very positive effect on inflation"

Southern Life economist Sandra Gordon said she expected a

Food inflation climbs to 10,3%

Star 30/6/94

BY CLAIRE GEBHARDT

Food inflation is now the biggest culprit behind the rising consumer price index (CPI)

Central Statistical Service figures, released yesterday, show the annual increase in the CPI for May was 7,2 percent (April 7,1 percent)

Although economists welcomed the better-than-expected figure, they were concerned about food inflation, which soared to 10,3 percent

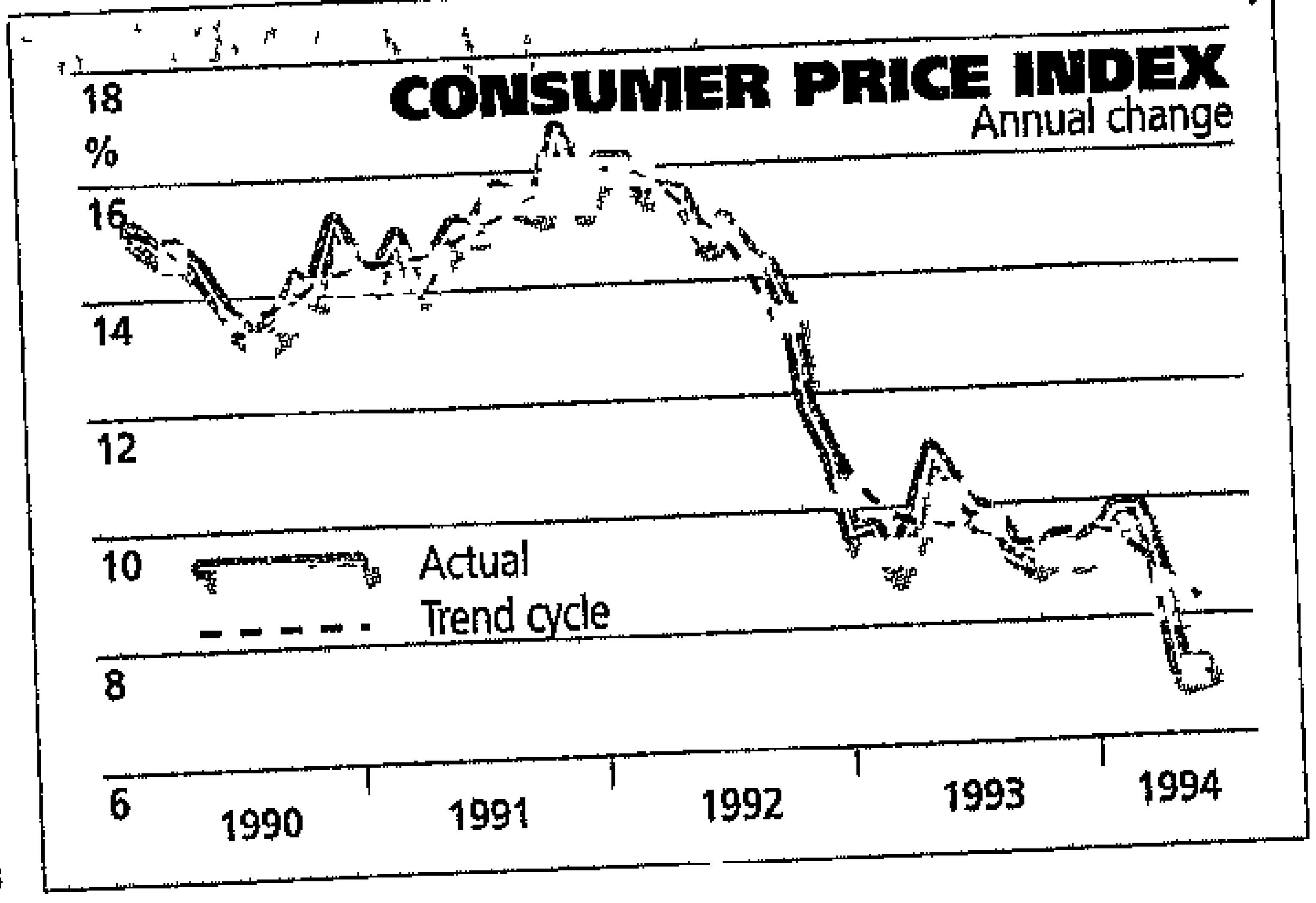
Meat

The big rise in food prices was attributed to a a hefty rise in the price of meat, which now costs 16,3 percent more than a year ago.

Meat showed the biggest increase of all food categories, on both a monthly and an annual basis

The food inflation rate for May was 1,5 percentage points higher than the corresponding rate for April of 8,8 percent

Excluding food, the rate of inflation was 6,5 percent,



Food prices at chain stores showed an annual increase of 10,4 percent — above the food inflation rate and above the food price inflation at other retailers of 9,8 percent

Figures show that, on an annual basis, the chainstores had a higher increase for tinned food, cheese, oils and fats of 8,3 percent (7,4 percent for other retailers)

Ed Hern Rudolph economist Nick Barnardt said higher meat prices could be attributed to farmers rebuilding their herds decimated by drought

Barnard said meat inflation could rise to about 20 percent by year-end, which should pull food inflation up towards 12 percent

(153)

However, along with other economists, he is forecasting an average inflation rate of around 8 percent for the year as a whole

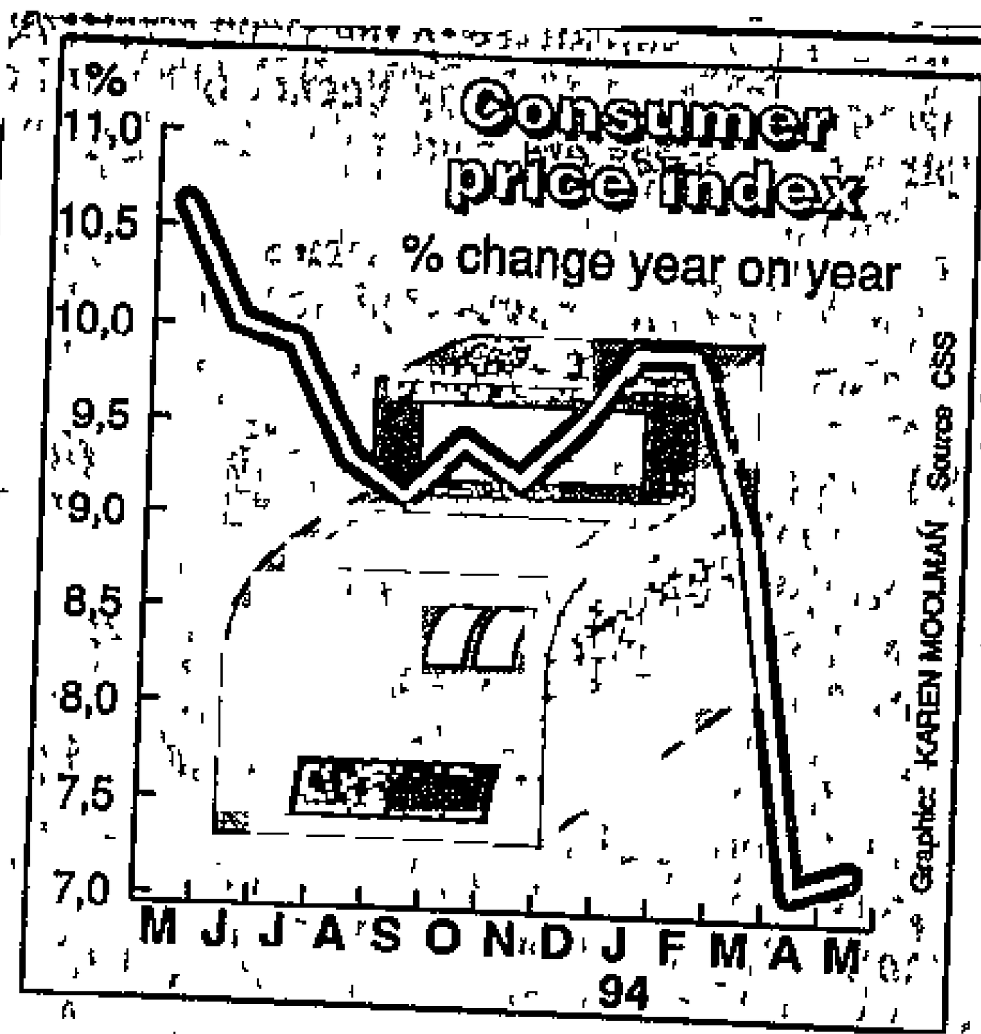
On a monthly basis, the CPI increase of 0,6 percent is attributed to increases in the price of food (0,3 per cent), housing (0,1 per cent), transport (0,1 per cent) and all other items (0,1 per cent)

Retail trade figures released yesterday show that the total value of sales for March amounted to R8,2 billion — 5,5 percent higher than the expected R7,8 billion forecast by major retailers

Period

Retail trade sales in the first three months of the year were 1,7 percent higher at R15,233 billion, against R14,971 billion (at constant 1990 prices) in the same period a year earlier

However, in comparison with the previous three months, seasonally adjusted retail trade sales of R16,51 billion in the March 1994 quarter were 1,6 percent lower than the December 1993 quarter's R16,772 billion (at constant 1990 prices).



May inflation could signal new trend

BDay 30/6/94

SAMANTHA SHARPE

INFLATION might have reached the end of its downhill run, rising to 7,2% in May from April's 7,1%, Central Statistical Service (CSS) figures showed yesterday.

Economists were pleased with the rate — which was in line with expectations — but warned that the rise could signal the start of renewed inflationary pressure.

They were concerned about the increase in food inflation to 10,3% from 8,8%, which would hit everyone "pretty hard".

They said inflation excluding food was only 6,5% in May, a relatively low figure.

The CSS said the month-on-month rise in the consumer price index was 0,6% from April's 0,7%. The uptick was led by higher food, transport and housing prices.

Meat, sugar and grain price increases were behind the month-on-month rise, but decreases in the indices for fruit and nuts and seafood helped offset this. (153)

Old Mutual economist Johan Els said inflation was in a "bottoming-out phase". Pressure from the weaker rand, higher oil prices, and the pick-up in the domestic economy probably would see the rate accelerate. But government was still committed to its anti-inflationary stance, leading to renewed confidence in the medium term about the direction of inflation.

Southern Life economist Sandra Gordon said the Budget's effect would be fairly neutral. She forecast an annual average of about 8%, but warned of double digit figures by the second half of next year.

Afrikaans Handelsinstituut economist Johan Rossouw said the effect of the petrol price increase would be felt from July.

'New racism' warning

S Times [C Metro] 3/7/94

By NAZEEM HOWA

A NEW form of racism was rearing its head in the guise of affirmative action, Cape Teachers' Professional Association president Archie Vergotine has warned.

Speaking at the opening of this week's CTPA annual meeting, Mr Vergotine warned members to be on their guard against affirmative action being used to deny coloureds their birthright.

"The liberation movements were not sensitive to the question of the coloured people in the run-up to the April elections. That is why they lost the election in the Western Cape," he said.

Mr Vergotine was also critical of the make-up of the government of national unity.

(153)

"It is quite ironic that there are twice as many Afrikaners as coloured people in the Cabinet," he said.

Mr Vergotine said his comments should not be interpreted as being racist.

"In fact, my comments are based on a subtle form of neo-racialism which is currently being practised against coloureds."

Mr Vergotine said he had noted how the government was trying to come to terms with right-wing Afrikaners.

"Unfortunately, we have not noticed the same degree of concern when it comes to dealing with coloured people," he said.

"Unless this form of racism is stopped, the CTPA will be forced to resume the struggle for equal treatment and respect," Mr Vergotine warned.

Mr Vergotine's remarks may come as a surprise to the ANC leadership as the CTPA's mainly rural, conservative coloured membership has previously been unquestionably loyal.

Shortly before the April election, when there were clear indications of an ANC defeat in the Western Cape, key CTPA leaders were roped in by the ANC in a bid to secure coloured votes.

INFLATION FM 8/7/94

Rises on the plate

Food prices, which again moved up sharply in May, will probably continue to rise during the winter months. (153)

Much of the increase is due to the upward tendency of meat prices, which account for a third of the food basket in the measurement of the consumer price index and which have climbed steadily since last year From September, when the annual rise in meat prices was 7,2% and in general food prices 2,4%, the rate of increase for meat has risen to 16,3% in May (10,3% for all food)

Meat's upward trail stems from stock losses during the 1991-1992 drought Farmers are holding on to stock rather than selling for slaughter "This process should continue for the next two or three months Then meat prices should start levelling out, though at fairly high levels," says Absa agricultural manager Chris Mostert

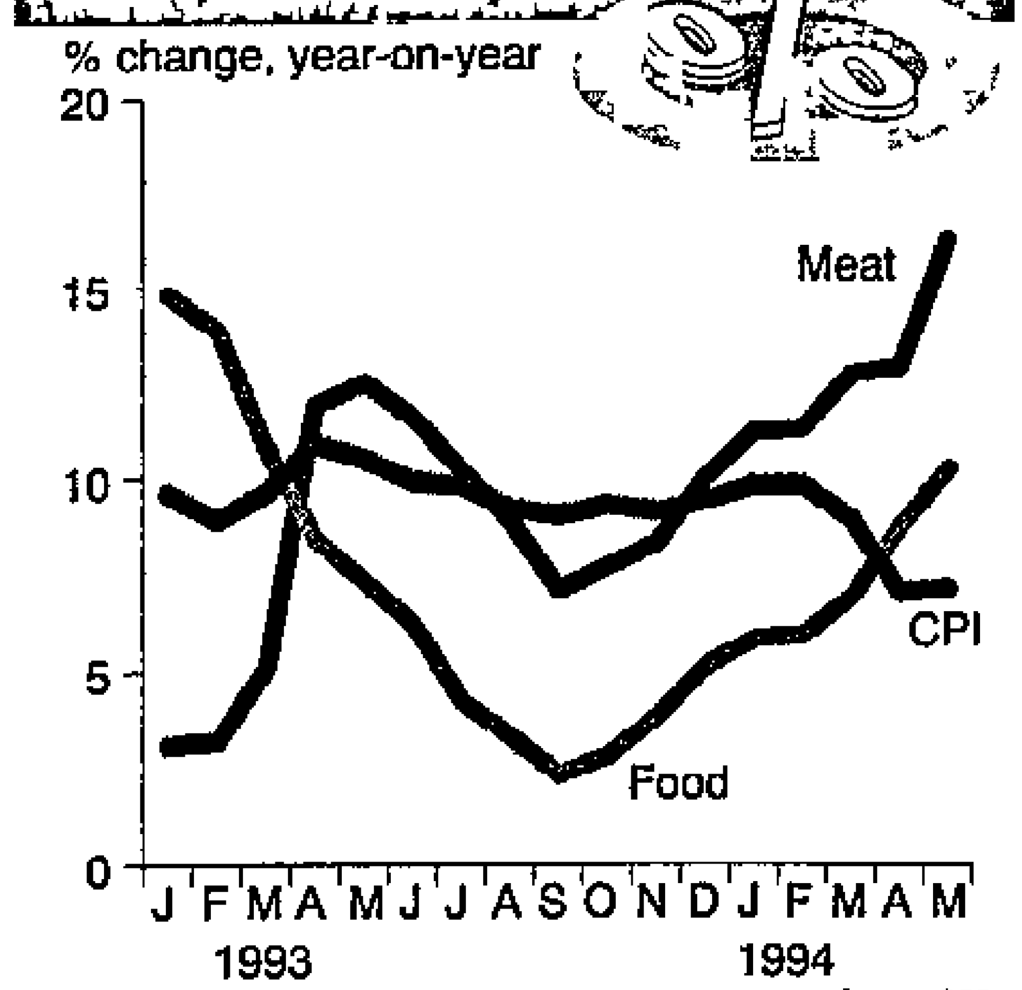
Seasonal factors also account for the general surge in prices, especially for vegetables, which are susceptible to frost This item jumped 2,8% in May and the recent cold snap should push it higher

Other food prices should remain steady over winter, says Mostert "Most of the fruit growing areas have had normal crops and fruit consumption tends to fall in winter The maize harvest has been good and the wheat harvest in November is expected to be normal"

Mostert doesn't believe the fires in the Eastern Cape will push up food prices "A lot of grazing was lost so, if anything, farmers will have to slaughter animals"

Apart from food, inflation remained subdued in May The overall 12-month rate is 7,2%, or a monthly 0,6%, and the rate for all items excluding food is 6,5% or 0,4% in the month (153) ■

Inflation: digesting the increases



Source CSS

FM 8/7/94

Producer inflation surges to year high

BDay 14/7/94

SAMANTHA SHARPE

MAY's producer inflation surged to the highest level in a year, reaching 7,5% from April's 6,2%, Central Statistical Service (CSS) figures showed yesterday

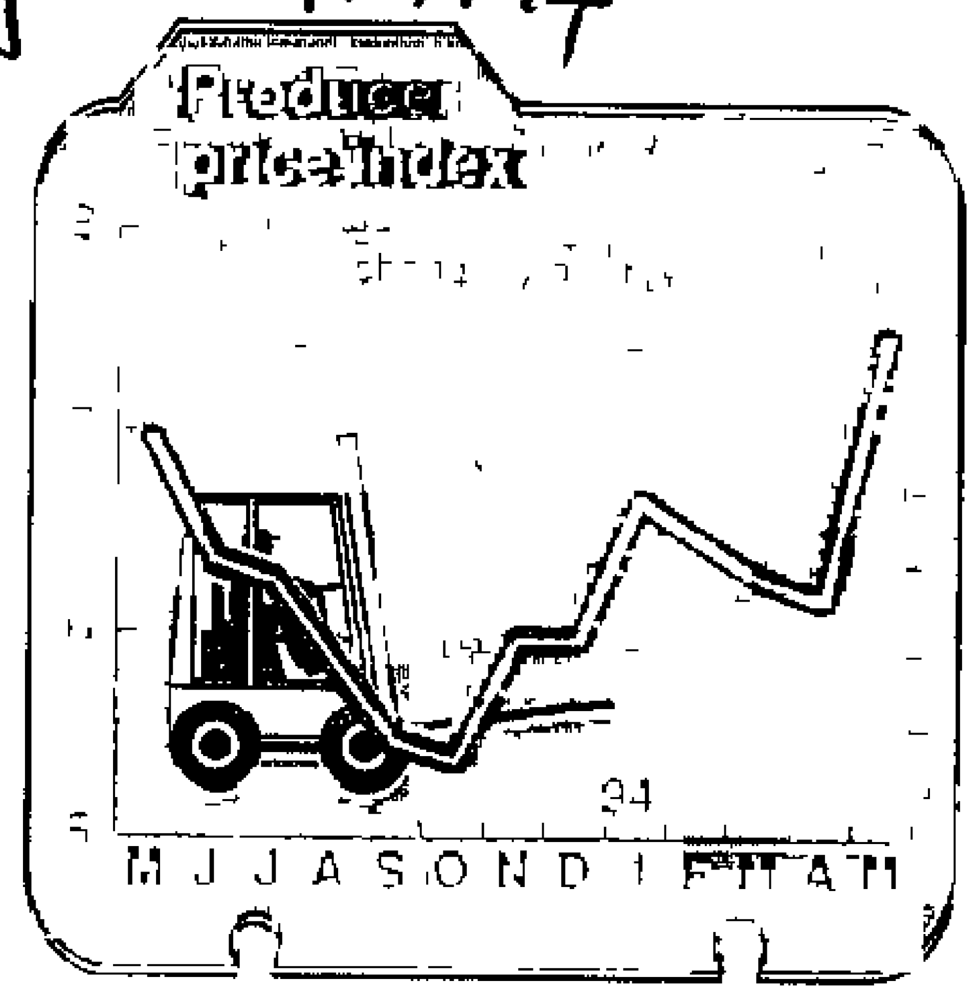
Economists had expected the sharp rise as the rand's depreciation and higher oil prices had started fuelling the imported component of the producer price index (PPI). Imported inflation showed an annual rate of 4,7% (3,1%). (1153)

This was exacerbated by accelerating inflation of locally produced commodities, which rose to 8,1% (6,8%). Locally produced commodities enjoyed an 80% weighting in the index.

The CSS said the overall producer inflation rate was up 1,3% month on month The culprits were relatively large increases in the case of agricultural, mining and quarrying products, food products and manufacturing and transport equipment.

But a monthly decrease in the price index for electricity had helped counterbalance these, it said.

Afrikaanse Handelsinstituut economist Johan Rossouw said the May figure was not totally unexpected, but the relatively sharp 8,1% rise in the price level of locally produced commodities was worrying. If the rise was because of insufficient production capacity then SA was set for accelerating inflation, with pressure from a burgeoning economy's production demands



Rand Merchant Bank economist Rudolf Gouws said that in the light of faster wage and salary increases, stronger demand driven by increased economic activity and evidence of wider profit margins, it was inevitable that producer inflation would start to move upward. He forecast a rate of about 8,5% or 9% by December

"But we are not at a point where inflation is running away from us"

Old Mutual economist Dave Möhr said the time had arrived when one could expect some rebound in inflation, but he predicted an average rate of between 8% and 9% for the year.

Inflation rate nudges up again

(153)

CT 29/7/94

By AUDREY D'ANGELO
Business Editor

THE inflation rate rose in June for the second consecutive month — due mainly to a continued rise in the price of food. Economists warn the consumer price index (CPI) has bottomed out and that higher food prices and the weakening rand will continue to push it up

Figures released by the Central Statistics Office yesterday show the CPI rose to 7,5% year on year compared with 7,2% in May and 10% in June last year The month on month rise was 0,6%, the same as between April and May

The inflation rate for food was 11,8% year on year and 1,5% month on month The price of meat rose by 2,5%, milk, cheese and eggs 2,2% and vegetables 2,9%

This was reflected in a month on month rise of 0,8% in the CPI for the lower income group, which spends a larger proportion of total income on food The lower income group CPI rose by 7,4% year on year compared with 7% in May

The middle income group CPI rose by 7,8% year on year and 0,7% month on month The higher income group CPI rose by 7,4% year on year and 0,6% month on month

The rise in the CPI follows a sharp rise in the producer price

Food the chief culprit

index (PPI) in May to 7,5% year on year from 6,2% in April Meat prices in the PPI were up 40% year on year

There is normally a time lag of several months before the effects of the PPI feed through to the CPI

Southern Life economist Sandra Gordon said yesterday that the CPI food index "is very much reflecting the trend we saw in the PPI And the very high rise in meat prices shown in the PPI shows there is quite a lot of producer price inflation still to feed through to the CPI "

However, Gordon said she did not expect food price inflation to go to the heights it reached during the drought

And she pointed out that a softening in domestic demand will make it harder for retailers to pass on higher costs

In her quarterly Economic Comment, released yesterday, Gordon said the April CPI was the lower turning point of the current inflation cycle

"During the second half of 1994 the CPI is expected to rise gradually, ending the year slightly above 9% and moving back into double digits during late 1995

"After averaging 9,7% during 1993 the CPI is expected to average approximately 8,3% this year and between 9,5% and 10% in 1995 "

Sanlam chief economist Johan Louw said he expected inflation "to remain at this level for the next few months" without any steep rises, reaching 8% by the end of the year.

Inflation next year would depend on what happened to the rand "It could possibly stabilise if the capital account improvsthe capital account doesn't improve we are in trouble — but hopefully it will improve "

Louw pointed out that the Budget had allowed for the Government to raise R1,8bn through bond issues overseas "so this money might come in "

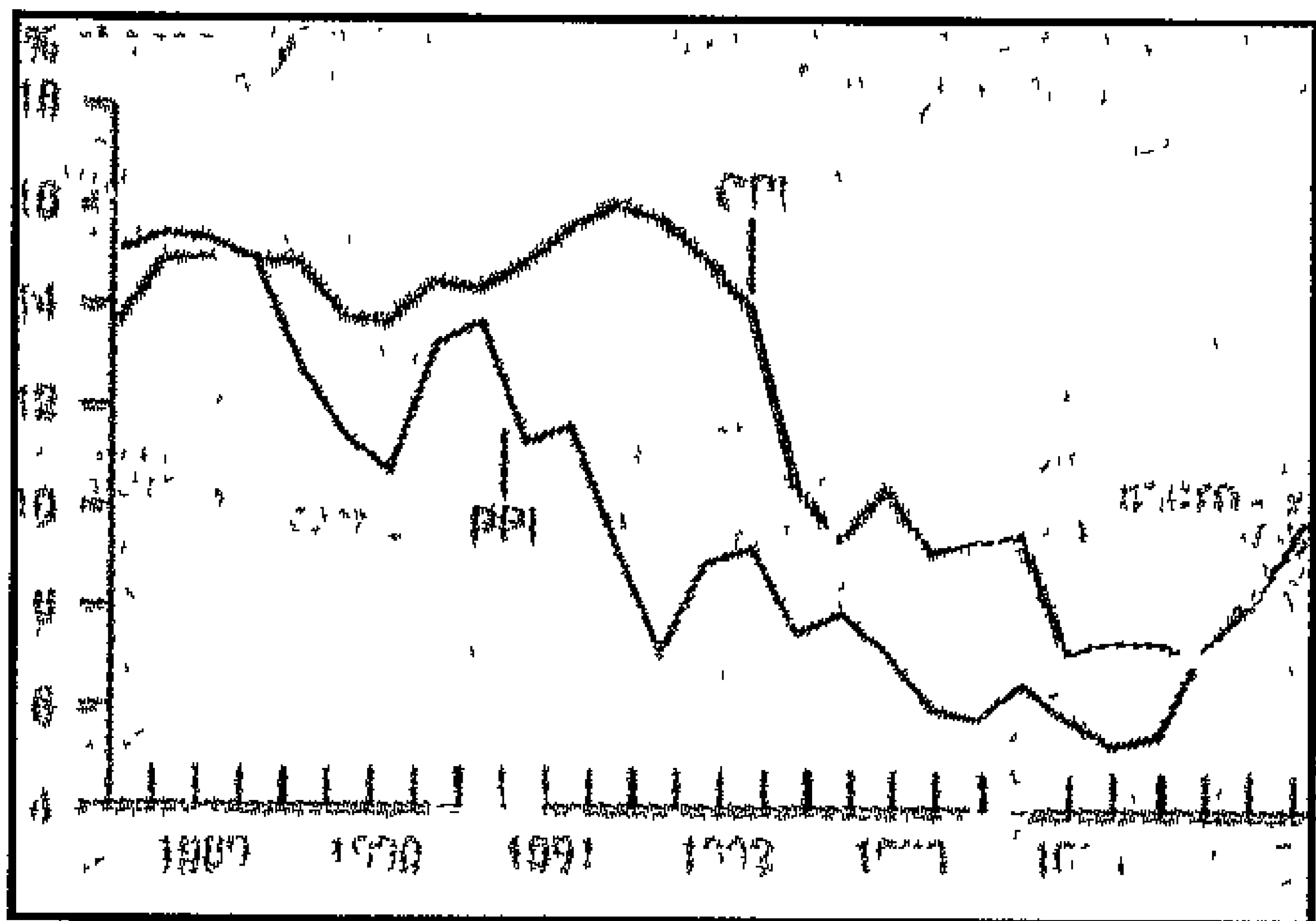
There was still an outflow on the capital account, although it had slowed But this would stop if the government continued to do the right thing

Louw said he expected the current labour troubles to reach a climax in the next two weeks and then settle down

Old Mutual chief economist David Mohr said he expected food price inflation to continue to rise until the year end The PPI had shown that "we cannot expect any relief this year"

"Inflation will definitely be over 8% by the end of this year "

Inflation up again



CPI and PPI inflation rates.

SOURCE ABSA

Star 29/7/94

BY CLAIRE GEBHARDT

Inflation continued to accelerate in June, rising to an annual 7,5 percent (7,2 percent in May)

Latest Central Statistical Service (CSS) figures, released yesterday, put the month-on-month increase at 0,6 percent

Food prices were, once again, the main culprits

Food inflation for June was 11,8 percent — 1,5 percent higher than in May.

(153)

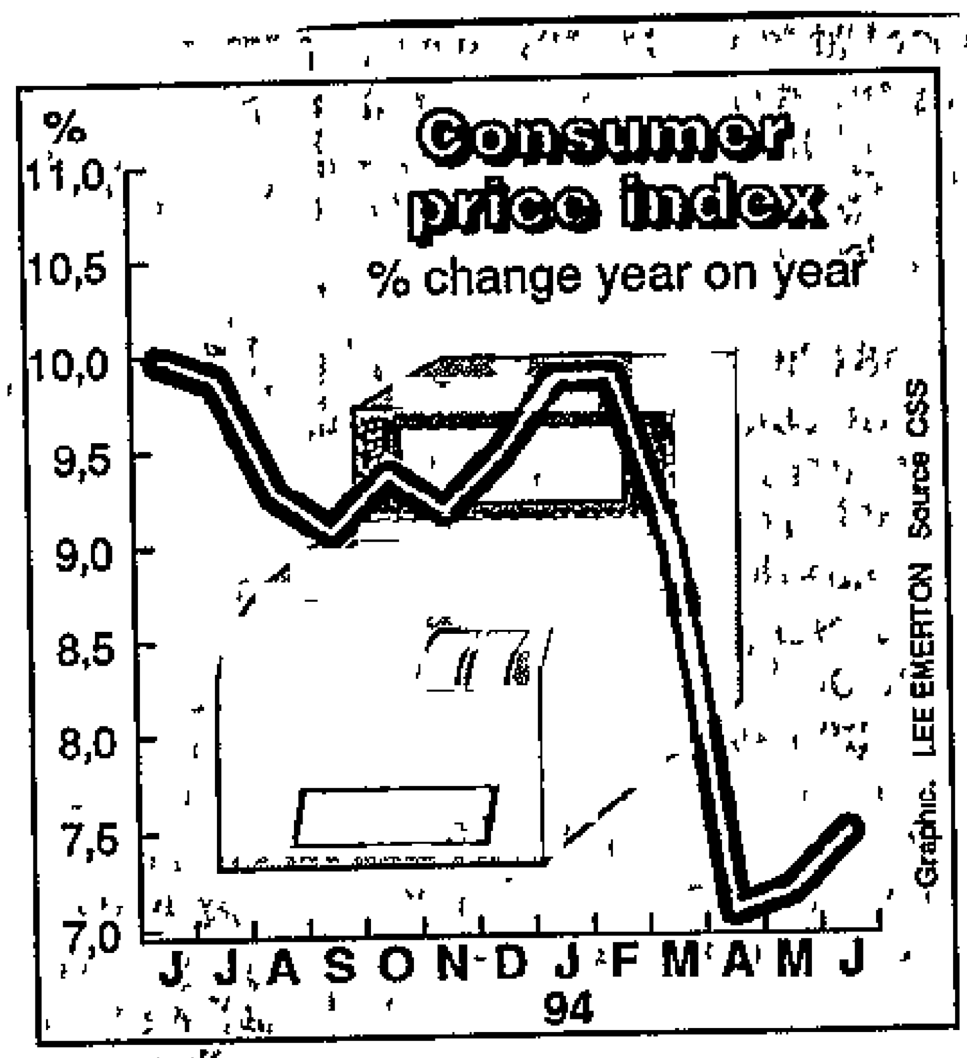
On a month-on-month basis, the price of meat accelerated by 2,5 percent, milk, cheese and eggs by 2,2 percent and vegetables by 2,9 percent

UAL economist Dennis Dykes said yesterday the second consecutive monthly increase had been expected and warned of more increases in the months ahead.

"Meat prices at the producer level remain 40 percent higher than a year ago and vegetable prices will soar because of the cold weather."

Dykes said there was also disease amongst chickens, which would push poultry prices up

"Next month we could see inflation of 7,8 percent because of the effect of the excise duty increases announced in the Budget and the hike in the petrol price"



Food prices push inflation rate up

GRETA STEYN

THE rapid rise in food prices pushed SA's inflation rate a little higher in June, continuing the upward move which started in May, with a rise to 7,5% from 7,2%, Central Statistical Service figures released yesterday show. BIDay 29/7/94

Inflation excluding food has not yet started the inevitable climb upwards, as the effects of more buoyant economic conditions have not yet translated into escalating prices If food is excluded from the figures, SA inflation has remained stuck at its bottom of 6,5%

Economists said the low rate of non-food inflation would have been a positive signal for a cut in interest rates — if SA's balance of payments had been in better shape. This view was reinforced by Reserve Bank Governor Chris Stals playing down the importance of rapid growth in the money supply as a signal for future inflation

Sanlam economist Pieter Calitz said there was a shortage of red meat which was probably still related to the aftermath of the drought The annual rate of increase in meat prices was running at close to 20% as farmers increased stock. Vegetable prices were also sharply higher, reflecting the effects of frost. In contrast, fruit prices had been falling but he expected a resumption of price increases. (153)

The consumer price index stood at 155 in June, which means that it now costs R155 to buy the same basket of goods that cost only R100 in 1990 Between May and June, the cost of the basket rose by a moderate 0,6% of which food accounted for half

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Inflation

BIDay 29/7/94

☐ From Page 1

CSS said the fuel price increase that came into effect on June 18 had not been taken into account in the figures, and would be included in the July inflation numbers In addition, higher bus tariffs, toll fees and parking tariffs would add to the usual price pressures in July. (153)

Economists expect inflation to rise to about 8% by December and that the average for the year will be about 8%. The figure could stay in single digits until the third quarter of next year.

The June figures were in line with market expectations, and aided the downward move in capital market rates Government's R150 loan ended the day at 14,88% from an overnight 14,92%.

INFLATION

Fm 5/8/94

Early warning or simply static?

(153)

Inflation, which racked the globe in the Seventies, was so debilitating that international markets now take fright at anything that might signal a repeat of the events of that decade or even anything remotely resembling it

In the US, reports *Business Week,* a recent upward revision in first-quarter growth in real GDP — from 2,6% to 3% — sent the bond market into a tailspin, pushing interest rates higher The magazine records also that, in Germany, where the recovery has only just started and the inflation rate is below 3% and still falling, the Bundesbank may have to increase interest rates this year to overcome the inflation worries dogging the markets

In the UK, according to the latest issue of *The Economist,* the financial markets' inflation predictions for the year 2000 have been revised from 4% to 6% And the financial press, generally, was speculating about the possibility of a half a percent rise in base rate last week, after 15 consecutive cuts since the peak of the interest rate cycle in 1989

In SA, with inflation at 7,5% in June — the latest available figure — there are fears that the painful process which reduced inflation over the past five years could be unravelling Economists are predicting inflation at 8% by December and as much as 10% by the second half of next year

A number of inflationary factors absent in 1993, have resurfaced recently

❑ International oil prices have risen strongly from lows seen in February (see graph),

❑ The commercial rand has lost 7,8% of its value against the US dollar so far this year, and has also lost considerably against the cross-currencies,

❑ The 12-month rate of increase in consumer food prices is rising sharply (see graph),

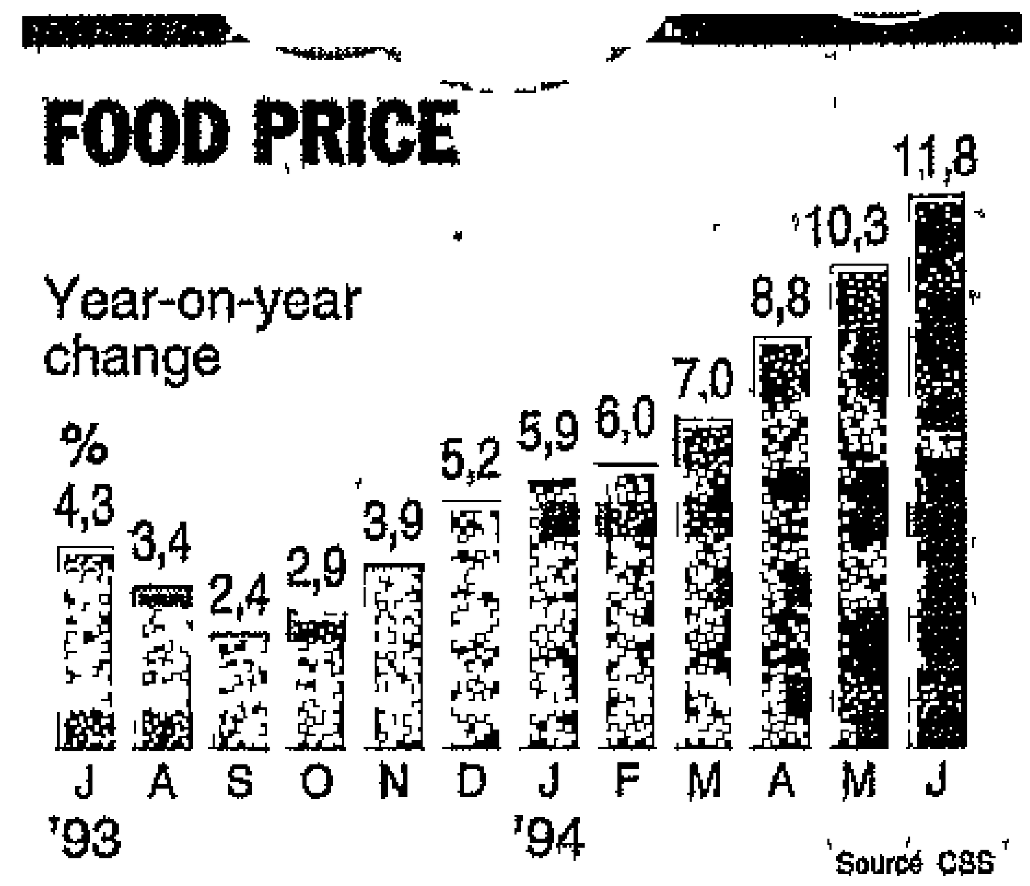
❑ A large number of wage disputes, following demand for increases well above the inflation rate, and

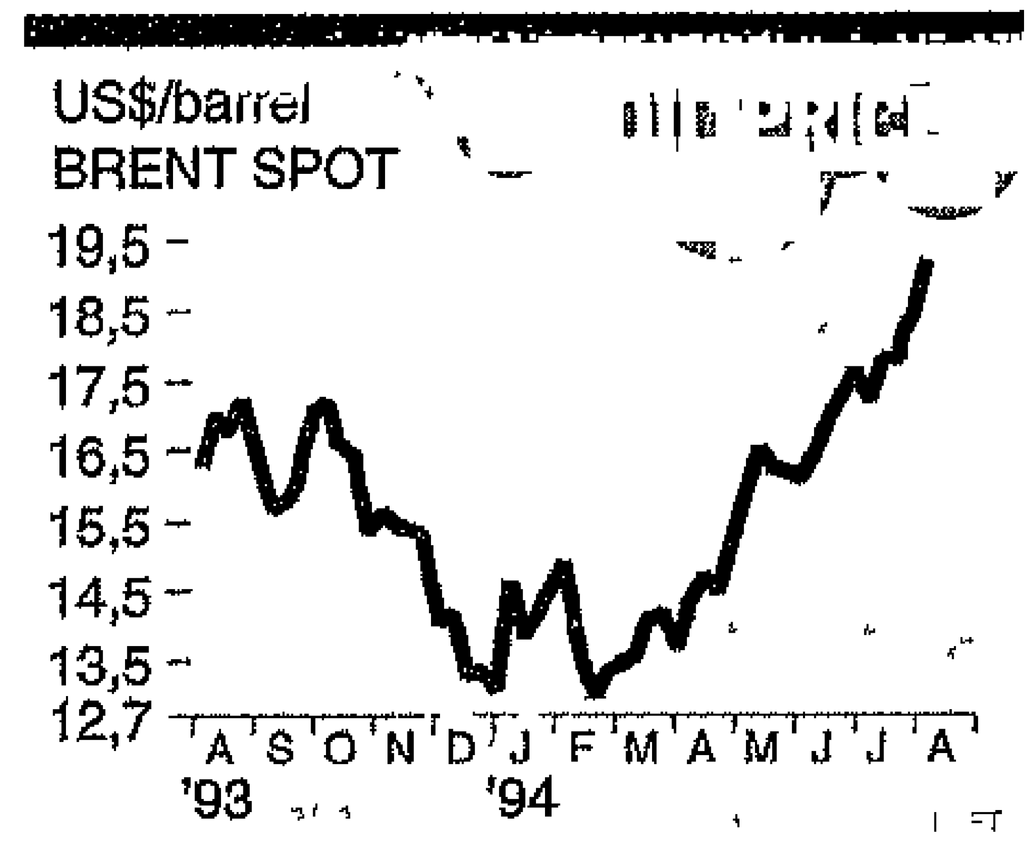
❑ A steady rise in money supply growth, with M3 rising 15,1% in the 12 months to June (see graph)

The cost-push items, notably food and import prices (in the form of a weak exchange rate and high oil prices), are cause for concern

But there are indications that underlying credit demand is not as high as broad M3 suggests Edward Osborn, economic consultant to stockbrokers Edey Rogers, points out that private sector credit rose only 2,7% between December and May While public sector credit rose alarmingly, by 240% or R19bn between December and May, the extent of the increase is due to a one-off event — the inclusion of R7,5bn in zero interest stock transferred to the Reserve Bank to cover losses in the foreign exchange market

INFLATION TROUBLE AHEAD

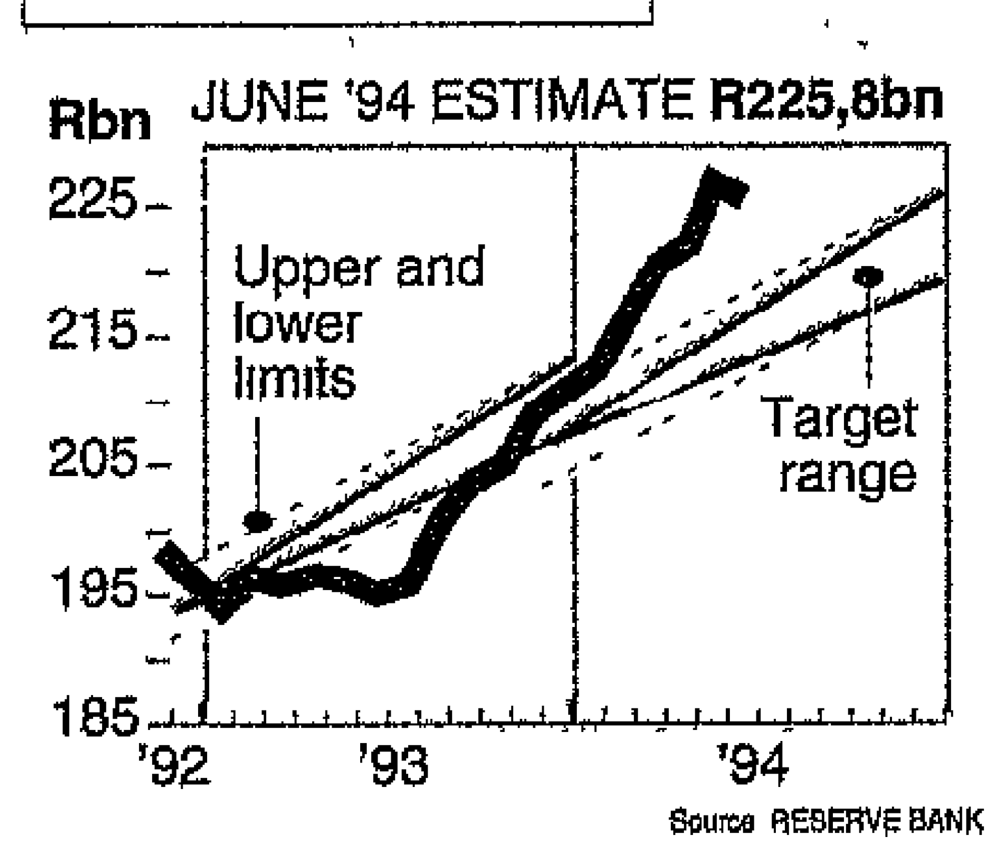




MONEY SUPPLY

Guidelines for growth in M3		
%	1993	1994
Upper limit	9	9
Lower limit	6	6

Guidelines are based on the average for the fourth quarter and are seasonally adjusted



"There is very little evidence of a surge in gross claims on government by the banking sector," he says, "In fact, most of the surge can be put down to the drawing down of deposits at the Bank and the commercial banks during the election period in March and April Payments from these accounts increase M3, by definition, so deposits into them should reduce it" Osborn adds that with government beginning its borrowing programme and given an expected narrower trade surplus, M3 growth should slow in the months ahead (See P30)

And, with wage disputes still in progress, it may be premature to conclude that settlements will be as high as feared Comments by the ANC that it may reduce civil service pay packages indicate that it is committed to wage restraint

There are some restraining influences Real interest rates remain high and should keep a check on credit growth, and the June Budget has been largely disinflationary, at least on the revenue side The transitional levy which comes into effect this month, should restrain consumer demand

And inflationary fears in the industrialised countries are perhaps overstated, says Old Mutual's Johann Els "Inflation is still falling in G7 countries, labour markets are still depressed structurally and cyclically and central banks remain committed to combating inflation" Apart from currency moves, therefore, it's unlikely SA will have to pay significantly more for imports of manufactured goods

But the lead in bringing down inflation must come from government Absa chief economist Hans Falkena points out that it is the fiscal authorities who have to create the framework for lower inflation, by running a surplus on its primary budget, that is revenue measured against expenditure before the costs of servicing debt

In the present Budget, there is a primary deficit of nearly R5bn

"A surplus," says Falkena, "would allow government to bring down the overall deficit before borrowing to 3% from the present inflationary 6%"

Nick Barnardt, strategic economist at stockbrokers Ed Hern, Rudolph agrees, but thinks a lower deficit is possible "By increasing real revenue through more efficient collections and by allowing the economic upturn to take its course, a lower deficit can be realised if spending is kept constant in real terms Some privatisation of State assets would help too"

For their part, consumers can resist price increases by buying cheaper substitutes or simply doing without certain items This

FM 5/8/94

will prevent retailers using exogenous price shocks in some areas as an excuse to introduce across-the-board increases And trade unions should temper their demands because regular rounds of increases above the inflation rate are simply self-defeating When inflationary expectations become entrenched, monetary authorities have to react with sharp rises in interest rates Hopefully an inflationary surge can be headed off by less drastic measures (153) *Patrick Lawlor*

POLICY DOCUMENT

FM 5/8/94

After the event

(260) (232)

The suggestion that Cosatu might propose the nationalisation of large parts of Sasol is sensational but unlikely It was made in a *Business Times* article of July 31 and was based on a report submitted to Cosatu by Chemical Workers' Industrial Union secretary Rod Crompton

The report set out a series of policy options to enable the plastics fabrication industry to overcome what it regarded as a serious problem in breaking into export markets, namely the high cost of two important feedstocks, ethylene and propylene, which Sasol produces as part of its synthetic fuel operations

But the document is dated March 1993 And, as Sasol GM Pat Davies points out, there have since been important changes, in the political arena (with nationalisation apparently not on the agenda) and in the chemical industry So it appears to be largely irrelevant

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The report predates (and the article overlooks) decisive subsequent developments in the petrochemical industry which have effectively overcome the barrier to the export of plastic products represented by the cost of feedstocks The formation last year of the 60 40 Polifin joint venture by Sasol and AECI constitutes the sort of vertical integration Crompton suggests

Davies says Sasol provides Polifin with the crude feedstock from which it produces ethylene Polifin then sells the ethylene to its plastic manufacturing plant and to Sentrachem subsidiary Safripol (260) (232)

SA ethylene prices are lower than the average for the US and Europe And the "netback" price used for the manufacture of polyethylene for export is not only much lower than average world prices but often stands at a 50% discount to the local market price

Sasol has also sold its propylene and polypropylene facilities to Polifin Davies says that propylene and other feedstocks such as ammonia have no tariff protection and their local prices are in line with international levels

Sentrachem director Glen Carter confirms his group now has access to ethylene at a "competitive" price on which to base its exports A deal concluded with Polifin to supply propylene will also ensure supplies of this at competitive prices

In Sentrachem's 1993 annual report MD John Job says exports grew by 29% and stood at 13% of sales — on the road to the long-term goal of building exports to 25% of sales The trend will be reinforced by the new arrangements

Polifin's Derek Lake says local polymer (polyethylene and polypropylene) prices have been higher than international prices because of the high protection afforded by formula tariffs, now being phased out in terms of the Uruguay Round of Gatt

He notes the ethylene price has been set at 56% of the polyethylene price, so the polymer price drives the ethylene one, not the opposite as implied by Crompton

Lake believes the international ratio is 60% — somewhat higher than the quoted average historical ratio of ethylene and polyethylene prices in north-western Europe and the US

Outstanding policy issues affect the liquid fuel industry, notably Sasol These include marketing arrangements and tariff protection (which some prefer to call subsidies) dating to the days of oil embargoes and policies of self-sufficiency These features of the fuel market should be rationalised through adopting free market policies, including the sale by the state of its remaining shareholding

The Crompton report was a flawed document that relied heavily on socialist direct controls and even nationalisation of important parts of Sasol's operations and other segments of the chemical industry Ad-

SEARCHING FOR THE SPIRIT OF ENTERPRISE

It's the development of entrepreneurs that will help SA take its rightful place among the world's most competitive nations

And the *Financial Mail*, through its soon-to-be-launched associate publication, *Independent Business Opportunities*, is making its contribution towards inculcating a "spirit of enterprise" in our land

To coincide with the September launch of *Independent Business Opportunities*, the *FM* has invited American business guru Larry Farrel, author of the best-selling book *"Searching for the Spirit of Enterprise"* to share his experiences in developing entrepreneurs throughout the world

Farrel will be speaking at a series of special seminar/workshops, the first of which will take place at the Carlton Hotel in Johannesburg on September 21 and 22

A follow-up seminar is planned for the Mount Nelson Hotel in Cape Town on September 27

The conference convener will be Brian McDonald of Global Conferences Those interested in attending should make their reservation by calling Global at (021) 762-8600

Innovative technology could give SA's new entrepreneurs the competitive edge they need Consequently, the *FM*'s sister publication, *Leadership Magazine*, and the Business Futures Group, has invited Arnoud de Meyer, associate dean for executive education and professor of technology management at Insead, one of Europe's leading business schools, to address a Global Leadership Business Breakfast on the subject at 7 30 am at the Sandton Sun Hotel on August 26

GLOBAL LEADERSHIP BREAKFAST

The cost per delegate is R150, inclusive of Vat, and reservations may be made by calling Sue Trentham or Judy Vertue (011) 463-4437

In association with Laird Associates, the *FM* has initiated a survey into the status of financial risk management in southern Africa Attitudes towards risk management, the various techniques used as well as the use made of derivatives will be surveyed

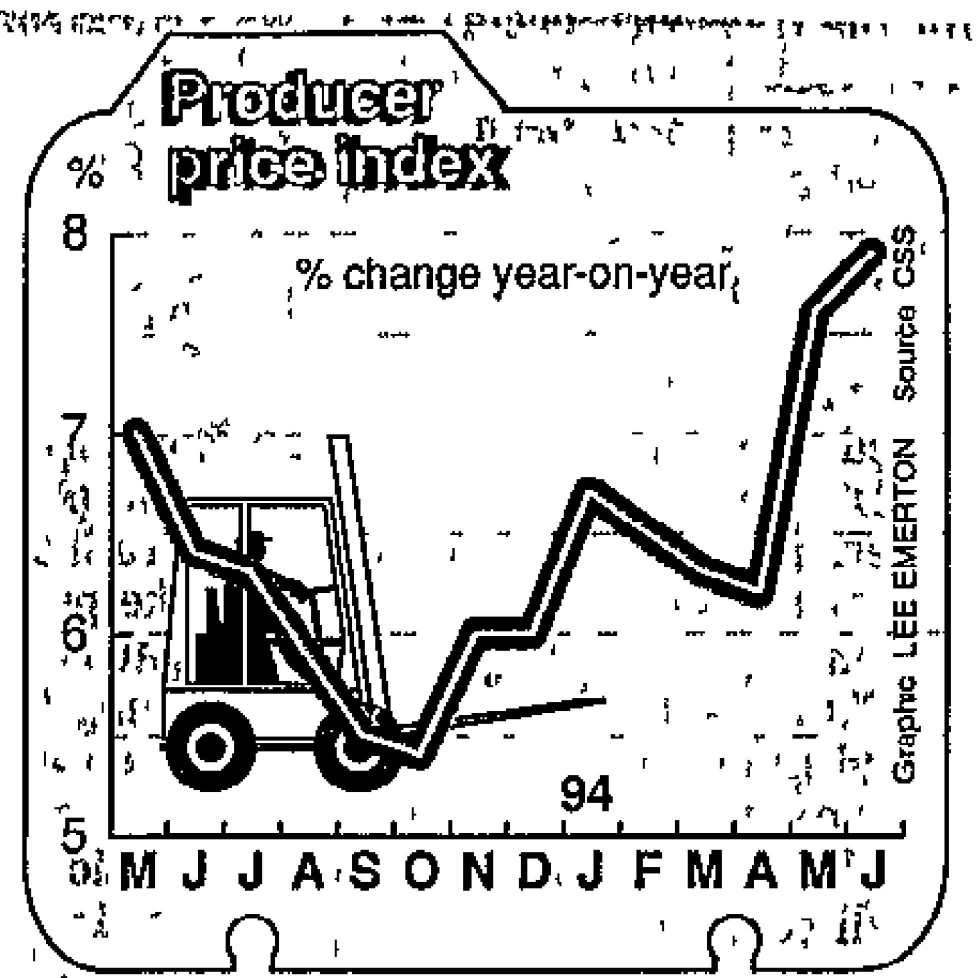
The survey will be completed by the end of August and the results will be announced in the *FM* in September Floating trophies will be awarded to the winners in two categories — corporate treasuries and financial services organisations More information is obtainable from Mike Finlay, telephone (011) 886-6938

In tandem with this, Actsa will be running its annual Risk Management Competition in the *FM* starting on September 7 and concluding on November 2

Once again, the *FM*'s floating trophy will be awarded to the Risk Manager of the Year In addition, over R100 000 in prizes will be available to traders, hedgers, students and nonprofessionals Entry fees are R3 400 per participant and R969 for students and nonprofessionals, inclusive of Vat More information is obtainable from Nic Oldert, telephone (011) 728-5510

Fri 5/8/94

will prevent retailers using exogenous price shocks in some areas as an excuse to introduce across-the-board increases And trade unions should temper their demands because regular rounds of increases above the inflation rate are simply self-defeating. When inflationary expectations become entrenched, monetary authorities have to react with sharp rises in interest rates Hopefully an inflationary surge can be headed off by less drastic measures 153 *Patrick Lawlor*



Producer inflation continues to rise

SAMANTHA SHARPE B/Day

PRODUCER inflation in June continued its climb, rising to 7,9% from 7,5% in May, Central Statistical Service (CSS) figures released yesterday showed 16/8/94

The June rise was in line with economists' expectations for producer inflation of about 8%. But they were surprised that the increase in the imported component of the producer price index (PPI) fell to 4,4% in June from May's 4,7% [redacted] 153

They said producer inflation had been fuelled by the local component of the index, which showed a rate of increase of 8,7% compared with 8,1% the previous month. Locally produced commodities enjoyed an 81% weighting in the index.

The CSS said overall producer inflation was 0,7% month-on-month, which compared favourably with 1,3% in May.

Large monthly increases were evident in the price indices for agricultural, mining and quarrying and manufactured food products and clothing, the CSS said

But these were offset by significant decreases in the price indices for fishing products and electricity, it added.

Rand Merchant Bank economist Rudolf Gouws said a significant part of the accelerating producer inflation was "food-driven" and the figures went against evidence of a strong [illegible] in producer prices generally If food was taken out of the PPI, the year-on-year rate for local inflation would still go up, but the month-on-month rate would stand at 0,3% for the second month running

Old Mutual economist Johan Els said the

☐ To Page 2

Inflation

B/Day 16/8/94

☐ From Page 1

June increase was a symptom of the pick-up in economic activity Old Mutual expected producer inflation of about 10% by December, which would translate into a figure of 8% for the year. 153 [redacted]

He said the annual rate of increase of manufactured food was "alarming", but not unexpected Food inflation at the agricultural level was led by rapid increases in meat prices

Econometrix economist Tony Twine said he was surprised that imported inflation was as low on a year-on-year basis, "given the fact that it was around June that the rand bottomed out and dollar denominated oil prices started to climb"

Southern Life economist Sandra Gordon said producer inflation probably would reach 9,5% by the end of the year

PPI Fm 19/8/94

Upward pressure

(153)

The gap which once separated inflation at the consumer and producer levels, has narrowed And, at 7,9% (a month-on-month

Fm 19/8/94

increase of 0,7%) for June, the annual increase in the producer price index is now higher than its consumer counterpart, at 7,5% This reverses the trend in place for several years (153)

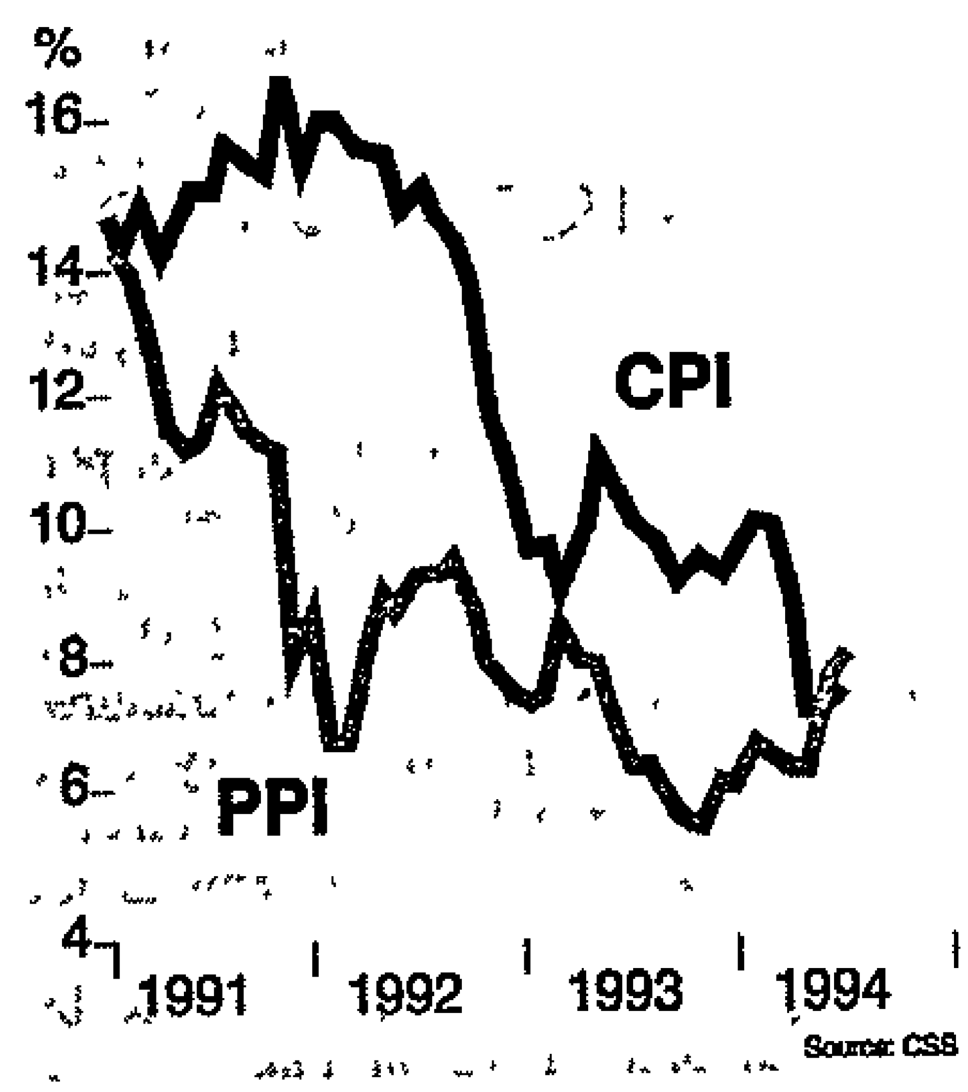
Theoretically, it means consumer inflation is headed higher — though the correlation is not absolute and, at the start of the Nineties, consumer price inflation took two years to follow producer price inflation down

Indications are that producer inflation will accelerate over the rest of the year, and continue to exceed consumer inflation This is partly because of the small rates of monthly increases seen in the index over the middle and the second half of last year — the 12-month rates for the rest of this year will be measured off low bases

But there are other reasons why the index can be expected to accelerate.

- Commodities linked to agriculture should continue to become more expensive, principally because the meat price cycle is still in its upward leg and because of the dry conditions in some of the vegetable growing areas In June, the agricultural index rose 3% in the month, with food rising 2% Rises in the indices for meat (5,3%) and vegetables & dried beans (4,3%), offset declines in the indices for fruit (-6,6%) and sugar cane (-1,2%). And, on the manufacturing side, food prices rose 1,9% in the month to June, with fresh meat up 4,9%,
- The impact of higher oil prices on the import bill is not expected to subside This is shown in the index for "other" mining and quarrying, of which about 50% is made up of crude oil imports This item rose 4,5% for June; and
- The effect of recent rand depreciation has not yet been reflected in the figures.

PPI PUSHES UP



Fm 19/8/94

The imported component of PPI rose only 0,6% in June (4,4% year-on-year), but this was chiefly the result of the high price of oil On the manufacturing side, imported prices remained stable in June The acceleration in rand depreciation in late June and early July will be seen in data released later this year (153)

Little inflationary pressure is present across the range of manufacturing inputs Small increases were seen in June for basic metals (0,3% in the month) and transport equipment (0,1%), while declines were seen in nonelectrical equipment (-0,3%) and industrial chemicals (-0,1%) It should be noted however, that most manufactured goods are polled only once every three months — though pollings don't coincide — which explains why many items didn't change at all in June.

The cost of electricity also declined by a month-on-month 0,9% in June

And weak GDP growth (see below) may put a damper on further price increases in domestic commodities ■

X (153) WM 29/7-4/8/94

The 'Aids kaffirs' of Johannesburg Prison

Easy walk to freedom The first 1 500 rehabilitated jackass penguins were released at Silverstroom Strand outside Cape Town this week, where they waddled happily off into the ocean PHOTO NIC BOTHMA

Johannesburg Prison inmates who have tested HIV-positive are stigmatised, abused and denied rights granted to other prisoners, they told Philippa Garson

'IT'S like you re a snake that someone caught," says "Ben", "a snake that everyone comes to look at." He s struggling to find the right words to describe what it feels like to be HIV-positive in Johannesburg Prison

He begins to sob as he tells how he no longer has a name, no longer has rights. "My name is HIV or Aids kaffir," he says.

The Department of Correctional Services says it fully undertands the serious implications of HIV infection A handling strategy had been circulated to prisons and this provided for informed consent for HIV testing counselling before and after such tests and confidentiality

But prisoners tell a different story Ben (not his real name) described to the *Mail & Guardian* in detail the manner in which he and 37 other prisoners with HIV are allegedly stigmatised verbally and physically abused and denied rights granted to other prisoners

They were moved last month from their communal cell into isolation cells They allege they were beaten and teargassed on the night of June 14 and herded into single cells There they sit alone, unable to work or mingle with other prisoners, spending only three hours together each day

Ben tells how the prisoners cough and cough in their cold, damp cells "You can squeeze the water out of our mattresses," he says. No one comes to counsel them If they want to get to the prison hospital in time to see the doctor, they must bribe the warden with R2 "taxi money" to open their doors early, they allege

As a group A prisoner, Ben, serving the last few months of a three-year sentence for theft, should be allowed to work and move fairly freely around the prison. "But because I have HIV, all my rights are taken away"

According to the department, some of the prisoners do jobs around the prison and others are allowed to play sport and watch videos No prisoner, says the department, is allowed to roam freely around the grounds

After visiting a doctor last year to treat the sores on his face Ben was tested for HIV although he claims he was not told this

A woman doctor broke the news that he was HIV positive in front of a queue of prisoners "The way she told me it seemed like a joke Half of the prisoners heard what she said."

'My name is HIV or Aids kaffir'

He was referred twice to Hillbrow hospital s HIV clinic, but since then he has received no counselling at all He claims that most of those with him have never been counselled

"I counsel the others," he says, adding that unless they are given access to social workers soon, "there will be dead bodies in this section" He describes how a recently diagnosed prisoner tried to fling himself down three flights of stairs

Their food is labelled "HIV" and when they go to collect it, everyone sees Ben believes his illness is common knowledge in his home township This is because the section where they are kept is across the way from the awaiting trial section. If granted bail, these prisoners are back on the streets, spreading the news

Asked to comment, the Department of Correctional Services said the prisoners are detained "in a separate section of the prison to better facilitate their treatment."

The department says that the prisoners receive "intensive medical attention" and are seen by a medical officer of the Soweto Aids Information and Training Centre on a weekly basis The prisoners are counselled by outside psychologists once a week "according to their needs", and receive "a special high protein diet"

The department said it wouldn t hesitate to investigate any breaches of this policy on prisoners with HIV

Legal challenge to an 'unjust policy'

Philippa Garson

THE plight of prisoners with HIV will be brought to the fore when an application is lodged by the Aids Law Project on their behalf

The application to be heard in the Rand Supreme Court soon will attempt to prevent these prisoners from being abused and stripped of their rights

It will also challenge existing prisons policy on testing and treatment of prisoners with HIV Much of the abuse occuring in prisons around the country stems from this policy, argues the ALP, an affiliate of the Aids Consortium

According to the ALP, prisoners with HIV are stigmatised, often verbally and physically abused and denied adequate medical treatment, including counselling

Correctional Services policy is to separate prisoners with HIV at night (In the case of Johannesburg Prison, prisoners with HIV are housed permanently in single cells)

This believes the ALP, is a misinformed and unfortunate violation of a person s right to confidentiality Separating prisoners with HIV from the rest immediately informs other inmates of their medical condition, exposing them to abuse

The Department of Correctional Services has a inconsistent policy when it comes to testing. Those considered to be "high risk" — including illegal aliens, known homosexuals, sex workers and drug addicts — are tested on admission

Implicit, argues the ALP is the assumption that there is such a thing as an "HIV profile", when in fact anyone can have the virus

Prisoners who work in the kitchen are also tested This says the ALP's Zackie Achmat, is irrational and medically unjustified.

As of January last year, 249 prisoners were found to be HIV-positive — 0,2 percent of the prison population. Former minister of Correctional Services Adriaan Vlok said in parliament last March "If the present trend continues, by the year 1995 one in 15 prisoners will be HIV-infected In order to counter this trend, various campaigns have been launched to combat Aids in South African prisons"

According to a guideline brought out by the department in September 1992 "informed consent" must be obtained from the prisoner before a blood test is taken and "pre-test counselling" must be given However inmates of Johannesburg Prison deny that these procedures have been followed

The department also states that "this information is at all times considered strictly confidential" The policy of separation contradicts this

In British prisons where condoms will soon be available only the treating doctor is informed if a person tests positive and HIV-positive prisoners are not separated Similar policies are being adopted in many other European countries and some American states

Organisations like ALP are lobbying Correctional Services to make condoms available in prisons here Presently, the department refuses to do so on grounds that sodomy and homosexuality are illegal However, all legislation outlawing these practices will be challenged probably successfully, under the new constitution

Rates jitters as inflation rises

153

ARGT 30/8/94

Business Staff

GROWING signs of economic recovery are matched by market scepticism about the authorities' ability to maintain fiscal and monetary discipline

Figures issued today by Central Statistical Services show inflation is on the rise again — the year-on-year Consumer Price Index (CPI) for July rising 8,2 percent (against 7,5 percent in July) while the month-on-month rise was 1,5 percent (0,6)

With inflationary pressures in mind, capital market rates rocketed more than 40 points from Friday's close to post levels last seen in early-1992

Early today the long R150 tested the 17 percent level It was last quoted at 16,99 from an overnight 16,68 The E168 was at 17,09 from 17,02

"The call side is very quiet, but over six months there are expectations of things happening," a dealer said

She said that the continued existence of the financial rand — which the Reserve Bank has no immediate plans to abolish — and the possibility of a tightening of monetary policy were the main factors influencing sentiment

"The possibility of a Bank rate hike is moving closer and this is reflected in the longer end of the market," she added

FNB quoted three-month NCDs unchanged at 11,10/00%, while six-month paper was placed at 11,60/50% from 11,45/35%, and nine- and 12-month certificates static at 12,00/90% and 12,30/20% respectively

The Reserve Bank indicated the daily shortage at R2,404 billion from R2,300 billion with notes and coins in circulation at R14,944 billion compared with R14,367 billion The 90-day BA rate was steady in a 10,95-70 percent range

Central Statistical Services also released another set of figures suggesting the economy is one the mend — the total number of civil summonses for debt decreased by 3,1 percent during the first six months of 1994

Economic upswings traditionally place upward pressure on interest rates — but this time markets are taking a very early bearish view

Uncertainty is the rule at the moment

Credit Guarantee economist Luke Doig said yesterday there had been hints that the Reserve Bank now might tighten monetary policy

This, he claimed, could be bad news for businesses at a time when many have far from recovered from the prolonged recession.

Child arrest legislation stalled

(298) (153) CT 30/8/94

Political Staff

THE parliamentary select committee on Correctional Services yesterday declined to pass legislation that would remove unconvicted accused children from prison to places of safety only if facilities existed

The committee's decision sparked a sharp reaction from Correctional Services Minister Mr Sipho Mzimela, who accused members of being "arrogant"

The Correctional Services Amendment Bill states that an unconvicted person under 18 cannot be detained in prison The only exception would be if "admission to such place of safety cannot immediately take place", but even in this case, the child could not be detained in prison for longer than 48 hours

Committee chairman Mr Carl Niehaus said members of the committee felt the bill would be ineffective if unconvicted accused under 18 would only not be imprisoned if alternative accommodation was available

There are at present no places of safety in three provinces (the Eastern and Northern Transvaal and the North West) and only 29 in the whole country

The legislation will be held back while the committee investigates existing facilities and the provision of extra facilities

Soaring food prices spark inflation hike

C 31/5/94 (244) (153)

By MAGGIE ROWLEY
Deputy Business Editor

THE unexpectedly sharp rise in the consumer price index (CPI) to 8.2% in July [illegible] food price increases [illegible] pointed to an interest rate [illegible] within the next few months, economists warned last night.

The July inflation [illegible] higher than the 7.5% [illegible] in June and [illegible] monthly [illegible] 1.5 [illegible]

While food [illegible] the main contributor [illegible] which indicated [illegible] build [illegible]

[illegible]

Inflation [illegible] the balance of payments [illegible] exchange position [illegible]

[illegible] money supply [illegible] the Reserve Bank [illegible] interest rate [illegible] being discounted [illegible] the capital markets.

Boland Bank economist Francois [illegible] believes the Reserve Bank could move [illegible] month or two.

However [illegible] faced with a minor dilemma [illegible] at the beginning of an economic recovery [illegible] interest rate increase now could badly dent this upswing.

[illegible] likely to wait for the next CPI figure [illegible] figure before [illegible]

Food inflation, which contributed 0.7% to the month-on-month increase, is running at 13.9% [illegible] 3.1% higher than the corresponding rate for June and up dramatically since December [illegible]

The main [illegible] for the [illegible] the economists were the [illegible] herd [illegible] farmers and the bad weather which had hit the vegetable crops in the past month.

Vegetable prices, which [illegible] from June, are running at more than 20% ahead of last year, while meat prices, which showed a month-on-month increase of 5.2%, are [illegible] 25.7% higher than July last year.

Inflation now on upward spiral

Sstar 31/8/94

■ BY JOHN SPIRA
BUSINESS EDITOR

Rocketing food prices are threatening to return South Africa's inflation rate to the double-digit levels last seen in April last year

The Government, the Reserve Bank and economists are wringing their hands in despair as all the belt-tightening of the past five years shows signs of coming to naught

Inflation's 16-month downward trend now looks to be reversing itself, which might provoke authorities into tightening the nation's monetary policy

The result, as hinted at by Reserve Bank governor Chris Stals recently, could be higher interest rates, which would involve John Citizen paying more on his mortgage bond, his overdraft and his hire-purchase finance

Central Statistical Service figures released yesterday tell of a consumer price index (the inflation yardstick) for July up to 8,2 percent (against 7,5 percent in June) and the month-on-month increase at 1,5 percent (0,6 percent)

The rise in the food portion of the CPI between the two months widened to 3,3 percent — equivalent to almost 40 percent a year (153)

With food prices out of the equation, the CPI has been rising at a more digestible annual rate of 6,5 percent since April

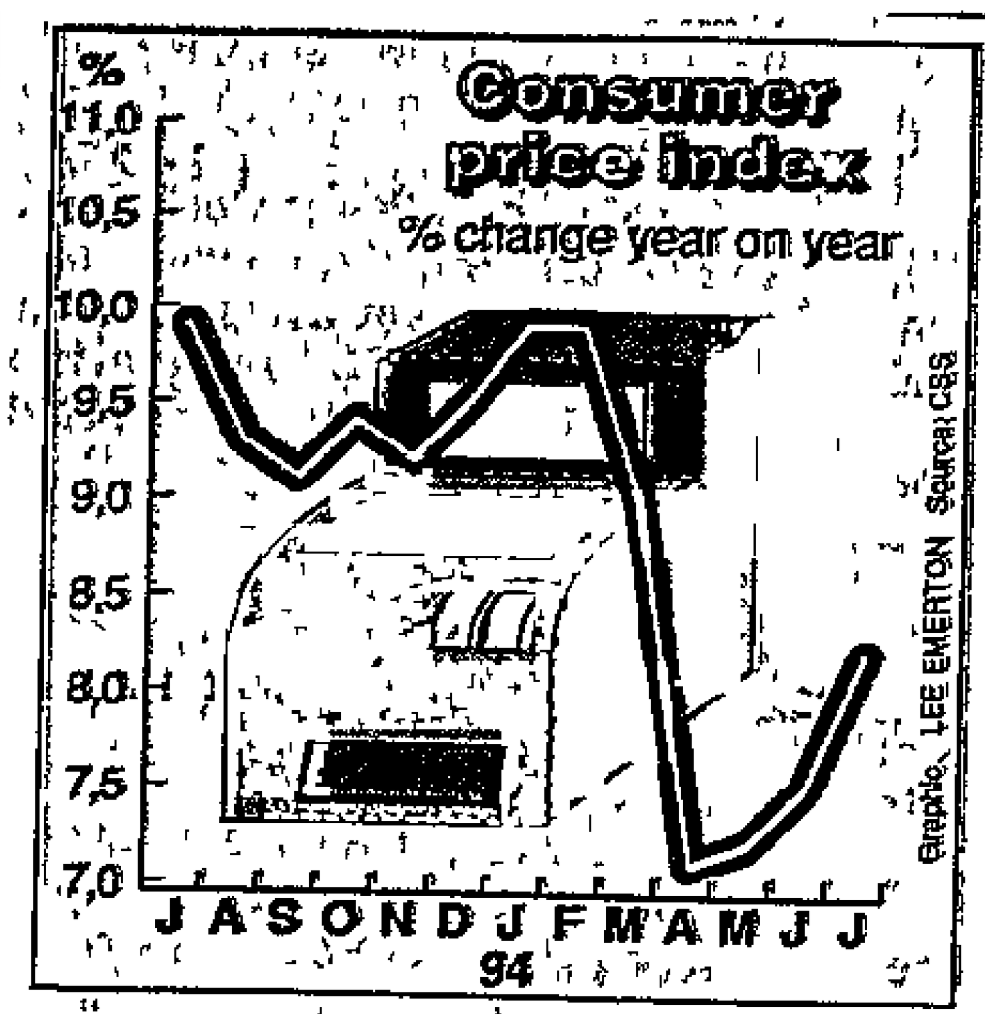
Anticipating the upward twist in the July inflation statistic, long-term capital market rates rocketed more than 40 points from Friday's close to post levels last seen in early 1992

The good news is that food prices might moderate in the months ahead

Farmers have been restocking their herds, bitter winter frost hit many vegetable crops and disease has decimated South Africa's chicken population

As conditions return to normal and, hopefully, with good summer rains forthcoming, food prices should increase at a lower rate

▶ **Mediation council on cards — Page 3**



Food prices push inflation to 8,2%

BDay 3/8/94

MUNGO SOGGOT

SOARING food prices kicked inflation in July to 8,2% from 7,5% in June, well above market expectations. (153)

Economists said that excluding food inflation, consumer inflation had remained at 6,5% for the past four months

But the figure — which was likely to stay above 8% for the rest of the year — would add to upward pressure on interest rates

The Central Statistical Service said food inflation was 14,9%, from 11,8% in June

Ed Hern Rudolph economist Nick Barnardt said high food prices would hit consumer inflation for a few months

Econometrix economist Tony Twine said meat prices had been driven up while farmers restocked their herds Vegetable inflation was high as it was being calculated off a very low base from 1993 when prices had dropped after good rains.

Twine said monthly inflation for the rest of the year would be calculated off a low base from last year Sanlam chief economist Johan Louw said inflation would probably edge up to about 9,2% by December and enter double figures in late 1995

One economist said the Bank rate would probably rise before the end of the year "The market should watch to see if the Reserve Bank starts fiddling around with the money market shortage as a way of leading up short-term rates."

Business Report

CPI heading for 9,9%, warns AHI

153 CT 1/9/94

By MAGGIE ROWLEY
Deputy Business Editor

INFLATION, as measured by the Consumer Price Index, is entering an upward phase and could rise to 9,9% threatening double digits during the current quarter, warns Afrikaanse Handelsinstituut (AHI)economist Johan Rossouw

His Inflation Barometer for the third quarter, which is prepared as an indication of future trends, shows the sharp increase from 6,8% in the second quarter was due to the fact that the 18 macro-economic variables of underlying inflation used in the index were almost without exception exerting upward pressure on inflation

The latest reading from the AHI Inflation Barometer follows the release earlier this week of the latest Consumer Price Index figures, showing the rate of inflation rose to an unexpectedly high 8,2% in July from 7,5% in June

Rossouw said the factors exerting the strongest upward force on the Barometer reading were State expenditure, long-term interest rates, wage and salary increases, productivity and the pace of monetary expansion

Interest rate rise looming

Rossouw said the rate of monetary expansion was also still cause for concern as was the steady rise in PPI inflation, which reached its low in its downward cycle during October last year, to 7,9% in June

He warns that against the background of still low reserve levels and the sustained monetary expansion, the question now was not "if" but "when" the first interest rate increase could be expected

"Taking everything into consideration we foresee that the Bank Rate could be increased early in 1995 if not already later this year"

Regarding long-term interest, he said, there was a slight possibility that these could drop marginally over the next few months as part of a correction of previous excessive increases

"However it is very clear that the tendency in the medium to long term in the case of long-term interest rates is also upwards," he said

"Although the State expenditure figures for 1994 are difficult to compare with the figures for the corresponding period the previous year due to technical reasons, increases in the total cash flow of adjusted treasury issues, together with the relatively heavy weight of this variable in the Barometer index, entail the exertion of significant upward pressure on the reading"

The yield curve of long-term interest rates, he said, had become steeper in recent months reflecting expectations of tight fiscal prospects and higher inflation

Despite the recession, wage and salary increases had still not kept pace with increases in productivity

"Furthermore it can be expected that trade unions will still insist on higher wage increases against the background of the economic recovery phase making this one of the most important factors exerting upward pressure on inflation."

Double-figure inflation predicted for next year

BDay 11/9/94

MUNGO SOGGOT

INFLATION could enter double figures as early as the first of half of next year, the Afrikaanse Handelsinstituut (AHI) said in its latest inflation barometer.

It said the forces fuelling inflation would stem mainly from increased government expenditure, wage and salary increases and the rate of growth in the money supply.

The AHI said wage increases were likely to go up further.

Figures released last week by the Reserve Bank showed that the rate of increase in the money supply rose in July to 16,67%, from 15,09% in June

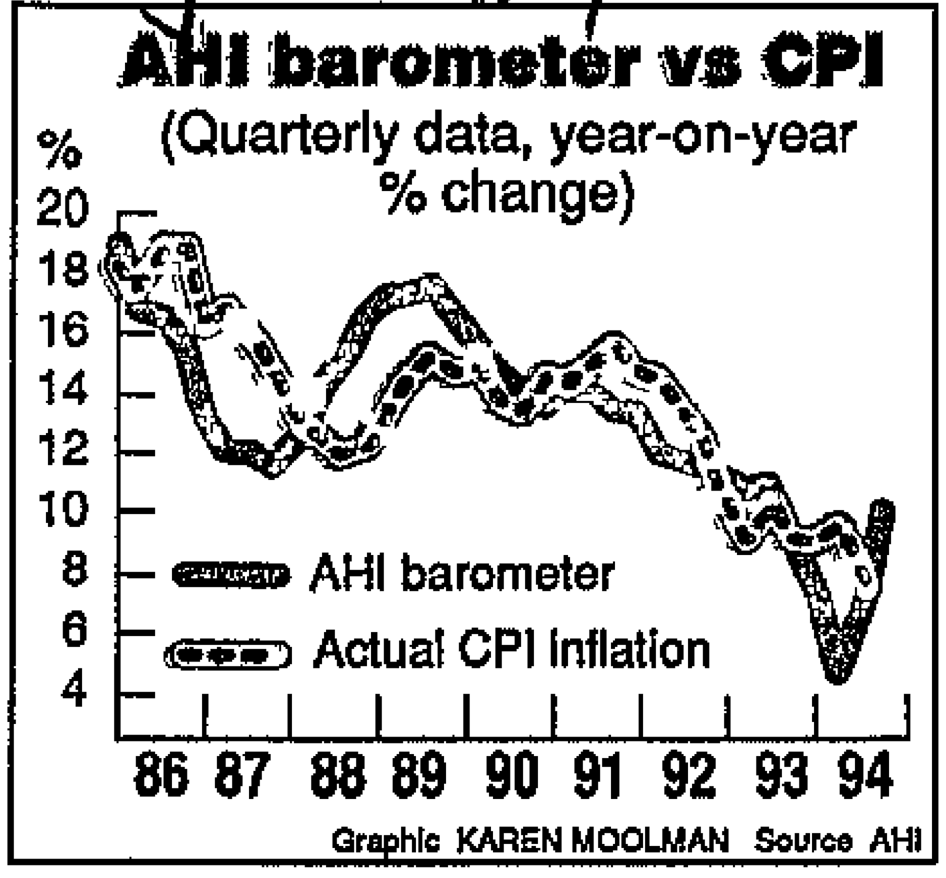
The AHI said state spending would exert "significant" upward pressure on inflation.

The increasingly steeper yield curve of long-term interest rates reflected market expectations of higher inflation, it said.

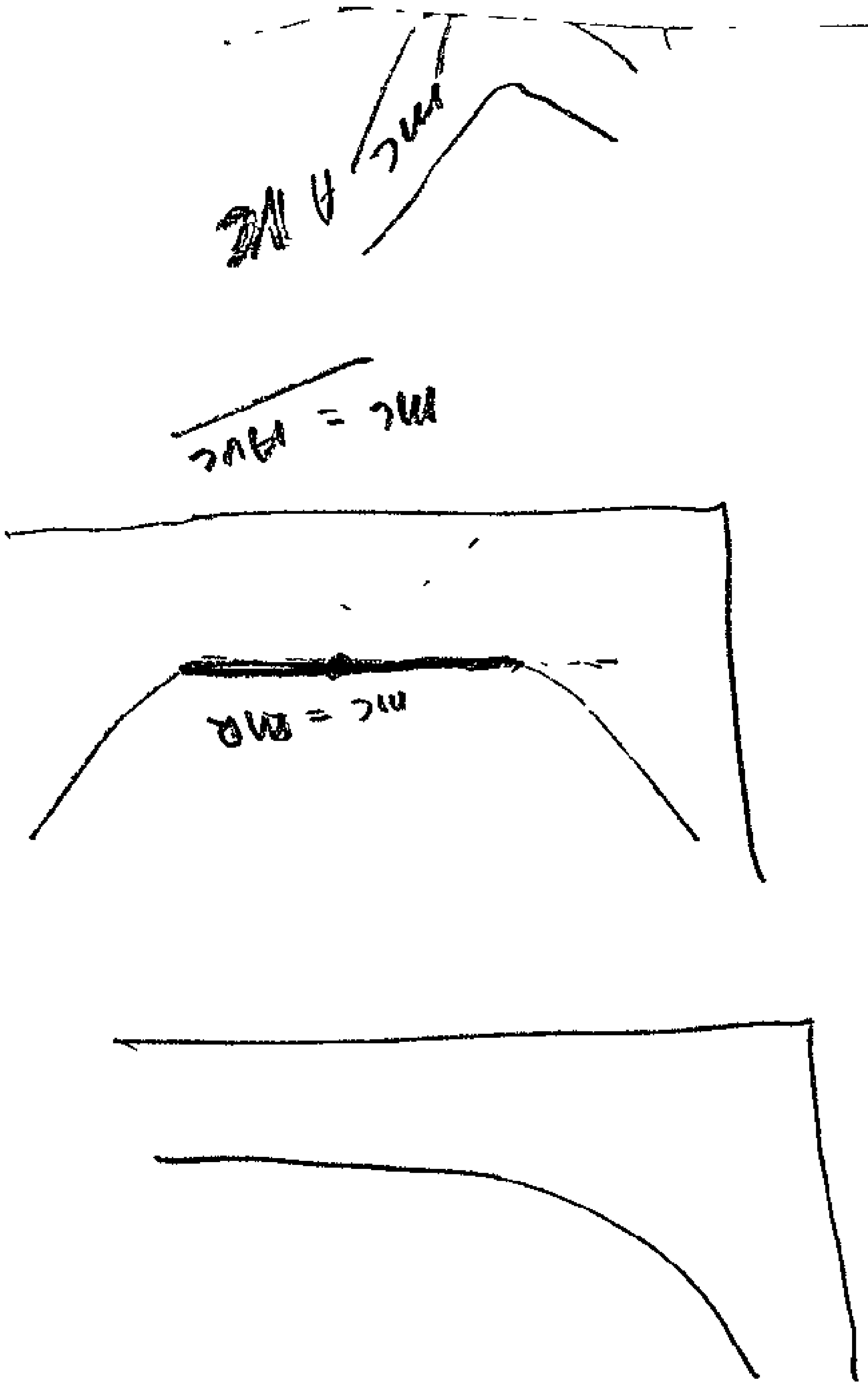
The AHI predicted the Bank rate could be increased by early next year.

"Against the background of the still low foreign exchange reserves and the sustained monetary expansion, the question now is when we could anticipate the first interest rate increases." (153)

It said indications were that the Bank's net reserves were still close to negative A recovery in the net reserves position would be retarded by the decreasing trade surplus and capital outflows.



Graphic KAREN MOOLMAN Source AHI



More inflation shocks in store

(153) ARG 13/9/94

ALIDE DASNOIS, Business Staff

FURTHER rises in inflation are on the cards after a shock increase in producer prices in July.

Figures released by the Central Statistical Service show the producer price index rose nine percent over the year to July, compared to 7,9 percent over the year to June.

Over the month, the index was up 1,7 percent.

The weakening rand boosted the prices of imported goods, which rose 2,3 percent over the month.

Prices of goods produced in South Africa rose 1,6 percent. Major culprits were meat prices (up six percent in a month), vegetable prices (11 percent) and fruit prices (nine percent)

Food and petrol prices the main culprits

Producer inflation rises to 9 percent

Star 14/9/94

(153)

BY CHARLOTTE MATHEWS

The producer price index (PPI) inflation rate shot up to 9 percent in July — its highest rate since August 1992, after sharp increases in the prices of meat and vegetables and petrol-related items

Economists said yesterday there was no reason to assume the upward trend would continue at its present rate because it reflected unusual climactic conditions, and some one-off increases prompted, for example, by higher excise duties

Moreover, the prices of many items in the index were rising at a rate well below 9 percent.

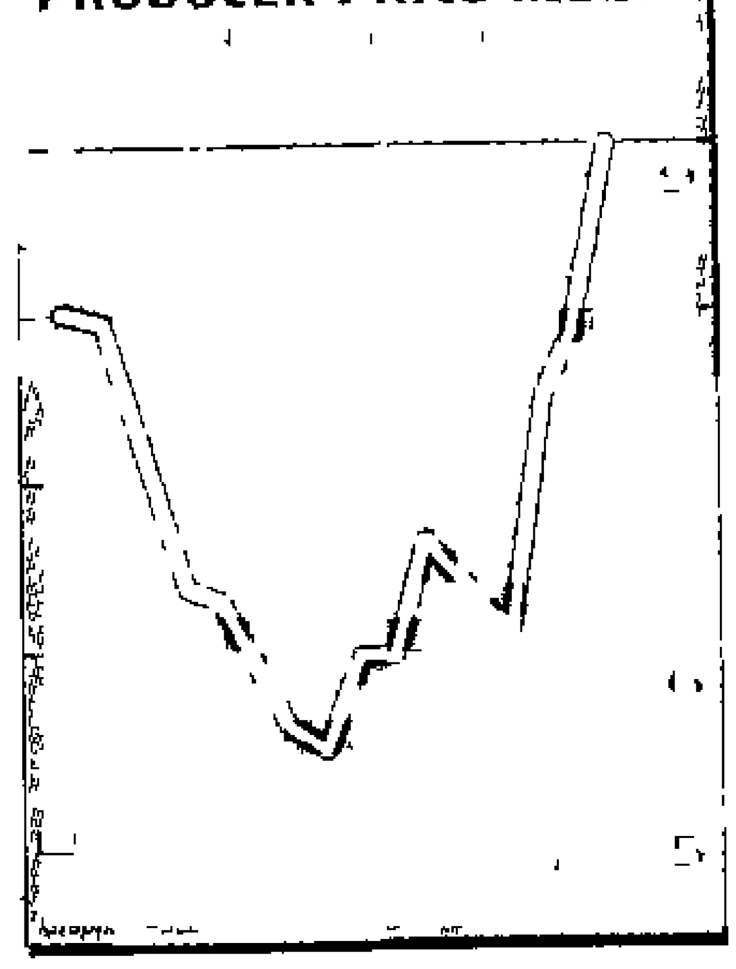
However, several economists agreed the increase, coupled with the rise in the July consumer price index (CPI), was putting pressure on Reserve Bank Governor Chris Stals to raise interest rates Stals had been adamant in his annual address that he would act pre-emptively on inflation

According to figures released by the Central Statistical Service (CSS) yesterday, the July PPI figure was 1,7 percent above June in real terms and 1,5 percent higher on a seasonally adjusted basis.

The main increase was in locally produced commodities, which were 9,4 percent dearer than in July 1993.

The price of imported commodities in July 1994 was a lesser 6,9 percent above July 1993 but still showed its highest rate of increase since September 1992, the CSS said

PRODUCER PRICE INDEX



Southern Life economist Sandra Gordon said the relatively moderate lift in the prices of imported items suggested the weaker rand had not yet had much of an impact

It could be that the lower inflation rate of major trading partners had played a part in restraining these increases But the weakness of the rand could put more pressure on the PPI in coming months

The greatest monthly price hikes were in agricultural products, up 2,9 percent mainly because of a 3,3 percent lift in food prices, and, reflecting heavier excise duty, a 1,4 percent increase in alcoholic and non-alcoholic beverage prices and a 10,1 percent climb in tobacco product prices.

Petroleum- and coal-based products were 3,2 percent dearer thanks to an international petrol price uptick earlier in the year

Nedcor chief economist Dennis Dykes said market expectations had been of a 8,2 percent PPI figure in July but conceded it generally tended to be more erratic than the CPI

Dykes said the main reason for the rise was food prices, mainly meat and vegetables Meat prices were now 47,1 percent above their July 1993 level while vegetable prices were 59,5 percent higher than they were a year ago

Meat, however, had a heavier weighting in the index.

These price increases would not continue indefinitely, Dykes said

The re-stocking cycle, which had started some months ago, was likely to persist until early 1995 and should then taper off

Old Mutual chief economist David Mohr said the PPI had also been affected by the fact that a large proportion of the index was measured in July

Not all items making up the index are measured every month — some are only re-assessed on an annual basis

Overall, the PPI figures did not suggest a disaster was looming for inflation, Mohr said, although initially it looked like a big increase

A number of items in the index had risen by small percentages year on year, indicating that inflation was not broadly 9 percent everywhere.

Producer price inflation surges

(153) CT 14/9/94

By AUDREY D'ANGELO
Business Editor

SOARING food price inflation and the weakening rand combined to push the producer price index (PPI) up 9% year on year in July compared with 7,9% in June — the highest level for two years.

The month on month rise was 6,3% compared with 1,7% in June.

Economists, surprised by the size of the increase, forecast that the PPI would reach 11% by December. And the bond market reacted early to fears of higher inflation with bond yields rising above 17% when the figures were first released.

Most economists thought the high PPI made a rise in interest rates likely before the year end, to keep inflation down in spite of the dampening effect it would have on the economic upturn.

But Nedcor chief economist Dennis Dykes pointed out that — since the rise in local inflation was due to rising food prices caused by climatic conditions rather than burgeoning consumer demand [illegible] Bank [illegible] er it [illegible] ing through higher [illegible] rates at this point.

The index for [illegible] produced goods rose 9,4% [illegible] pared with [illegible] in June [illegible] in July [illegible] The month on month [illegible] 1,6 [illegible] compared with [illegible] in June.

The [illegible] pared [illegible] month on month compared with 0,6% in June.

The index for [illegible] produced goods was pushed up by [illegible] rise in [illegible] with a [illegible] rise in [illegible] products and a 15% rise in [illegible] products.

Excise duties

Higher [illegible] of the reason [illegible] alcoholic and non-alcoholic beverages and a 10 [illegible] products.

Old Mutual economist [illegible] Els and Sanlam chief economist Johan Louw said they had expected a rise in the PPI — but only [illegible]

Els [illegible] oil prices in the first half of the year and the higher petrol price in June had fed through to the imported content of the PPI. He thought the PPI and the consumer price index (CPI) would both rise from now on.

Louw said he expected the rise to filter through to the CPI [illegible] in 1995. The high PPI figure would influence [illegible] higher [illegible] rates.

"But I [illegible] hope it will not be necessary to increase prime rate before the end of the year, especially if reserves improve."

Southern Life economist Sandra Gordon said the rise in the PPI was "still at the primary level, not in manufactured products."

Dykes said it [illegible] "frightening" that meat prices had risen by 47% year on year and [illegible] prices by 60%. But this was from a moderately low base [illegible] and although the restocking [illegible] which kept meat prices high would continue until [illegible] vegetable prices would fall within a few months.

Rates hike set to hit upswing

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☐ Stals warns he will act to contain inflation

ARG 17/9/94

ALIDE DASNOIS
Business Staff

THE fragile economic upswing faces a setback as banks gear up for a hike in lending rates, with economists saying the key bank discount rate may rise by up to four percent in the next year.

Most banks have already raised deposit rates in anticipation of a hike in the bank rate as the Reserve Bank struggles to dampen inflationary pressures

A bank rate hike will result in higher mortgage bond rates

Money on 12-month or 24-month call is earning between half a percent and one percent more than two weeks ago

Nedcor Bank executive director Mike Leeming says rising deposit rates reflect the banks' view — strengthened by the recent sharp rise in long bond rates to more than 17 percent — that interest rates are on the up.

Nedcor is expecting a rise of up to one percent in bank rate within the next two months, he says — though it might not necessarily be followed immediately by further hikes.

He says banks are unlikely to raise lending rates ahead of a bank rate hike, in spite of the upward move in deposit rates

"The higher deposit rates only apply to new money, so margins are not really affected Anwyay there isn't an enormous demand for lending money at the moment."

Reserve Bank Governor Chris Stals has warned he will act to contain rising inflation He told a meeting of businessmen recently that he did not want to "whip the drinks away just as the guests had sat down", by lifting bank rate at the beginning of the economic recovery

But economists agree he will soon have no choice

Long bond yields have been bouncing around the 17 percent level for the past three weeks, as the capital market discounts the effects of scrapping the financial rand

The Board of Executors senior portfolio manager Rob Lee says several factors point to a hike in rates. These include

- A rising demand for capital as the economic recovery begins,
- Rapid money supply growth;
- A reversal of the surplus on the current account of the balance of payments and a need for capital inflows to finance rising imports, and,
- Inflationary pressures as the rand devalues following the lifting of exchange controls

"We think the Reserve Bank will have to raise rates between two percent and four percent once exchange controls are scrapped"

The Reserve Bank has been losing control over short term rates as institutions, scared away from the capital market by soaring yields, hold money in more liquid form.

Mr Lee thinks the Bank will have to issue government stock to mop up liquidity and stop short-term rates dropping.

"The market is saying interest rates should come down, when the Reserve Bank knows they'll have to go up," says Mr Lee.

Sanlam economist Johan Louw is expecting the bank rate to rise by half a percent by the end of this year, with

To page 3

P.T.O

September 26 1994

CAI

Runaway food prices send inflation soaring

153

ARU 26/9/94

□ Higher mortgage rates may be next blow

ALIDE DASNOIS
Business Staff

RUNAWAY food prices sent the inflation rate soaring to 9,4 percent in August.

Central Statistical Services figures released today show that food prices rose 4,7 percent during the month, with meat prices up nearly 7 percent, vegetable prices up nearly 14 percent and fruit prices up 6 percent

Food price inflation is now running at 19,7 percent in annual terms

Hard-pressed consumers will soon be further squeezed by higher mortgage bond repayments.

Mortgage bond rates are likely to rise after the Reserve Bank's decision to raise the key bank rate one percent from today, pushing up housing costs, which make up more than one-fifth of average household spending.

But most economists agreed that Reserve Bank governor Chris Stals — who probably anticipated today's figures — had been forced to raise interest rates to dampen inflation.

Boland Bank economist Francois Jansen said a combination of accelerating inflation and a worsening trade balance with the rest of the world had left Dr Stals no options.

"Although we are only at the beginning of the upswing, the economy is registering inflation rates and trade figures we should only be seeing at the end of the upswing," he said

South Africa's monthly trade surplus plummeted in August from R1,65 billion to R288 million as imports soared

Imports — mostly of machinery — have risen R10 billion to R48 billion in the year ended August, as businesses revamp production to cope with a recovery in the economy.

The rise in the bank rate — the rate at which the Reserve Bank lends to the commercial banking system — is likely to be followed by higher overdraft rates, forcing businesses and consumers to cut down on spending.

But Mr Jansen said this would not happen immediately.

Boland Bank, which had been predicting an average inflation rate of 8,5 percent for the year, would revise its forecasts upwards after August's shock price rises, he said.

Interest rate hike 'just in time'

Food prices push inflation up to 9,4%

BDay 27/9/94

MUNGO SOGGOT

SURGING food prices propelled inflation to 9,4% last month from 8,2% in July, outstripping expectations and leading many economists to argue that the weekend's one percentage point interest rate hike was justified

The markets — already reeling from poor trade figures and the Reserve Bank's interest rate move — reacted swiftly to the inflation figures released yesterday.

Bond rates kicked up instantly, with the E168 rising to 16,735% from 16,645% within minutes. It reached 16,885% by late afternoon, a 45,5-point or 2,77% rise from Friday's close of 16,430% Government's R150 closed 42 points or 2,57% up at 16,740%.

The JSE also took a hammering with the all share index ending at 5 617, 138 points down from the previous 5 755 (153)

The Central Statistical Service (CSS) figures showed August food inflation at 19,7% year on year, from 14,9% in July Meat and vegetable price inflation was 6,7% and 13,8% respectively The CSS said food inflation had made up 1% of the overall 1,5% monthly increase in the consumer price index (CPI)

But economists said, excluding food inflation, consumer inflation had risen only 0,2 percentage points to 6,7% after being at 6,5% for the previous four months. They said average inflation for the year would rise to 9,3%-9,5%, and predicted an average inflation rate of 12% next year

Most economists said Reserve Bank Governor Chris Stals's decision to lift the Bank rate had come just in time

But one said that as food inflation would be the driving force behind inflation for a few months, the rise in the Bank rate would have no immediate effect However, its effect on money supply would affect inflation figures further down the line.

Old Mutual economist Johan Els said the hike in mortgage rates would put upward

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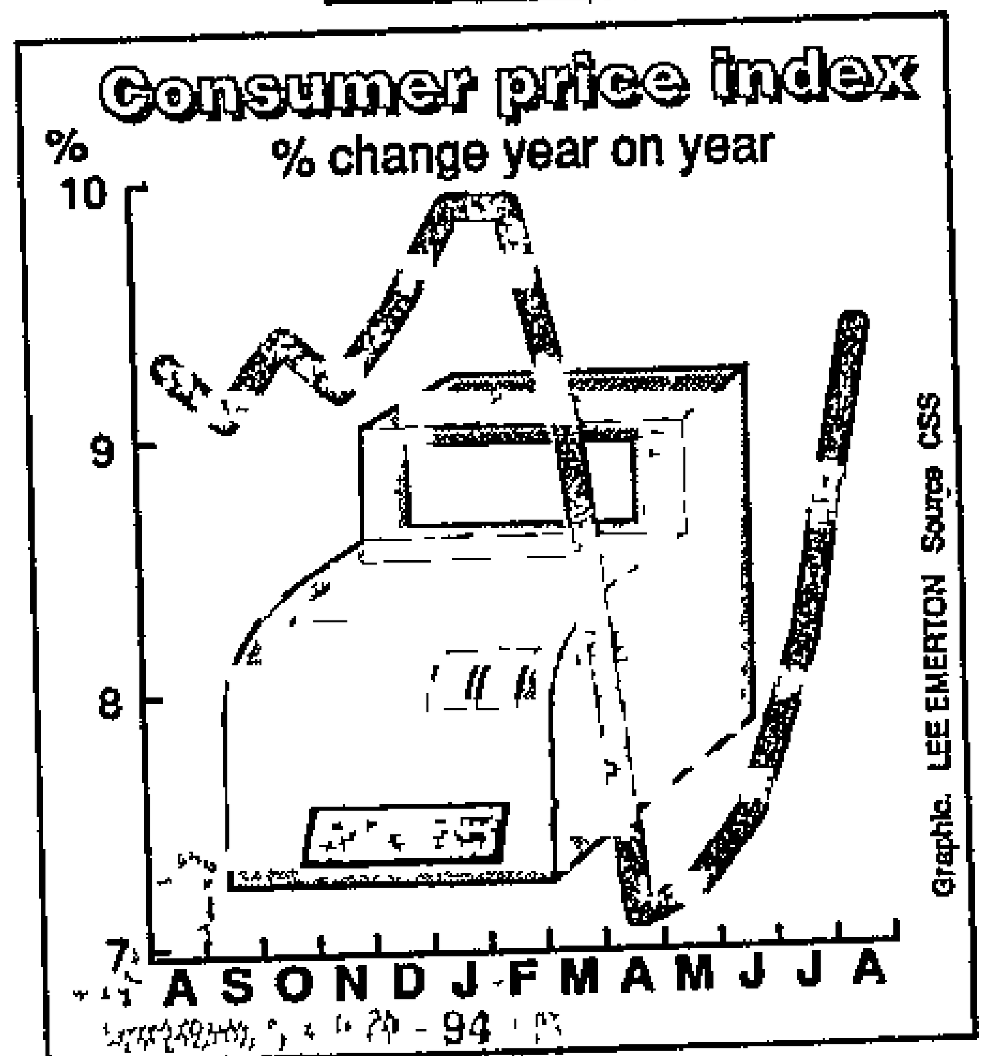

BDay 27/9/94 From Page 1

Inflation

pressure on the overall monthly figure over the next few months A one percentage point increase in mortgage rates would add 0,7% to monthly inflation The food price increase cycle should bottom out soon, which could take some of the upward pressure off consumer inflation. But inflation was likely to enter double figures by the end of the year

Economists said vegetable prices had risen after widespread frost in July and were likely to affect the overall figure for a few months. The monthly increase in meat prices would probably level off by the middle of next year (153)

Sanlam senior economist Pieter Calitz said that apart from food there were few other inflationary pressures to worry about. The Bank rate hike — which was also aimed at improving SA's trade figures and foreign exchange reserves — was not aimed at cutting inflation It could be seen as an attempt to stave off another inflationary cycle. Both the US Federal Reserve and the German Bundesbank were following this kind of pre-emptive policy

Sapa reports that the Afrikaanse Handelsinstituut said if the inflationary trend continued there was a danger that rates would be increased again early next year

Double blow as interest rates rise

Inflation shock for consumer

Star 27/9/94

BY CHARLOTTE MATHEWS

Consumers were dealt a double blow yesterday — increases in mortgage and overdraft rates and the release of shock inflation figures

Gloom was reflected in a sharp fall in share prices on the Johannesburg Stock Exchange The all-share index shed 138 points or 2,4 percent to 5617 and the industrial index ended 157 points down at 6202.

The inflation rate for August rose to 9,4 percent from 8,2 percent in July, the sharpest monthly increase for years. In June, inflation was 7,5 percent

After Friday's announcement by the Reserve Bank of a one percentage point hike in the Bank rate, the major banks warned yesterday that mortgage and overdraft rates would also rise by one percentage point to 16,25 percent.

For existing mortgage clients, the increase in the rate will be effective in about a month's time from October 28 for Standard Bank, Nedbank and Perm clients and from November 1 for Absa and First National Bank customers New mortgage applications will be subject to the higher interest rate immediately.

Monthly repayment of bond over 20 years

RATE	R50 000	R100 000	R150 000	R200 000
Old 15.25%	R667	R1 335	R2 003	R2 671
New 16,25%	R705	R1 410	R2 115	R2 820

GLOOM over rising cost of living reflected in a sharp fall in share prices on the JSE

The increase in the overdraft rate takes effect from yesterday for Standard Bank, Nedbank, Perm and FNB clients and from tomorrow for Absa clients

Consumer Council director Ben Stafford said the sharp increase in the Bank rate, together with the increase in inflation, could be interpreted as economic danger signals for consumers

According to Central Statistical Service figures, the monthly increase in August's consumer price index was 1,5 percent. Two-thirds of this arose from food inflation, which was at a rate of 19,7 percent for the month

Sacob senior economist Bill Lacey said the latest rate hike meant some belt-tightening for consumers But he supported the move because the role of the Reserve Bank was to prevent inflation from getting out of hand, and there had been a consistent upward trend in indicators showing increasing consumer spending and demand for credit (153)

Ed Hern Rudolph stockbrokers' economist Nick Barnardt said the media had been creating an incorrect impression that the economic upswing was slow and fragile. In fact, key statistics showed it was far stronger. He continued to forecast the economy would grow at 3 percent next year.

Inflation shock: Food prices blamed

CT 27/9/94

By AUDREY D'ANGELO
Business Editor

SOARING food prices pushed inflation up to 9,4% in the 12-month period to August, compared with an annualised 8,2% in July, representing an increase for the month of 1,5%.

With the 1% rise in the bank rate and higher home loan mortgage rates, economists expect the country to be gripped by double-figure inflation by the end of the year.

The consumer price index (CPI) for food alone has risen 19,7% in the same 12 months, with a 4,7% increase between July and August.

Figures released by the Central Statistics Service yesterday show that the steep rise in the CPI for August was due mainly to food prices, which shot up by 19,7% year on year compared with 14,9% in July and 3,4% in August last year.

The food index rose by 4,7% between July and August, with vegetables up by 13,8%, meat by 6,7% and fruit and nuts by 6%.

The CPI for all items excluding food went up by only 0,6% month on month.

Describing this as "mild", Sanlam chief economist Mr Johan Louw said it showed that the underlying inflation rate was not worrying.

"But food prices have run mad. We are definitely in for double-digit inflation.

"The CPI could be as high as 12% by December and average 9,3% by the end of the year."

Mr Louw said rising inflation, combined with higher taxation and the transition levy, would dampen consumer spending and some retail companies would be in for a rough time.

But he and other economists said that, although the rise in inflation was not due to increased demand, Reserve Bank governor Dr Chris Stals was right in raising the bank rate at this point in order to keep inflationary expectations down.

Boland Bank economist Mr François Jansen, describing the rise in inflation as "shocking", said: "This is much worse than we expected.

"We thought the inflation figure for August would be about 8,6% year on year.

"It is obvious that food price inflation is the culprit and I am perplexed that it has gone up by such a substantial margin year on year.

"We expected meat prices to remain high, with farmers rebuilding their herds after the drought, but with better weather conditions we would not have expected vegetable prices to go on rising.

"The Reserve Bank governor made the correct decision in raising the bank rate."

Nedcor chief economist Mr Dennis Dykes said he expected the CPI to be above 10% by November and to reach 11% or 11,5% by year end.

"Next year is going to start off quite badly with inflation rising to 12%, but it will be coming off a high base so we shall find it moderating."

Mr Dykes said that although raising the bank rate would push inflation up in the short-term, "it will have a positive effect in the longer term".

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Food price rise has the experts at odds

BDay 28/9/94

LOUISE COOK

ECONOMISTS and industrialists cannot agree on the causes of food inflation, which in August shot up to 19,7% year on year from 14,9% in July.

Tiger Oats executive director Hamish McBain said food inflation was a highly emotive issue. He blamed enormous wastage and theft for pushing up food costs.

"Problems lie with costs between producer and manufacturer, as well as in the distribution chain from the manufacturer to the consumer."

McBain said 22% of all goods delivered to supermarkets was affected.

"In some cases off-loading takes six hours. These costs are passed on to the consumer and aggravate the gap between producer and consumer prices."

Meat and vegetable price inflation in August was 6,7% and 13,8% respectively, according to figures fromthe Central Statistical Service (CSS).

Freshmark, a company dealing in fresh vegetables directly from producers, and which supplies food stores, blamed the frost which had gripped the PWV, the Lowveld and areas of the northern Transvaal during the winter.

Said Freshmark's CE Johan van Deventer: "The farmer does not now suddenly make money. There is a shortage on the market, mainly due to frost in the winter."

University of Pretoria agriculture economist Helmke von Bach blamed the basic agricultural structure in SA. Excessive distances between farms and manufacturing points pushed up the transportation component of food. This formed a large part of the costs.

(153)

Pretoria fresh produce market spokesman Charles Hamilton said the Transvaal was the most important area for vegetable supply during the winter. It had suffered severe frost and veld-rat plagues in July. Vegetable and fruit prices were likely to stabilise by November.

SA Agriculture Union spokesman on vegetables Pieter van der Merwe said 40% of consumers lived in the PWV area. Transport costs, as a contributory factor to rising food prices, played an important role because in the case of vegetables, farms were far away and goods had to be transported thousands of kilometres to reach consumers.

But Agriculture Department sources pointed out that despite vegetable prices having shot up the most between July and August, it formed only a small percentage of food bought. Consumers bought far larger quantities of meat, grain and dairy products.

INTEREST RATES

Fm 30/9/94

It's the balance that counts

Critics of the Reserve Bank "believe the Bank takes a sadistic pleasure in keeping interest rates at an unnecessarily high level," Governor Chris Stals told a recent World Economic Development Congress meeting in New York This plaintive note was repeated in the latest edition of the *Quarterly Bulletin*

There are many who will not believe he has other motives

But his recent decision to move now, rather than later, to raise the Bank rate — by one percentage point to 13% — shows he has once again made the long term a priority His motive was to protect the net gold and foreign exchange reserves and to take a pre-emptive stance against future inflation At the same time, he has asserted the Bank's independence, when everyone, including government, is desperate for immediate growth in the economy

The need to defend the reserves arose from the worse-than-expected trade data for August These figures would have reinforced Stals's concerns about SA's high propensity to import (see page 31), now at a level last seen in 1980, according to the Old Mutual's economist Rian le Roux

Imports, in the year to August, have risen 27% in nominal rand terms over the previous year, with the two largest import items, machinery and vehicles & transport equipment climbing by more than 40%

Against this, exports have so far risen only a modest 13,9% — partly because manufacturing output has been disrupted by public holidays and industrial action

The seasonally adjusted and annualised surplus on the current account weakened to R2,3bn in the first half from R5,7bn in the second half of 1993

The small trade surplus of only R288m for the month of August has jeopardised the chances of an improved current account surplus in the third quarter, after good trade figures in June and July (see graph)

Stals points out that, based on the latest trade figures, SA is now into a current account deficit

So, despite a more liquid market recently, alarm bells are ringing The decline, over the past two months, in the size of the money market shortage, maybe temporary — linked to the reversal in short-term capital flows But the recent inflows only restored the levels seen in March — about R8bn And reserves should ideally contain three months worth of import cover — about R20bn

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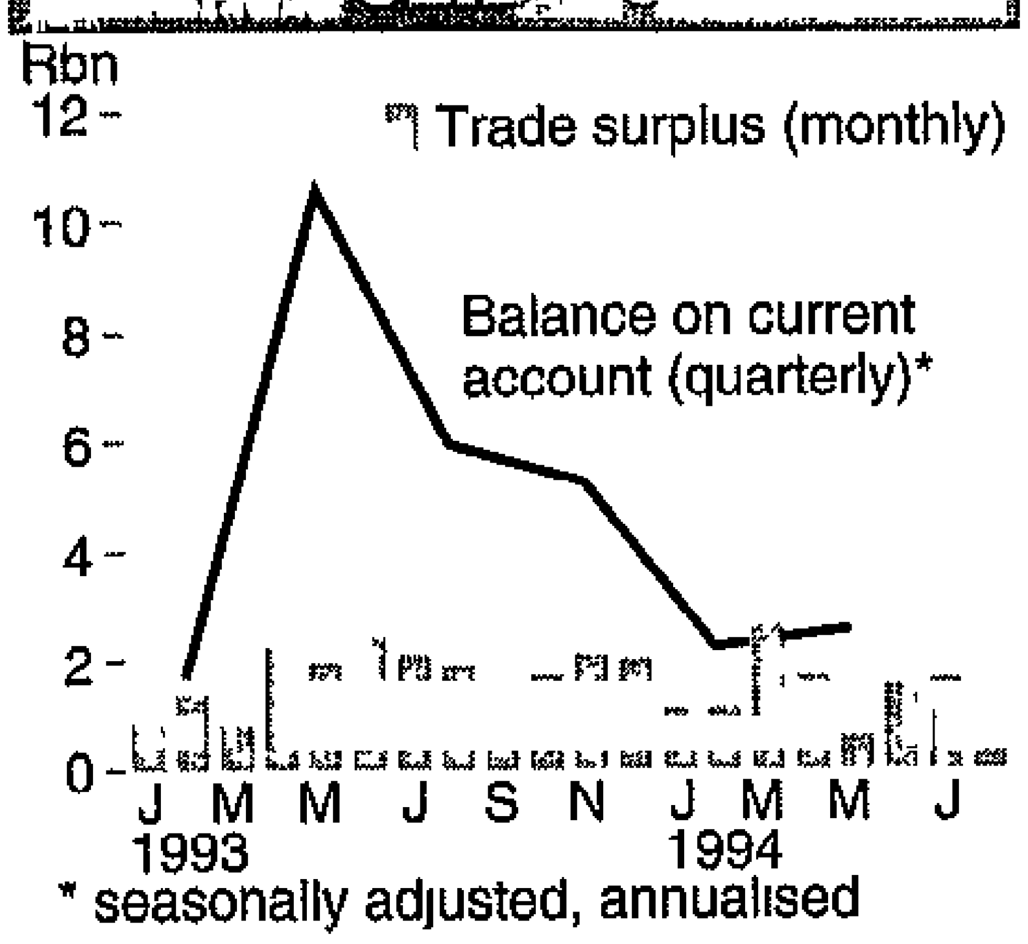
This calls for caution

Le Roux says "Quite correctly, in my view, Stals is saying he is not prepared to put his faith in a capital account surplus to bail out the balance of payments"

Inflation is starting to become an issue But the 9,4% CPI increase in August, year-on-year, against 8,2% in July, and 1,5% for the month, is due to a resurgence in food prices, up 4,7% in the month and 19,7% year-on-year

Excluding food, inflation is still at moderate levels (see graph) So, given good weather, it could subside again

CURRENT ACCOUNT SLIDING



* seasonally adjusted, annualised

SOURCE CUSTOMS & EXCISE RESERVE BANK

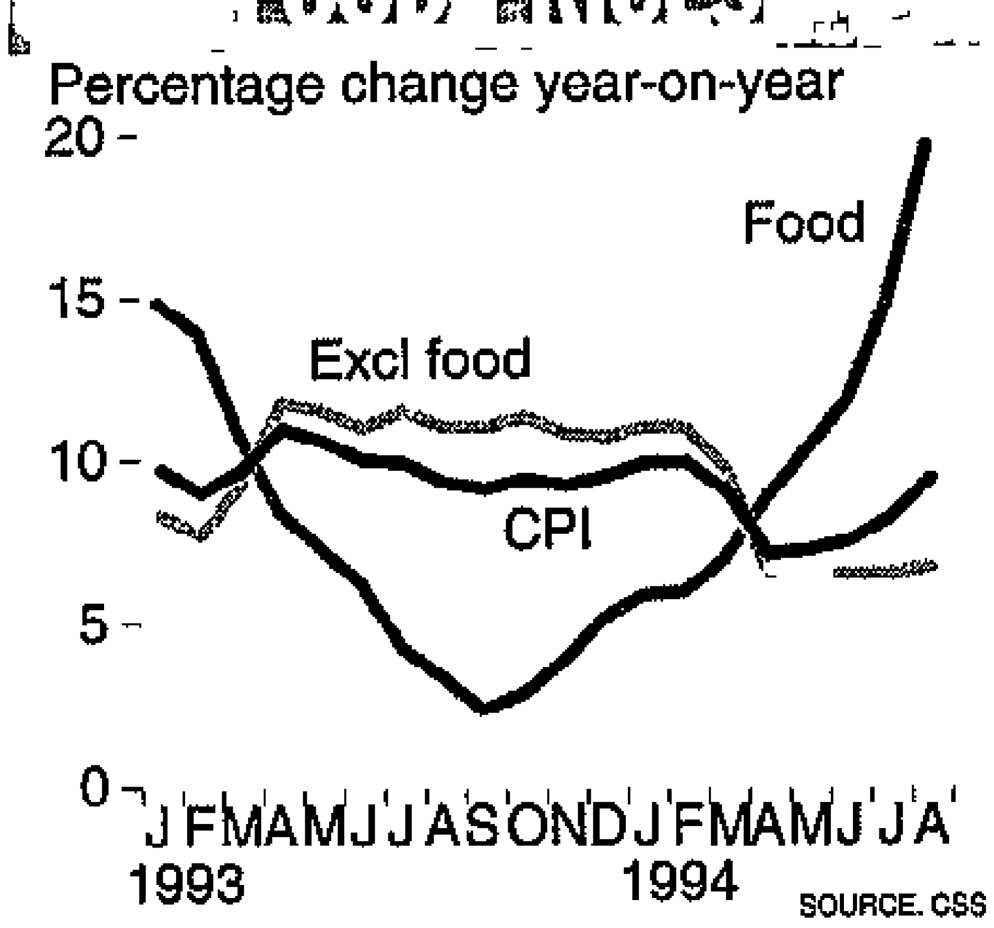
However, credit extension continues to grow at an accelerating pace

Figures released this week show private sector credit growing 13,9% in the 12 months to July (the latest figure available) This was up on the 13,3% and 13,4% in the two previous months and well up on the 9,4% seen in March

Total credit extension was up 23% in the 12 months to July, more or less in line with the 23% and 24% in the previous months But it represented a big jump from the 12-month growth of 13% in March

Growth in credit extension is reaching proportions that alarmed former Governor Gerhard de Kock in the upswing of 1987-1988 He was eventually obliged to ask the banks to constrain credit growth to about 12% a year

INFLATION: VOLATILE FOOD PRICES



SOURCE: CSS

Money supply growth moderated — from the start of the current target year to August, it grew at an annualised rate of 14,8% This is down from the previous month's 15,9% but in line with the 14,4% recorded in June

Now that Stals has acted with characteristic promptness, to counter inflationary potential, there are fears that higher interest rates, combined with the 5% transitional levy to be paid over the remainder of the fiscal year, will smother the recovery (see P31)

Growth this year has been unimpressive And, given the cut in personal disposable income, it is likely to remain that way.

The Stellenbosch University Bureau of Economic Research notes that the level of consumer confidence rose in the third quarter But it warns this "would only result in a surge in spending if the financial position of consumers improved"

The Board of Executors' Investment Outlook sees this as unlikely

It argues that the prospects for increasing consumer expenditure in the second half of the year are slight because the economic recovery has failed to generate employment

This is the downside There is another perspective

Stals is reaffirming his standing among Western central bankers, many of whom have taken the cautious route of notching up interest rates to pre-empt stronger inflation Two weeks ago, the Bank of England pushed up its minimum lending rate by half a percentage point and, as the *FM* went to press, the Federal Open Market Committee was considering the US's sixth interest rate rise of the year

Stals will take his latest action to the IMF as proof to sceptics that he intends to maintain central bank independence in the new SA

These are important factors in a country seeking foreign investment and facing demands to scrap the two-tier exchange rate. If he had not bolstered the currency now, Stals would almost certainly have had to move more drastically later

The present move is the lesser of the two evils

Patrick Lawlor

Another inflation shock

ALIDE DASNOIS (153)
Business Staff

CTRG 12/10/94

PRODUCER price inflation jumped in August to its highest level in nearly three years, suggesting that more price shocks are on the way for hard-pressed consumers.

Figures released today by the Central Statistical Service show that producer price inflation rose in August for the fourth month in a row, with prices now running 9,9 percent above August 1993 levels

This is the highest rate of producer price inflation since October 1991.

The producer price index (PPI) measures changes in prices paid to producers of both local and foreign goods Higher producer prices usually result in higher prices for consumers, though the time lag may vary.

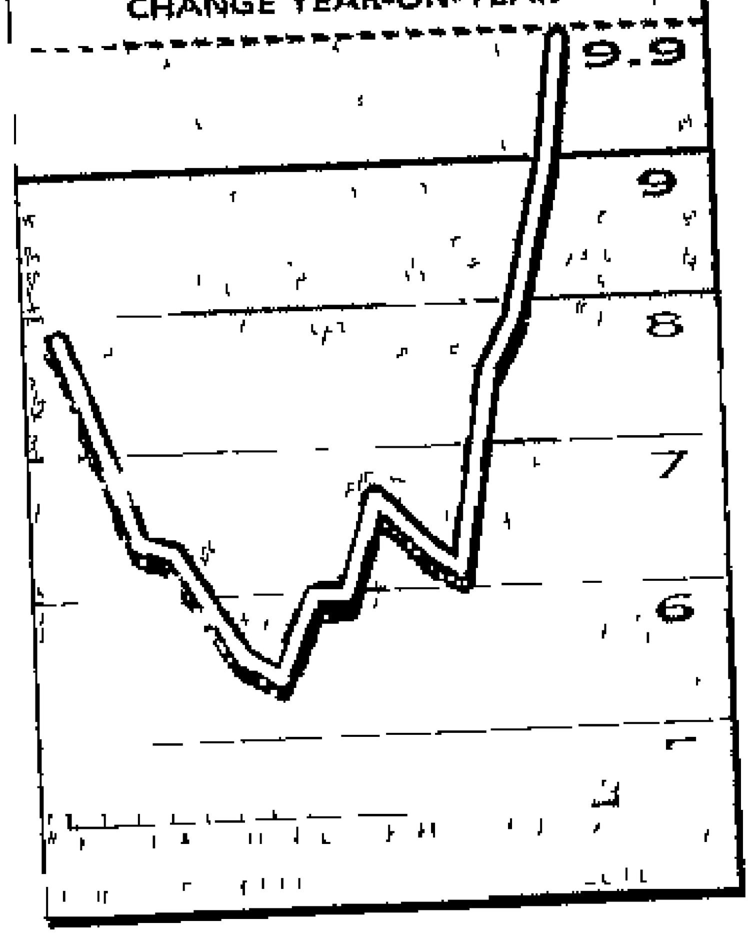
The figures show producer prices of agricultural food products rose 4,4 percent in a single month

Another setback in inflation fight

Star 13/10/94

BY CLAIRE GEBHARDT

PRODUCER PRICE INDEX
CHANGE YEAR-ON-YEAR



South Africa's production price index (PPI) soared to within a whisker of double-digit territory in August

Shock figures from Central Statistical Services (CSS) put the PPI at 9,9 percent in August — its highest level in three years and its fourth consecutive monthly increase

Economists said the "bad news" figure would boost inflationary expectations and could push the consumer price index (CPI) to 11,5 percent by year end (153)(~~344~~)

About half of the monthly increase is attributable to fresh food price hikes.

Meat prices have rocketed over the past few months as farmers held back stock to replenish herds severely depleted by the drought

Fruit and vegetable crops have been decimated by frost.

The production price index for locally produced commodities for South African consumption showed an annual rate of increase of 10,4 per cent for August — one percent up on July

Relatively large increases were recorded for agricultural products (4,2 percent mainly due to a 4,4 percent increase in the price of agricultural food products), mining and quarrying and basic metals were up 1,5 percent and electrical machinery 2,4 prcent

The annual rate of increase for imported commodities was 7,5 percent — 0,6 percent higher than in July

Despite a weaker rand, imported inflationary pressures, which included lower international oil prices, have tended to keep the overall PPI down

The PPI bottomed at 5,4 percent during the fourth quarter of 1993.

Mathison & Hollidge economist, Tracey Ledger, says the imported number reflects the fact that inflation has bottomed in major trading partners

But she forecasts that as the domestic economic recovery continues, so too will the upward pressure on prices

"The PPI could reach 11 percent by December"

Ed Hern Rudolph economist Nick Barnardt is opting for 12 percent.

"But much depends on government's import policies and whether it will allow cheaper imports of red meat.

"Rainfall is also a factor."

Barnardt says figures will come off a very low base in the next three months given that there were very small increases in prices in September, October and November last year

Barnardt says the CPI must move higher as fresh food price hikes impact on processed food prices.

Falling food prices ease inflation fears

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ARG 19/10/94

DEREK TOMMEY

JOHANNESBURG — The sharp rise in food prices in recent months has led to fears that South Africa is about to enter a new major inflationary spiral

But a survey of food producers and retailers shows that some food prices are falling and that others are expected to decline significantly in the next few months — which should curb inflation.

The recent sharp increase in food prices was not exceptional given the circumstances, say analysts.

The first half of the year was an extremely difficult one for the country's food producers. Drought in the Transvaal and Northern Cape stunted cattle and sheep herds, hard frosts wiped out much of the potato and tomato crops, Newcastle disease wreaked havoc with chicken production, and plagues of mice hit vegetable production in the Northern Transvaal.

According to figures produced by Central Statistical Services the overall result was a 10 percent drop in food production between the end of December and June this year.

This low level of production saw vegetable prices rise 16,5 percent in August to show a rise of 77,4 percent on the year, while meat prices rose 8,1 percent in August making 54,8 percent for the year

However, the factors responsible for the sharp rise in food prices were temporary and as the weather improves, supplies should increase, and prices turn lower

This is now happening. Vegetable prices have fallen sharply at the City Deep market in the past few days Conditions there are rapidly returning to normal, says Chandu Govind of King Fresh Wholesalers

Tomatoes, which were selling at around R30 a box last week, were down to R10 a box yesterday. Potatoes, R30 a pocket last week, are now below R10

Green beans and green peppers have had an even bigger fall. From R40 a pocket a week ago they are now R10

Housewives' spending has also been hit by increases in chicken prices following the shortage of supplies. But Robbie Williams, executive chairman of CG Smith, which has extensive broiler chicken operations, says the worst is over

Production is building up again and the shortage should ease. However, Alan Baxter, Pick 'n Pay's general manager foods says the position might not be back to normal until the New Year with the result that turkey this Christmas could be cheaper than chicken.

The sharp rises in red meat prices has caused considerable hardship. Unfortunately, it will some time before the situation returns to mormal, says Danie Van Schalkwyk, general manager northern agencies of Vleissentraal.

Nonetheless, last week's abnormal 30 percent drop in beef supplies from the previous week should be reversed this week

Soaring meat and vegetable prices lift rate to 10,1 percent

Double-digit inflation back

Star 28/10/94

BY CLAIRE GEBHARDT

Consumer inflation soared to 10,1 percent in September — its first sortie into double-digit numbers in 14 months

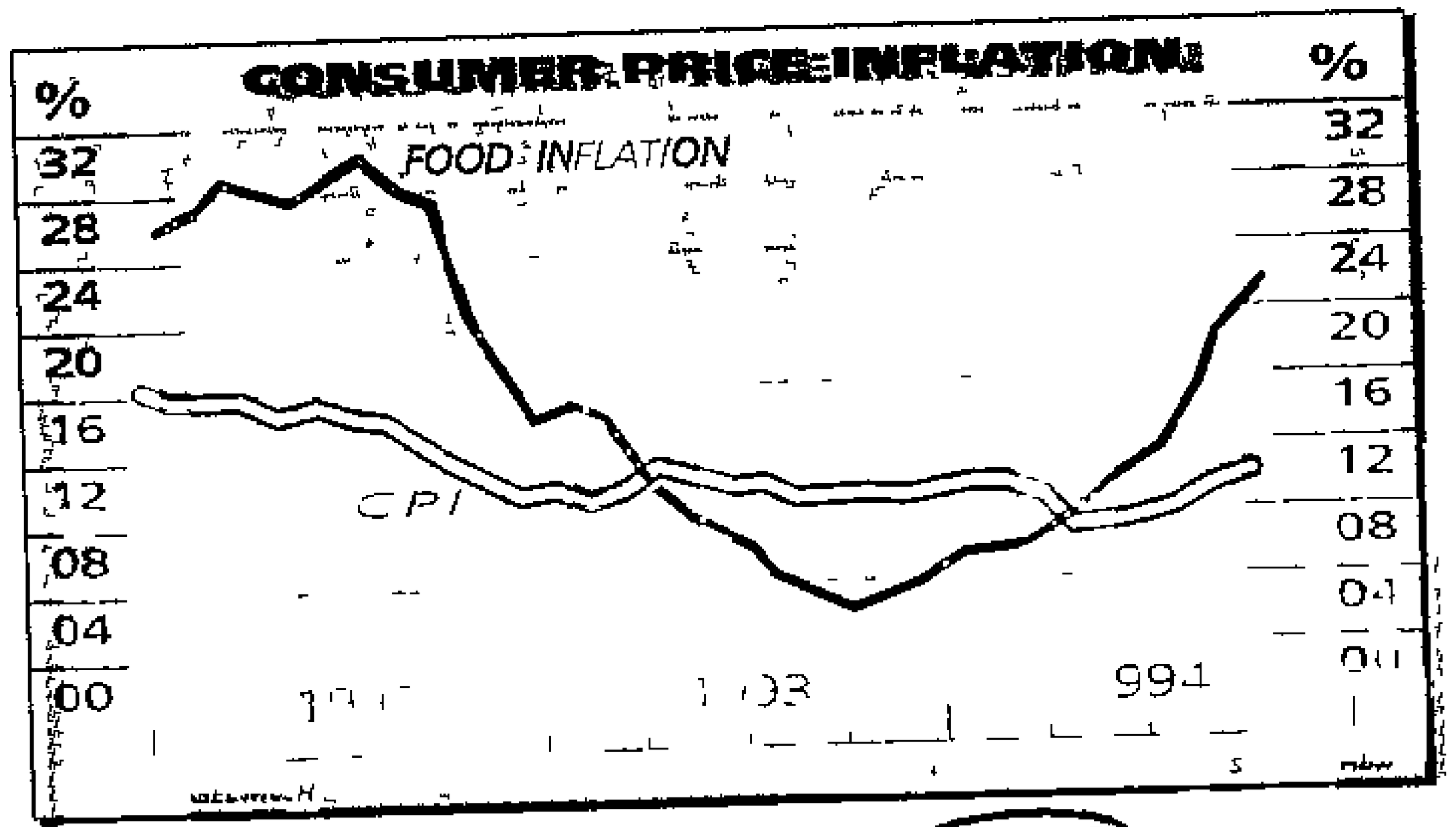
Rocketing meat and vegetable prices were once again responsible for the higher-than-expected numbers.

Central Statistical Services (CSS) figures released yesterday indicate that September's consumer price index (CPI) was almost one percentage point higher than August's 9,4 percent

Excluding food prices, the inflation rate was 7 percent, against August's figure of 6,7 percent.

Economists labelled the underlying increase as worrying and said inflation could reach 12 percent by year-end if the trend continued.

They also feared that higher inflation, in conjunction with the deficit on the current account of the balance of payments (BoP) as a result of the poor trade figures, could spur Reserve Bank Governor Chris Stals to hike Bank rate once again.



Mathison & Hollidge economist Tracy Ledger said it was high time that the government launched an urgent investigation into the food industry.

"We need to look at how fresh food is produced, delivered and priced."

Ledger said high food prices were a disgrace in a country such as South Africa where half the economically active population lived below the poverty line

"Most people are either unemployed or in the informal sector and they're probably spending their entire income on food."

(153)

Ledger said the objective should be the delivery of cheap food and not profit in the food sector.

"In many instances, access to reasonably priced food is more important than houses," she said

Sanlam economist Johann Louw said the "all items" category in September had increased by 1,2 percentage points month-on-month, against 1,5 percentage points in August

Food had increased by only 2,7 percentage points in September, against 4,7 percentage points in August

"So the rate of increase is tapering off, but if this upward trend continues, we could see inflation reaching 12 percent by year-end"

Sapa reports Old Mutual chief economist Dave Mohr as saying Stals had warned that interest rates would rise well before inflation reached unacceptable levels.

"If it hits 12 percent in 1995, as we fear, he is likely to jack interest rates up, to subdue the economy and limit wage and salary increases."

While painful for wage earners, this would prevent the cyclical rise in inflation from becoming permanent.

Mohr said the economic recovery of the past 18 months had been uneven, with spending growing faster than production.

"This led to a sharp rise in imports, particularly of machinery and transport equipment."

Mohr said that although such imports were essential for growth, they put pressure on the current account of the balance of payments

But it was unlikely that double-digit inflation would again become entrenched

"The economy's anti-inflationary disciplines are strong — led by the Reserve Bank's monetary conservatism, the government's tight fiscal approach, foreign competition as tariffs fall, and moderate wage pressures.

"We should see single-figure inflation again, in due course," Mohr said

Food prices fuelling double-digit inflation

CT 28/10/94 (844) (153)

RUNAWAY food prices pushed inflation, as measured by the Consumer Price Index, into double digits in September for the first time in 15 months

The main culprits in the 21,9% surge in food prices were vegetables, up year-on-year by 51,5%, and meat, up 34,7%. However, inflation for all items except food is only seven percent

Food inflation accounted for half of the 1,2% month-on-month increase.

● Double digit inflation as food prices soar — Page 11

Double digit inflation as food prices soar

CT 28/10/94 (153)

By MAGGIE ROWLEY
Deputy Business Editor

RUNAWAY food prices pushed inflation, as measured by the Consumer Price Index, into double digits in September for the first time in 15 months.

While not totally unexpected by economists and the financial markets, the increase which follows August's 9,4% inflation rate could put yet more pressure on the Reserve Bank to raise interest rates sooner than expected.

Food prices soared 21,9% year on year in September against 19,7% in August, with the main culprits being vegetables which soared 51,5% and meat 34,7% year on year. The month on month increase in food inflation was 2,7% due in the main to vegetables rising 11,7% in September from August, meat 1,6%, fruit and nuts 5,2% and coffee, tea and cocoa 4%.

Inflation for all items excluding food is however running at only 7% which indicates that underlying inflation is in a much healthier position.

Year on year inflation in the Western Cape is running at 11,9% — the third highest in the country after Port Elizabeth (13,2%) and Bloemfontein (12,3%).

The seasonally adjusted monthly increase in CPI is 1,2% with food prices accounting for 0,6% of this, housing 0,1%, recreation and entertainment 0,1% and all other items 0,4%.

Boland Bank economist Francois Jansen said if the month on month 0,6% rise in food prices was taken out, this would have contained September CPI to 9,7%.

While food has a fairly heavy weighting in the basket of goods measured it only accounts for 18,64%. Inflation for the other 80% is only running at 7%.

"But food prices are what the man in the street understands as inflation and as such these continuing high prices will fuel inflationary expectations."

Old Mutual economist Johan Els said what was heartening was that underlying inflation was well below double digits.

He said they were forecasting inflation at 10,5% for October, rising to 12% by year end which will bring the average for the year to 9,5%.

Double digit inflation however, he said was here to stay in the medium term and was only expected to fall back into single digits in 1996.

"Once the food cycle turns, we should see some improvement. But this could be a gradual process."

Els said the new vegetable crops were starting to come to the market and this should see lower vegetables prices filtering through CPI figures from November.

He pointed out that while meat prices were running 34,7% ahead of September 1993, the month on month increase was the lowest in seven months.

"While this is too soon to indicate a trend, we will be keeping an eye on this."

Lower petrol prices should also have a small impact in the October, November inflation figures but the effect on the CPI of late increase in interest rate would more than wipe out this benefit. The 1% increase in the bond rate effective as of next month would have a 0,5% to 0,6% direct impact on the CPI, he said.

The latest inflation figures follow hard on the heels of this week's trade figures which showed the trade surplus had shrunk significantly for the second consecutive month which could see the Reserve Bank being forced to move on interest rates to dampen growing demand for imports.

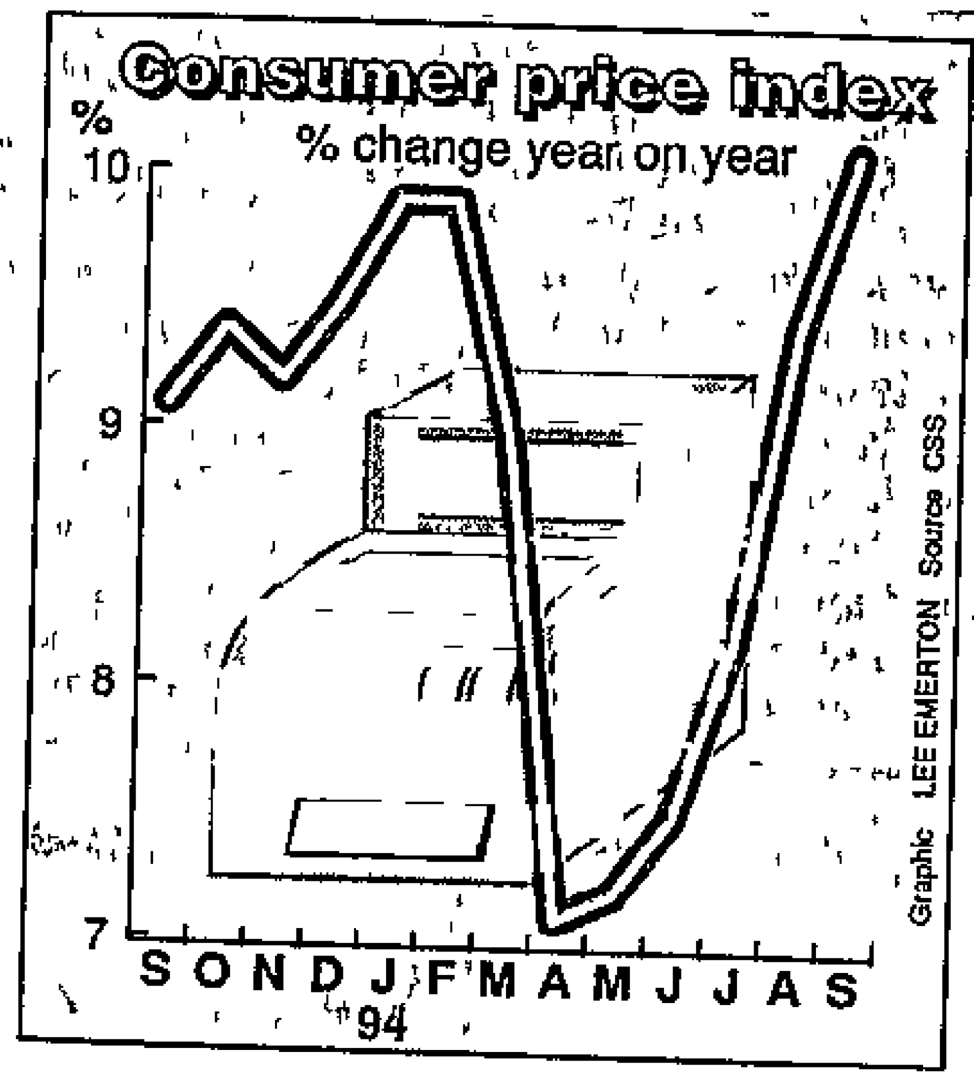
Els pointed out that double digit inflation would put further upward pressure on interest rates.

"Rising inflation is definitely fuelling inflationary expectations which will feed into end of year wage negotiations so we might well see the Reserve Bank moving before the end of the year."

Jansen does not agree, saying he thinks Stals will sit tight for the next couple of months and wait for later figures which show the impact of the latest interest rate hike.

"We are not expecting a further increase before April."

Nomura to launch 'Chinese walls' mooted for bank



Food prices push inflation past 10%

BDay 28/10/94

MUNGO SOGGOT

DOUBLE-digit inflation has hit SA for the first time in 15 months, with consumer inflation in September rising to 10,1% from August's 9,4%, according to figures released yesterday by the Central Statistical Service (CSS). (153)

Economists said rocketing food prices — which propelled inflation from 7,1% in April to 9,4% in August — were still distorting the overall picture. Excluding food, September's consumer inflation was slightly up at about 7%. In August it was 6,7%, from the previous four months' 6,5%

But economists warned that the high figure, together with the shaky state of the current account and the rate of growth in the money supply, could force Reserve Bank Governor Chris Stals to lift interest rates sooner rather than later They said the figure matched expectations and predicted consumer inflation would hover above 10% for up to two years.

The CSS said food inflation had risen to 21,9% from 19,7% in August. Vegetable inflation was 51,5% year-on-year, while meat inflation was 34,7%

Old Mutual economist Johan Els said new crops would help reduce vegetable prices and vegetable inflation could start falling in the November inflation figures The increase in meat prices had been less dramatic than in the previous two months, but it was too early to tell if this was the start of a downward trend in the rate of increase Meat inflation would probably start falling early next year.

☐ To Page 2

BDay 28/10/94

☐ From Page 1

Inflation

Nedcor chief economist Dennis Dykes said any falls in vegetable prices towards the year-end would be offset by the surge in Christmas demand. While food inflation probably would tail off next year, non-food inflation would start picking up.

The CSS said the 1,2% monthly increase in the consumer price index (CPI) included a 0,6% rise in the food price index, a 0,1% increase in the price index for housing and a 0,1% increase in the index for recreation and entertainment Excluding food, the CPI was up 0,7% month-on-month

Economists said the housing price index rise was not a result of the hike in mortgage rates which followed last month's Bank rate increase, as banks would lift rates for new bonds only from November.

FM 4/11/94

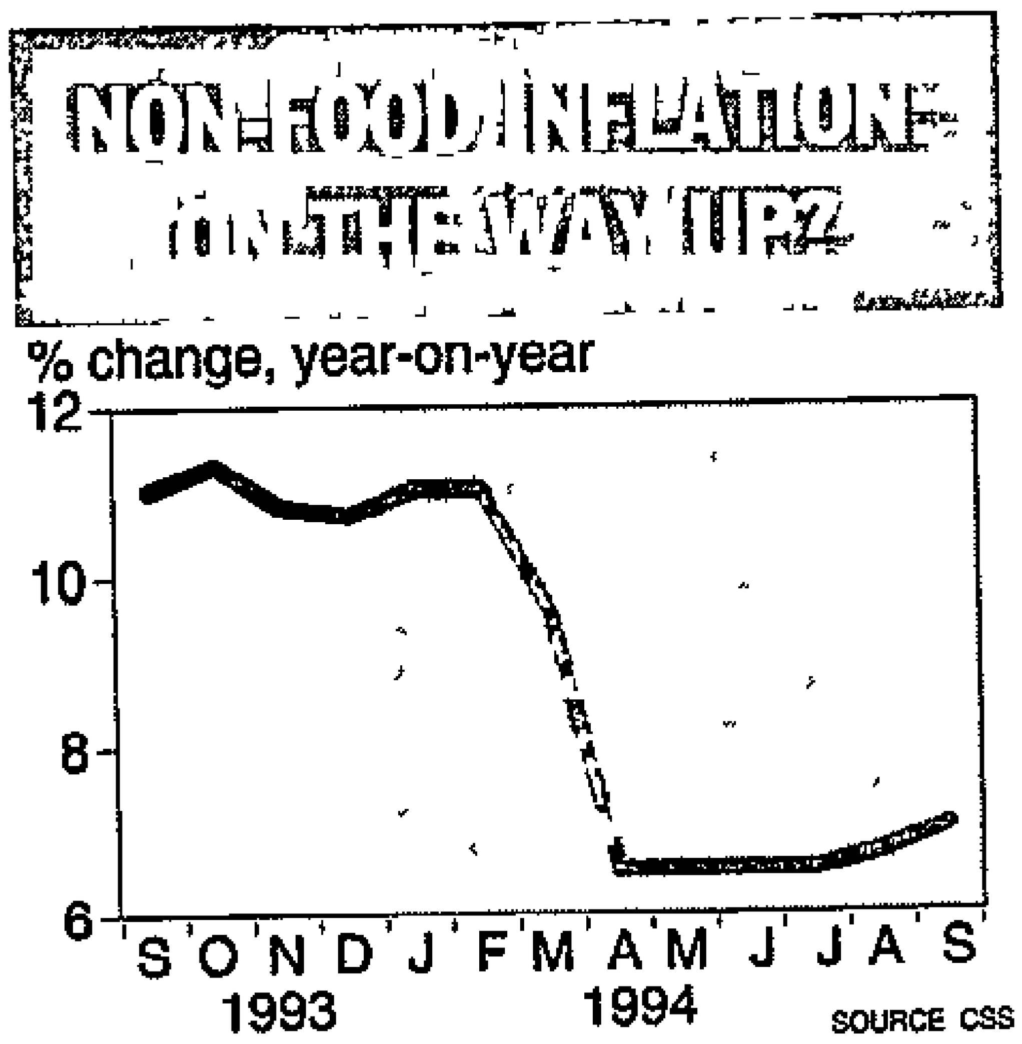
INFLATION

FM 4/11/94

Good measure

Inflation for September is running at 10,1% while growth in broad money (M3) is at an annual 14,3%, or 13,7% when measured annualised from the middle of the fourth quarter of 1993 (153)

Much of inflation's impetus has come from food, which is over 18,5% of the total index For September the annual increase



in this component was 21,9%, with a 2,7% increase in the month Excluding food, inflation still stands at a reasonable 7%

Much of the monetary growth stems from government drawdowns of deposits to fund April's general election

It seems likely however the increase in food prices will abate in the months ahead "We have started to see retail prices of many important inputs of the vegetable component of the food index, such as potatoes and squashes, come down," says Sanlam senior economist Pieter Calitz, "and meat prices may have peaked too."

Unfortunately, prices of nonfood items seem to be gaining momentum (see graph) The year-on-year rate has picked up from 6,5% for four months in a row Nick Barnardt, economic strategist at stockbrokers Ed Hern, Rudolph, points out that, annualised, nonfood inflation during the past three months is over 10%

The housing index will be boosted by higher mortgage rates from November Calitz puts the increase to the housing index at 0,6% over two months This could be

offset slightly by declines in fuel prices

Anecdotal evidence of increases in consumer spending in recent months is tentatively confirmed by the large intake in government revenue for September This could be a function of better company results as sales improved

The improvement in consumer spending is mirrored in rises in domestic credit extension with a shift in domestic private credit. After a few months of mild growth, this leapt, in the three months to August, (latest data available) by 5,9%, or 25% annualised. Certainly, some of this has been technical Investments, for instance grew more than R4bn over two months, largely because of the steepening of the yield curve as soaring bond rates accompanied liquidity into the money market

But increases in mortgage advances and other loans & advances, as well as the steady increases in the stock of narrow money, such as M0 and M1A, support the view that spending is up

Changes in the currency regime will play a part in the prospects for 1995 Removal of exchange controls, if it precipitates a depreciation of the commercial rand rate, should put pressure on imported prices "Hopefully, in an environment of freer trade and lower import tariffs, this should be far less than in previous currency depreciations," says Barnardt.

There will be domestic pressures, at least in the short term, says Calitz "The economy should have picked up even more by then, and there are other technical, one-off factors which could have a negative spinoff. These include potential increases in indirect taxes, and further increases in Bank rate Though an increase in official rates is ultimately disinflationary, in the short term they push up the index through the mortgage component of the housing index"

Barnardt believes the key is controlling expectations "My fear is that, though higher food prices are temporary, they may have made people see double-digit inflation as permanent

FM 4/11/94

"Where I am optimistic is in the commitment of government to keeping expenditure at reasonable levels, the Reserve Bank also has a proven track record of monetary discipline For these reasons, while I think inflation will rise in the early part of next year, it should start to decline later in the year" ■ (153)

IBCA'S BIGGER SLICE

London-based [illegible] agency, Ibca has increased its holding in local agency [illegible]

[illegible] of 27% was made [illegible] with the option [illegible] holding to 50% [illegible]

[illegible] R2m deal Republic [illegible] chairman [illegible] not available for further [illegible] Ibca how [illegible] rating agency to [illegible]

Inflation

BiDay 10/11/94

☐ From Page 1

flation had fallen, vegetable inflation was still soaring. The CSS said vegetable prices were up 18,4% month-on-month, while meat prices were down 1,7%. Year-on-year vegetable inflation was 101,5%.

A 0,8% hike in the imported component of the producer price index (PPI) outstripped the overall 0,3% monthly rise. Economists said it would take a couple more months for the stronger rand to push down the imported component, which rose 8,7% for the year to September, compared with 7,6% for the year to August.

Economists said producer inflation was likely to pick up significantly in October before slipping back into single digits next year. Sanlam senior economist Pieter Calitz said September was a month in which few items were surveyed, which could explain why there had been few non-food price increases. He predicted that producer inflation next year would probably hover below 10%, while consumer inflation was likely to remain in double digits.

Old Mutual economist Johann Els said producer inflation in October would probably be firmly up on September's, considering that the average monthly increase in the PPI for the eight months to August was 1%, compared with 0,3% in September.

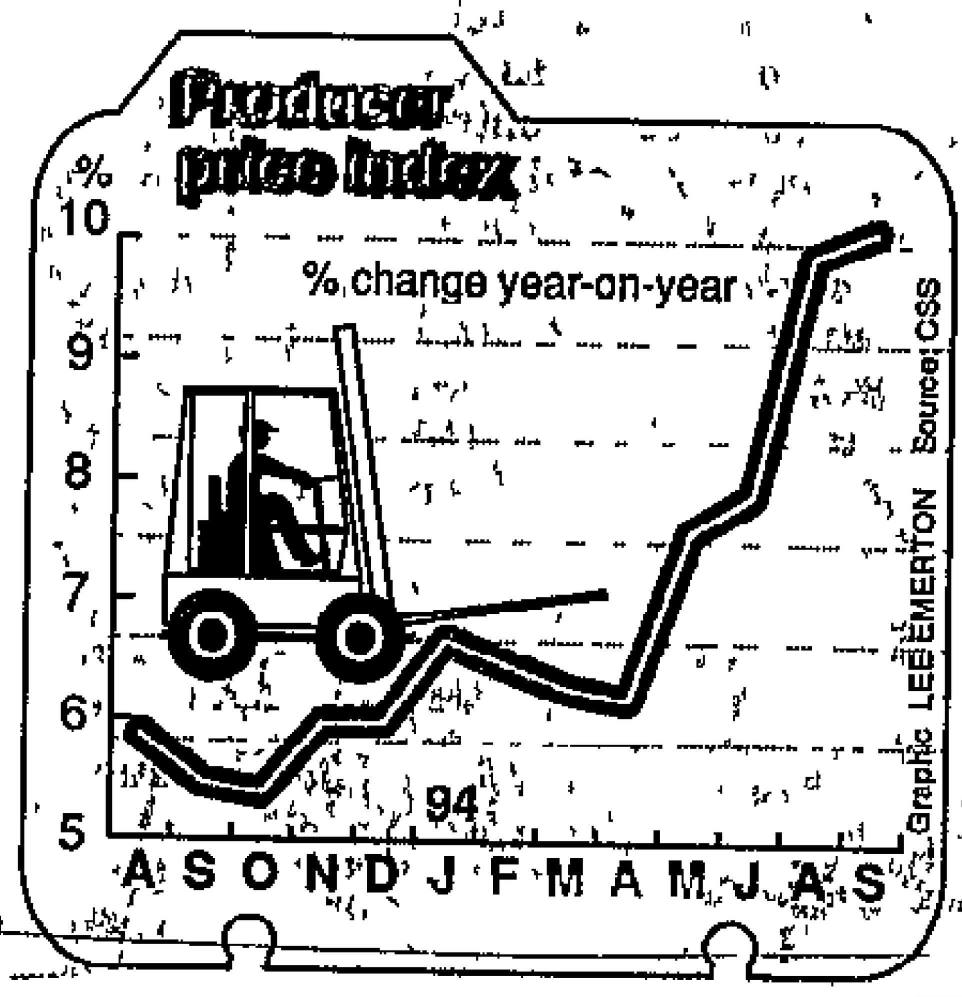
The CSS said the price index for manufactured food goods was down 0,7% month-on-month, mainly because of a 3,1% decrease in the price of fresh meat.

The agricultural product price index was up 1,1% month-on-month, mainly because of a 1,2% increase in agricultural food prices. The mining and quarrying price index was up 0,9% month-on-month, textiles and made-up goods rose 1,7%, and clothing was up 2,3%.

Producer inflation into double digits

B Day 10/11/94

MUNGO SOGGOT



PRODUCER inflation edged into double digits in September for the first time in almost three years, rising to 10,1% from 9,9% in August, Central Statistical Service (CSS) figures released yesterday showed

The effect of the weak rand was an important factor behind the rise. Economists said the figure was lower than expected, mainly because some food price increases in September had been less dramatic than in the past couple of months. It was likely that the rate of increase in food prices would continue dropping, which would help restrain consumer inflation

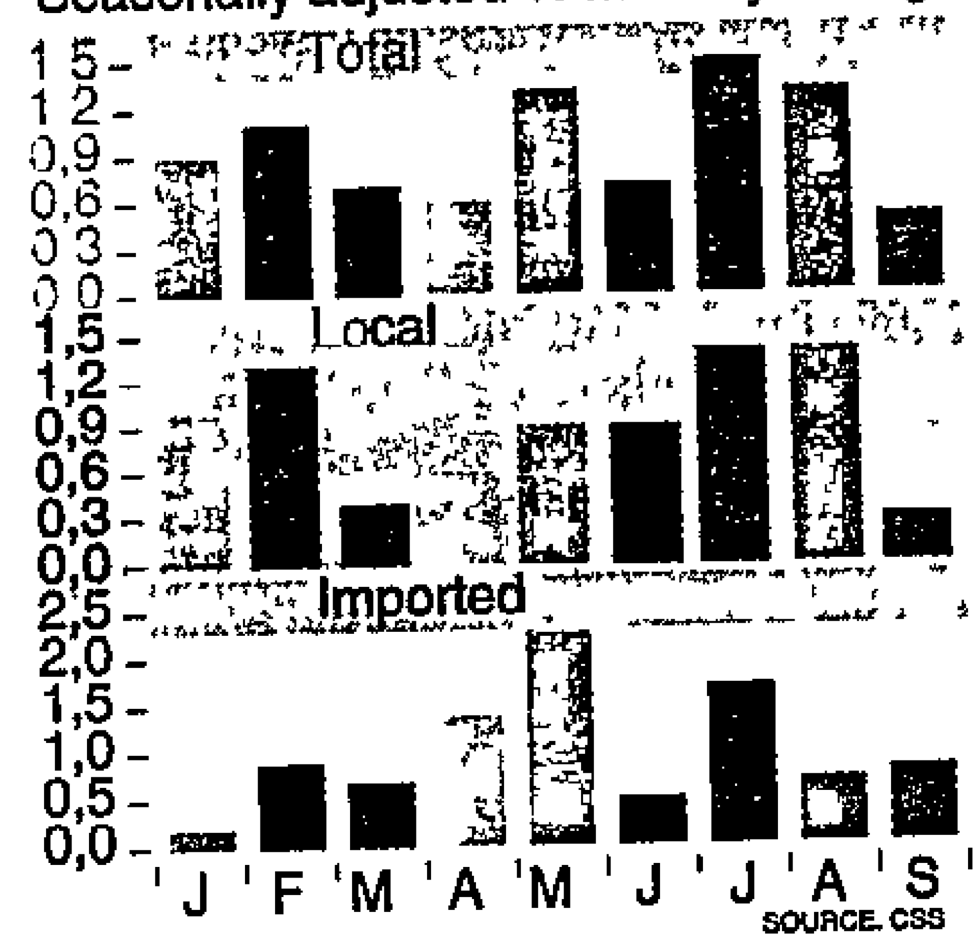
The figures showed that while meat in-

To Page 2 (153)

Fm 18/11/94

PPI: MONTH-ON-MONTH SLIDE

Seasonally adjusted % monthly change



SOURCE. CSS

PPI Fm 18/11/94

Only a spike

The year-on-year rise in the production price index was 10,1% in September — 0,2 percentage points higher than in August It put producer inflation into the dreaded double digit range again, for the first time in almost three years, says Central Statistical Service.

But the month-on-month rise was the lowest since March, when the index fell 0,1% It was 0,3% or a seasonally adjusted 0,5% (see graph) (153)

Monthly variations are not significant when inflation is driven by structural forces But they can be when producer prices have been boosted by commodities with volatile prices or subject to fluctuations in the rand

In this case:

❑ Rising food prices, following damage to crops by drought and black frost; and

❑ Rising imported prices due to the steep fall in the rand until net inflows of foreign exchange stabilised the currency

These are pressures that could recede if events that caused them are not repeated in the 12 months ahead

Prices of agricultural products, made up mainly of food, rose only 1,1% in September, down from 4,2% in August It was the lowest monthly increase since March — thereafter this component began to figure in the list of trouble spots published each month by Central Stats.

One of the most seriously affected items was vegetables, which rose a monthly 18,7% in September But vegetable prices declined in October, says Central Stats chief, Treurnicht du Toit, "according to prices at fresh produce markets" And the price index for meat has already shown a monthly decrease of 1,7%.

Prices of manufactured food reversed direction, falling by 0,7% in September. This component became an important contributor to inflation in May, when it notched up a 3,4% monthly rise (153)

Agriculture is 9,47% of the total index while food (manufactured) is 12,91%.

Oil is still putting pressure on prices. It is included in the component mining & quarrying, other, weighted at 7,5% in the index. September saw a 1,8% monthly rise in the component, from 1,4% in August But these rises were modest, compared to those in the preceding three months — 5,9%, 4,5% and 4,3%

The deceleration is due to the relative stability of the rand At the same time, the dollar price of oil which rose sharply in the early months of the year, has levelled out at around US$17 a barrel ■

Inflation 'not out of control'

153

CT 19/11/94

By ARI JACOBSON

SA's consumer inflation "is not out of control — yet that seems to be the perception", said Boland Bank chief economist Francois Jansen at the Boland Bank annual economic conference yesterday

Jansen pointed out that food inflation, which made up less than 20% of the consumer price index (CPI), was in double digits — but the rest of the CPI basket was rising at an underlying rate of 7%.

He said that it remained SA Reserve bank governor Chris Stals' task to waylay these false perceptions

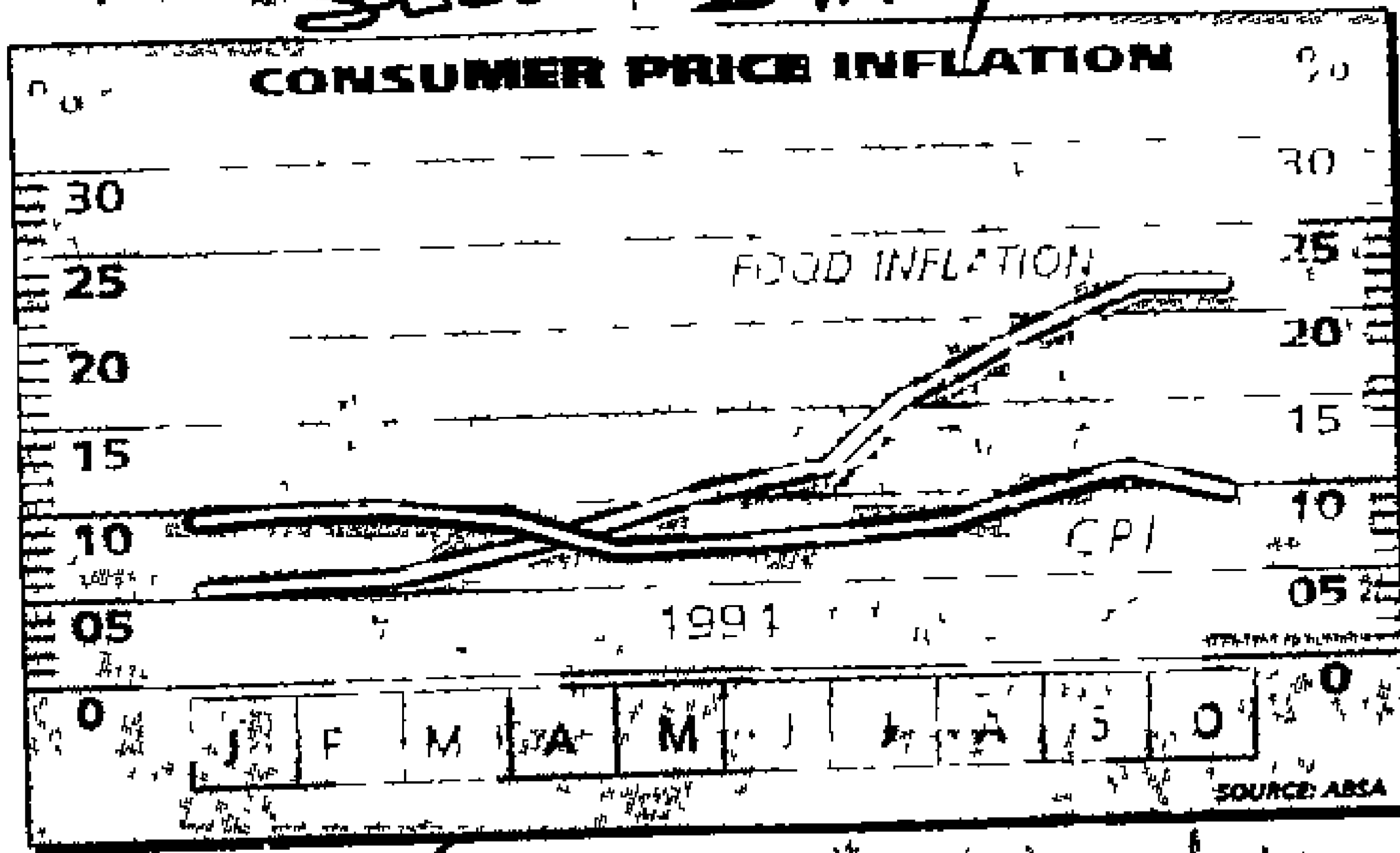
He forecast that the CPI for 1994 would be at a 9,5% increase, even with sharp month-on-month rises over the next few months of the year

Jansen said that the inflation rate would average out at about a 10,5% increase in 1995 and by 1996 he expected the benchmark inflation figure to be back in single digits

Welcome fall in inflation

Star 29/11/94

BY DEREK TOMMEY



South Africa at last seems to be winning the war against inflation.

Figures issued by Central Statistical Services last night shows that the year-on-year rate of increases dropped to 9,8 percent last month after rising to 10,1 percent in September.

But even more encouraging was the news that in October the Consumer Price Index increased by only 0,4 percent which is equal to an annual rate of inflation of around 5 percent — something which South Africa has not seen for decades.

The feature of the October figures was the lower rate of increase and in some instances a drop in certain important food price indices.

This is the result of good rains after a quite severe drought in many major food producing areas, and also the recovery in potato, tomato and green vegetable production after the devastating frosts in June and July which killed hectares of crops.

This led to the food price index rising only 0,7 percent in October after a 21,3 percent rise in the previous 11 months.

In the past 12 months increased food prices have been a major factor in boosting the inflation rate.

This is shown by the fact that the increase in prices for all other items, excluding food was 6,7 percent for the 12 months ended October, and the rise in October itself was a mere 0,3 percent.

(153)

Some economists regard the 6,7 percent rise in non-food prices as a major achievement by the monetary authorities seeing that in the past 20 months the rand has been devalued against the dollar by about 14 percent — and at one stage earlier this year the devaluation was more than 18 percent.

This could have led to a sharp increase in the prices of imported goods. The fact that it did not is a tribute to the ability of the authorities in keeping down domestic demand and preventing importers from passing on price increases.

One effect of the slowing down in the inflation rate is that the need for the authorities to increase interest rates to control inflationary pressures should have been greatly reduced.

However, the emergence of a boom which could lead to balance of payments pressures might cause the authorities to take steps to cool it, economists point out.

After food the item showing the biggest price increase in the year ended October was the cost of domestic workers which rose by 21,1 percent.

The cost of reading materials increased by 13,0 percent, cigarettes and tobacco by 11,1 percent while medical care and health expenses rose 10,1 percent. Non-alcoholic drinks increased in price by 9,3 percent while alcoholic drinks rose by 6,3 percent. Fuel and power increased by 8,9 percent.

Communications — telephone charges and postage — took a substantial bite out of South Africans' incomes with a 10,1 percent price increase. The price of vehicles rose 9,0 percent, while running costs following the reduced petrol price in October rose by only 1,6 percent — a figure many motorists will find a little difficult to take.

However, the cost of riding on public transport increased by 6,2 percent.

CPI in single digits as food price hikes slow

(153)

CT 29/11/94

By AUDREY D'ANGELO
Business Editor

INFLATION, as measured by the consumer price index (CPI), slowed in October to 9,8% after rising to 10,1% in September. But economists forecast that it will return to double figures in November when the 1% rise in mortgage bond rates will be included in the calculations.

A slowing down in the rate of food price inflation — the main factor pushing it up in recent months — kept the rise in the CPI between September and October down to 0,4% compared with a hefty 1,2% between August and September.

Food price inflation is still running at a high rate of 21,8% year on year, only slightly below 21,9% in September. But it slowed to 0,7% between September and October, with meat prices actually falling by an average of 0,2%.

This is the lowest monthly figure for food price inflation since May. Between August and September it rose by 2,7%.

Because food accounts for a higher proportion of their incomes, the lower income group were the hardest hit by inflation in October. Their inflation rate was 10,6% year on year compared with 10,7% in September and 7,6% in October last year. Their monthly inflation rate was 0,6% compared with 1,3% in September.

Year on year inflation for the middle income group was 10,4% compared with 10,6% in September and 9,1% in October last year. Their month on month rise was 0,5% compared with 1,2% in September.

Year on year inflation for the higher income group was 9,5% compared with 9,7% in September and 10,3% in October last year. Their monthly rise was 0,4% compared with 1,1% in September.

Economists said the inflation rate had come as a pleasant surprise. Most had expected it to be in double figures.

Boland Bank economist Francois Jansen and Sanlam chief economist Johan Louw pointed out that, excluding food, the CPI in October was down to 6,7% year on year from 7% in September, showing that the underlying inflationary trend was still downward.

Jansen said he expected inflation to be back in single figures by the third quarter of next year. He forecast that it would average 9,3% for 1994 and 10,5% for next year.

Old Mutual economist Johan Lis said it was too soon to say whether food price inflation would continue to decline. He expected inflation to stay above 10% for the next 12 months. But it could be back in single digits by 1996.

Southern Life economist Sandra Gordon said it was encouraging that non-food inflation was continuing to fall because "the food price spiral is regarded as a temporary phenomenon which may now be in the process of beginning to unwind."

She pointed out that food price inflation in October had been "a mixed bag with another sharp rise in fruit juice prices — up by 7,9% month on month while vegetable prices have begun to stabilise, falling by 0,5% month on month."

She forecasts an inflation rate of 10,7% by year-end, and an average of 9,1% for the year.

"If food prices continue to stabilise during the remaining months of 1994 the anticipated rise in the inflation rate during the first half of 1995 could well be more subdued than initially anticipated."

Rise in October money supply

PRETORIA — South Africa's money supply, as measured by the M3, increased an annualised 14,67% in October against 14,32% in September, figures released by the Reserve Bank yesterday showed.

The RB's guideline growth is between 6 and 9%.

M3 seasonally adjusted was 14,34% in October (Sept: 13,79%).

Total M3 totalled R234 741bn from R232 137bn in the previous month.

Seasonally adjusted it amounted to R235 912bn (R232 313bn). — Sapa

Inflation falls back into single figures

BIDay 29/11/94

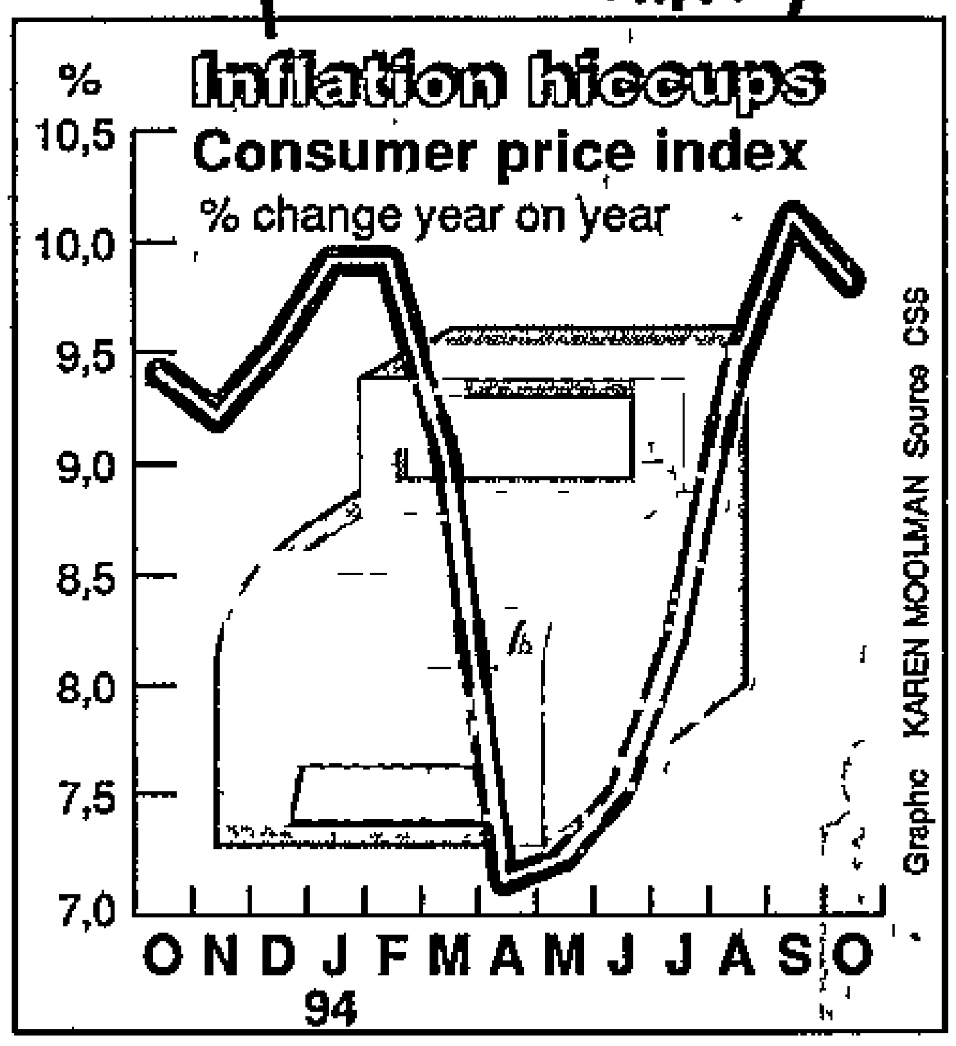
MUNGO SOGGOT

CONSUMER inflation in October slipped back into single digits, falling below market expectations to 9,8% after hitting 10,1% in September, Central Statistical Service (CSS) figures released yesterday showed

Most economists said the figure, which one dubbed a "pleasant surprise", was probably just a blip and November inflation would mark a return to double digits Double digit inflation hit SA in October for the first time in 14 months. (153)

The figure was lower than expected mainly because it had not yet reflected September's one percentage point hike in mortgage rates, they said. Downward pressure had come from a deceleration in the rate of food price increases and lower petrol prices

It was heartening that, excluding food, inflation had dropped to 6,7% from 7% in September. A surge in food prices propelled inflation from 7,1% in April to 9,4% in August



The CSS said the food index rose by 0,7% (2,7%) But year-on-year food inflation was barely changed at 21,8%, (21,9%)

Sanlam senior economist Pieter Calitz

☐ To Page 2

Inflation

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☐ From Page 1

said the rate of increase in food prices was likely to drop substantially in the next couple of months, although prices would be lifted over the festive season (153)

The low overall figure suggested there would be no "runaway inflation" next year. Inflation would probably hover between 10% and 15% in the next two years as the gathering pace of the economy set in

The CSS said the 0,4% monthly increase in the consumer price index stemmed mainly from a 0,2 percentage point increase in the food price index and a 0,1 percentage point increase in the housing index. Year-on-year vegetable inflation was 46,7%, while meat inflation was 34,3%

SA shows winning streak in the war on inflation

(153) ARG 1/12/94

Business Staff

SOUTH Africa at last seems to be winning the war against inflation

The latest figures issued by Central Statistical Services show that the year-on-year rate of price increases dropped to 9,8 percent last month after rising to 10,1 percent in September

But even more encouraging was the news that in the month of October the consumer price index increased by only 0,4 percent which is equal to an annual rate of inflation of around five percent — something which South Africa has not seen for decades

The feature of October consumer price index figures was the slower rate of increase and in some instances a drop in certain important food price indices.

This is the result of good rains after a quite severe drought in many major food producing areas, and also the recovery in potato, tomato and green vegetable production after the devastating frosts in June and July which killed hectares of crops

This led to the food price index rising only 0,7 percent in October after a 21,3 percent rise in the previous 11 months

In the past 12 months increased food prices have been a major factor in boosting South Africa's inflation rate

This is shown by the fact that the increase in prices for all other items, excluding food was 6,7 percent for the 12 months ended October, and the rise in October itself was a mere 0,3 percent

Some economists regard the 6,7 percent rise in non-food prices as a major achievement by the monetary authorities seeing that in the past 20 months the rand has been devalued against the dollar by about 14 percent — and at one stage earlier this year the devaluation was more than 18 percent

This could have led to a sharp increase in the prices of imported goods

The fact that it has not is tribute to the ability of the authorities in keeping down domestic demand and preventing importers from passing on price increases.

One effect of the slowing down in the inflation rate in October is that the need for the authorities to increase interest rates to control inflationary pressures should have been greatly reduced

However, the emergence of a boom which led to balance of payments pressures might cause the authorities to take steps to cool it, economists point out

After food the item showing the biggest price increase in the year ended October was the cost of domestic workers which rose by 21,1 percent

The cost of reading materials increased by 13,0 percent, of cigarettes and tobacco by 11,1 percent whiled medical care and health expenses rose 10,1 percent Non-alcoholic drinks increased in price by 9,3 percent while alcoholic drinks rose by 6,3 percent. Fuel and power increased by 8,9 percent.

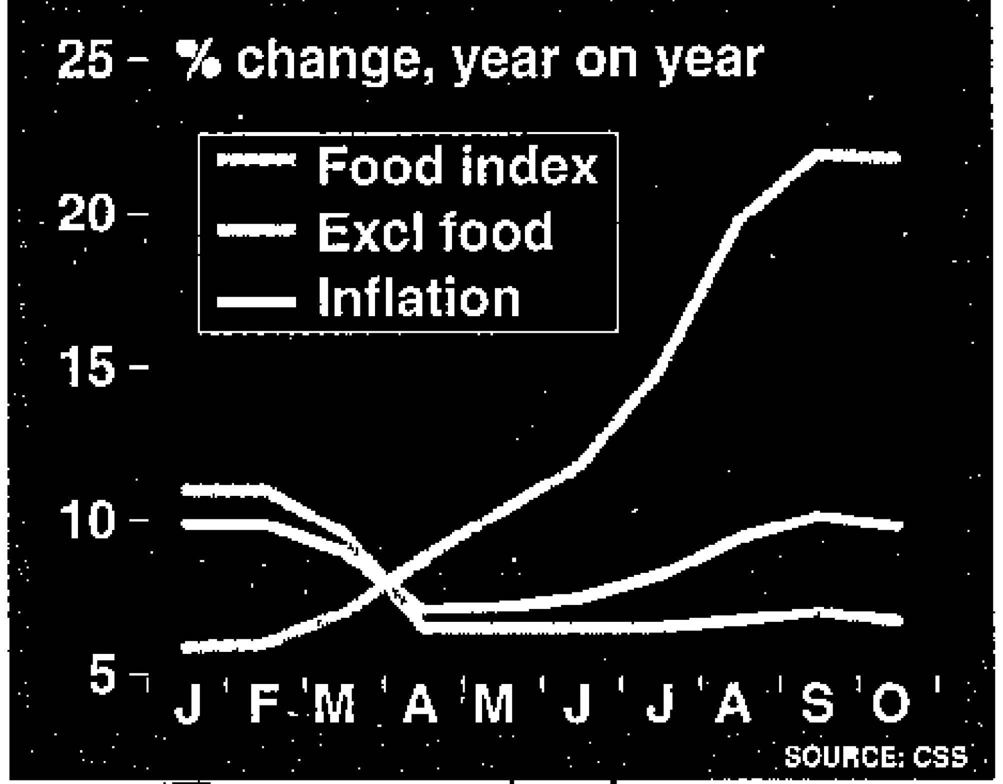
INFLATION FM 2/12/94

Short-lived cheer

The good cheer of lower-than-expected inflation of 9,8% in October is likely to be short-lived in the face of seasonal increases over the festive season That, and an increase in the mortgage interest portion of the housing index in the November numbers, will push the rate back above 10% before the year is out (153)

October data shows a surprisingly small upward tendency. The index rose 0,4% in the month, with food rising only 0,7% The year-on-year food index slipped back to 21,8% from a high of 21,9% in the previous month Though it's still well up on the year-on-year low of 5,9% in January, it's nevertheless the first slowing in the rate of increase this year (153)

FOOD INFLATION: ABOUT TO HEAD DOWNWARDS?



FM 2/12/94

A breakdown of food by items gives a hint that food prices will stabilise in the coming months — with the proviso that demand over the holiday season could postpone the process until the new year There were declines in the two items which have pushed up the index in recent months meat fell 0,2% in the month and vegetables 0,5% Because the annual rates for these items are still high, at 34,3% and 46,7%, there is room for further slowing They should be followed by the index for fruit & nuts, which rose 7,9%

FM 2/12/94

Other retail items, such as clothing & footwear (still an annual 3,6%), and furniture & equipment (2,9%), as well as alcoholic beverages (6,1%) will in all likelihood rise with Christmas demand Improving conditions in the retail sector should eventually filter through as higher prices

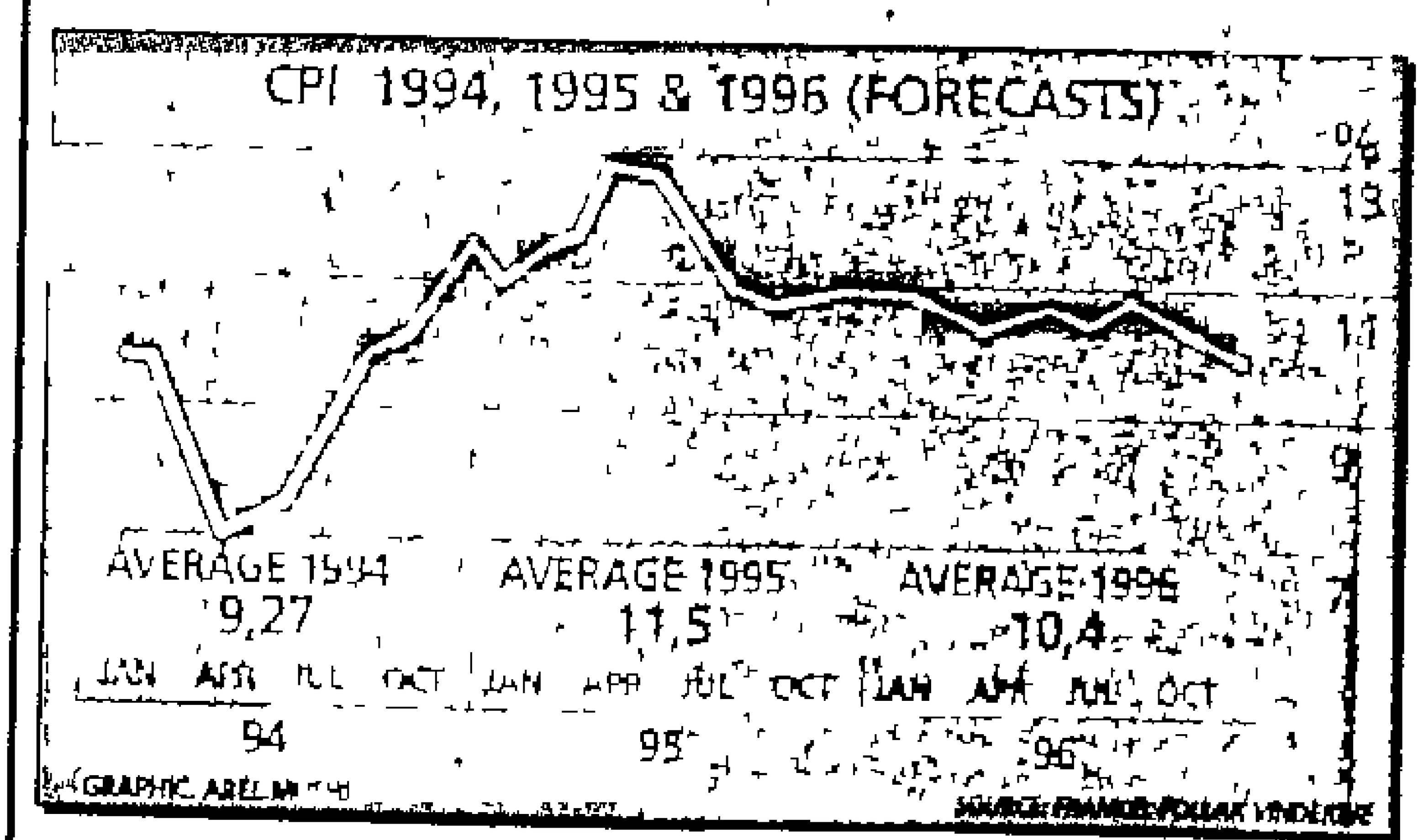
But nonfood items, back at a year-on-year rate of 6,7% after briefly touching 7% in September, will have an even bigger surge in November from an unlikely source. higher short-term interest rates Says Sanlam senior economist Pieter Calitz "It seems the higher mortgage rate introduced as a result of the Bank rate hike at the end of September was not included in the October increase So November will see the full force of it, and we could see nonfood inflation back at 7% or more" (153)

Calitz believes this will push headline inflation back up above 10% over the rest of the year More increases should come over the first six months of 1995 as demand for nonfood items rises If, as expected, indirect taxes are increased in next year's Budget and if there are more Bank rate hikes, inflation will receive further one-off shocks

"However, I think inflation will peak at about 12% by mid-year," he says ■

Economists see acceleration in rate of inflation

Star 6/12/94



■ BY CLAIRE GEBHARDT

Inflation is set to accelerate to over 11 percent in the closing months of 1994, before touching a high of 12,5 percent next year, says Frankel, Pollak Vinderine.

Thereafter, it could level out from mid-1995, remaining at around 10 percent until the end of 1996.

Economist Mike Brown says the average rate of consumer price index inflation could increase from 9,3 percent in 1994 to 11,5 percent in 1995 before dropping back to 10,4 percent in 1996.

The shift from a consumer price index (CPI) of around 7 percent at end-April is widely seen as a precursor to more interest rate hikes.

Credit Guarantee senior economist Luke Doig says three more hikes in the bank rate are likely over the next 18 months.

The Afrikaanse Handelsinstituut (AHI) is predicting two more bank rate increases of one percentage points each — the first by year-end or early next year.

Its latest inflation barometer reading puts fourth-quarter inflation at 11 percent.

"The inflation trend cannot simply be regarded as a short-term seasonal trend."

Brown says the inflationary impetus is the result of:

■ Food inflation — up from an annual rate of increase of 6 percent in early 1994 to 22 percent in September 1994.

■ Fiscal expansionism — state expenditure rose by R10 billion between March and June 1994.

■ A weakening rand — it fell by 9 percent on a weighted basis in 1993 and by a further 11 percent in the first half of 1994. (153)

■ Rising new material prices — the producer price index for imported products shot up from a negative rate of 5,4 percent in the fourth quarter of 1993 to 16,6 percent in the second quarter of 1994.

Brown says food-price inflation is likely to be dampened by better weather conditions, although the longer-term adverse meat and chicken price cycles still have to work themselves out of the index.

"Tax changes in the March 1995 Budget could also impact on the price through higher excise tariffs on certain products and a smaller list of zero-rated items for VAT purposes."

Inflation 'on downward trend'

EDWARD WEST

CAPE TOWN — Inflation's long-term downward trend is still in place, says Boland Bank economist Francois Jansen.

Although inflation could exceed 11% in the months ahead, it should move closer to 10% in the latter half of 1995, he said in the bank's economic review

From the second half of 1995 onwards the stabilising of credit demand, a slowdown in food price rises and responsible fiscal and monetary policy would push inflation in the direction of 10%

Short-term inflationary forces included labour costs, credit creation, "imported" inflation, food prices and government spending, he said

A good rainy season in 1994/95 could reverse the upward trend of food prices and from mid-1995 onwards, food prices would be statistically measured against the higher current base, resulting in a technical levelling off in food price inflation.

Policy makers worldwide appeared to have taken a firm stand on inflation and SA's tendency towards imports was likely to have a negligible effect on inflation for some time.

The Reserve Bank's recently acquired ability to manage the rand's exchange rate more effectively would also detract from the effect of exchange rate instability on inflation

BDay

While it would be naive to argue that SA would be free from wage pressure, the inherent discipline of a free market economy would give a new dimension to the extent and justifiability of wage increases, Jansen said

7/12/94

In spite of continued scepticism over the attainability of fiscal discipline in the face of social conditions, there was good reason to believe that policy makers' views would prevent this factor developing into an inflationary slant

(153)

Credit extension by the private sector grew 15,3% for the year to September, representing a real increase of 5,2%. In the months ahead, however, excessive credit demand was likely to be curbed by the high level of real interest rates and the Reserve Bank's inclination to initiate further interest rate increases.

Ongoing communication, and even further policy measures might be needed to stifle inflationary expectations and the bank expected a gradual decline in expectations once the inflation rate stabilised around 11%

THE WEEK AHEAD by Mungo Soggot

More increases in inflation due

BD 12/12/94

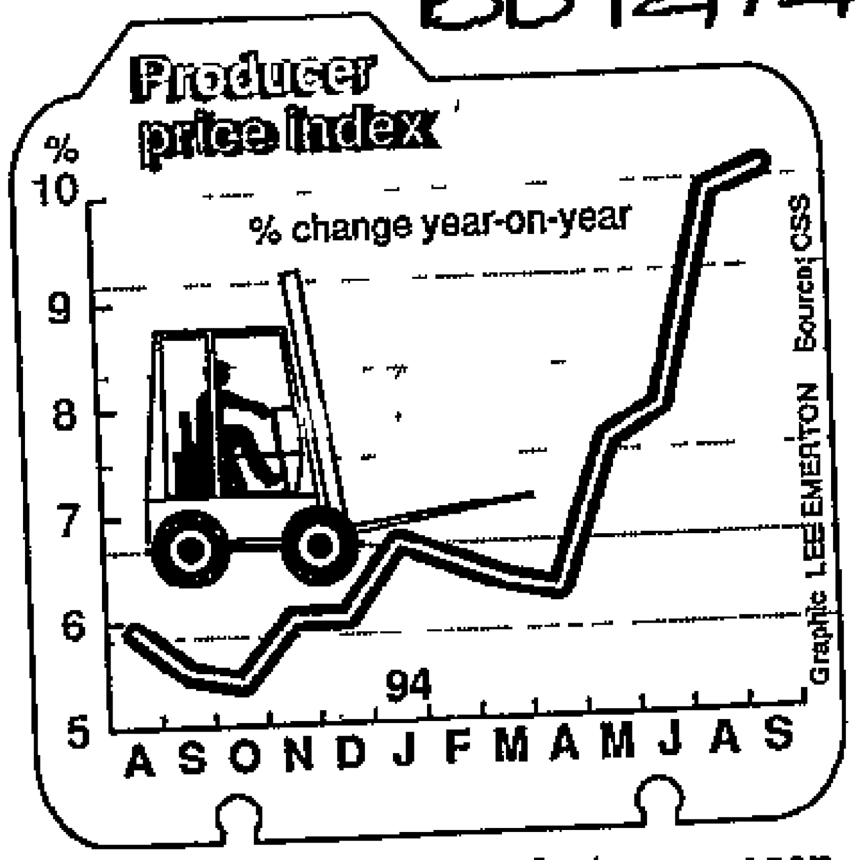
PRODUCER inflation has risen sharply since mid-year and economists expect it to increase further into 1995 before tailing off in the second half of the year

They said October producer inflation — due for release from the Central Statistical Service (CSS) tomorrow — would probably be slightly up on September, when producer inflation hit double digits for the first time in almost three years It rose to 10,1% from 9,9% in August

October forecasts ranged between 10,3% and 10,5%, although economists cautioned it was particularly awkward to predict as there had been significant downward and upward pressure on inflation during the month The figure could be lifted by higher local commodity prices, which had been rising since July, while October was a high survey month which could pile on more upward pressure

But October inflation could be dampened by the drop in fuel prices and by a stronger rand which could help soften the blow from the imported component of the producer price index (PPI) However, economists said the unpredictable lag period it took for the exchange rate to have an effect could mean the October figure would be hit by the rand's weak performance in August

They said food price increases — largely responsible for the recent jump in inflation — were likely to slow, although Sanlam economist



Pieter Calitz said the festive season could delay significant deceleration But year-on-year food inflation is still alarmingly high In September, vegetable inflation rose to 101,5%

Frankel Pollak Vinderine economist Annelise Peers said October inflation was seasonally higher

Meanwhile, all eyes will be on US inflation figures due for release this week Inflation — and signs of inflationary pressures from growth figures and employment statistics — has recently been the pivotal factor driving sentiment in US markets

Economists said a further rise — which was likely — would encourage speculation about a seventh interest rate hike this year The Federal Open Market Committee was due to meet on December 20, so if there was no hike this year there would almost certainly be one early next year

There appeared to have been a shift in sentiment towards the significance of inflation and inflationary pressures in that many players now felt the Fed was more determined to stifle inflation

(153)

There had previously been a widespread feeling that the Fed had acted too slowly to stave off a new inflationary cycle which would stem mainly from a surge in the money supply last year

Some felt the switch in sentiment had been triggered by the Republican victory in last month's mid-term elections as they historically gave the Fed a freer hand on monetary policy

Whereas US markets had previously gone into a spin on news of possible inflationary pressures, they had recently reacted more calmly The dollar did not take a dive after employment statistics released on November 2 pegged the unemployment rate at a four-year low

Economists said as the market was particularly concerned about early warning signals of a new upward inflationary cycle, the PPI figure would be watched closely as it split inflation into crude, intermediate and finished goods Strong increases in crude and intermediate goods would mean trouble further down the line

US capacity utilisation figures — which show how much manufacturing capacity is being used — are also due this week. These would also point to future inflationary pressures

Order on striking prison staff

(153)

DURBAN. — The Department of Correctional Services was granted a Supreme Court interdict last night by the Judge President of Natal, Mr Justice J Howard, against the striking staff members at Ncome Prison near Dundee.

This follows two days of action by over 500 staff members who are demanding a review of promotions authorised by the government but ignored by the kwaZulu legislature.

The interdict orders members not to take part in any further strike action or to interfere with the free movement of any persons on the prison grounds and to end "the unauthorised occupation of staff homes".

● President Nelson Mandela's office called yesterday on the striking warders to deal with their grievances in a disciplined and responsible way. — Own Correspondent, Sapa

CT 14/12/94

Production price index dips to 9,7 percent

Inflation slips back

Star 14/12/94

■ BY CLAIRE GEBHARDT

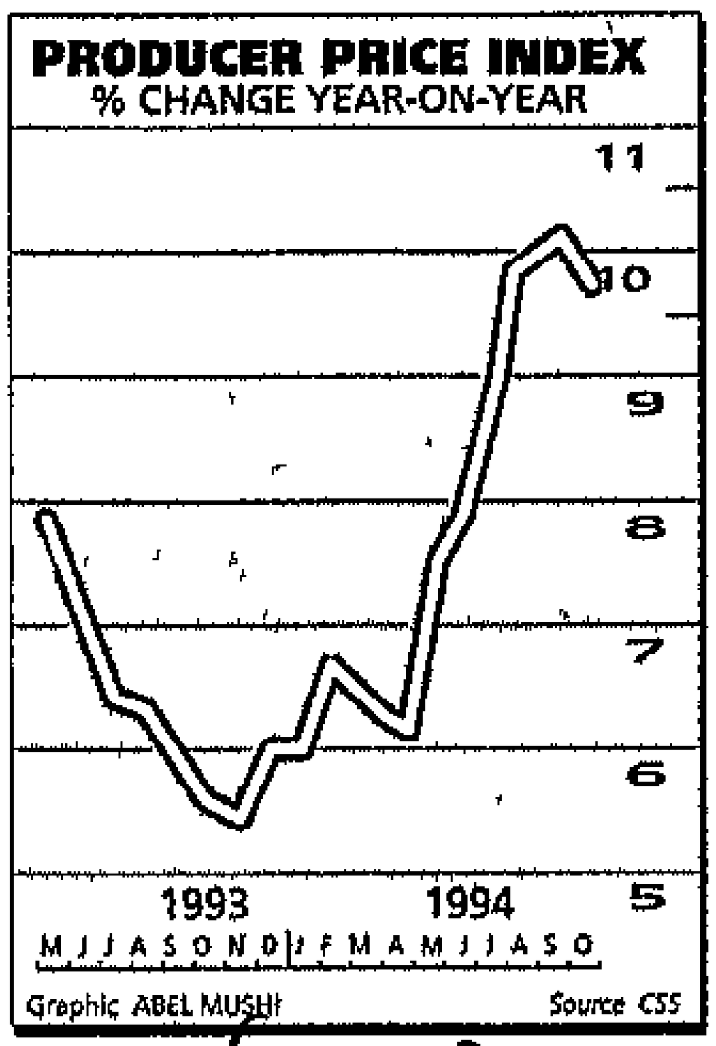
The production price index (PPI) has confounded experts with a dip to 9,7 percent in October from 10,1 percent in September.

September's foray into double-digit territory was the highest PPI increase in almost 3 years

Economists yesterday attributed the better-than-expected figure to a slowdown in the rate of increase of food prices, particularly of meat and vegetables, a stronger rand and lower oil prices

Single-digit figures are expected to prevail in November and December

Sanlam economist Johann Louw said the imported component of the PPI had decreased on a year-on-year basis from 8,7 percent to 6,8 percent because of the recent strength of the rand and lower oil prices



(153)

"It is interesting to note that, excluding food, the year-on-year increase is only 7,3 percent"

The Central Statistical Service (CSS) says the PPI for locally produced commodities for domestic consumption increased by 10,4 percent from October 1993 to October 1994 — 0,1 percentage points up on September's 10,3 percent

Louw forecast an average increase in the PPI for 1994 of 8,5 percent, against 6,6 percent in 1993

"The slower rate of increase is likely to be reflected in the consumer price index (CPI) in about three to six month's time"

Mathison & Hollidge economist Tracy Ledger said food prices were probably starting to come down and, with more open markets, could come down still further

"Basically, excluding food prices, inflation is very subdued"

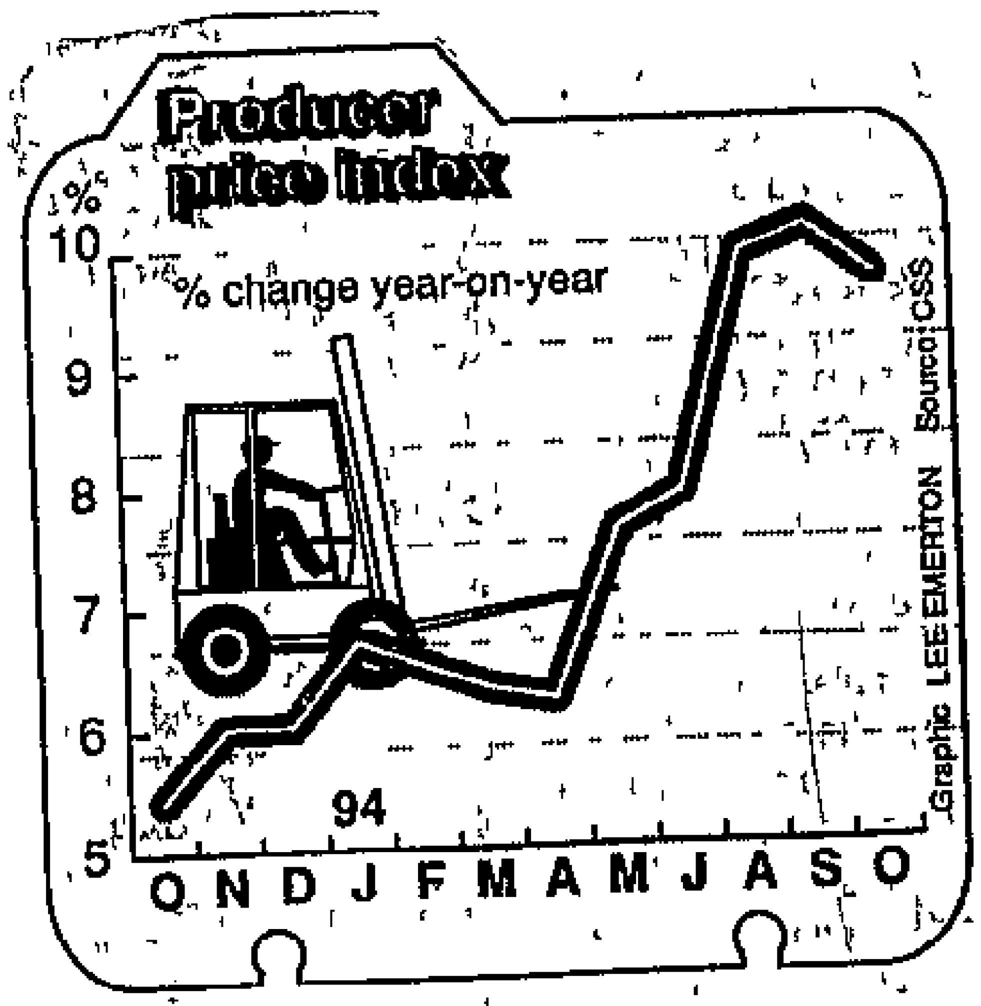
Ledger said there was no reason to expect the financial rand would go before mid-1995, which ruled out any collapse in the commercial rand.

The level of economic growth in South Africa also posed no threat to inflation

'There is also no reason for inflation to accelerate among our major trading partners, so the imported component should remain favourable"

According to the CSS, monthly changes in the PPI for commodities for local consumption showed relatively large price increases for forestry products (3 percent), fishing products (3,5 percent) leather and leather products (5,2 percent), wood products (2,3 percent), rubber and plastic products (3,7 percent)

Relatively large decreases occurred in the indices for mining and quarrying products (2,7 percent), non-electrical machinery (1 percent) and electricity, gas and water (2,5 percent)



Producer inflation back below 10%

BD 14/12/94 MUNGO SOGGOT (153)

PRODUCER inflation in October fell back into single digits and below market expectations to 9,7% from 10,1% in September, Central Statistical Service (CSS) figures released yesterday showed

Economists said a sharp drop in the imported component of the producer price index (PPI), spurred by the rand's earlier strength, was the main reason behind the surprising overall drop.

They said the figure meant double-digit projections for the next few months had to be revamped It was possible producer inflation could hover below 10% for the next few months.

The rate of increase in the imported component of the PPI was 6,8% in October, against 8,7% in September.

Old Mutual economist Johann Els said it was increasingly difficult to predict the "lag period" it took for the rand's performance to affect producer inflation. The effects of the rand's earlier strength would filter through to consumer inflation

Economists said lower oil prices, reflected in the PPI mining and quarrying category, which fell 4,2% month on month, were another important factor behind the drop in producer inflation. However, oil prices were at a cyclical low and SA would probably be hit soon by higher prices

The CSS said there had been a 0,1% monthly rise in the PPI, against September's 0,3%. The local component of the PPI was up 0,4%, while the imported component was down 1,5%

Economists said the food price cycle seemed to have turned finally Rocketing

☐ To Page 2

Inflation

(153) BD 14/12/94 ☐ From Page 1

food prices had underpinned the recent sharp increases in inflation. For two consecutive months the rate of increase in several food price indices had slowed.

Meat price inflation was down 0,5 percentage points month on month, while vegetable inflation was also down. Year-on-year vegetable price inflation sank to 58,5%, from September's 101,5%.

Sanlam senior economist Pieter Calitz said excluding food inflation, inflation was down at 7,3% from 8,1% in September This boded well for consumer inflation over the next few months

However, economists said they were puzzled by a "freak" 0,3% monthly drop in the electricity price index, which had a 5,3% weighting in the PPI.

CPI up but still in single digits

ET 21/12/94

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By MAGGIE HOWLEY
Deputy Business Editor

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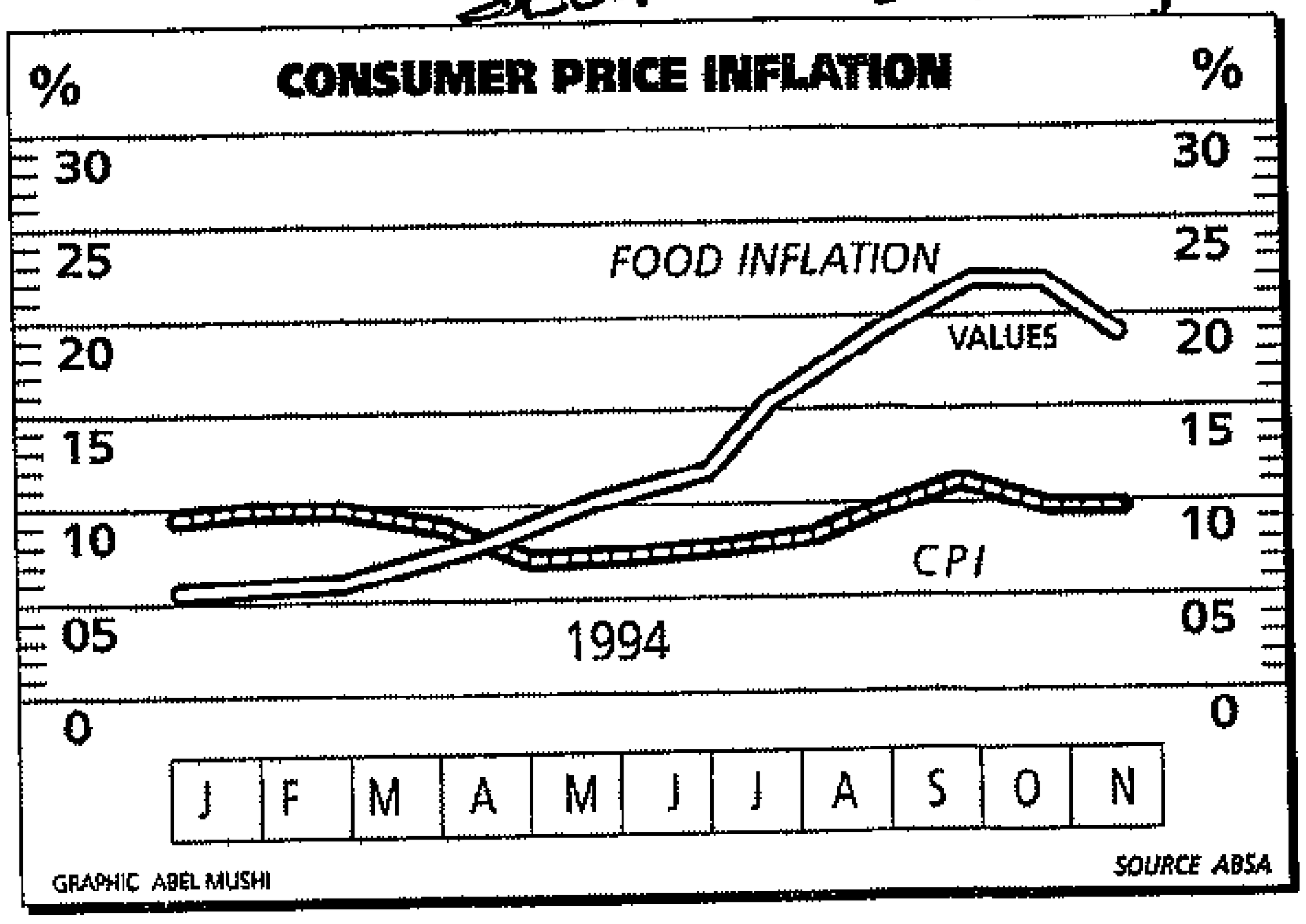
Food price inflation tumbles

Star 29/12/94

■ BY CLAIRE GEBHARDT



The inflation rate confounded experts yesterday by staying in single-digit territory

Far from rebounding to well over 10 percent, November's annualised inflation rate was 9,9 percent — only 0,1 percentage point higher than October's 9,8 percent, according to the Central Statistical Service (CSS)

The monthly increase of 0,2 percent from October to November is attributed to increases in the price indices for housing and transport

Economists pinpointed the big surprise as a sharp drop in food prices

The food inflation rate in November was 18,9 percent, compared with 21,8 percent in October — a 2,9 percentage point decrease.

This is against most forecasts that food prices would soar in the run-up to Christmas because of shortages of red and white meat

Inflationary fears had hitherto been stoked by huge increases in red meat and vegetable prices in the wake of drought and severe frost

Meat prices more than quadrupled from 7,2 percent to 34,7 percent year-on-year in September, while vegetable prices rose from 8,1 percent in April 1994 to 51,5 percent in September.

Decrease

This month's figures attributed the monthly decrease of 1,7 percent in the food price index to a 17,1 percent decrease in the price index for vegetables

The increase in the price index for meat was 0,1 percent

Nedcor chief economist Dennis Dykes said farmers appeared to have taken advantage of exceptionally good prices to sell off some of their herds before Christmas

Lower imported meat prices had also helped spur competition, he said.

For the consumer, the good news goes beyond lower food prices to a possible delay in the next interest rate hike, expected in the next month or two

153

Growth

However, Dykes said the Reserve Bank would also be looking at private-sector credit demand over the Christmas period, as well as money supply growth, for its signals, rather than headline inflation

"But single-digit inflation may help delay an interest rate increase because one of the major reasons for inflationary expectations is headline inflation."

Dykes said the bond market had reacted very favourably, with rates coming off 13 basis points from 16,81 percent to 16,68 percent yesterday

CSS figures show that the Port Elizabeth/Uitenhage/Bloemfontein area had the highest inflation rate of 10,8 percent, while the lowest rate of 8,3 percent was in the Vaal Triangle

PRESENTATIONS

TO THE WORKSHOP

INFLATION: 1995

INFLATION 153

Even chance

FM 6/1/95

Inflation is likely to rise on a purely statistical basis over the first six months of this year because of the moderate price rises over the first half of last year

Also for statistical reasons, inflation in the second half of 1995 is likely to fall

The unpredictable factor is food prices, which fluctuate widely in line with changing weather patterns The drought of 1991-1992 helped food inflation reach 30% in mid-1992, while the rain that followed hauled it down to 2,4% in September 1993 The cold winter of 1994, as well as the restocking of herds after the drought, pushed up prices of fruit, vegetables and meat

Overall food inflation was back above 20% this year (see graph)

While the onset of summer saw the food index fall 1,7% in November — helping headline inflation stay in single digits at 9,9% — poor rains so far in the summer rainfall regions may reverse this trend.

Other influences on prices are.

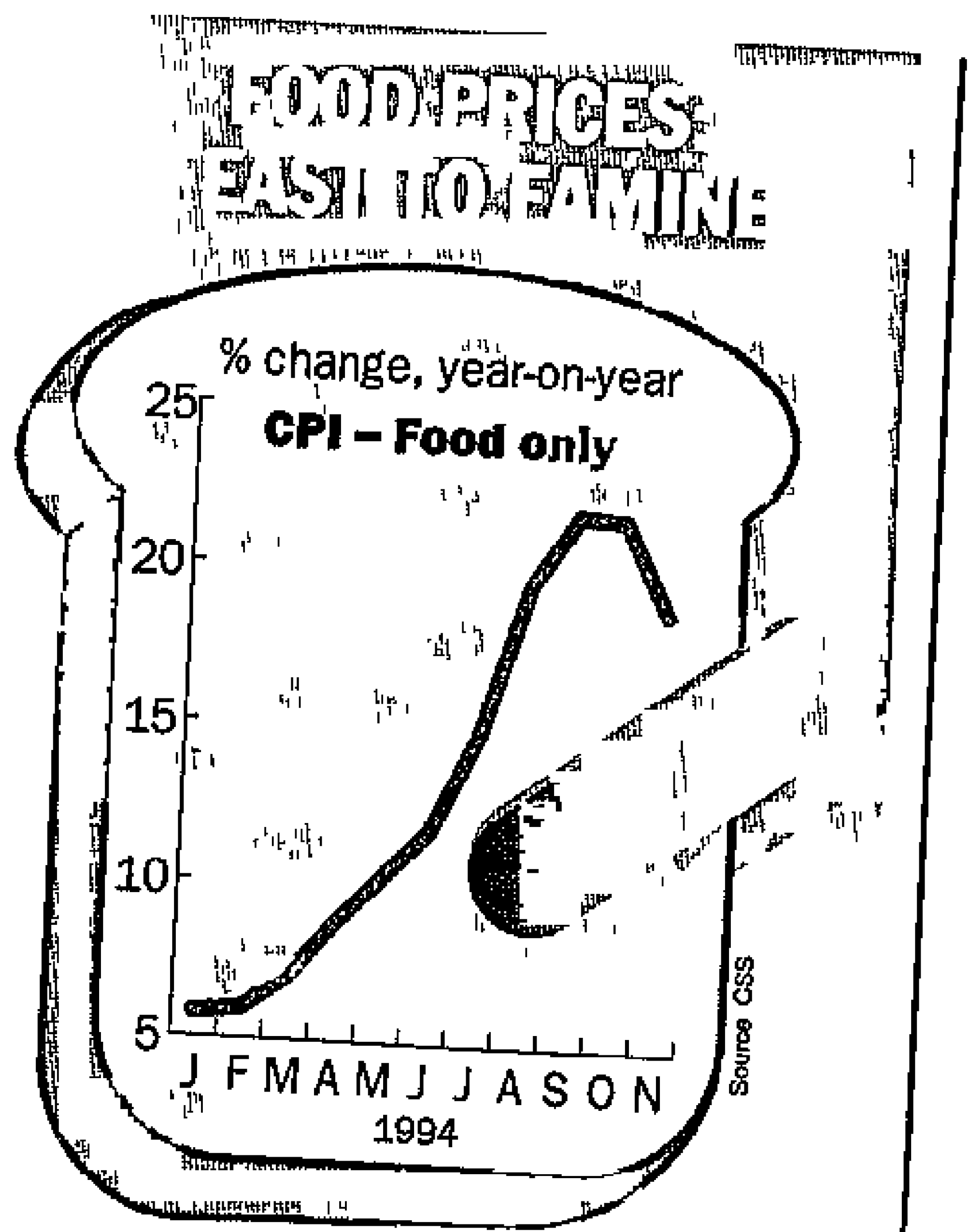
❑ International inflation OECD countries could experience rising inflation in 1995, though, says Old Mutual economist Johann Els, most central banks have acted to prevent significant rises,

❑ Policy changes Implementation of Gatt requirements will lower tariffs and bring down prices of imported goods But this is not likely to happen this year, and

❑ Growth in domestic demand This is reflected in credit creation and, consequently, in the growth of money supply

The broad aggregate, M3, grew 2,5%, 4,4% in the three months to November, and 14,4% over 12 months There is a positive side to this development. One of the causes of rising M3 growth has been the improvement in reserves

Because the release of credit aggregates lags monetary aggregates by one month, it's not possible to say where November's rise



derived from The distinction is important because of the impact of higher lending rates, from the end of September, on credit growth Already in October, the latest data available, credit creation slowed, rising only 0,3% compared with 2% in September

Of course, should changes in SA's exchange control regime cause the unified rand to depreciate sharply, import prices will rise But it's impossible to predict the timing or impact of such changes

Els believes inflation — not taking into account changes in exchange controls — could rise as high as 13% by June, though it will probably fall by the end of the year, averaging about 11% for the year as a whole "Increases in Bank rate of about two percentage points should stop inflation rising too far"

But Econometrix director Azar Jammine says large hikes in rates may not be necessary "At the start of the previous upward move in rates in 1989 the prime lending rate was negative Now it is already positive in real terms This would mitigate against large increases" ■

Producer inflation takes another dip

(153) BD 17/1/95

MUNGO SOGGOT

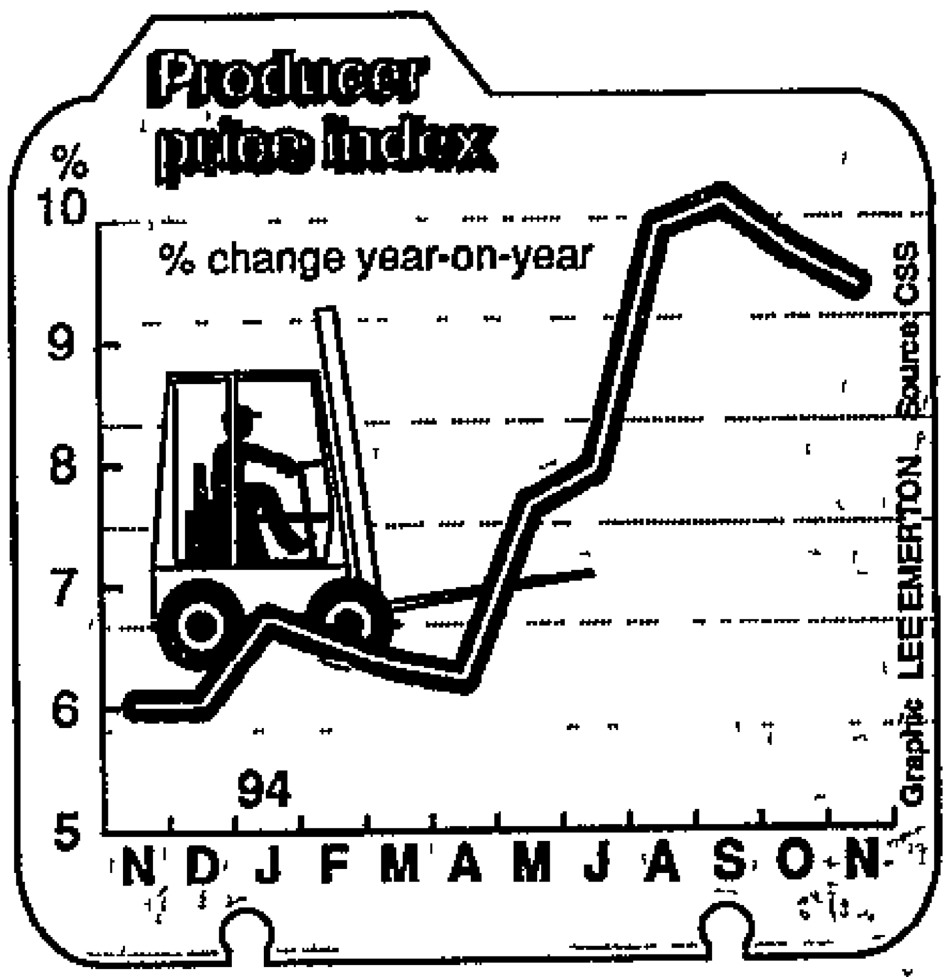
PRODUCER inflation in November fell for the second consecutive month, dropping to 9,4% from 9,7% in October, figures released yesterday by the Central Statistical Service (CSS) showed

The fall stemmed mainly from deceleration in the food price increases which propelled producer inflation to 10,1% in September, economists said. One said the recent rains and lower food price inflation meant the outlook for inflation was far rosier than a few months ago.

Ed Hern Rudolph economist Nick Barnardt, said inflation had been tamed by higher productivity in the manufacturing sector in the second half of last year, cutting unit labour costs

Economists said the figure reduced chances of double-digit inflation in the coming months Old Mutual economist Johan Els predicted December producer inflation would also be in single digits, bringing the average for 1994 to 8,2%.

The figures showed there was a 0,1% increase in the local component of the



producer price index (PPI) and a 1,1% increase in the imported component. Year-on-year imported inflation was 6,7% against 6,8% in October.

Economists said the small increase in the local component had offset upward pressure from the imported component,

□ To Page 2

Inflation (153) BD 17/11/95

□ From Page 1

which was lifted by higher oil prices. However, the imported component was volatile, having dropped 1,5% in October.

Higher oil prices lifted the "other mining and quarrying" index 3,9% month-on-month. One economist said a drop in oil prices in December could provide temporary relief in December's PPI.

Noteworthy monthly decreases included a 38,5% fall in the vegetable price index. There was also a 1,7% fall in the electricity price index, the second monthly decrease. The electricity price index has a 5,3% weighting in the PPI.

Els said imported manufacturing inflation was at 5,8% and local manufacturing inflation at 9,8%. This meant it was cheaper to import manufactured goods. The strong decreases in food inflation had offset increases in the basic metals and electrical machinery price indices.

Bruyn: I'm concerned

CORRECTIONAL Services Commissioner General Henk Bruyn yesterday appealed to staff of Ncome Prison near Vryheid to do their jobs and end a situation causing "grave concern" in his department

(153)

He was particularly concerned about the physical care of prisoners at the KwaZulu-Natal jail

Sowetan

Medical supplies were depleted, prisoners could possibly not be cared for as was required by law, all food production had come to a stop and state property had been seriously damaged by a lack of maintenance.

27/1/98

Bruyn asked the staff to work diligently within the framework of the relevant act, regulations and departmental orders — *Sapa*

Food price falls trim inflation

ARG 27/1/95

Business Staff

NEW falls in food prices held the year-on-year inflation rate down to 9,9 percent in December — the same as November And the average inflation rate for the year, at 9 percent, is the lowest for 24 years

Central Statistical Services (CSS) figures show that food price inflation slowed further in December, as prices of vegetables fell 9 percent and of sugar 0,3 percent.

This helped to offset higher prices for grain products (up 1 percent), meat (up 1,4 percent for meat), fish and other seafood (0,7 percent), milk (0,1 percent), fats and oils (3,2 percent) and coffee, tea and cocoa (3,4 percent)

But over the year to December, food prices are still up a whopping 17,6 percent and average food inflation for the year, at 13,8 percent, is well up on 1993's 6,8 percent.

Boland Bank economist Francois Jansen said single-digit inflation for 1995 was unlikely

Interest rates were likely to be raised twice, higher demand for credit with the acceleration in economic activity, a weaker trade balance and a depreciating rand would all contribute to inflationary pressures

He expected an average inflation rate of 10,5 percent for the year

Absa senior economist Adam Jacobs said although it was pleasing inflation had not risen to double digits in December, the fact that food prices had not dropped further was disappointing.

The food price component of the inflation rate still remained very high, he said

Mr Jacobs said the non-food component of the inflation rate was gradually moving upwards but inflation at this stage was not out of control.

He said it was unlikely the better inflation figures would stave off an interest rate hike.

South Africa's financial authorities were more concerned about the state of the current account of the balance of payments, the Mexican peso crisis and the large increase in the money supply and bank credit to the public

The Mexican crisis had influenced emerging markets negatively and made the cost of credit more expensive.

A higher interest rate was also therefore needed to attract foreign investors to South Africa, he said.

Mr Jacobs said the government and other borrowers were also likely to be sensitive to the higher cost of foreign credit and attempt to raise money locally, which in itself would also put pressure on interest rates

Inflation last year lowest since 1972

(153) BD 27/1/95

MUNGO SOGGOT

INFLATION in December remained in single digits at 9,9%, bringing last year's average to 9,0% — the lowest since 1972 — Central Statistical Service (CSS) figures released yesterday showed.

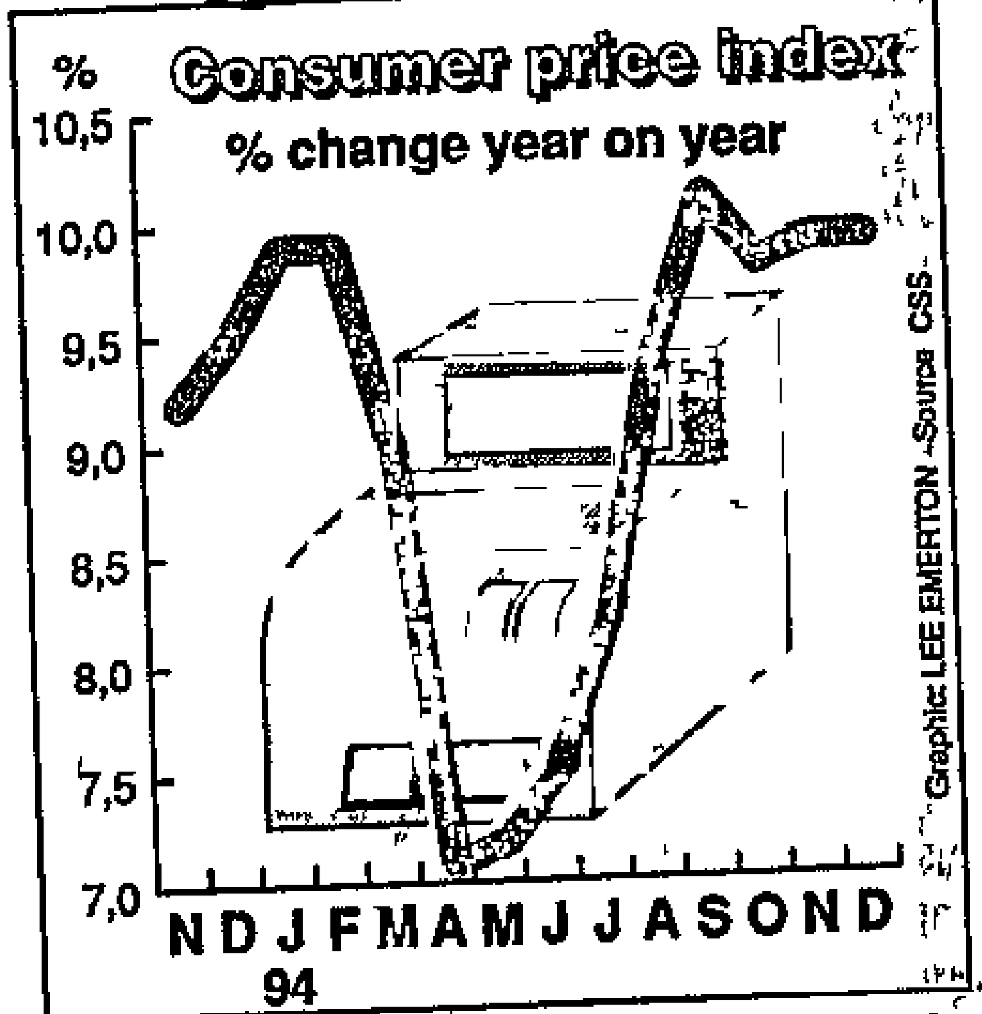
Economists said December's inflation, which was unchanged from November, matched expectations and raised hopes of a healthier inflation outlook for this year than was feared. Zero food inflation had helped keep the overall figure in check.

The CSS said the consumer price index (CPI) had risen 0,3% from November.

Rand Merchant Bank chief economist Rudolf Gouws said it was very encouraging that there had been three consecutive monthly rises in the CPI of less than 0,5%. "Inflation in SA is on a fundamental downward trend. There is no inflationary spiral waiting in the wings."

Sanlam senior economist Pieter Calitz said inflation would average about 10% this year, and remain in single digits for the first four months. But food inflation, which lifted inflation in September into double digits, could strike later in the year, particularly if there was a severe drought.

The CSS said there had been a 9% month-on-month drop in the vegetable price index after a 17,1% fall in November, but the meat price index was up 1,4%



Calitz said this increase probably stemmed from retailers lifting prices over the festive season.

Old Mutual economist Johan Els said a non-food inflation figure of 7,8% was encouraging. The figures were not surprising as December was often quiet. Inflation would probably average 10,5% this year.

Another economist said a 0,4% monthly rise in the housing index stemmed from rental increases, while a 0,6% rise in the transport index stemmed from a hike in new vehicle prices and the petrol price rise in early December.

Inflation at lowest level since 1972

153

CT 27/1/95

By MAGGIE ROWLEY
Deputy Business Editor

Interest rate hikes expected

INFLATION, as measured by the Consumer Price Index, stayed within single digits at 9,9% in December, unchanged from November and bringing the average inflation rate for 1994 to 9% on the dot — the lowest level since 1972's rate of 6,1%

According to Central Statistical Services, the month on month increase rose from 0,2% in November to 0,3% in December. The main contributors to this were housing, transport which each contributed 0,1% to the month on month increase with other items accounting for the balance.

The average annual rate of increase in the CPI for higher and middle income groups — 9% and 9,3% respectively was lower than that recorded in 1993 but higher for the lower income group at 8,9% against 8,6% in 1993

The average food inflation rate for 1994 was 13,8% — 7% higher than the previous year but 11,5% lower than in 1992 when food inflation ran at an average of 25,3% for the year

The December 1994 food price index was running at 17,6% year on year — down slightly from November's 18,9%. From November to December, the food price index did not show a change with the increases in the price indices for grain products, meat, fish and other seafood, dairy products, coffee and so forth being cancelled out by lower vegetable and sugar prices which declined by 9% and 0,3% month on month

Old Mutual economist Johan Els and Sanlam economist Piet Calitz said the December inflation figure was more or less in line with market expectations and that while other factors were impacting on inflation, such as the drought, it appeared that the Reserve Bank's strict monetary policy "was winning the fight against inflation".

Excluding food, inflation was running around 7,8% in December

Els and Calitz said the 1,4% rise in the meat index in December could be due to seasonal factors over the festive period

Both predicted inflation would stay within single digits in the first quarter of 1995 with average inflation for the year running around 10,5% to 11%

These estimates take into account the inflationary effects of a 2% rise in interest rates during the course of 1995 Each 1% rise in the bank rate would see the resultant increase in the bond rate lifting CPI by about 0,4%

Calitz said they were expecting the next increase in interest rates around the March Budget and the second increase around September "when the Reserve Bank abolishes the finrand which we still think likely during the course of this year".

Inflation figures 'are false'

ST 29/1/95 (153)

By RAY HARTLEY
Parliamentary Correspondent

SOUTH AFRICA's inflation rate may have been underestimated by as much as 3,5 percent, with the poor bearing the brunt of a spiralling cost of living, labour researchers have found.

The startling claim, which comes at the beginning of this year's round of wage talks, was made in a paper produced by the National Labour and Economic Development Institute and released to Cosatu this week.

The claim is set to raise the temperature of wage negotiations, adding to discussions over the real inflation rate.

The main culprit for the skewed rate, said researchers Rob Rees and Neva Seidman-Makgetla, was a Consumer Price Index which undercounted the amount of food bought by the poor

And, because food prices rose faster than those of other goods, the undercounting had led to a serious distortion of the overall rate.

"Since 1990 food prices have risen by 90 percent compared with 60 percent for all other goods

"The Centre for Statistical Services has consistently underestimated the share of food in spending by poor households As a result its figures for the low-income group understate the actual inflation rate," the paper said.

While the CSS said those with low incomes spend a quarter of their money on food, research by Unisa's Bureau of Market Research disagreed, saying that food accounted for just under half of all spending by low-income groups

Adding to the distortion of the inflation rate was the CSS's definition of "low income" as those taking home less than R2 000 a month In fact, said the researchers, the low-income category should be changed to mean those earning less than R500 a month — a figure applicable to around a third of the population.

"The problems identified basically result from the failure of the CSS to adapt its methods and categories to the conditions of the black majority," they said.

Should the revised inflation rate prove true, it would show that real wages had declined substantially more than the two percent quoted by the CSS.

Cosatu said in a statement that an urgent overhaul was needed of the entire system of collecting statistics In the interim an acceptable method had to be agreed for calculating the effective inflation rate for different income groups

"Naledi's exposé underlines Cosatu's call for a total review of the wage structure Low-paid workers continue to shoulder the burden of inflation, recession and unemployment This has the effect not only of entrenching the apartheid wage gap but increasing it."

Cosatu, the statement said, would be submitting proposals aimed at overhauling the method of determining inflation to the National Economic Development and Labour Council.

Inflation 'hits poor harder than thought'

153

CT 30/1/95

By BARRY STREEK
Political Staff

REAL inflation affecting low income households had been "massively" underestimated by the Central Statistics Bureau, Cosatu said in a statement yesterday

This was due to a number of factors, high among them "a massive underestimation of the share of food in spending by poor households" Food inflation had been far higher in recent years than inflation on other goods

"Although inflation has been higher for low income households, this level of inflation is not registered in the overall figures because of a low weighting for low income groups (of only 20%)

"This low weighting is despite the fact that 80% of black households fall in the low income category "

The underestimation of inflation for black working people was also a result of racially-biased and inadequate statistics for the black population as a whole, Cosatu said

The statement was issued after the release of research findings by Naledi, an economic research group linked to the ANC

This large-scale distortion by the CSS over a period of years was a cause for serious concern

"Employers have been pegging wage increases at or below the official level of inflation This has led to a major erosion in the standard of living of workers and their families in recent years

"Naledi estimates that the drop in real wages over the past two years has been substantially higher than the two percent suggested by official figures

"An urgent overhaul is needed of the entire system of collecting statistics In the interim, an acceptable method has to be agreed on for calculating the effective inflation rate for different income groups

"Naledi's exposé underlines Cosatu's call for a total review of the entire wage structure

"Low-paid workers and their families continue to shoulder the burden of inflation, recession, and unemployment," Cosatu said

Official inflation figures slammed

(153) Star 30/1/95

■ STAFF REPORTER

The Congress of South African Trade Unions expressed anger at the weekend at "distorted" official inflation figures, saying they did not reflect the real increase in the cost of living

This comes after startling results by independent labour researchers of the National Labour and Economic Development Trust (Naledi) which showed that South Africa's inflation rate had been underestimated by as much as 3,5 percent.

A paper released last week by Naledi said Central Statistical Services (CSS) had "consistently underestimated the share of food in spending by poor households"

It claimed that "since 1990, food prices have risen by 90 percent compared with 60 percent for all other goods".

A Cosatu statement said "large-scale distortion by the CSS" had led to a major erosion in the standard of living of workers and their families in recent years

"Employers have been pegging wage increases at or below the official level of inflation," the statement said

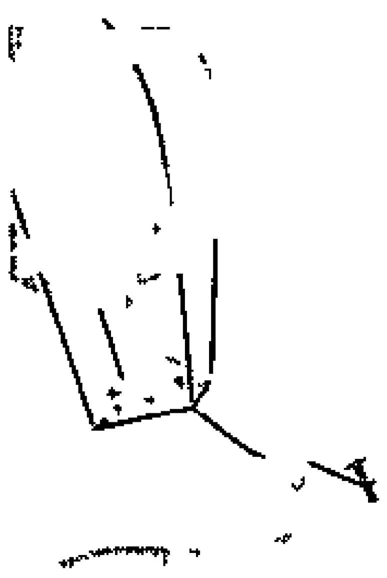
Cosatu has called for a review of the entire wage structure.

INFLATION

(153) FM 3/2/95

Tugging at the ropes

Promises from politicians can upset carefully planned inflation strategies



The independence of the Reserve Bank (such as it might be) will come under increasing strain in the months ahead as inflationary pressures that are lurking just out of view assert themselves As Governor Chris Stals attempts to counter them, he will be placing at risk the speed of economic recovery

It's likely that whatever he does will be looked at askance by an administration which, since it was voted into power, has done little for the wellbeing of most people It has built few houses, created no jobs and is offering education and health care at levels it cannot afford to finance

In these circumstances, there must be a danger that the political need of government to spend — and thus abandon its declared fiscal discipline — could become overwhelming, as it did during the Botha years

What politicians who spend always find beguiling is that the cost of abandoning fiscal discipline has to be met only in what is to them the distant future But the cost of abandoning political promises is more immediate, inconvenient and controversial

There will be those who argue that recent trends towards price stability have been remarkably positive Two months of only marginal growth in the consumer price index means that inflation remains pinned under 10% — at 9,9% in December — after initial speculation that 1994 would end the year above 10%

And some major causes of inflation have been subdued If food prices had not been high, as a result of frost and persistent drought in certain areas, the rate would most certainly have been lower than the average of 9% for the year (the lowest since 1972) Food prices rose 21,9% in the 12 months to September

Now it seems that food prices have peaked The index for food did not rise at all in December, following a slight decline in November The 12-month rate seems likely to slip further from its current 17,6%

Wage settlements have been moving down for a few years According to labour consultancy Andrew Levy and Associates, average wage settlements for the year to December were at 10%, following 10% in 1993 and 12% in 1992 (well down from 17,4% in 1989)

Government revenues are on track and the expected Budget deficit of 6,6% of GDP is expected to be on target for this fiscal year Liquidity levels in the money market are encouraging, with banks' daily cash shortages averaging below R2bn so far this month, an indication that current credit growth is manageable

So most economists believe inflation will rise only slightly before tapering off again towards the end of the year — partly because of large rises in 12-month inflation rates in the second half of 1994

But problems are looming After all, it's seldom in the early stages of an economic upturn that the general price level shows any strain Usually this comes later, when bottlenecks in production appear and consumer demand begins to outstrip supply

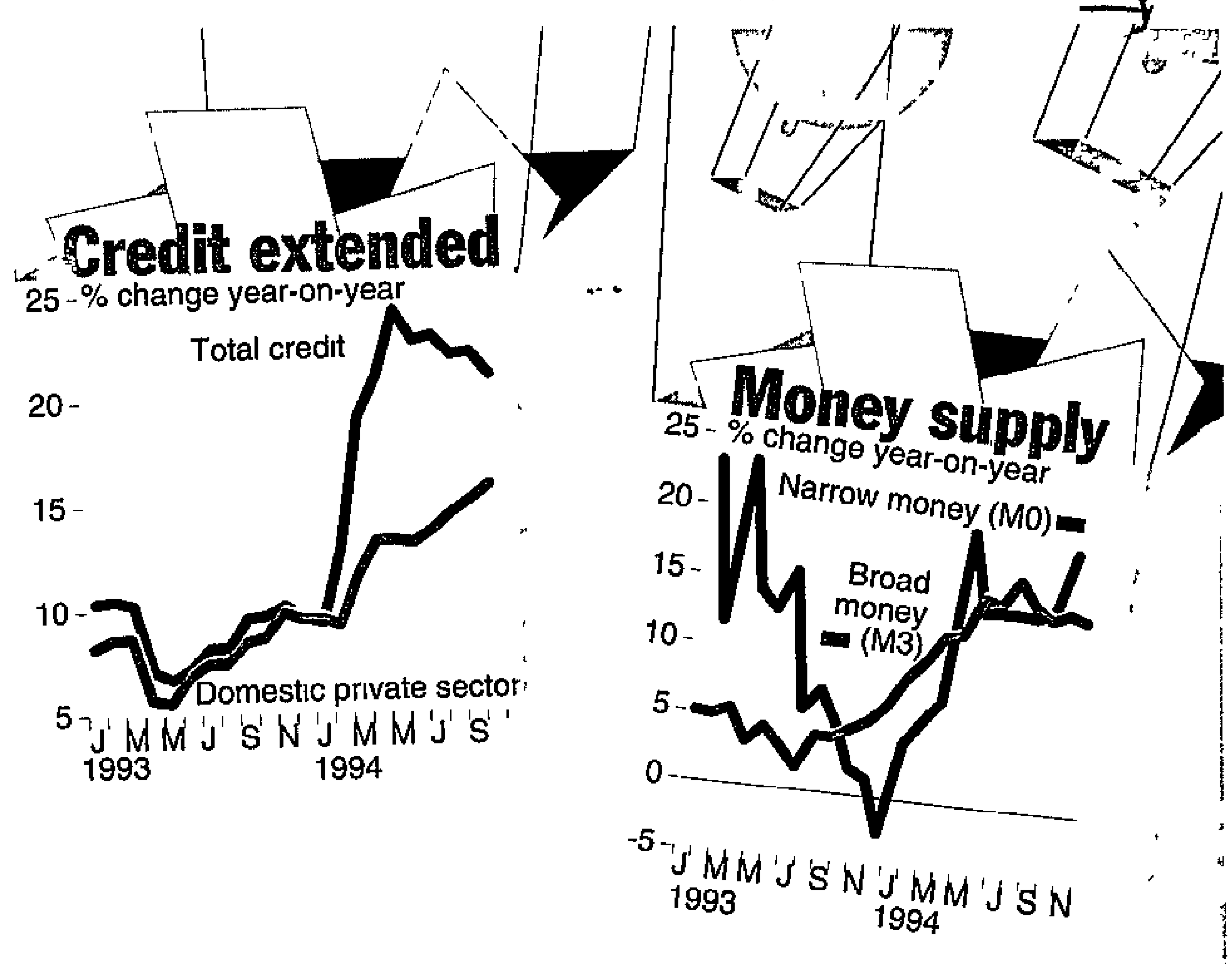
However, growth in money supply (the level of deposits on which banks gear their lending) is up — and this invariably precedes price increases The broad aggregate M3 rose 16% over the 12 months to December, narrow money, M0 (notes and coins in circulation plus deposits of banks with the Reserve Bank), which is often a better short-term indicator, was up 19%

And demand for domestic credit, at first from government but now from the private sector, is up Based on the most recent aggregates, private sector credit grew 16,9% over the 12 months to November 1994 December aggregates are not yet available but it's likely that most of the R3,5bn increase in M3 was attributable to increased credit creation

Stals has argued that the increase in bank credit extension is the most likely cause of rising interest rates His problem is not that inflation cannot be stopped — it can if interest rates are increased sufficiently — but that economic growth remains fragile, under constant threat from the drought, and could easily be aborted by a tight monetary policy The need for such drastic action could arise if government does not discipline its spending or if trade union wage settlements shoot ahead of productivity rises

Stals

Government's commitment to fiscal discipline certainly kept spending within budget over the first nine months of the 1994 year But it is difficult to reconcile continued restraint with politicians' promises (implied or explicit) of greater social benefits. Directives from the likes of Gauteng MEC for education Mary Metcalfe that no child should be refused access to school take no cognisance of the costs that will have to be borne by the fiscus Proposals by Health Minister Nkosazana Zuma to introduce a socialist health insurance scheme — effectively putting an end to important as-



MONEY GROWTH: INFLATION AHEAD

SOURCE RESERVE BANK

pects of private medical aid schemes — would also strain government finances

These welfare plans — which the Ministers concerned admit have not been carefully costed — are particularly alarming since they call into question Finance Minister Chris Liebenberg's ability to reduce the Budget deficit by half a percentage point each year, as he has promised to do in the years ahead Yet it is critical that the Budget deficit be reduced systematically in the coming years As Federal Reserve chairman Alan Greenspan noted to the US Senate Budget Committee last week, the need to lower deficits is greatest when revenues rise

A related concern is spending, in general, on the Reconstruction & Development Programme Econometrix director Azar Jammine points out that little RDP expenditure has been approved — only R1m out of the R2,5bn in the RDP Fund has been issued for expenditure, according to the latest Exchequer data This implies a flood of future spending when the bottlenecks are eased and more projects are approved

On the second score, it looks as if wage settlements have bottomed Andrew Levy and Associates says the 10% level of settlements for 1994 was slightly higher than expectations, 1995 settlements are now expected to rise by between 7%-13%

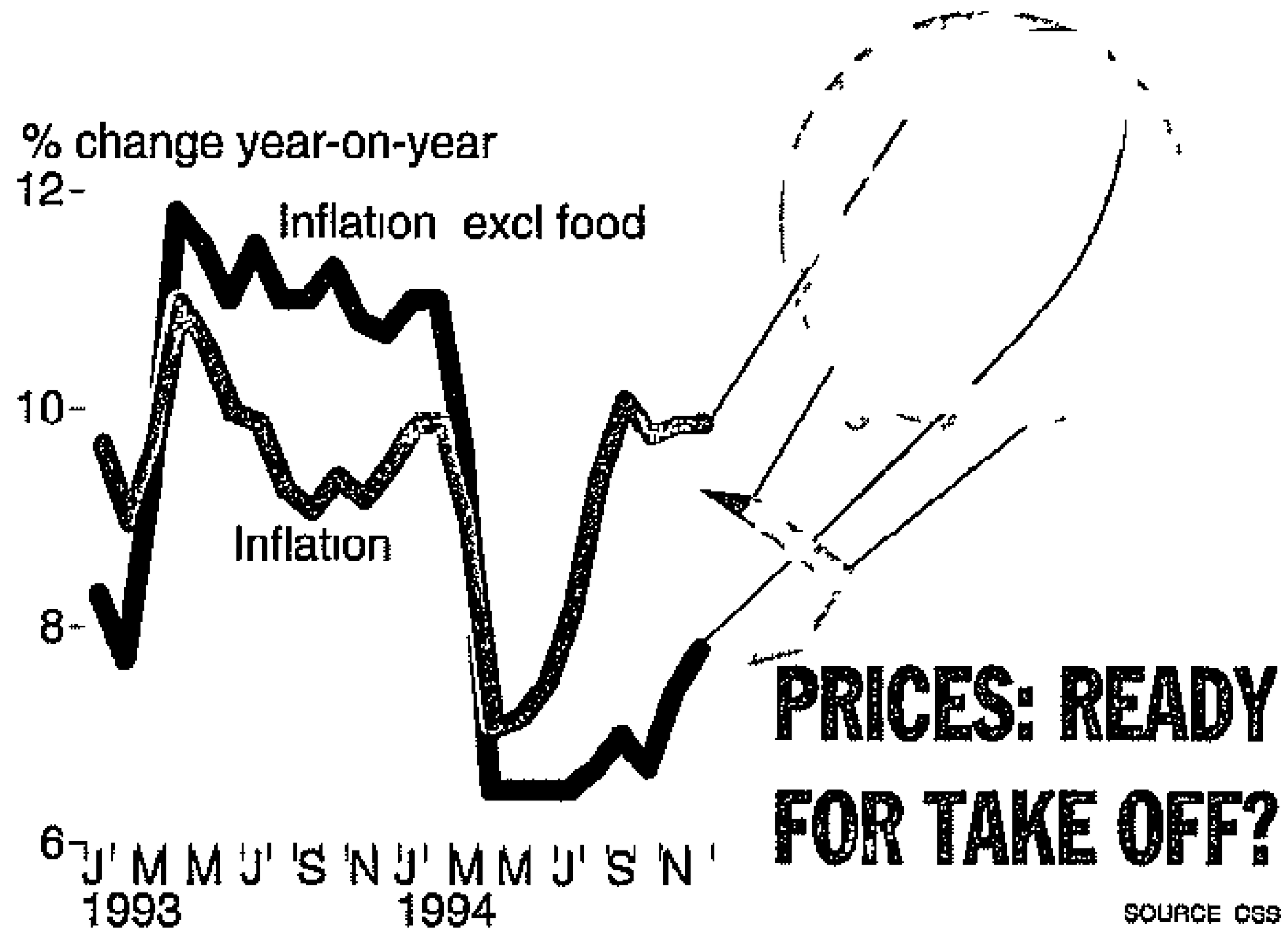
In a climate where organised labour may come to see higher wages as business's contribution to the RDP, higher wage demands may be difficult to turn down, in view of improved corporate profits

Andrew Levy and Associates says about 80% of companies surveyed by the consultancy expect 1995 to be a difficult year for wage negotiations, with half of the companies concerned expecting industrial action Trends in the public sector are also not encouraging

Yet there is a brighter side to all of this 12-month growth in volumes of manufacturing production for October and November is about 5%-6% Jammine says "With inflation at around 10%, this suggests that monetary growth of 16% is not excessive"

It also suggests productivity has improved, possibly due to business alliances with foreign firms, the introduction of new techniques, and through labourers working overtime to produce more

Jammine emphasises that much of the inflation index has been influenced by the pattern of food prices — a factor dependent on climatic cycles, not economic ones "Excluding food, inflation is at 7,8%" While nonfood inflation has climbed to this level from 6,7% in October, that climb has come from the increase in Bank rate in September, which has in turn pushed up the mortgage interest component of the housing index (a short-term development which will be followed by longer-term benefits) The



PRICES: READY FOR TAKE OFF?

SOURCE CSS

effect of the rise in this component has been spread out over the November and December data

Measured against nonfood CPI, says Jammine, current real interest rates are high, at about 8,5%, when calculated on the prime lending rate of 16,25% or 9% when based on bond yields of 16,8%

Both are far higher than real rates in most of the OECD countries in the US, 5,5% against prime and 5% against long rates, 4,8% and 4,7% in Germany, and 4,1% and 5,8% in the UK

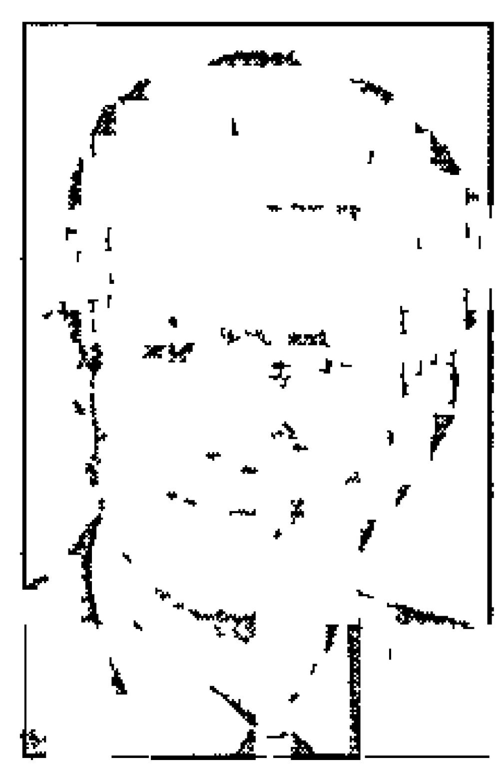
Rand Merchant Bank economist Rudolf Gouws believes the presence of positive real interest rates should ensure inflation stays at or below 10%

Food inflation may remain a factor, if higher food prices caused by drought lead to higher price expectations across all goods But Sanlam economist Pieter Calitz says "My own calculations are that the drought will have a quarter to a half a percentage point negative impact on GDP, with a lesser impact on food prices This is because of the ability to replace locally produced foodstuff with imported food"

Bond markets, probably the best indicators of future inflationary fears, are uncertain From 11% a year ago, long bond rates are now at 16,8% The upward momentum has been halted in recent months, a sign that the market is less pessimistic about government's ability to control spending than it was previously On the other hand, they have not fallen, so scepticism remains a reality

Stals has the opportunity to take pre-emptive moves against inflation The benefits of pre-emption were outlined recently by Greenspan He told the US Senate that raised rates in 1994 would probably prevent the "excessive" 4% GDP growth in 1994 from recurring

Stals is likely to take his cue from Greenspan "I'm expecting two interest rate increases this year," says Gouws "They won't be instituted because inflation is seen to be getting out of hand but rather to prevent the economy from overheating in future as well as to protect the still-fragile balance of payments until such time as long-term capital inflows pick up"


Jammine

Stals has already made pre-emptive moves He started the process in September last year when he raised Bank rate by one percentage point

"Stals has spoken frequently on the imperative of financial stability," says Jammine, "and that implies rates moving in an orderly fashion

"Just as Stals was loath to cut rates excessively during the recession, so he will not want to overreact on the way up"

The lowering of inflationary expectations in recent years is a major achievement but was assisted by a long period of declining economic growth which suited the incoming government politically Political priorities have since changed but the extent of the change will become clear only in the March Budget

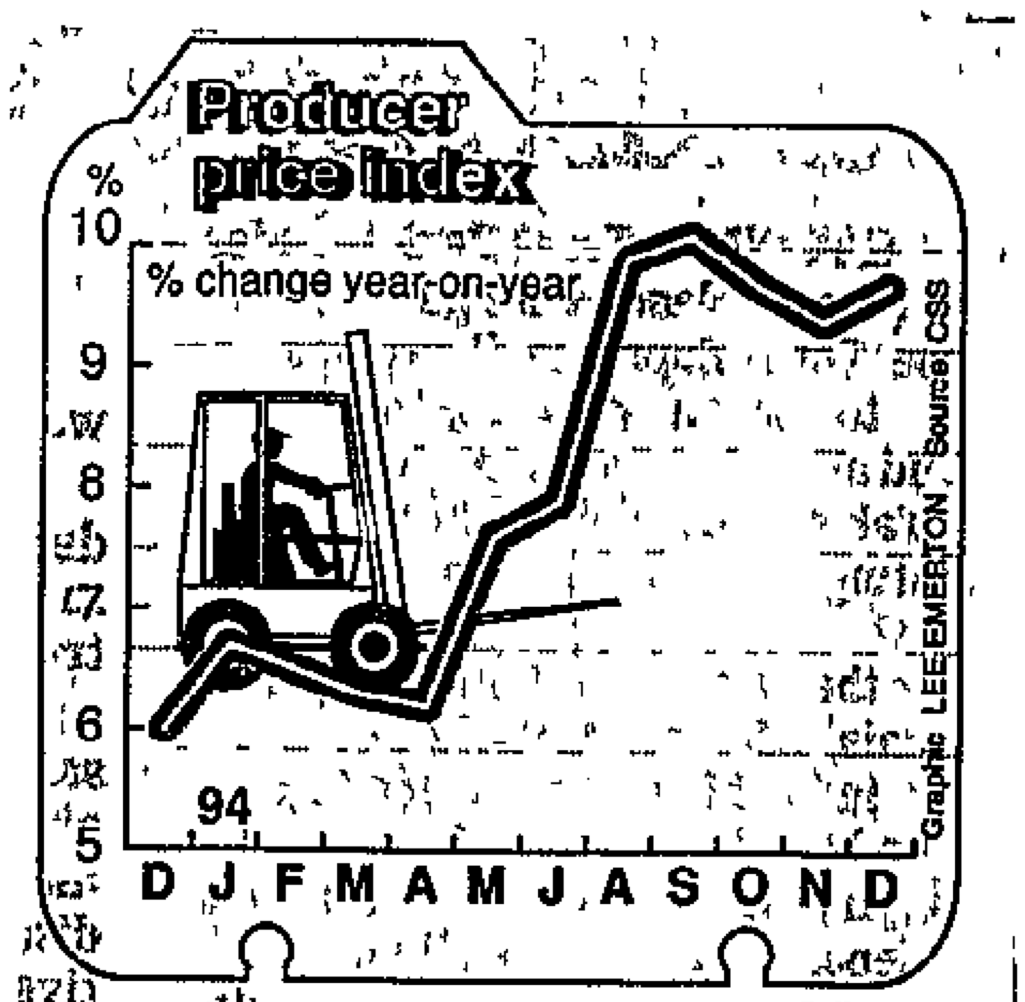
If, in particular, the education and health budgets are kept in line, a strong signal will be given that economic priorities are prevailing over social or political ones It will indicate that President Nelson Mandela intends to face angry parents whose children have been promised schooling by his government and have been let down

If these departmental budgets are not held in check and Stals attempts to hold the line on inflation by tightening monetary policy, not only will growth be sacrificed but his independence will be at risk and, more important, he will fail in his main endeavour For we know from experience that, over a prolonged period even a swingeing monetary policy will not entirely counter fiscal profligacy ■

DIRECTORS' EARNINGS

In a leading article last week, the *FM* paid JCI executive directors too much by better than two working from the annual report which discloses directors emoluments in 1994 as R10,8m, the article on Corporate Succession said JCI's seven executive directors earned R1,5m each a year

"I wish," is chairman Pat Retief's response. In fact, the amount is divided among 16 executive and alternate directors — a more modest R675 000 each. And he stresses that the options to shares held by the same group of directors are just over 1m — applying the same mid-point calculation as used in the article infers a value of about R44,7m.



Food prices push up producer inflation

(153)

MUNGO SOGGOT

PRODUCER inflation in December rose to 9,7% from 9,4% in November as food inflation staged a comeback, Central Statistical Service figures released yesterday showed.

Economists said the the figure brought 1994's average to 8,2%, up from 1993's 6,7%. Some were surprised by the renewed acceleration in food inflation as it had slowed for two consecutive months after hauling producer inflation into double digits in September. BD 14/2/95

Food inflation had underpinned a 0,6% monthly rise in the producer price index (PPI). The rise stemmed mainly from local inflationary pressures as a stronger rand had again kept the imported component of the PPI in check, they said. The local component rose 0,7% and the imported component was up 0,1%.

Sanlam senior economist Pieter Calitz said improved rains meant overall food inflation was unlikely to get out of hand. Meat inflation was unlikely to grow too severely as stronger demand would be met with higher imports which cost up to 30% less. He predicted single-digit producer inflation until mid-1996.

There was a 1,1% monthly increase in food inflation. The meat price index rose

□ To Page 2

Inflation

(153) BD 14/2/95 □ From Page 1

3,2% and the vegetable price index dropped 6,9%. Economists said seasonal factors could have triggered part of the rise in meat inflation.

Old Mutual economist Johan Els said the gap between local and imported manufacturing inflation was widening. The figures pegged local manufacturing inflation at 9,9% and imported at 5,6%.

Els said the domestic manufacturing sector had to become more competitive to cushion the blow to the balance of payments which would come from higher imports. He expected producer inflation to hover at 10% for the first half of this year and finish the year at about 12%

Local manufacturing inflation rose 0,5% and imported manufacturing inflation 0,2% "The traditional effects of an economic upswing seem to have filtered through to local manufacturing prices," said another economist.

She said the oil price index had risen 1,1%, reflecting higher oil prices from a few months back as oil prices had dropped in December. A 4,8% monthly increase in the coal price index probably stemmed from higher contract prices.

There was a monthly 1,1% increase in the textiles and made-up goods index, a 0,7% increase in the petroleum and coal products index and a 0,7% increase in the base metals index

Inflation 'poses major challenge to business'

BD 16/2/95 NICOLA JENVEY (153)

INFLATION poses a more significant challenge to SA businesses over the next five years than affirmative action, according to a recent survey.

The availability and cost of raw materials coupled with the prospect of low economic growth and increased labour relations problems are also crucial issues facing senior management.

These are the findings of a survey conducted among senior business executives by Durban-based development company Richard M Bosworth & Associates.

The executives were asked their opinions on the principle problems affecting management performance over the next five years and to indicate the obstacles their managers faced.

Affirmative action was ranked only tenth in the scale of importance together with the problems of acquiring adequate management talent, while inflation and coping with increased management stress were some of their major concerns.

However, short-term emphasis lay with improving productivity, implementing affirmative action and providing better customer service.

MD Richard Bosworth said companies had to change "radically" and re-engineer to achieve significant productivity improvements and reduce costs before becoming internationally competitive. These changes would in turn create additional labour relations problems.

Management would also have to deal with the problem of raw materials costs and availability on one hand and customer demands for better product quality and service on the other.

"Although the challenges of change will create managerial problems, enormous opportunities are also opening up and those management teams focusing on the three Gs — growth, global and great — will be the winners," Bosworth said.

Inflation in industrial world lowest in 30 years

153

ARG 18/2/95

NEIL BEHRMANN

LONDON — Inflation in the leading industrialised countries has fallen to its lowest level in three decades

According to the Organisation for Economic Co-operation and Development (OECD), consumer prices in 24 of its 25 member countries rose at an average annual rate of 2,4 percent last year, down from 2,8 percent in 1993 and 3,2 percent in 1992 The OECD information excludes Turkey Its inflation rate of 125,5 percent in 1994 would disrupt the series

The steady decline in inflation in the industrial world was confirmed in December, with prices unchanged from the previous month after increases of 0,1 percent in November, 0,2 percent in October and 0,3 percent in September.

Average consumer price increases of the leading nations are the lowest since the OECD began compiling the figures in 1961. Inflation in South Africa was 9,9 percent in 1994 so SA prices are accelerating 7,5 percent more than its main trading partners.

The US inflation rate is 2,7 percent

Those who estimate the rand-dollar rate on inflation differentials (a forecasting method which tended to work in recent years), would calculate that the rand will depreciate by 7,2 percent, or fall to R3,81 to the dollar This would be only 2,5 percent better than the present financial rand rate, a shuddering prospect for foreign holders of rand bonds.

Low inflation illustrates that present policies of central banks are working, at least as far as inflation is concerned The current policy fashion is to pre-empt rather than respond to inflation So central banks tend to raise interest rates well before inflation accelerates

The US Federal Reserve, the Bank of England andthe Swiss and French central banks are examples of such a policy They all raised or kept interest rates unchanged recently

British businesses have only recently emerged from recession, so there is a risk that the UK recovery will falter.

The change in central bank thinking is of importance to gold because it maintains investors' faith in hard currencies Central bank policies of the nineties indicate that runaway inflation in major industrialised nations is unlikely, reducing the investment incentive to hold gold and other commodities

Of course gold, metals and other commodities will rally periodically because investors are sceptical Yet producers will rely increasingly on fabrication demand rather than investor whims.

An unexpected coup in Saudi Arabia followed by an oil price increase would force policies temporarily off course

If the low inflation trend persists, albeit with slight hiccups, hard currency bond markets should recover

Low inflation has interesting implications for equities, the traditional inflation hedge If tight central bank policies limit inflationary growth, profit and dividend increases will fail to meet expectations

Yet following extra-ordinary bull markets between the early eighties and 1994, global share averages are historically overvalued

It is thus hardly surprising that equity rallies are spluttering and equities are struggling to break into higher ground

Mid-year inflation at 11%, says AHI

BD 23/2/95 (153)

MUNGO SOGGOT

INFLATION could hit 11% by the middle of the year and rise to 11,6% over the next six to 12 months, the Afrikaanse Handelsinstituut (AHI) warned in its latest inflation barometer.

Upward pressure on inflation would come from a likely fuel price hike in March and from fuel levies for a road fund expected in the Budget.

Average capacity utilisation would probably drop this year from more than 80% as new capacity began to be used — resulting in higher costs per unit of production. Higher wage increases, probably on average 11% this year, would also lift unit costs.

The AHI warned that the braking effect of the imported component of producer inflation could evaporate once the finrand was abolished.

Inflationary expectations reflected in long-term interest rates had also pushed up its inflation forecast, the AHI said. Long-term interest rates were unlikely to rise much this year as the possible abolition of the finrand had already been discounted in these rates. The rate on Eskom's E168 was likely to climb to 17,60% by the end of the year.

Food inflation in 1995 would be at least 10%, considering the likelihood of a poor agricultural year. It said the the lowering of import tariffs in terms of GATT could cut imported food prices, although the abolition of the finrand could lift imported prices.

There were likely to be up to two further one percentage point hikes in Bank rate this year. The AHI said the Reserve Bank's delay in lifting the Bank rate was an "indulgent gesture". The delay was probably caused by fears that an increase would dampen the economic upswing.

A low fuel price, a moderate improvement in the Bank's gold and foreign exchange reserves and better productivity had dampened inflation in recent quarters. However, the improvement in the Bank's gold and foreign exchange reserves over the past few months had been disappointing, mainly because of a poor exports

Improved exports and a buoyant tourism sector would limit the current account deficit this year to R3bn.

"A strong showing by the tourism industry, especially due to the Rugby World Cup, could help to brace the current account."

The sharp increase in retail sales last year was unlikely to be repeated this year. GDP growth would probably improve to about 3%, it said.

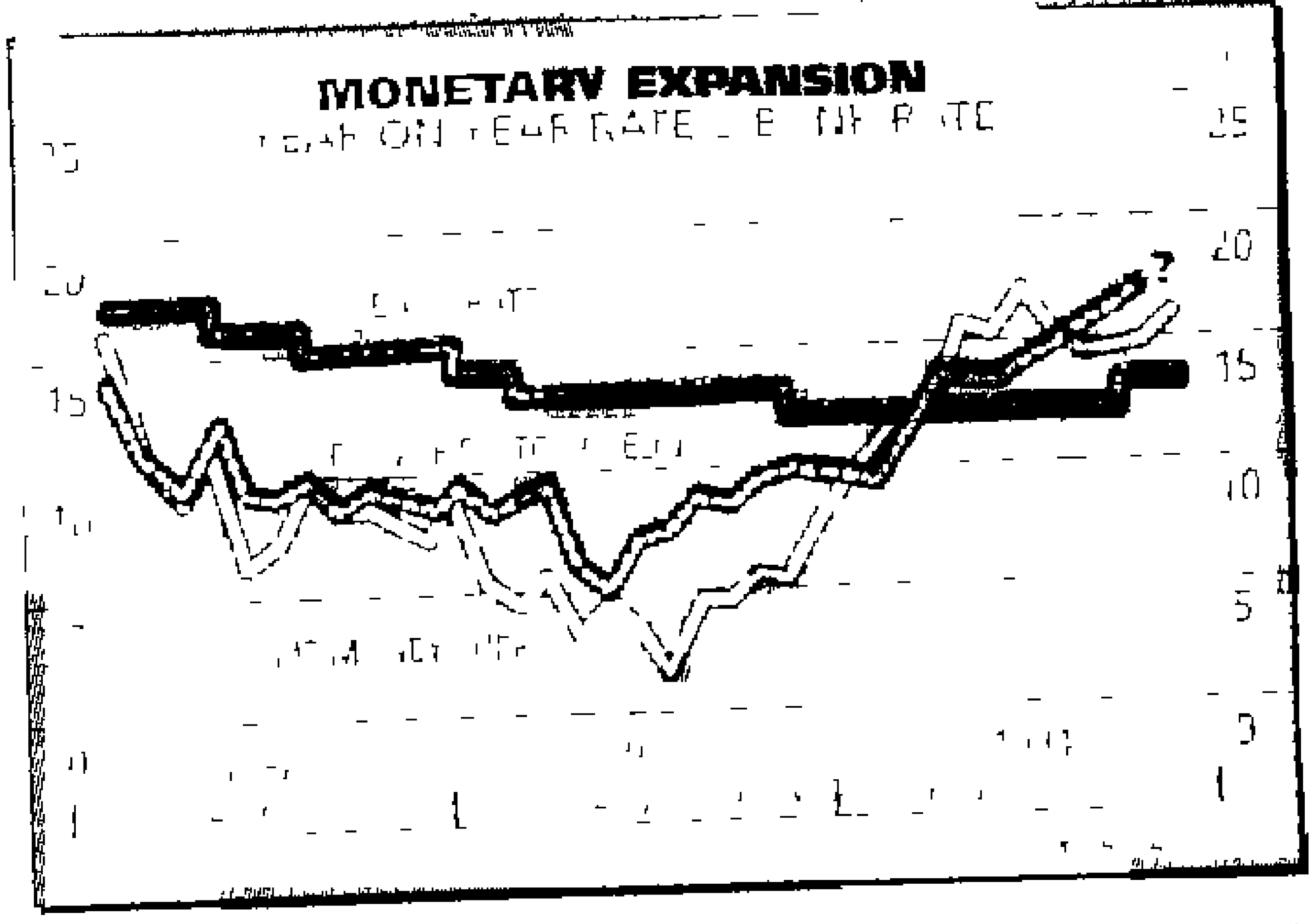
Upward pressure on food prices forecast

153

Inflation still not in check

Star 23/2/95

BY CLAIRE GEBHARDT



Inflation could reach 11,6 percent year-on-year over the next six to 12 months, according to the latest Afrikaanse Handelsinstituut Inflation Barometer

The AHI said the average year-on-year consumer price index (CPI) inflation rate had increased from a low point of an average 7,3 percent in the second quarter of 1994 to 9,9 percent in the fourth quarter in the wake of particularly sharp increases in food prices and non-food inflation.

The Producer Price Index (PPI) inflation rate had also risen by an average year-on-year rate of 8,2 percent in comprison with 6,6 percent in 1993

"The braking effect of the imported component (average of 5,4 percent in 1994) could disappear after the abolition of the financial rand and subsequent rand depreciation."

Food inflation had exercised strong upwards pressure on inflation in 1994.

The phased lowering of import tariffs in accordance with the GATT Marakkesh Agreement could make imported food and imports cheaper in general.

On the other hand, the possible abolition of the financial rand could result in higher import prices.

"Taking everything into consideration — specificially against the background of the drought and the relatively poor agricultural year in comparison with 1994, there could once again be food price increases of more than 10 percent in 1995."

The AHI said the most important factors currently exercising upwards pressure on the barometer, and therefore on the inflation rate, were growth in the broadly defined M3 money supply and the high level of inflationary expectations as reflected in the yield curve of long term interest rates and the BER's expectation index.

This was probably linked to the anticipated abolition of the financial rand.

"Consequently, the real inflation rate over the next six to 12 months could be lower than the levels anticipated by the Barometer if the financial rand is abolished within the next few months."

"During March fuel prices should be increased once again due to under-recoveries, while possible additional fuel levies with a view to establishing a road-building fund could push fuel prices upwards from April."

Wage demands could neutralise the possible contribution of further productivity increases to the lowering of unit costs.

The improvement in the gold and foreign exchange reserves was disappointing in the last few months due to poor export performances.

Net capital inflows were mainly short-term in nature. A strong show by the tourism industry due to the rugby world cup could however help to brace the current account.

Business Report

Food price increases forecast

CT 23/2/95 (153)

From
CLAIRE GEBHARDT

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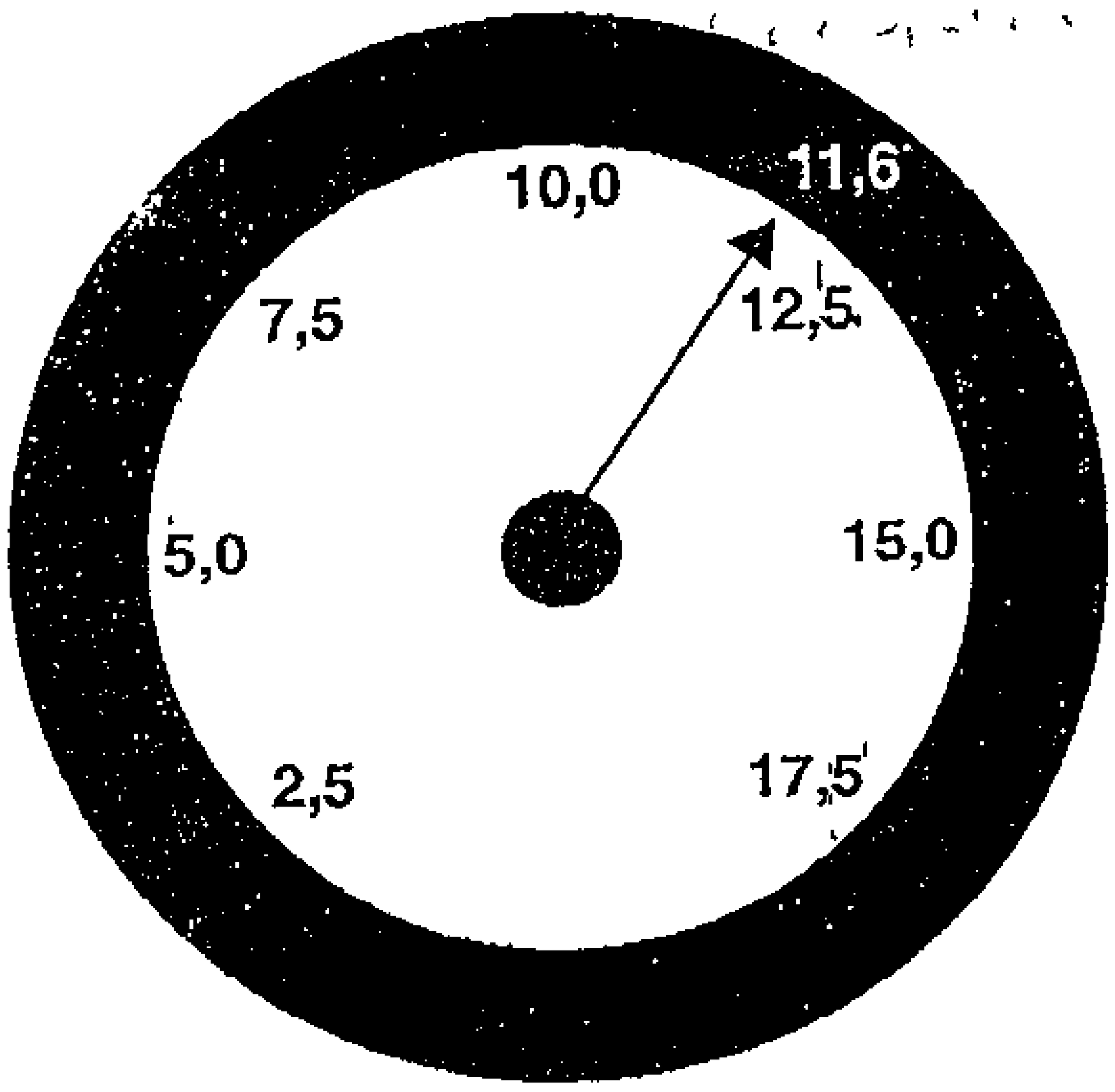
Inflation barometer

Reading 1st Quarter 1995



Inflation sticks to single digits (153)

BD 1/3/95 MUNGO SOGGOT

INFLATION stuck to its single digit trend in January, slowing to 9,6% from 9,9% in December, Central Statistical Service (CSS) figures released yesterday showed.

Economists said the figures matched market expectations, but warned that the breakdown disclosed pressures which could lift consumer inflation in the next few months. Food inflation staged a comeback, which was cause for concern, while the figures showed monthly increases in nearly all price indices.

Old Mutual economist Johann Els said the overall inflation figure had come off a relatively high base from last year, so the drop was to some extent technical, and "not such good news".

The consumer price index (CPI) rose 1,2% from December to January — a relatively hefty increase — after rising only 0,3% month on month in December.

Economists said coming monthly increases in the CPI should drop as January's increase had been lifted by the telecommunication price index — included in the survey after the hike in phone tariffs at the beginning of the year — and the medical care and health price index. These would not be surveyed in coming months. The communication price index made up 0,2 percentage point of the 1,2% CPI monthly increase and the medical care and health price index had contributed 0,4 percentage point. The food price index had contributed 0,3 percentage point.

Month on month, food prices rose 1,4% — compared with December's zero increase — mainly because of a 9,5% increase in the fruits and nuts price index.

Els said year-on-year food inflation would slow after June as it would be coming off a high base from last year.

Sanlam senior economist Pieter Calitz said the recent hike in bond rates and any "sin taxes" announced in the Budget would hit inflation this month or April.

Inflation rate still going down

153

Star 1/3/95

BY CLAIRE GEBHARDT

Consumer inflation continued its downward path in January, dropping to 9,6 percent from 9,9 percent in December on easier food prices.

However, economists warned yesterday that a poor agricultural showing and basic food price increases running into high numbers could push inflation into double digits in February.

On a monthly basis, inflation was 1,2 percentage points higher, a seasonally adjusted 0,9 percent, in the wake of price increases in cigarettes and tobacco, medical expenses and communication costs

Food inflation showed an annualised increase of 17,3 percent for January, 0,3 percentage points down on December 1994's 17,6 percent

The monthly rate of increase, however, was 1,4 percent, against December's zero figure thanks to price rises in fruit, nuts and vegetables

Mathison & Hollidge economist Tracey Ledger said food price inflation of 17,3 percent was still a problem, when compared with an underlying inflation rate of less than 7 percent

"Particularly since we are not expecting a great agricultural showing this year"

Ledger said the inflation figure was in line with expectations and was really nothing more than a statistical decline, given a very low base for January 1994

"The increase in Bank rate and the petrol price inrease will start coming through from March, which will put upward pressure on the numbers"

The monthly rate of increase would, however, probably stay below 11 percent, with the average for the year at 10,5 percent.

Credit Guarantee economist Luke Doig said meat price inflation was still excessive at an annualised 29,1 percent, as was fruit and nuts at 26 percent. This was of particular concern, given that they were basic products.

"Inflation will probably rise to double-digit figures in February"

The highest inflation rate of 11 percent was in the Port Elizabeth/Uitenhage area, while the lowest rate of 8,6 percent was in the Vaal Triangle.

Food inflation of 2,2 percent was recorded in the Port Elizabeth, East London and Durban/Pinetownareas.

The lowest monthly rate of 0,2 percent was in the Vaal Triangle, Nelspruit and Pietersburg areas

Inflation rate, money supply dip

(153)

Deputy Business Editor

BOTH the inflation rate and the rate of the growth of the money supply slowed in January

Reserve Bank figures show M3 money supply growth — notes and coins in circulation plus private sector deposits in the banking system — dropped to an annualised 13 percent in January from 15,72 in December

Seasonally adjusted, M3 growth dropped to 13,09 percent from 15,41 percent

The Reserve Bank's new guidelines for M3 growth in 1995, announced by governor Chris Stals earlier this month, are six to 10 percent

Central Statistical Service figures show the consumer price index rose 1,2 percent in January, bringing the year-on-year rise in January 1994 to 9,6 percent from 9,9 percent in December

But food prices are still up 17,3 percent on year-ago figures, with meat up 29,1 percent, fruit and nuts up 26 percent and vegetables up 14 percent

ARGT 1/3/95

Sugar prices dropped slightly in January

January inflation dips to 9,6%

153 CT 1/3/95

From CLAIRE GEBHARDT

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ECONOMIC INDICATORS (153)

Needing discipline

FM 3/3/95

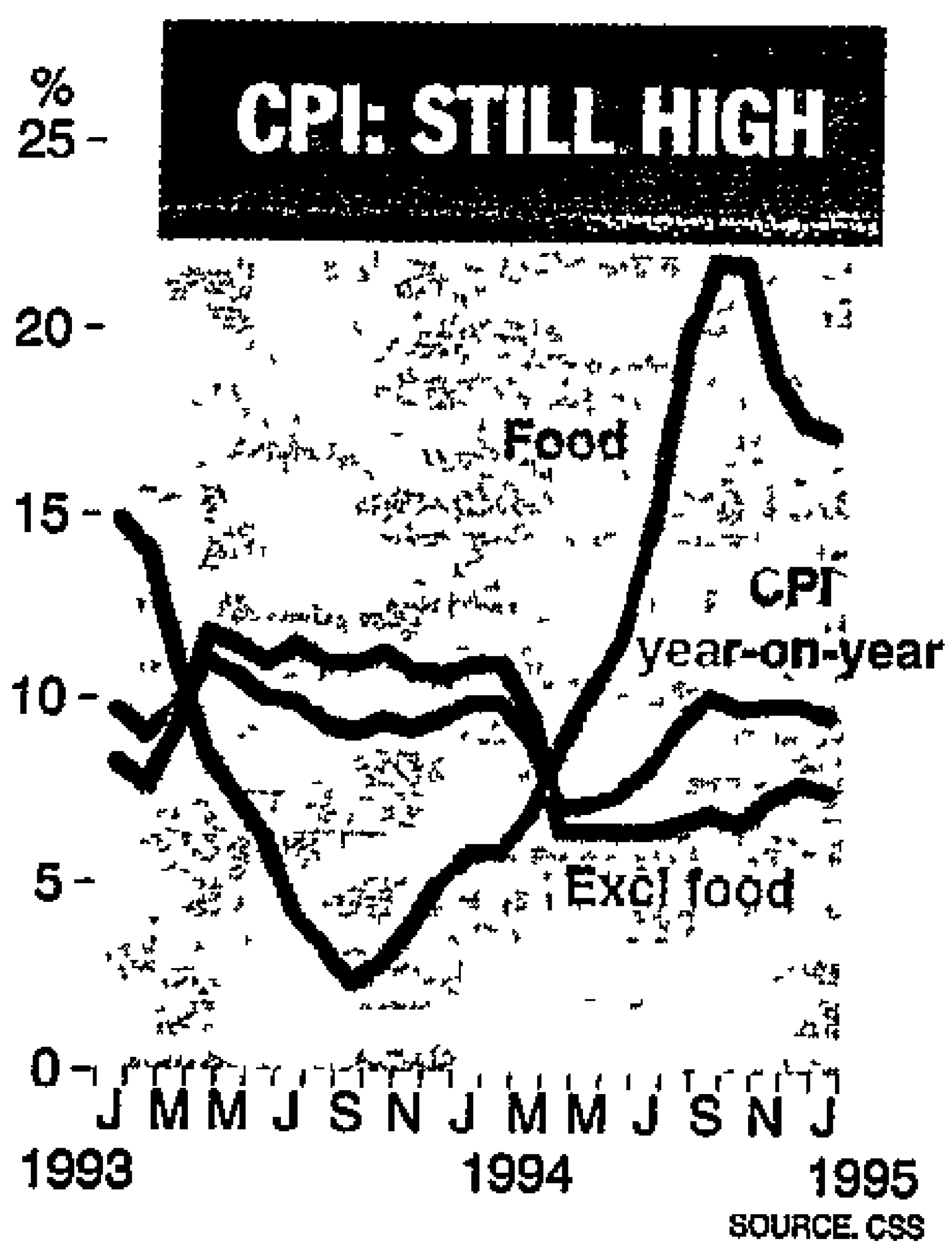
Economic indicators released this week support the need for monetary tightening which Reserve Bank Governor Chris Stals advocated last week when he raised Bank rate.

Inflation data released by the Central Statistical Service (CSS) reveals that, while there was a slowing in the year-on-year rate of increase, the monthly rise was high

The 12-month inflation rate for January was 9,6% Though this is down from 9,9% in December, the monthly increase rose from 0,3% to 1,2%. While much can be blamed on seasonal influences, such as Christmas spending and adjustments in administered prices, the magnitude of the rise is disturbing. Rises occurred over a wide range of items·

❑ Food, a major culprit of rising inflation since mid-1994, rose 1,4% in the month (17,3% year-on-year). Meat prices, however, rose only 0,3% (29,1%);

❑ Housing, the largest single input of the inflation index, rose 0,8% (8,8%),



❑ Medical care and health expenses rose 6,3% (7,9%) As increases in this component are administered and occur infrequently, this is unlikely to cause rampant inflation in future;

❑ Communication rose 9,2% (10%) This too is an administered price level derived mostly from Telkom tariffs, and

❑ Cigarettes, cigars & tobacco, up 5,7% in the month (18,2%)

Weakness in the trade balance also supports the prescription of tighter money to curb excessive demand and the growth of imports Imports for January, at R6,8bn, were higher than the monthly average for 1994 of R6,3bn, while exports were also higher at R7,8bn, compared with a 1994 monthly average of R7,5bn But the surplus for the month is R1bn, short of the average for 1994 of R1,1bn and December's R1,7bn

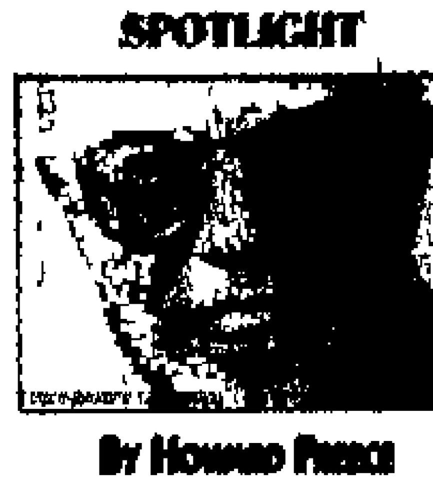
Money growth did, however, slow considerably in January, with M3, the broad aggregate, falling R5bn in the month, or 2,1%, to R238,8bn Over 12 months, this puts growth at 13%, an improvement on the previous month's 15,7% While this is encouraging, it remains outside the range of 6%-10% decided by the Bank last year ■

Inflation will rise but don't panic, there are powerful constraints

(153)

CT(BR) 7/3/95

SPOTLIGHT



By Howard Preece

Put all the facts together, and it is clear that rising inflation is inevitable, at least in the first half of this year

Inflation in South Africa is heading t around 11,5 percent by mid-year It cou even go over 12 percent

But don't panic, yet There will be impor tant relief in the third quarter of 1995 However, things are going to be extreme y difficult — perhaps impossible in terms c practical politics, although technically not from a theoretical economic viewpoint — t contain the rate to 10 percent or less by th end of this year

That is indeed an issue of profound con cern It poses a potential threat to a desperately needed continuation, and better still an acceleration, in the recovery of economic growth to at least minimum sociopolitically acceptable levels in 1996-97

Reserve Bank governor Chris Stals has said "Inflation must at least be kept below 10 percent a year Even that will not be an easy task in 1995" That, I regret, is something of an understatement

Sure, it might be argued that in the abstract it makes little difference if inflation is, say, 9,9 percent or 11,5 percent The varying experiences of such diverse economic success stories as South Korea, Taiwan, Malaysia, Chile and Hong Kong, among others, show that there is clearly no precise correlation that says the lower the inflation level, the higher will be the long-term rise in real GDP and thus in living standards.

An increase or decrease in inflation must also be seen in an absolute perspective A hike over a year of two percentage points in the CPI in South Africa today must be a quite distinct situation from a rise in inflation by the same absolute percentage in a major industrial nation, from, say, 2,4 percent in Britain to over 4 percent Well before any such surge peaked the national and international financial community would have passed judgment — "crisis"

Stals's moves on interest rates are tough anti-inflationary stuff by any standards

Psychologically, however, South Africa has to stop inflationary expectations from taking off again Reserve Bank studies have concluded that such expectations, through their effect on wage-bargainers and price-setters, have an ominously self-fulfilling element about them

But let's look at the specifics of South Africa, at where we are on the inflation front and where we are going For the 12 months to January this year inflation as measured by the official CPI was 9,6 percent.

That is in line with CPI annual rates on a year-on-year basis of just under 10 percent for 1992, 1993 and 1994

However, the struggle to get inflation back into single digits for those years — the previous time this occurred before 1992 was back in 1973 — was necessarily a painful process

True, it happened much in part because of the overriding determination of Stals to achieve that objective But it was also only possible because between late 1989 and early 1993 the economy suffered its longest, though not deepest, recession The length of the downswing surpassed even that of the depression of the early 1930s.

For South Africa today there can be no resolution of inflation by a renewed era of business stagnation and even worsening unemployment That way lies disaster There has to be preservation of the growth momentum — and there has to be inflation constraint Without that the foundations of growth will prove more and more to be built on sand Easily said, of course But obviously immensely harder to secure I said that inflation seems headed for around 11,5 percent by mid-year But even that forecast assumes there are no major adverse developments regarding food, oil and other key prices during the next three to four months It also assumes the March 15 Budget which will be presented by Finance Minister Chris Liebenberg will not contain steep across-the-board rises in indirect taxation, in other words, that the basic rate of VAT will be unchanged at 14 percent.

I also do not expect abolition of the financial rand and the consequent devaluation of the commercial rand in a unitary rand system to take place in the near future, despite all the market speculation.

However, if the finrand does go earlier than I think it will, the accompanying rand devaluation over and above the steady depreciation of the currency on forex markets that is taking place anyway will add naturally to inflationary pressures

Why, though, if we are excluding these factors for now, is there still bound to be an inflation upturn? It is not, contrary to many impressions, immediately because money supply, whether broadly defined M3 or any of the other main measures, has been rising excessively, though down the line that could never be ignored But Stals has not ignored it

He has raised the Bank rate by another percentage point and the commercial banks have upped prime rate by 1,25 percent

This means that with prime now at 17,5 percent and inflation, for the moment, at 9,6 percent, the "real" prime rate — nominal prime less inflation — is 7,9 percent.

That is tough anti inflationary stuff by any standards No, what South Africa is looking at over the coming months is essentially a harsh statistical situation that is going to run an unhappy course

The table below shows the actual monthly increase in CPI inflation, and the running 12-month rate, for February-June 1994

Month	CPI rise (%)	Annual CPI rate (%)
Feb 94	0,31	9,9
March	0,66	9,0
April	0,66	7,1
May	0,59	7,2
June	0,65	7,5

As shown, the average rise in the CPI each month was unusually low That was why the annual rate dipped from 9,9 percent at the end of February last year to a then 23-year low of 7,1 percent in April

It is impossible for the monthly position of the CPI from February to June this year to keep to as low a level as it did in the first half of 1994

We already have, importantly, a 5c/litre increase in the retail price of petrol in the CPI pipeline (and there could be more to come) and from April 1 the latest increase in mortgage rates will take place

Also, in 1994 there was no March Budget. While I am assuming no change in the basic VAT rate in this month s Budget, I do take for granted that there will be some increases in indirect taxes, above all in the duties on tobacco and alcohol, that will certainly adversely affect the CPI Put all these factors together and it is evident that rising inflation, towards 11,5 percent or so, is inevitable in the first half of this year

But while there is cause for concern, there is no need to panic. There is one huge statistical bonus for the opening six months of 1995 that will act as a powerful constraint on the extent of the inflation upturn (otherwise we might be at looking at 13 percent inflation by end-June rather than 11,5 percent)

This is the critical and always volatile component of food prices Food makes up about 20 percent of the overall CPI and its impact is necessarily vital We can see here how food-price inflation on a moving 12-month basis went into orbit from February to June last year

Month	Annual rise (%) in food prices
Feb 94	5,9
March	7,0
April	8,8
May	10,2
June	11,8

In January this year food prices did rise by 1,4 percent but economists, in general, are confident that the pattern of food price inflation to mid-year will, against the soaring performance in the first half of 1994, act as a brake on overall inflation

Moreover, it is food that should lead South Africa into a crucial spell of deceleration of total CPI inflation in the July-September quarter this year

In 1994 food price inflation just kept climbing in that same quarter, hitting 21,9 percent at end-September That led to monthly rises in the CPI last year of 1,5 percent in July, 1,5 percent in August and 1,1 percent in September

Compared with base, and provided obviously there are no special new shocks in the third quarter of this year, South Africa could see CPI inflation back down to or at any rate close to 10 percent by the end of September

That is why the government and business must take a firm line over the coming months on pay demands, which will naturally and legitimately seek to exploit rising inflation

The crunch, however, will come in the fourth quarter of this year There were exceptionally modest rises in the CPI in October, November and December 1994 of only 0,25 percent, 0,25 percent and 0,3 percent respectively

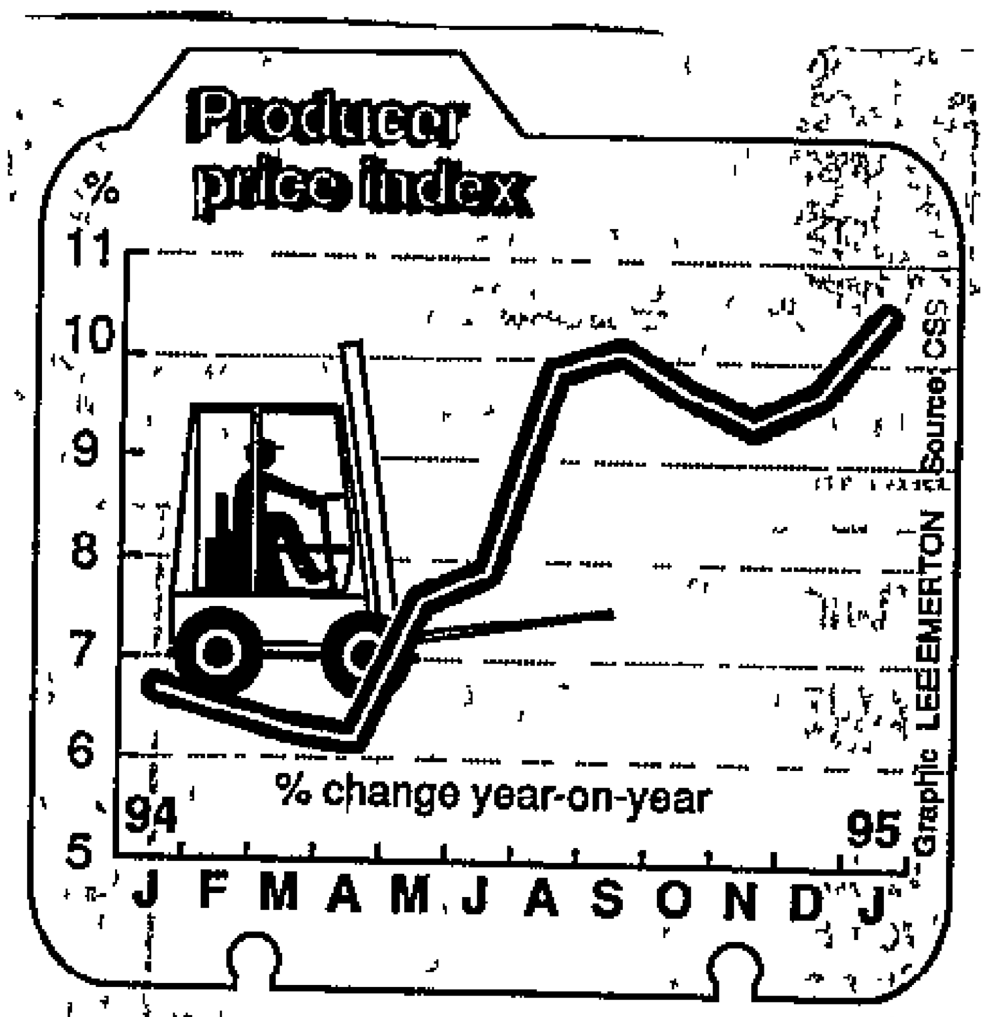
This is why it is going to be virtually impossible to hold inflation to 10 percent or lower this year while also giving the economy the room it needs to obtain GDP growth of 3 percent to 3,5 percent.

Hunger strike in third week

(153) ARG 10/3/95

THE hunger strike by Pollsmoor prisoner Reuben Lindile Sokutu has entered its third week.

The 59-year-old former UDF activist and convicted robber has diabetes and has stopped taking his tablets. His lawyer said Mr Sokutu's kidneys were failing. — Staff Reporter.



Producer inflation back in double digits

(153) MUNGO SOGGOT BD 15/3/95

DOUBLE-digit inflation has struck back, with January producer inflation rising to 10,5% — the highest level since October 1991 — from 9,7% in December, Central Statistical Service (CSS) figures released yesterday showed

Economists said the figure was worrying as a breakdown of the producer price index (PPI) disclosed inflationary pressures from imported goods and from many domestic sectors which were warming up with the general recovery.

Old Mutual economist Johan Els said there had been big increases in domestic manufacturing inflation indices, probably because of the strong pick-up in manufacturing production towards the end of last year. The PPI rose 1,6% month on month from 0,6% in December.

Econometrix economist Tony Twine said the "fairly ugly" month-on-month increase could have been exacerbated by seasonal factors as prices changed at year-end. "It is never a good idea to read too much into one monthly figure."

Economists said a 3,8% monthly increase in the oil price index — which has a strong weighting in the PPI — was surprising considering the rand's relative strength. One said the figure showed how difficult it was to predict the "lag effect" of the rand's strength on imported producer inflation. Imported inflation rose 1,4% month on month and 9,3% year on year. Local producer inflation rose 10,7% year on year and 1,6% month on month.

Els said the gap between imported manufacturing inflation, at 5,6%, and local manufacturing, at 10,3%, was still widen-

☐ To Page 2

Inflation

(153) BD 15/3/95

☐ From Page 1

ing. This showed it was still cheaper to import manufactured goods.

Monthly increases in PPI indices included a hefty 12,7% for tobacco [illegible] which one economist said [illegible]ble"; 3,5% for base metals; 3,1% for wood products; and 2,8% for chemicals. Economists said a 5,4% increase in the electricity price index reflected Eskom's annual price hike. Year-on-year electricity price inflation was a "moderate" 4,5%.

Food inflation was 15% — after a 0,3% monthly increase — which Twine said was heartening considering the rate of food inflation which hit SA last year.

Inflation fears re-emerge as producer prices surge

(153)

Star 15/3/95

■ BY ROY COKAYNE

Producer price inflation, a leading indicator of the course of consumer prices, surged in January to its highest level in three years.

Economists described the latest Production Price Index (PPI) figures as disappointing, adding that it would have an impact on consumer prices in months to come.

Figures released by Central Statistical Service (CSS) revealed the PPI rose 0,8 of a percentage point in January to 10,5% from 9,7% in December last year

CSS said January's PPI was the highest rate of increase in the index since October 1991 when it was 11,1%.

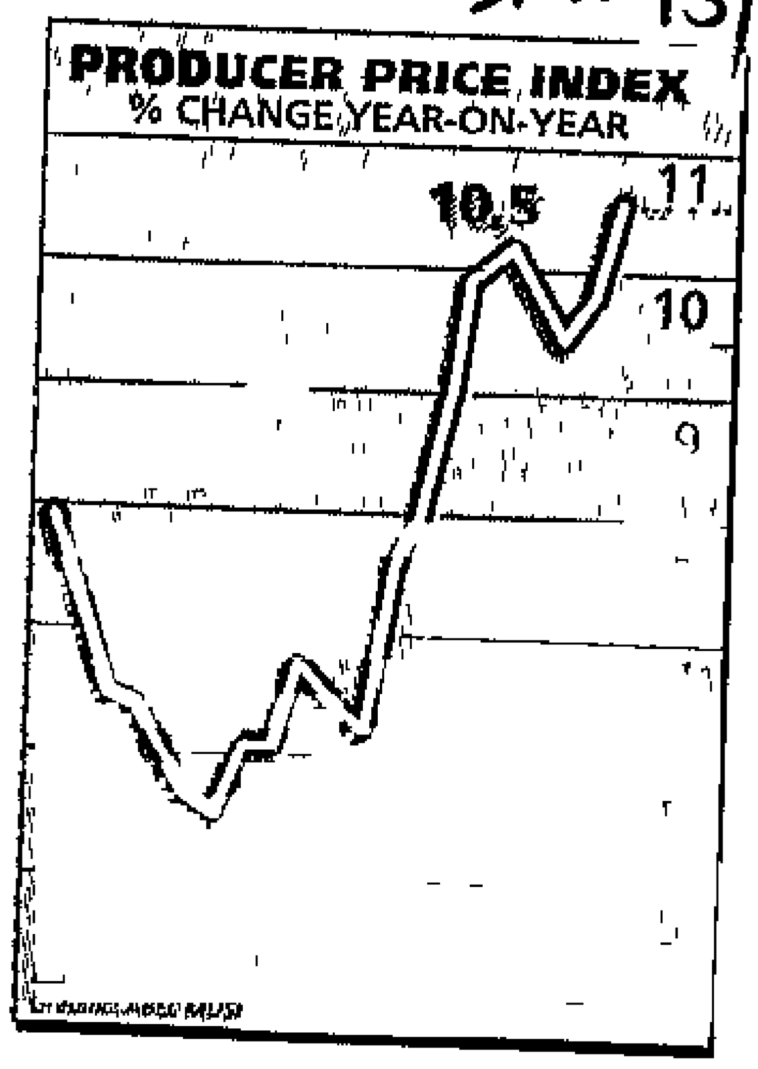
Between December last year and January this year, the PPI rose by 1,6% and by a seasonally adjusted 1,4%

Imports

The annual rate of increase in the PPI for imported commodities in January was 9,3%, the highest rate of increase since September 1991 when the rate was 10,1% In December last year this rate was 6,9%.

The PPI for several commodities for South African consumption showed relatively large increases.

Included among these were the price indices for tobacco products (12,7%), electricity (5,4%), footwear (4%) and some agricultural products such as grain (10,5%) and vegetables and dried beans (3,7%).



By contrast, the price indices for fruit dropped by 28,4% and leather and leather products 1,3%

Standard Bank group economist Nico Czypionka said the latest PPI figures were certainly above expectations

He said the annualised month by month rate of increase of 1,6% translated into an annual PPI rate of 19%.

Czypionka said what was disturbing was that prices increases occurred across the board.

It's not a particularly healthy picture The PPI was below 6% in 1993 but has now backed up to a level that is not really palatable, he said.

Czypionka said the latest figures would have an impact on inflation expectations and the markets won't like them either

However, he believed the CPI would stay around or just below 10% this year

But he said the increase in oil prices, which could result in higher fuel prices, was worrying because this would have a fairly direct and immediate effect on the CPI.

Food prices had also not fallen off as much as anticipated, he said.

It's a signal that consumer inflation is not going to fall off even if the pace of the economy cools down a bit, he said.

Disappointing

Nedcor senior economist Magan Mistry described the figures as disappointing, adding that the market was expecting a rate of below 10%.

The market had anticipated price increases but the size and the number of items was a surprise, he said

Mistry said the price increases were broadly based and would have some impact on the CPI in months to come.

Price increases in the PPI normally had an impact on the CPI with a lag of two to three months, he said.

He said it was difficult to estimate the extent of this impact on the CPI, but Nedcor foresees the CPI kicking up to double digits from April for two to three months and easing again towards the end of the year.

Budget likely to boost inflation, says Sanlam

(153) CT (BR) 23/3/95

By Claire Gebhardt

Economics Editor

The 1995/96 Budget will have an adverse effect on inflation, raising the rate by 0,5 percentage points, Sanlam's latest economic survey says

The average rise in the consumer price index is forecast to be about 10 percent this year, compared to 9 percent in 1994

Sanlam attributes the inflation hike to increased indirect taxation such as higher excise duties on liquor and tobacco and higher fuel prices

These price rises will also largely coincide with the higher cost of housing ownership due to the recent rise in bond rates

"Although a reasonably stable inflation rate is foreseen for this year, inflation should again reach double figures because of these factors as well as an expected moderate acceleration in food prices and possible further inreases in bond rates," the survey says

However, the underlying inflationary pressure in respect of most goods and services will be largely under control this year, Sanlam says

This is attributed to a slower rise in unit labour costs, where production will rise faster than real labour remuneration, and a fairly strict monetary policy

It says the effect of the Budget will be restrictive, but will not have a material effect on economic activity, because of the small increase in government expenditure of 9,5 percent the moderate tax relief and the reduced budget deficit, which will amount to an estimated R29,1 billion or 5,8 percent of gross domestic product

Sanlam says the abolition of the financial rand is unlikely to have a significant effect on the external value of the rand — and therefore on the inflation rate

A dramatic turnaround in the current account of the balance of payments (BoP) occurred during the past year

"The drastic rise in merchandise imports and services to meet the increased demand far exceeded total exports in recent months and changed the large surplus, a feature of the current account for the past few years, into substantial deficits," the survey says Total expenditure was forecast to exceed production increasingly and lead to still larger deficits on the current account of the BoP

Inflation forecast to rise

Star 23/3/95 (53)

■ BY CLAIRE GEBHARDT

The 1995/96 Budget proposals will have an adverse effect on inflation, lifting the rate by 0,5 percentage points, says Sanlam's latest Economic Survey

The average rise in the consumer price index (CPI) is forecast at 10 percent this year (9 percent in 1994).

Sanlam attributes the hike to increased indirect taxation such as higher excise duties on liquor and tobacco and higher fuel prices.

These price rises will also largely coincide with the higher cost of housing caused by the rise in bond rates

"Although a reasonably stable inflation rate is foreseen for this year, inflation should again reach double figures because of these factors, as well as an expected moderate acceleration in food prices and possible further inreases in bond rates."

However, the underlying inflationary pressure in respect of most goods and services will be largely under control this year

This is attributed to a slower rise in unit labour costs, where production will rise faster than real labour remuneration, and a fairly strict monetary policy.

The effect of the Budget as a whole will be somewhat restrictive, but will not have a material effect on general economic activity owing to

- the small increase in government expenditure of 9,5 percent — a decrease in real terms,
- the moderate tax relief; and
- the reduced budget deficit which will amount to an estimated R29,1 billion, or 5,8 percent of GDP.

Sanlam says the abolition of the financial rand is unlikely to have a significant effect on the external value of the rand - and therefore on the inflation rate.

"At this stage, we estimate that the current account of the BoP will show a deficit of R6 billion to R7 billion this year against a deficit of R2,1 billion in 1994."

(2) Yes Steps to systematically eliminate the establishment backlog were already included in the Departmental Financial Management Plan for 1994/95, which aimed at eliminating the backlog within five (5) years Due to Treasury under provision for the 1995/96 financial year, this could not be accomplished and consequently negotiations will recommence to eliminate the backlog

Staff of subsidiary of SA ' at Jan Smuts Airport on str ,e

86 Mr J T ALBERTYN - ed the Minister for Public Enterprises † (153)

(1) Whether the staff of a subsidiary of the South African Airways which handles luggage at the Jan Smuts Airport and whose name has been furnished to her Department for the purpose of her reply, were recently on strike or are striking at present, if so, (a) what caused the strike, (b) how long did the strike last or has it been lasting and (c) what are the estimated costs in this respect to (i) airlines and (ii) passengers,

(2) whether any steps have been or are being taken to end the strike, if not, why not, if so, (a) what steps and (b) by whom?

N148E

The MINISTER FOR PUBLIC ENTERPRISES

(1) Yes

(a) Labour dispute

(b) Six hours

(c) (i) and (ii) Not possible to calculate

(2) Yes

(a) Agreement was reached

(b) SA Airways Management and Trade Union

Hansard 28/3/95

INTERPELLATIONS

The sign * indicates a translation The sign †, used subsequently in the same interpellation, indicates the original language

Zulu-imbizo. funding

1 Dr B E NZIMANDE asked the Minister for Provincial Affairs and Constitutional Development

(1) Whether the Zulu imbizo held on 12 March 1995 was wholly or partly funded by the provincial government of KwaZulu-Natal, if not, how was this meeting financed, if so, what total amount was spent on the said imbizo,

(2) whether the KwaZulu-Natal Executive Council approved the funding of this meeting, if not, what is the position in this regard, if so, from which budget vote was it funded?

N272E INT

The MINISTER FOR PROVINCIAL AFFAIRS AND CONSTITUTIONAL DEVELOPMENT Mr Speaker, to enable me to reply to the question, the Director-General of the Department of Constitutional Development approached Prof Nxumalo, the Director-General of the Province of KwaZulu-Natal Prof Nxumalo indicated in writing that the imbizo was wholly funded by a private donation He also supplied me with a copy of a press statement made by Mr T Memela, the public relations officer of the Office of the Premier of KwaZulu-Natal, in which he stated that he had been informed by the Premier that no Government funds had been paid for the imbizo held in Umlazi on 12 March According to this statement, during the week prior to the imbizo an account was opened into which private donations were paid and all expenses relating to the imbizo were therefore to be paid from private funds Mr Memela also stated that the previous statement he had made, to the effect that the provincial government had funded the imbizo, was the result of a misunderstanding, and should be ignored

My response is therefore the following regarding the first part of the question No, according to the information at my disposal, which was obtained from the province concerned, the imbizo was financed by private donations Prof Nxumalo did not convey any information regarding the total amount that was spent on the said imbizo The second part of the question falls away Hansard 29/3/95

Dr B E NZIMANDE Mr Speaker, the answer that the hon the Minister has been given to table here is totally unsatisfactory [Interjections]

In fact, there is a possibility of a cover-up Why do I say this? Firstly, in a statement issued to *The Daily News* by Mr Memela, spokesperson of the KwaZulu-Natal premier, immediately after the imbizo, he said that R20 228 was spent on refreshments and hiring a tent, chairs and toilets He said that the money was made available " by the government of KwaZulu-Natal through a Vote on public functions" Later, on 16 March, Mr Memela retracted this statement by saying

> I have been informed by the premier that no government funds paid for the so-called imbizo An account was opened during the week previous to the imbizo into which private donations were paid

That is what he said

Immediately two questions arise Firstly, why did Mr Memela make the earlier statement in which he quoted an exact amount and give details of the account from which this came? This is a very strange kind of misunderstanding, which he claims it is Secondly, can a public official like a premier convene a meeting in his official capacity which is then funded from private sources? Is this not a basis for corruption?

A further question also arises as to how those private monies were disbursed from the special account that Mr Memela is talking about Is it acceptable for a government to open special accounts with funds from unknown private sources and then to have it disbursed by public officials? That is the question

We are very suspicious of this answer When Inkathagate first hit the news, it was denied Later it was proved that the apartheid government did indeed secretly fund the IFP through slush funds Now we have the same situation here In the light of this we call upon the Minister to ask the Public Protector as well as the Auditor-General actually to investigate the fund-

Don't be fooled — the rand will eventually resume its fall

(153) CT(BR) 30/3/95

Spotlight

By Howard Preece

SA's old scourge — high inflation — is the culprit

What will happen to the value of the rand on the foreign exchange markets? The quick answer is that at least in the medium term, and certainly in the longer term, the it will continue to fall against the world's major currencies, and against some of the lesser ones too At any rate, this will remain true to the end of the 1990s

The reason is simple, and well-understood South Africa is running at a higher inflation rate than the average prevailing in the big league, and/or generally successful economies

For the past three years, inflation in South Africa has averaged just less than 10 percent per year In the period 1984—1994 the average yearly rate was 13,8 percent The Reserve Bank governor, Chris Stals, is rightly pleased, but far from complacent, about the improvement

But during that same 11-year period, inflation in the US averaged less than 4 percent a year, while in Britain it was just a fraction higher In France the rate was 3 percent, while Germany and Japan managed a rate of less than 2 percent The rate in Australia, as an example of a middle-ranking economy, was closer to 6 percent over the whole period, but in the 1990s the rate dropped to an average of 3 percent

There is no mystery, then, about the long-running depreciation of the rand — nor in the fact that although the inflation gap between South Africa and that of the leading industrial nations has narrowed, the rand will continue to slide

Look at these tables Table A shows the comparative inflation record of South Africa, the US, Britain, Australia and Germany for 1980-1992 (source the International Monetary Fund) The IMF has used 1985 as a common 100 base for all the countries

Inflation indices

	SA	US	UK	Australia	Germany
1980	51,9	76 6	70 7	67 1	82,7
1985	100,0	100,0	100 0	100,0	100,0
1992	267 7	130 4	146 4	152,6	115,2
Rise (%) 1980-92	416%	70%	107%	126%	39%

For all the qualifications that have to be made about the exchange rate/inflation link, this shows clearly enough that the rand had to plunge against all the other currencies, as it did, and that the German mark had to gain against all the rest — while the exchange rates between the dollar, sterling and the Australian dollar should not have changed too much between 1992 and 1980

What happened? This is shown in table B

Exchange rates

	SA (R/$)	UK ($/£)	Australia (A$/$)	Germany ($/DM)
1980	R1,28	$2,33	1,14	1,82
1985	0 44	$1,29	0,71	2,94
1992	0,35	$1,76	0 73	1,56

Sure enough, the rand devalued steeply against the US dollar, sterling and the Australian dollar declined moderately against the US dollar, and the German mark hardened against the US currency

We also see, though, how foreign exchange markets can hugely overshoot in certain periods The dollar was extremely strong in the first half of the 1980s — look at its massive gains against sterling and the German mark — but this was not justified by fundamentals, and the currency then weakened appreciably

But the bottom line is evident There is a rough and ready long-term correlation between inflation and exchange rate movements Which is why the rand, apart from other factors, will continue to slide downwards So where you have a choice, try to protect yourself against this

Of course, this not does mean that the rand will fall uninterruptedly against every leading currency It hasn't in the past, and it won't in the future At $1/R3,59/60 today the rand is marginally firmer against the dollar than it was six months ago But how far will the rand go down the general currency slope?

This is where factors other than inflation have to be considered These relate to volatile capital flows, something to which South Africa is now much more exposed, given the scrapping of the finrand, foreign and domestic perceptions of future political and economic developments, and the state of the current account of the balance of payments

Also, economists distinguish between general inflation and inflation in "tradeables"— items that impact heavily on export costs, and the cost of goods competing against imports

Vitally, South Africa has a high-cost labour structure in relation to productivity in most manufacturing areas The rand exchange rate can be expected to decline not only for inflation but also for balance of payments reasons, unless the world decides to pour capital into South Africa

But then we had best be sharply aware of an artificially high exchange rate Capital flows are notoriously fickle Ask Mexico

The Reserve Bank does not want to deliberately devalue the rand because it is concerned about inflation That's understandable But the bank should not prop up the currency — smoothing out minor fluctuations is another matter, and in any case, if world views turn against the rand the bank will be powerless

On balance, South Africa will be better served by a currency that seems marginally undervalued than by one that seems on the high side But when the dollar slump reverses, as it will, the rand will be seen to be really weaker than it now appears to be, because of the deceptive historical practice of referring almost solely to its exchange rates against the dollar and sterling

Inflation rate edges up to 9,9pc

ARG 30/3/95

Deputy Business Editor (153)

HIGHER prices of vegetables helped to bump up the inflation rate to 9,9 percent in the year to February from 9,6 percent

Vegetable prices rose 2,8 percent in February, Central Statistical Services figures show But prices of fruit and nuts dropped 0,9 percent

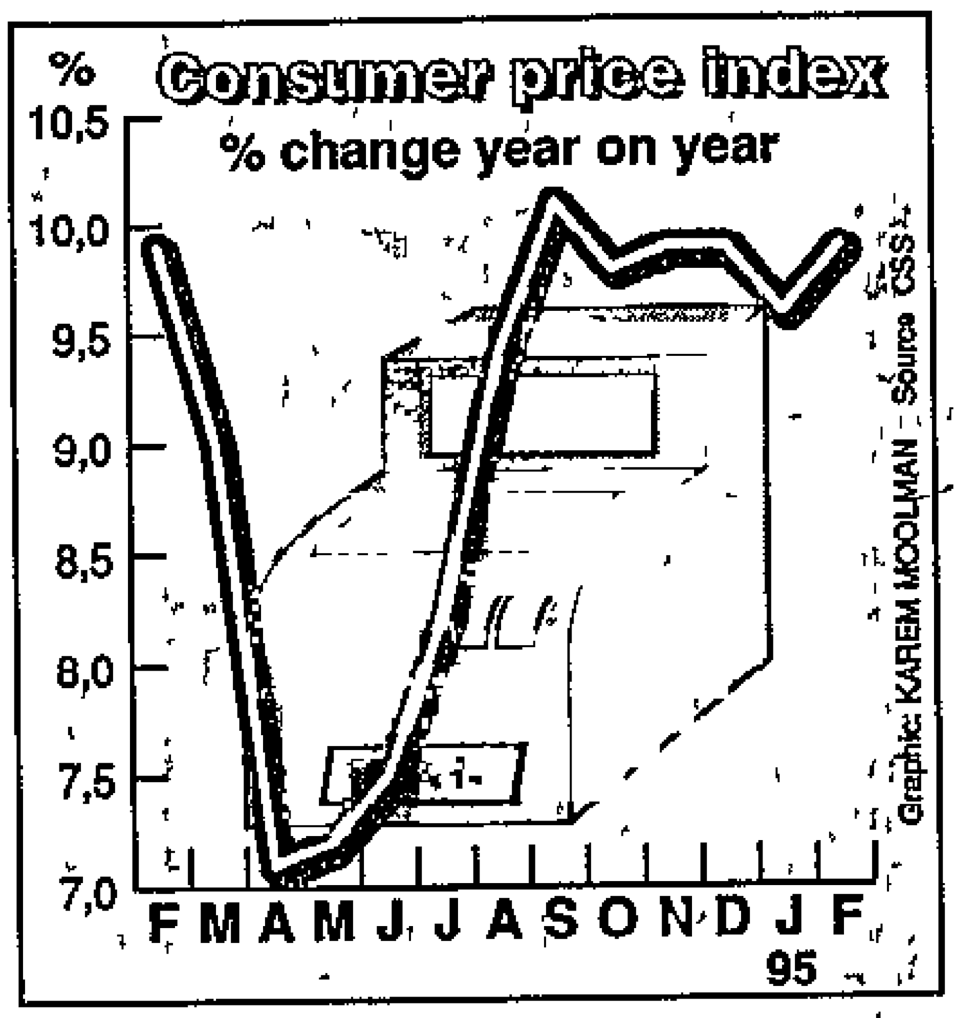
Food prices are up 17,4 percent on a year ago, compared to 17,3 percent in January

Old Mutual economist Johan Els said excluding food and housing the inflation rate was running at a "fairly modest" 8,9 percent

March figures could be lower than February's, he said But he expected the inflation rate to break back into double figures in April, as tougher excise duties, the petrol price rise and higher bond rates took their effect

Mr Els said there was little pressure on interest rates from the current inflation rate

But Old Mutual was still forecasting two more bank rate hikes this year because of problems on the current account of the balance of payments



Inflation maintains single digit trend

PAUL RICHARDSON (153)

INFLATION maintained its single digit trend for the fifth consecutive month in February, rising to 9,9% from January's 9,6%, Central Statistical Service (CSS) figures released yesterday show.

Economists said the figure was not surprising as February was usually a "boring" month because no special items were included in the consumer price index (CPI).

"The figure is absolutely in line with expectations, although the fact that it is under 10% is obviously good for psychological reasons and it points to subdued underlying inflation," one economist said

Another economist said the low increase in consumer inflation was likely to calm inflationary fears sparked by the higher-than-expected increase in producer inflation earlier in the month

The consumer price index rose 0,5% month on month, a modest increase compared with January's 1,2% rise, one economist said. BD 30/3/95

Sanlam senior economist Pieter Calitz said it was "heartening" that food prices had not risen as much as had been expected. He sounded a note of caution on vegetable prices, which he said could rise sharply in the coming months. CSS figures show vegetable prices rose 17,4% over the year and 2,8% month on month, while overall food inflation rose an annual 17,4%

☐ To Page 2

Inflation

(153) BD 30/3/95 ☐ From Page 1

(0,5% month on month).

"The drought is expected to have a negative effect on vegetable prices over the next two months and although the vegetable index has a weighting of less than 2%, it will still have a negative impact on overall inflation," Calitz said.

Old Mutual economist Johann Els said some pressures were building up in the different components of inflation, which were to be expected given the the economic upswing. "But overall there is nothing to worry about at the moment."

Economists noted, however, that inflation was likely to rise above 10% over the next two months. "The effects of the mortgage rate hike in February, increased excise duties and the higher fuel price point to inflation of between 10% and 11% in March and April," one said.

Feb inflation rate still a single digit

(153) Star 30/3/95

BY CLAIRE GEBHARDT
ECONOMICS EDITOR

Consumer inflation remained in single digit territory in February despite an uptick to 9,9 percent from 9,6 percent in January. Economists said the figure was in line with expectations but warned that inflation could move substantially ·ther after March to reach ·rcent by June

Central Statistical Service figures yesterday attributed the monthly increase in the consumer price index (CPI) of 0,5 percentage points to price increases for food, housing, medical and health care expenses.

The food inflation rate for February was 17,4 percent — 0,1 percentage point higher than January's 17,3 percent.

The monthly rate of increase of 0,5 percent in the food price index was attributed to price increases for fish, vegetables, coffee, tea and cocoa.

Food price increases were still cause for concern and would probably escalate.

Sanlam economist Johann Louw said the effects of the February bank rate hike, pushing up the prime and mortgage rate, had yet to be felt

INFLATION (153) FM 7/4/95

Looking positive

Data released last week was reasonably reassuring· while inflation is rising, the increase is not as serious as predicted last year.

Consumer prices recorded a relatively small rise in February And growth in money supply has slowed, which means pressure on future inflation has been reduced.

According to the latest survey of consumer prices from the Central Statistical Service, inflation, excluding food, was 7,8% in February, from 7,4% in January — much lower than the headline rate of 9,9% And the monthly rate of price increases is relatively low, both including and excluding food, they rose 0,5% month-on-month as did food prices alone

The annual rate at which food prices increased was up slightly, to 17,4% from 17,3% in January They rose only moderately in February meat (0,4%) and grain prices (0,1%)

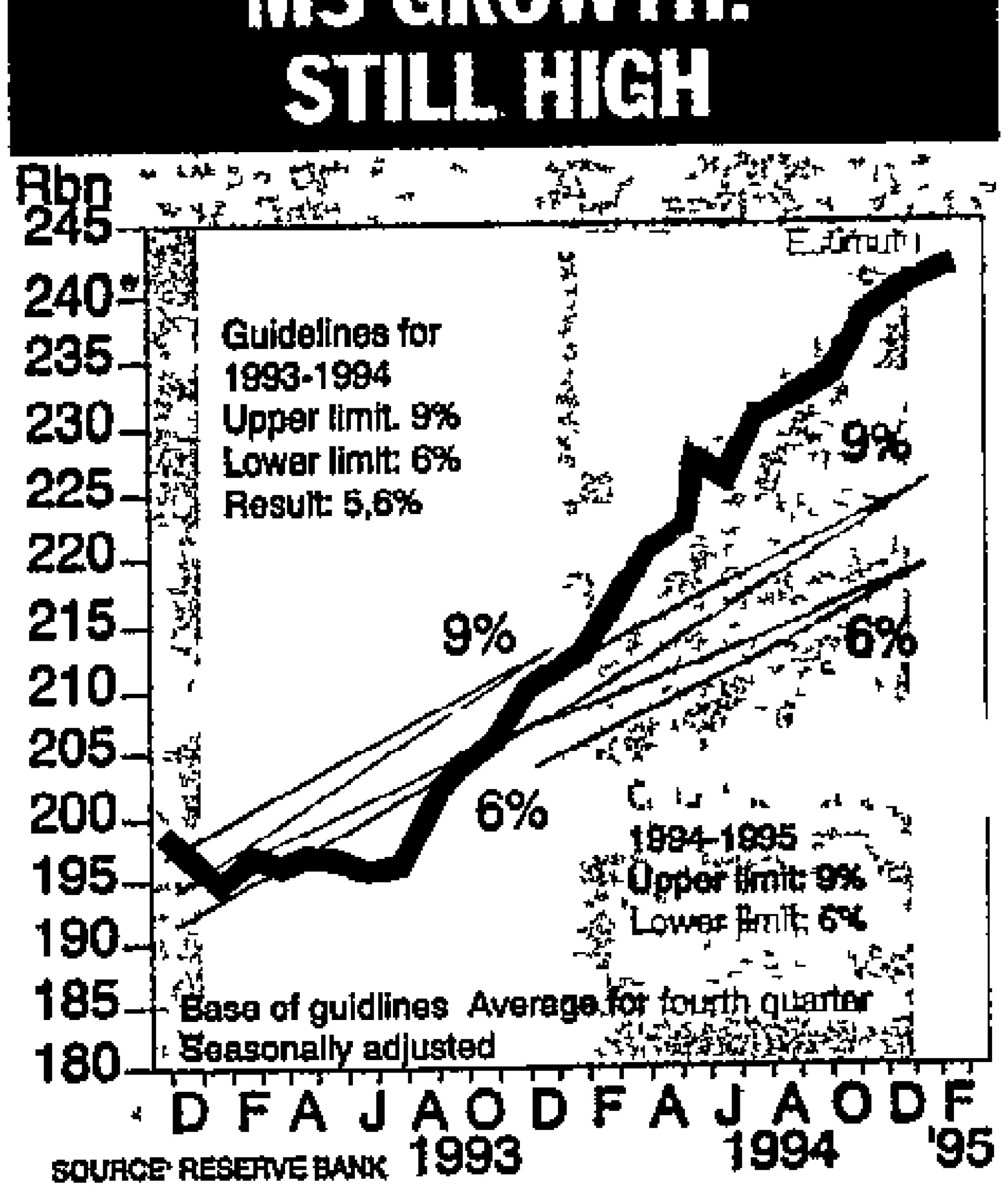
Ed Hern, Rudolph economist Nick Barnardt predicts steeper rises in the next few months, as farmers restock their herds and the effects of this season's poor maize crop come through.

A shortage of dairy products may be looming too, because of the high level of slaughtering during the drought of the past six months

Pressure over the next few months will come from higher postal tariffs, increased petrol prices in March-April and increased excise duties announced in the March Budget. These factors alone are likely to add about 0,2 percentage points to the annual inflation rate in April-June, says Chris Visser, analyst at stockbrokers Huysamer Stals.

A package of monetary tightening measures was announced in February, namely

M3 GROWTH: STILL HIGH



Prof McGrath-consultation on Income Distr 824.00 University of Natal

higher interest rates and tighter reserve requirements for banks In the long run, these will reduce inflation but the immediate effect will be a one-off rise in the housing index in March-April, on account of higher mortgage interest repayments

But relief will come in the second half of the year, due to the reduction of the import surcharge from October, announced in the Budget And, should capital inflows continue as they have since late last year, the unitary rand will remain strong, keeping prices of imported goods in check

Barnardt adds that unit labour productivity improved considerably in 1994 and should continue to do so in 1995 "In manufacturing, particularly, fourth quarter production statistics suggest the improvement has been vast, with unit labour cost inflation in the factory sector at the end of 1994 between 5%-6% year-on-year, the lowest in 20 years"

On the monetary side, the chances of M3 growth matching the target of 6%-10% set by Reserve Bank governor Chris Stals are good On an annualised and seasonally adjusted basis, M3 growth was 5,2% This is measured from the base of the current guideline year (mid-November 1994), to February

This is down from 5,6% for January and an extremely high 22,5% December

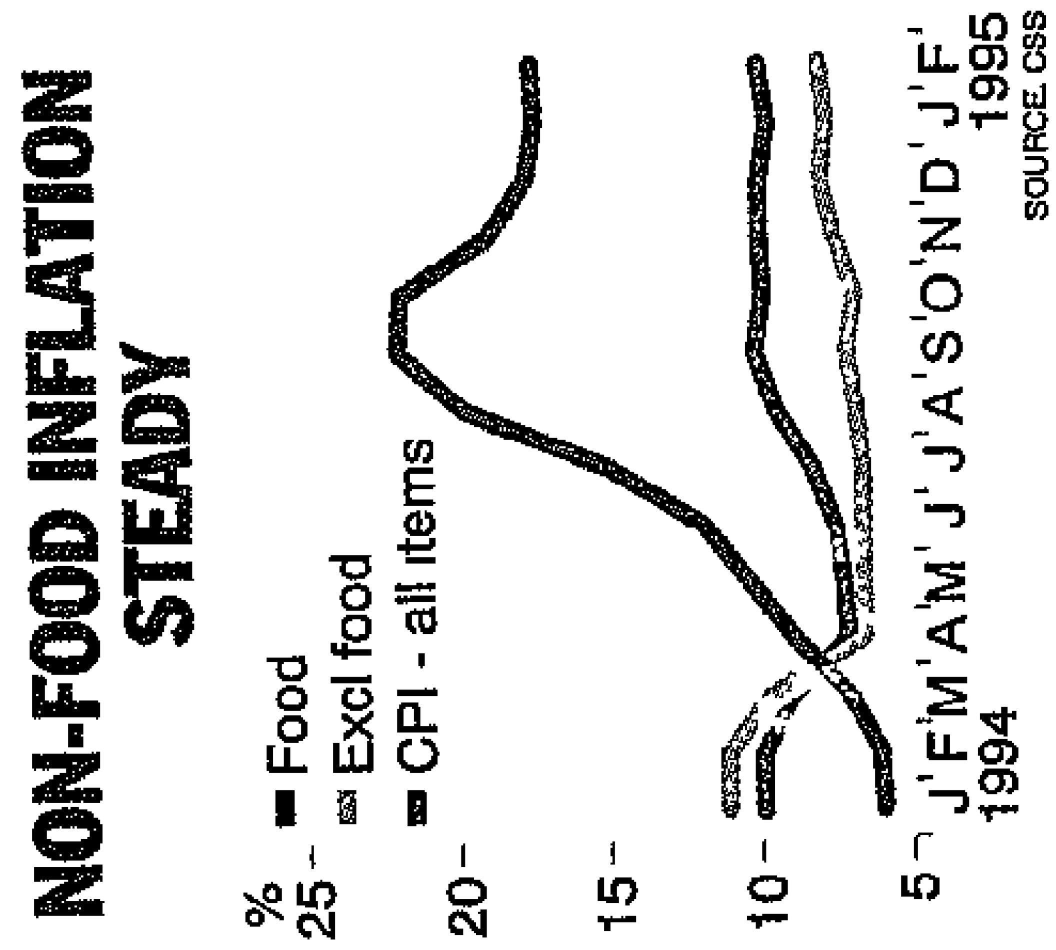
While there was a large surge in M3 growth in February itself — almost R5bn to R243,2bn — this should be read together with the very sharp decline of similar dimensions in January, mostly for technical reasons

The January decline is attributed to an increase in tax receipts, much of it a flowover from December, which was not matched by expenditure outflows Hence the credit aggregate net claims on the government sector showed a R5bn drop in January

Credit aggregates for February are not yet available, but it's probable that spending would have caught up again in February, capital inflows would also have accounted for some of February's growth

With a positive outlook for economic growth and hence for tax receipts and with Treasury now operating on a "fund-as-you-go" basis, the process of declining government claims may well continue for some time ■

NON-FOOD INFLATION STEADY



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THE WEEK AHEAD by Greta Steyn

Producer, consumer inflation seeking respectable levels

(153)

BD 10/4/95

PRODUCER inflation has broken through the psychologically important 10% level while its more famous cousin, consumer inflation, has clung to single digits. It should be a while yet before producer inflation returns to more respectable levels, and consumer inflation is unlikely to escape the same fate.

Predicting the rate of change in the producer price index (PPI), due for release tomorrow, is notoriously difficult. No-one foresaw the 1,6% surge in the index between December and January which catapulted producer inflation to double digits. Economists believe it was an aberration, and predictions range from 10,3% to 10,6% for February's year-on-year increase, compared with January's 10,5%.

Old Mutual economist Johann Els is more bearish on inflation than some others. He foresees a month-on-month rise in the PPI of about 1%, reflecting domestic price pressures as the economic upswing gains momentum. But he agrees the surprise jump of 1,4% in the imported component of the PPI in January is unlikely to be repeated in February's figures, however, as the exchange rate behaved and oil prices were steady. Expensive oil imports contributed to the sudden surge in producer prices.

Looking ahead, Els says he will not be surprised if producer inflation exceeds 11% in March. He expects the rate of change in the PPI to behave erratically, possibly rising as high as 13% by the end of the year to yield an average for 1995 of 11%-11,5%.

But others are less bearish — a more common prediction for the year's average is about 10,5%. Most economists agree that inflation should rise until mid-year, because increases in the index are coming off a low base. Sanlam economist Pieter Calitz sees producer inflation peaking at about 11% in the next few months. There will be some respite, he believes, before the upward trend resumes at the end of the year.

Calitz expects a month-on-month rise in the PPI of about 0,8% in February, taking the annual rate of increase slightly lower to 10,3%. "Runaway inflation is unlikely, as imported inflation should not be a problem and domestic price pressures from wage hikes seem under control." He noted that wage increases were on average about 10%.

Another economist said a positive sign for the PPI was that Central Statistical Service figures showed manufacturing production rising at a much faster rate than labour remuneration. That meant unit labour costs were rising at a much lower rate at the end of last year compared with the first half But the effect of improved productivity could be counteracted by producers increasing margins due to heightened demand.

Another economist noted that there had been predictions of larger real wage increases. The rand's weakening in the run-up to the financial rand's abolition should also have a negative effect in the near term.

Food prices were always the joker in the inflation pack

Producer inflation increases to 10,6%

(153) 12/4/95

MUNGO SOGGOT

PRODUCER inflation rose to 10,6% in February from 10,5% in January after a broadly based increase in domestic inflation offset a drop in imported inflation, Central Statistical Service (CSS) figures released yesterday showed.

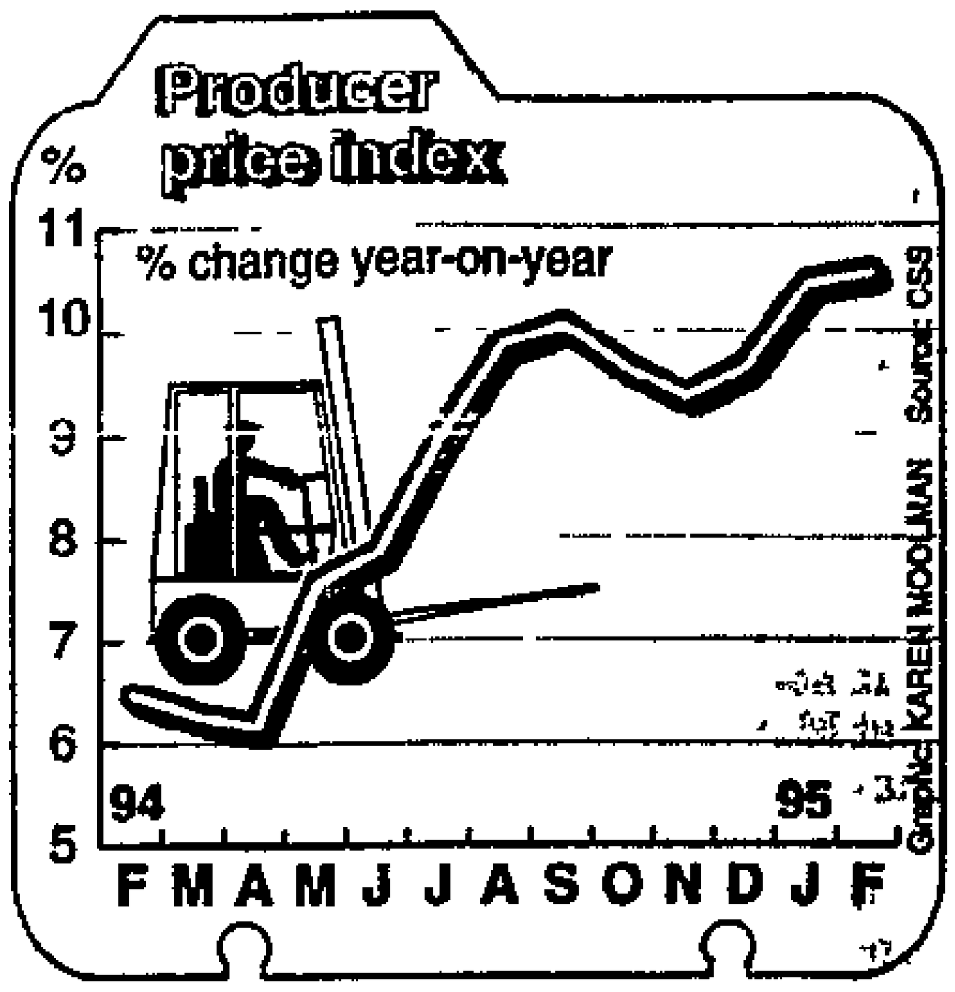
Economists said the breakdown disclosed demand pressures from the economic upturn which would eventually hit consumer inflation.

Econometrix economist Tony Twine said it was "not good news" that January's 1,6% monthly increase in the producer price index (PPI) had been followed by a 1,2% monthly increase in February.

One economist said the 0,1% monthly drop in the imported component of the index probably reflected the "lag effect" of the strong rand in January.

It was worrying that there had been substantial monthly increases in many manufacturing categories, although some of these increases would not be sustainable, she said.

Old Mutual economist Johann Els said a drop in imported oil prices had helped cut imported inflation. The pick up in manufacturing production last year was starting to lift prices, he said. "Local manufacturing inflation is still the culprit."



Producer inflation would probably increase to about 13,5% in December, bringing the year's average to 11,5%. March's figure could be as high as 11,5%, Els said. Other economists were less negative in their projections for the year.

The domestic component of the index was up 1,4% over January.

The figures indicated continued pressure from food prices.

Nedcor chief economist Dennis Dykes said: "Food inflation is not dead."

The CSS said a 20% increase in the vege-

☐ To Page 2

Inflation

(153) BD 12/4/95

☐ From Page 1

table and dried beans price index was largely responsible for a 1,3% rise in the agricultural food products price index in January.

The fresh meat price index and the meat products index each rose 1,2%, while the fruit and vegetable price index was up 0,3%. Overall, the food price index was up 0,7% month on month.

The metal products index rose 3,1% and the base metals index went up 2,2%, mainly because of a 6% jump in the nonferrous metals price index, the CSS said. Economists said this reflected the worldwide increase in commodity prices.

Inflation expected to rise in coming months

INFLATION is likely to hit double digits again over the next few months, which will contribute to an upward movement in short-term interest rates, Nedcor says

Nedcor said in its monthly economic profile that a number of factors would contribute to the expected rise in inflation, which has remained below 11% since November 1992. (153) BD 19/4/95

February's one percentage point increase in mortgage rates, the rise in excise duties and the fuel levy announced in the Budget as well as the recent hike in postal tariffs and the fuel price were all contributory factors.

Consumer inflation, excluding food, was currently running at a moderate 7,8% although there had been a steady increase from a low of 6,4% in June last year. Food price increases remained a key factor and were likely to edge upwards over the coming months.

Nedcor said growth in credit demand to the private

ROBYN CHALMERS

sector remained high at 17,6% in January If this trend continued, there was a danger of a further two increases in Bank rate this year

"With increased economic activity, rising credit demand and the expected increase in inflation over the next few months, short-term interest rates should continue moving higher resulting in some flattening of the yield curve," Nedcor said

Imports continued to rise at a significant rate during the first two months of this year, but this was likely to be partially offset by lower imports related to large capital-intensive projects such as Columbus Steel and Alusaf.

Export growth, however, was likely to improve

If the recent improvement in the gold price was maintained for the rest of the year, it could benefit the balance of payments significantly. However, the current account deficit would probably more than double to over R4,2bn or 0,8% of GDP this year

Sanlam: Food will fuel inflation

CT(BR) 24/4/95 (153)

By Claire Gebhardt
Economics Editor

Food price increases are likely to be the single most important contributor to rising inflation in 1995, says Sanlam's latest Economic Report.

Inflation is forecast to vary between 10 percent and 11 percent for most of 1995, as the effects of the recent drought filter through to consumers

Other factors likely to stoke inflationary pressures include the higher indirect taxation announced in the Budget, successive fuel price hikes, and the increase in housing costs as a result of the upward adjustment of interest rates and higher service fees

The food item with the fastest inflation growth is meat, with prices in the first two months of this year 29,1 percent higher than in the same period last year

Coffee, tea and cocoa prices have also rocketed, with a 27,9 percent year-on-year increase, while fruit and nuts have increased 26 percent year-on-year

Vegetables prices recorded a 14 percent annualised increase, in the wake of severe frosts experienced last year

The good news is that price increases for milk, cheese, eggs, fish, sugar and cereals have remained below the year-on-year rise in the consumer price index for all items, which has been steady at just below 10 percent in recent months

Only moderate increases in the prices of imported goods are expected in the next few months in the light of the relatively stable rand-dollar exchange rate

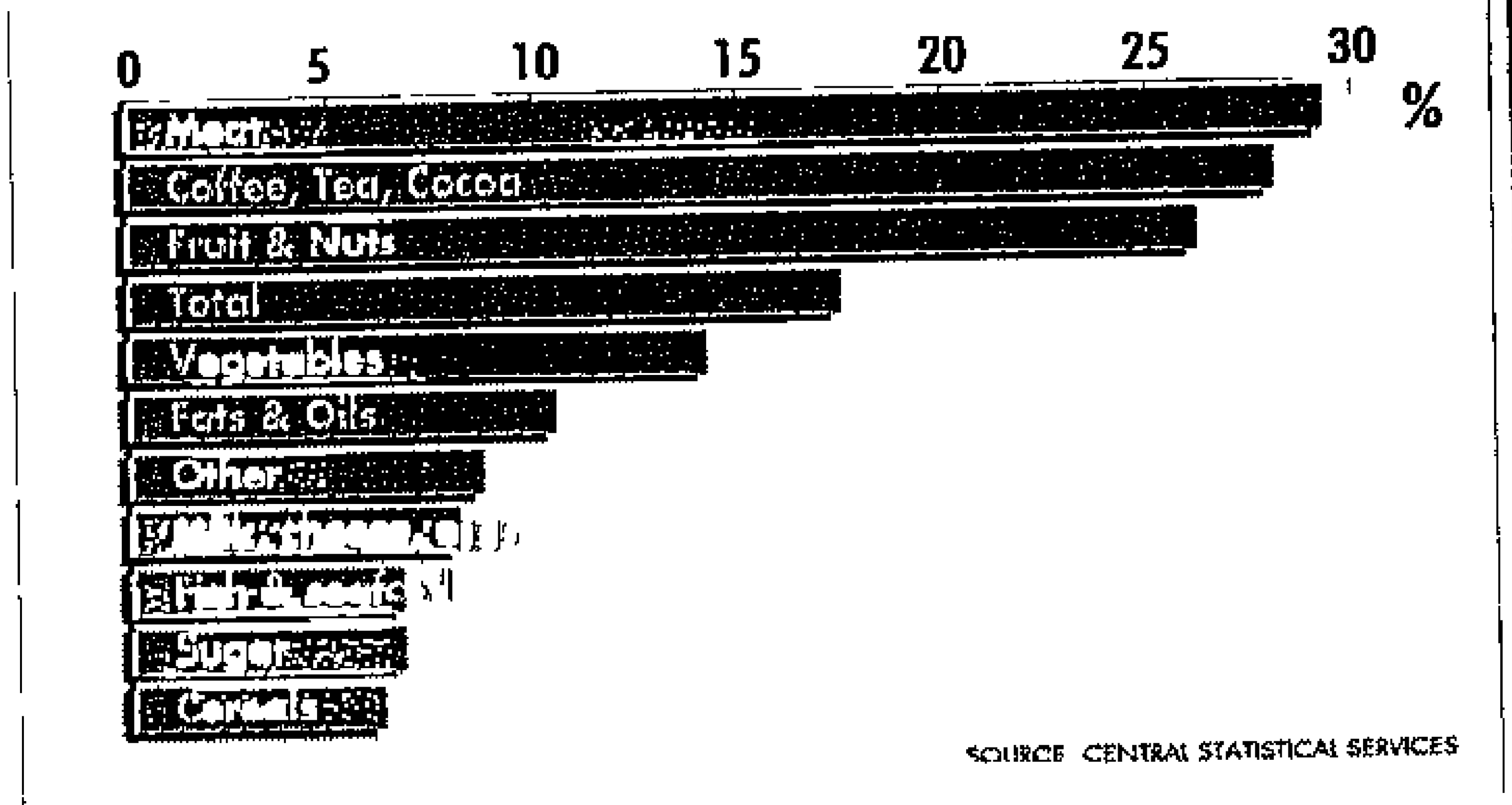
However, the expected recovery of the dollar and the resultant weaker rand could place upward pressure on them later this year

Consumers are likely to be hit by another Bank rate increase, of at least one percent, this year as a result of an acceleration in the demand for credit and the expected growing deficit on the current account of the balance of payments

"The prime overdraft rate of banks will be adjusted accordingly," the Economic Report says

The fact that interest rates have not been immediately adjusted is attributed to the orderly manner in which the financial rand was abolished, it says

Percentage change in the food price index
(first two months of 1995 compared with the same period in 1994)



Sanlam says the Budget, as well as a number of other factors, could suppress the real economic growth rate this year

These include

- ☐ The drought,
- ☐ A further possible decrease in gold production as a result of labour problems, among others,
- ☐ Signs that exports may not perform as well as previously thought and,
- ☐ Indications that the flow of foreign capital into the country could be less than expected

The balance of payments could therefore be a bigger problem than previously envisaged

Growth in real GDP is forecast at about 3 percent this year with the current account of the balance of payments sliding into a deficit of approximately R7 billion or more this year, compared with R2,1 billion last year

"On the other hand, the improvement in the capital account since the middle of 1994 is continuing, with an estimated net inflow of about R3,5 billion in the first two months of the year," the Sanlam report says

Inflation tops 10%, interest set to rise

153

Deputy Business Editor

DISAPPOINTING inflation and foreign trade figures released yesterday have sparked fears of a fresh rise in interest rates

ARG 27/4/95

The inflation rate moved back into double digits in March, Central Statistical Services figures show, reaching 10,2 percent for the year, compared with 9,9 percent in February.

This is the first time since May, 1993, that the inflation rate has topped 10 percent

Food prices are rising at 17,6 percent a year.

At the same time, South Africa's trade balance slid into the red in March, showing a deficit of R571 million, compared with a surplus of R320 million in February

Economists said the poor export performance reflected the strong rand.

Inflation above 10% as SA feels growth pains

(153) CT (BR) 27/4/95

By Derek Tommey

Figures for inflation and foreign trade show that the South African economy deteriorated slightly in March

The year-on-year inflation rate moved above 10 percent for the first time in 22 months — rising to 10,2 percent from 9,9 percent in February

The year-on-year increase in the food price index was 17,6 percent, up from 17,4 percent in February, while the year-on-year increase in the non-food index was 8,3 percent

The balance of trade moved into deficit for the first time in several years, swinging from a surplus of R315,9 million in February to a deficit of R570,5 million

Imports rose from R7,87 billion in February to R8,33 billion in March, while exports dropped from R8,18 billion to R7,76 billion

Hans Falkena, chief economist for Absa Bank, said that in view of the upturn in the economy these developments were not unexpected

South Africa was beginning to experience some of the problems of prosperity, though these were being aggravated by special circumstances, he said

The rise in inflation reflected the upturn in the economy and the resultant increase in demand for many items, particularly food However, the rise in the price of food had been aggravated by the drought, Falkena said

SA feels growth pains

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Prices rise tenfold over 20 years

(153) CT(BR) 28/4/95

South Africa's inflation rate, wallowing in double digits, has cut the value of the rand by 91 percent since 1975

By Claire Gebhardt
Economics Editor

Over the past 20 years, South Africa's rand has shrunk by a mammoth 91 percent

This means that something which was priced at R1 in 1975 costs R10,90 today — more than ten times as much

The country's destructive inflation rate has wallowed in double figures for most of the past few decades and is hotting up again after a brief stint in single digits

The latest edition of the Gold Report describes an accelerating process — while it took 70 years, from 1910 to 1980, for the rand to lose 91 percent of its value, it has lost the same since 1975

In the past five years alone, the buying power of money has declined by 36 percent In other words, something that cost R1 in 1990, costs about R1,57 today

A recent prediction by a South African economist that the rand would one day be worth only 10 US cents is seen as chillingly feasible

"Years of sanctions and entrenched protection of the economy has played a major part in making South Africa an unattractive option for international investment," the Report says

"Easing exchange control regulations to draw healthy foreign investment is desperately needed to make the economy grow, and meet the demands of the RDP and the people's expectations"

Historically, political and economic uncertainty, sanctions and the declining rand have had a greater overall effect on the performance of the Krugerrand than has the price of gold, Gold Report says

The oil crisis of 1980 pushed gold through the $800 barrier for the first time, at a time when a rand was worth more than a dollar But from 1981 to 1984, international opinion started to change and South Africa's currency began to feel the heat — but Krugerrand values stood their ground

During the sanctions era, the US, Canada, Australia and other eager competitors exploited the void left by the Krugerrand, but even taking this into account, Krugerrands provided one of the best rand hedges available in South Africa, showing an average increase of 76,1 percent between 1985 and 1994

"In January 1993, Krugerrands were trading at R1 020 By the end of December 1994 the same coin was valued at R1 410"

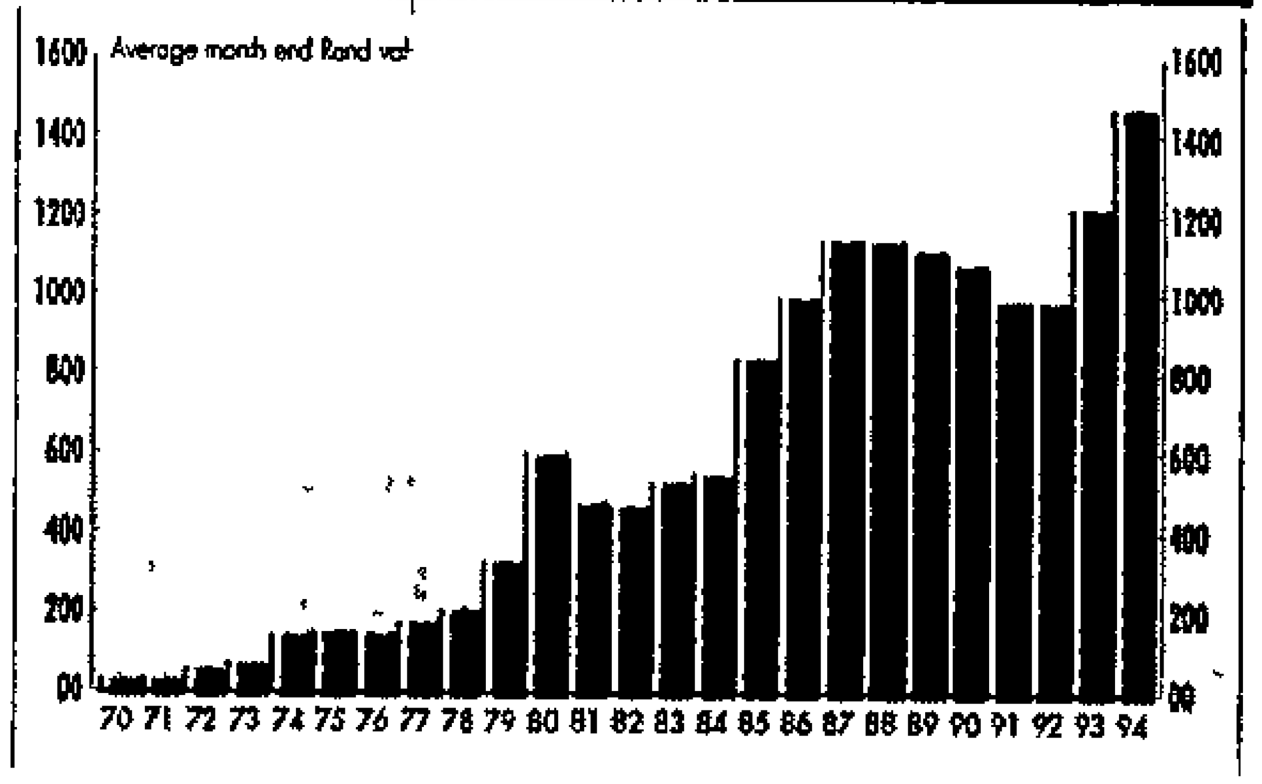
THE SHRINKING RAND

Average consumer prices compared with a rand (1,00) in different base years

1910	1,00											
1930	1,38	1,00										
1950	2,13	1,54	1,00									
1970	4,00	2,86	1,85	1,00								
1975	6,25	4,35	2,94	1,56	1,00							
1980	11,11	7,69	5,26	2,78	1,75	1,00						
1985	20,00	14,29	10,00	5,26	3,44	1,92	1,00					
1990	43,40	30,21	20,42	10,83	6,94	3,92	2,04	1,00				
1991	50,04	34,83	23,54	12,49	8,01	4,52	2,35	1,15	1,00			
1992	56,99	39,66	26,81	14,22	9,12	5,15	2,67	1,31	1,14	1,00		
1993	62,65	45,03	28,82	15,66	10,01	5,65	2,93	1,44	1,25	1,10	1,00	
1994	68,26	49,06	31,40	17,07	10,90	6,16	3,20	1,57	1,36	1,20	1,09	1,00

Source Central Statistical Service

Average performance of Krugerrands 1970-94



Food costs, excise hike feed inflation

(153)

Mungo Soggot

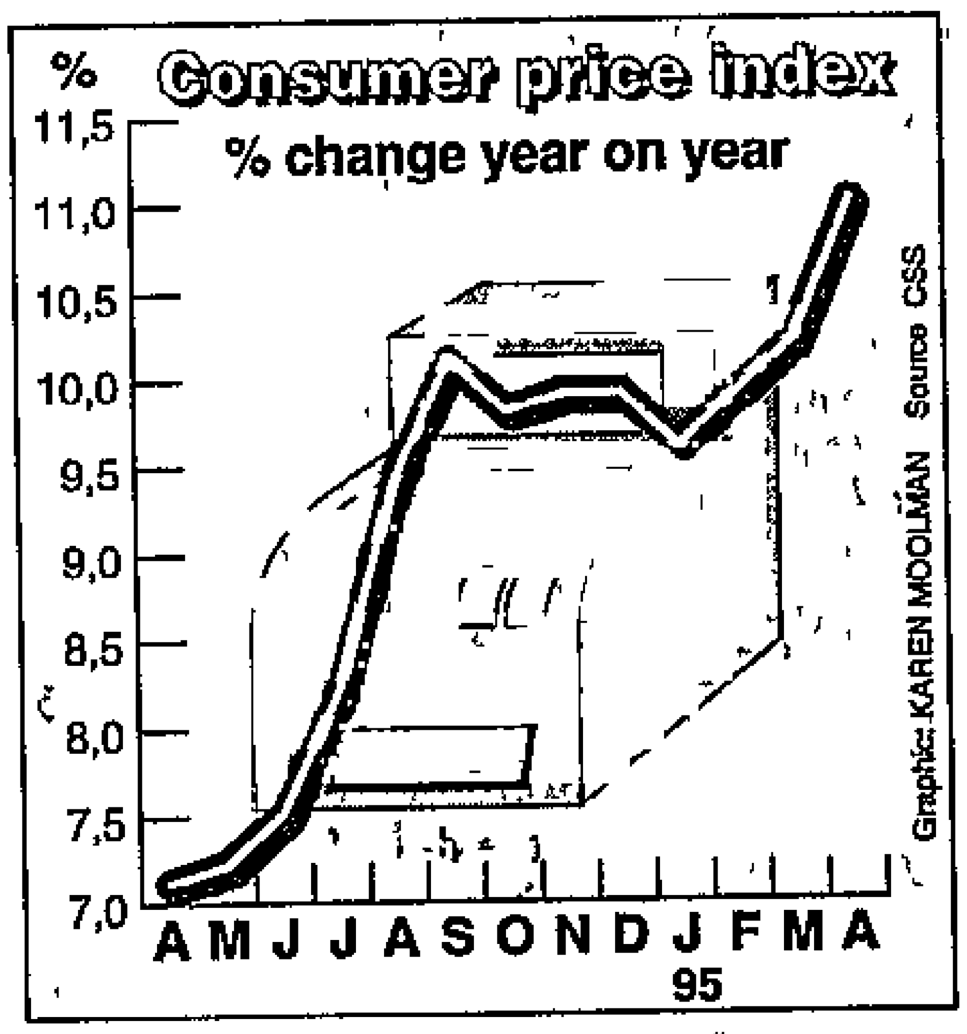
BD 30/5/95

INFLATION leapt to 11% in April from 10,2% the previous month, Central Statistical Service figures released yesterday showed. The increase was in line with market expectations.

Although food inflation was once again a culprit, a number of once-off factors — including the hike in excise duties announced in the Budget and the recent increase in mortgage rates — had hit the April figure, economists said

Most said the release today of April trade figures — which many feared would show the second monthly deficit in a row — would probably give Reserve Bank Governor Chris Stals all the ammunition he needed to lift rates to stifle inflationary pressures and attract capital inflows

But while the markets were gearing up for a Bank rate hike, many economists were saying it would be several weeks before it happened. Ed Hern, Rudolph chief economist Nick Barnardt said he would be surprised if Stals moved "much before the end of June". Considering the special factors behind the rise, the figure was not that worrying, he said. The fact that unit labour cost inflation in the manufacturing sector



in the first quarter was only 5,5%, augured well for inflation and growth.

Econometrix economist Tony Twine said the Bank had been changing Bank rates every four to six months over the past few years, which meant the next move could be in June, but more likely later.

The CSS said the consumer price index

Continued on Page 2

Inflation

(153) BD 30/5/95

Continued from Page 1

had increased 1,4% month on month. Food and transport each contributed 0,3 percentage points, while the increase in mortgage rates pushed the housing index's contribution to 0,4 percentage points. Excluding food, inflation was 9,4% and excluding housing it was 10,7%.

Standard Bank's economics division said the rise in the food index was caused mainly by a 6,2% month-on-month rise in vegetable prices which had probably been caused by the drought. The rise in the transport sector was caused by an increase in the petrol price, increases in new vehicle prices and a jump in air fares.

Standard Bank said it expected inflation to average 10,5% this year, compared with 9% last year. Old Mutual economist Johan Els also predicted a 10,5% average for the year. Inflation would probably rise to 11,5% by mid-year and decline in the third quarter before climbing again in the fourth. He forecast average inflation of 12% next year.

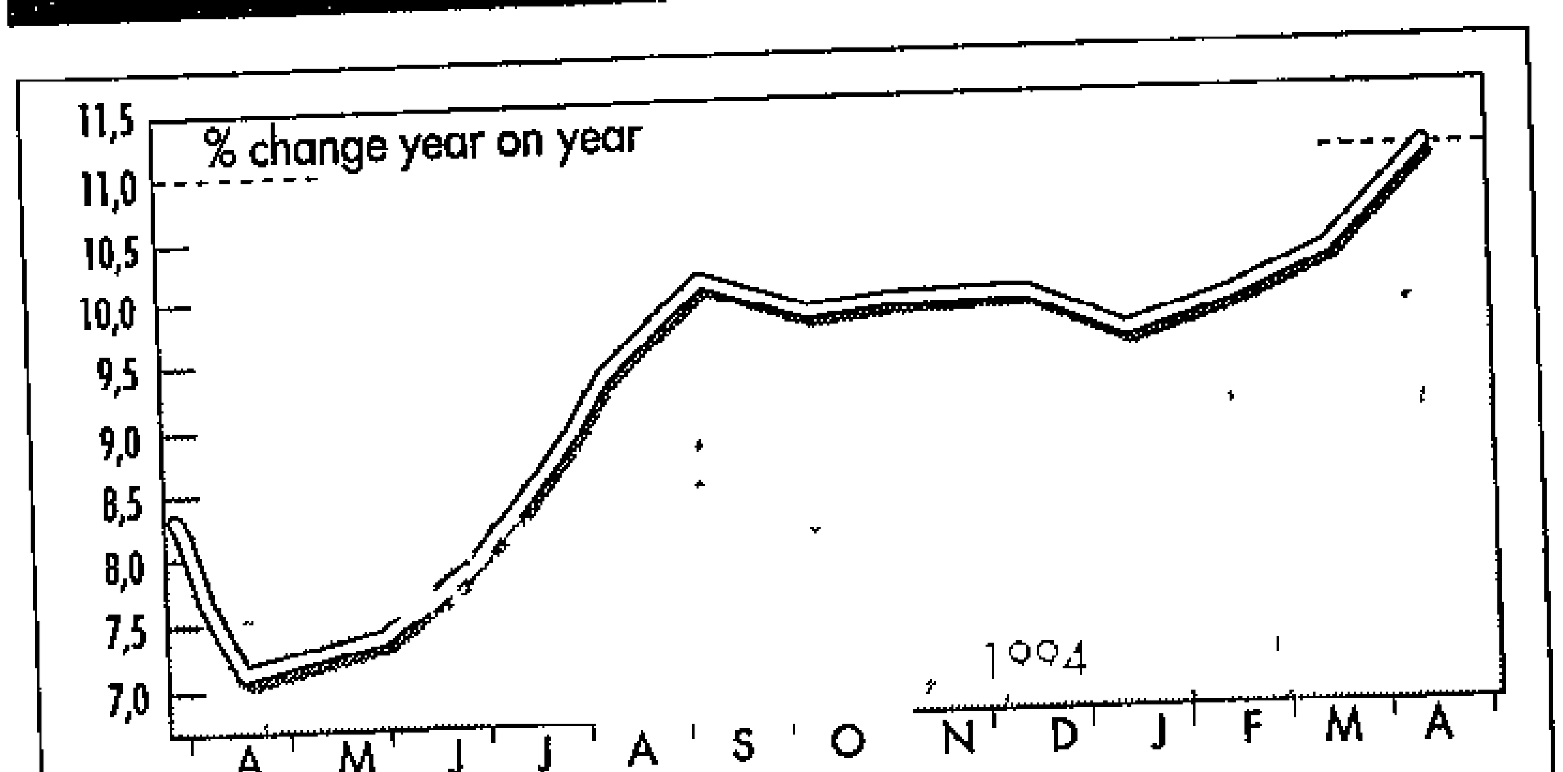
See Page 12

TIGHTEN YOUR BELTS *Housewife Cathy Jacobs compares prices at a Spar supermarket* PHOTO JOHN WOODROOF

Consumer inflation climbs to 11% in April

CT (BR) 30/5/95 (153)

By Claire Gebhardt
ECONOMICS EDITOR



South Africa's consumer inflation rose to an annualised 11,0 percent in April from 10,2 percent in March, prompting economists to renew their warnings of an imminent Bank rate hike

A rise in the Bank rate would trigger off a round of prime overdraft and mortgage bond increases

Economists said yesterday that the consumer price index (CPI) figure, combined with the latest money supply figures, indicated a hotting up of inflationary expectations.

Trade figures due out today, which are expected to show a widening trade deficit, could also increase pressure for a rate hike Central Statistical Service figures released yesterday attributed the monthly increase in the CPI of 1,4 percent from March to April to increases in the price indices for housing, transport and food

The April CPI included the recent mortgage bond increases, the higher excise duties announced in the Budget as well as the recent 6c a litre petrol price hike

Food price inflation showed an annual rate of increase of 17,5 percent — 0,1 percentage points down on March's 17,6 percent

Food prices increased by an annualised 16,9 percent at chain-stores and by 18,3 percent at other retailers The monthly rate of increase of 1,2 percent in the food price index was due to increases in the price indices for vegetables, meat, fruit and nuts, milk, cheese and eggs

Inflation, excluding food, was 9,4 percent Excluding housing it was 10,7 percent.

Standard Bank yesterday predicted that inflation would average around 10,5 percent this year from 9,0 percent last year

First National Bank group economist Cees Bruggemans said the inflation numbers indicated the need for another interest rate hike

This would not dent the economic recovery, he said

"At most it will mean a slowing down in spending growth which has been accelerating ahead of the ability of the economy to produce goods and services," he said

Mathison & Hollidge economist, Tracey Ledger said it was important to look beyond the inflation figures to the dispute between the ANC and the Reserve Bank about the Bank's independence

Ledger said the trade off between high levels of growth and high levels of inflation was not new. The Bank had not balked at making such a choice in the past, she said

Old Mutual chief economist Dave Mohr said the striking feature of the April CPI was the acceleration in the underlying rate of inflation — "every component of the CPI is picking up"

On the capital markets yesterday bonds ended weaker after the release of the poor inflation data

NEWS

(153)

Inflation rise in food prices 17,5%

Star 1/6/95

BY NIKKI WHITFIELD
CONSUMER REPORTER

The Boks might be winning and the winter sun might be shining, but all is not well in the state of South Africa — especially not where food is concerned.

According to the latest Central Statistical Service figures, food price inflation has shown an annual increase of 17,5%, while consumer inflation rose to 11% in April.

Food prices at chainstores have shown an annual increase of 16,9% and 18,3% at other retailers.

A survey conducted by The Star yesterday has revealed that hard-pressed consumers will have to part with more than R130 for a basketful of basics. Stores picked for the survey were Checkers in Emmarentia, Pick 'n Pay in Victory Park and OK in Cresta (see graphic).

Checkers came up trumps once totals were tallied and OK scored above Pick 'n Pay because in many cases their no-name brand items were cheaper, although their other brands were often priced higher

Some items were on "special", and where possible, identical items were compared.

SHOPPING BASKET WATCH

	Checkers	Pick n' Pay	OK
Full-cream milk, 2 litres	R3,98	R4,30	R4,22
Loaf standard brown bread	R1,64	R1,64	R1,66
One dozen eggs, extra-large	R4,38	R4,48	R4,56
Maize meal, 5kg paper pack	R8,15	R8,35	R7,64
White rice, 2kg parboiled no name	R4,49	R5,25	R3,85
Onions, 1kg	R1,99	R2,09	R1,99
Potatoes, 1kg	R2,78	R3,59	R2,69
Tomatoes, 1kg	R1,99	R3,29	R2,49
Cabbage, each	R1,79	99c	R1,29
Sugar, 2,5kg packet	R6,95	R6,95	R7,38
Five Roses 100 tagless teabags	R7,98	R8,35	R9,97
Nescafe Classic 250g bottle	R28,49	R28,95	R29,99
Marg[illegible]g brick	R6,59	R6,95	R6,87
Bonnita butter, 500g brick	R6,68	R7,79	R6,88
Koo [illegible]	R1,98	R2,25	R1,99
Black Cat peanut butter, 410g	R3,58	R3,85	R4,38
[illegible] bottle	R2,95	R3,19	R3,49
TOTAL — which also included a medium chicken, 1kg stewing beef, 0,250kg Cheddar cheese and a bag of apples	**R132,51**	**R141,86**	**R139,15**

The Consumer Council's executive director Jan Cronje this week warned consumers to curb unnecessary spending as the inflation rate continued to spiral.

His advice to the public was to stick to their budgets and to refrain from buying on credit.

"Increasing inflation means consumers' spending power will decrease and with another bank rate hike imminent, consumers could well find themselves in trouble," he said.

INTEREST RATES

Is Stals going soft on inflation?

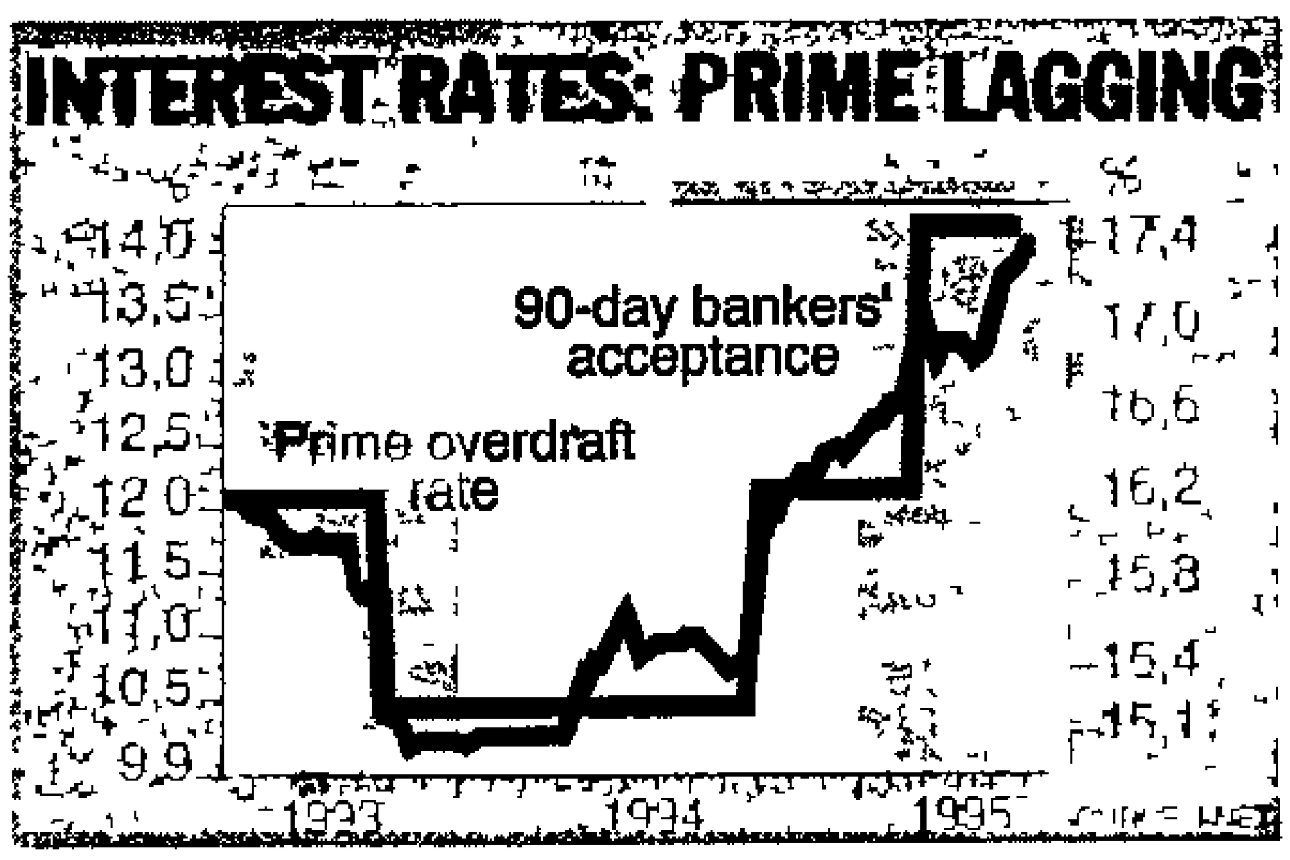
(153) FM 2/6/95

Reserve Bank Governor Chris Stals, once known for his tough line on monetary policy, seems to be taking the first steps down the slippery slope of monetary appeasement.

By leaving interest rates unchanged while money supply growth burgeons, he is sowing the seeds of higher inflation. And he is preparing the way for punitive interest rate rises further down the line.

Those who favour leaving official interest rates as they are argue that inflationary and balance of payments concerns are overstated They point to the technical nature of the large increase in inflation in April to 11% (see page 34), the trade surplus in April of R305,8m (following the deficit in March of R570,8m) and the lower level of accommodation extended to banks in May.

But the money supply figures can't be argued away Seasonally adjusted M3 grew an annualised 16,1%, between the base of current guideline year (mid-November 1994) and April. This is a jump from 11,2% in March and 6% in February



The April surge — a seasonally adjusted monthly jump of R7,2bn (2,9%) — came in a month when gold and foreign exchange reserves fell R1,9bn to R10,2bn This implies the impetus comes from credit growth April's figure is not yet available; credit extension grew 2,4% in March.

Capacity utilisation also suggests a price squeeze further down the line

Absa senior economist Christo Luüs says the level of capacity utilisation in the manufacturing sector is now around 84% "and will be 90% by year-end, which is effectively full capacity."

Markets are pointing the way. In the bond market, government's benchmark R150 breached the key 17% level this week, and short-term rates are edging upward too, with the 90-day bankers' acceptance rate currently at 14% (see graph)

Stals knows the importance of inflationary expectations. When he came to office in 1989, he immediately set the tone for monetary policy And he stuck doggedly to his stance against pressure to reduce rates prematurely

Now he is only making threatening noises. In a speech in Durban on Tuesday he said "rather stringent macro-economic policy measures may have to be implemented to stem the current high rate of increase in bank credit extension to the private sector"

His more accommodating approach suggests political pressure to avoid any move that would halt the recovery

Politically, this is a particularly awkward time to raise the cost of borrowing because banks are to start making small home loans next week

But that is where the central banker plays a crucial role in the economy His independence should free him from the need to address short-term concerns His job is to preserve the internal and external value of the currency and, if he does it properly, he will have made his contribution to long-term growth prospects.

Now, with foreign investors running a wary eye over SA, it is important for Stals to affirm his long-stated commitment to monetary discipline ■

INCOME TAX BILL

FM 2/6/95

Anti-avoidance details

The Income Tax Amendment Bill — now made public — contains a clause which will limit opportunities for dividend stripping.

It restricts the circumstances in which a dividend, declared by a wholly owned subsidiary, may be free of secondary tax on companies (STC)

Kessel Feinstein tax partner Ernest Mazansky explains that, in 1994, the STC legislation was amended to allow a wholly owned subsidiary to declare a dividend to its holding company free of STC, subject to certain requirements These related in particular to the source of income and the place of residence of the holding company

The concession reopened the door to dividend stripping — in other words, disposing of a company loaded with reserves to another company willing to act as a dividend stripper

The holding company would pay an appropriate price for the cash-rich company and declare the dividends free of STC, which it could elect to do under the tax law as it stood (It would get a fee in return.)

This would relieve the seller (an individual shareholder or shareholders) of the potential STC obligation.

To counter this tax-avoidance procedure, two further criteria for exemption from STC are now proposed in the Bill.

Firstly, all the shares in the subsidiary must have been held by the holding company for at least 12 months before the declaration of the dividend Secondly, the dividend must be declared out of post-acquisition profits. Mazansky argues the first restriction is unnecessary as the second is adequate on its own to protect Revenue.

Another anti-avoidance clause (following a recommendation by the Katz Commission) is of importance to foreign investors. It relates to transfer pricing (the exchange of goods or services between group companies at artificially high or low rates to shift profits to a lower tax jurisdiction). According to the explanatory memorandum to the Bill, this clause will be used to counter thin capitalisation (where an overseas shareholder invests by way of minimal share capital and a large shareholder's loan). This mechanism enables profits to be

FM 2/6/95

TAX AMNESTY

The tax amnesty foreshadowed in the Budget will be introduced when the draft Income Tax Bill is enacted — hopefully in July. According to Commissioner for Inland Revenue Trevor van Heerden, it could last until the end of October.

It will apply to individuals and companies not registered as taxpayers on April 26 1994. Applicants will be liable for taxes due from March 1 1994. These will have to be paid within one year of the end of the amnesty period.

INFLATION

Technicalities and trends

(153) FM 2/6/95

The headline rate of inflation in April rose to 11% from 10,2% in March, and the monthly increase was 1,4% But the April surge was due to special circumstances The 7,1% inflation rate in April last year was the lowest in 20 years This accentuated the rise in the subsequent 12 months

And there were several large once-off increases These included

❑ Cigars, cigarettes & tobacco, which rose 3,2% in the month (23,9% year-on-year), and alcoholic beverages, which rose 1,1% (10,3%) This was the result of higher excise duties announced in the Budget,

❑ Transport, which rose 1,9% (7,6%) and which contributed 0,3 percentage points of the overall monthly rise This, says Standard Bank's Economics Division, was due to higher petrol prices (the price of petrol rose by 6c/*l*), higher new vehicle prices and increased air fares, and

❑ Housing, which went up 2,9% (12,6%), because of a hike in mortgage rates following the increase in Bank rate in February, adding 0,4 percentage points to the overall monthly increase

Food prices meanwhile continued to increase in April, particularly vegetable prices, which rose 6,2% (31,3%), largely on account of the drought The food index rose 1,2% (17,5%), and contributed 0,3 percentage points to the monthly rise Reading matter, which rose 8,2% (17,8%), and contributed 0,1 percentage points to the monthly rise, is an item surveyed quarterly, according to Standard Bank

Though most of the April increases were of an irregular nature, there is underlying pressure on prices from accelerating money supply growth.

And the expected weakening in the balance of payments later in the year will put pressure on the rand and imported prices So inflation is looking increasingly threatening (see page 33) ■

THE WEEK AHEAD by Mungo Soggot

Little change expected in producer inflation

(153)

BD 12/6/95

APRIL producer inflation figures due tomorrow were expected to show little change from March's 10,9% which was the highest level in three years, economists said at the weekend.

Although Reserve Bank governor Chris Stals had said SA's balance of payments position, refreshed last week with a R5,8bn increase in the May reserves, did not warrant a Bank rate hike, the market still believed inflationary pressures would force the Bank to act some time soon — a feeling unlikely to be muted if the forecasts prove right.

It would follow April consumer inflation of 11% and a strong money supply growth figure for May.

One economist speculated that Stals had not acted yet as growth in the second quarter was probably lacklustre, while there was also talk that with the help of strong diamond exports, the May trade performance had been much better than in previous months.

The past two sets of trade figures have shown a deficit and a very small surplus, which encouraged talk of a rate hike.

Economists polled forecast between 10,8% and 11% — a year-on-year range which would be arrived at with a month-on-month producer price index (PPI) rise of between 1% and 1,2%.

April was a seasonally high month — last year had seen a 1,1% month-on-month increase — as many categories in the Central Statistical Service breakdown were surveyed.

Upward pressure on the PPI would come from the weakening rand which would kick up imports and from an increase in the price of petrol.

On the food inflation front, economists said vegetable inflation and a further reduction in meat inflation would probably cancel each other out, but Investec fixed income analyst Annelise Peers said the April consumer inflation pattern of upward pressure from vegetable prices outweighing downward pressure from red meat could be repeated.

Sanlam senior economist Pieter Calitz said producer inflation this would year probably average 10,5%

Meanwhile, US producer inflation figures, released on Friday, showed the PPI was up 0,5% month on month in May — the same rate of increase as the previous month

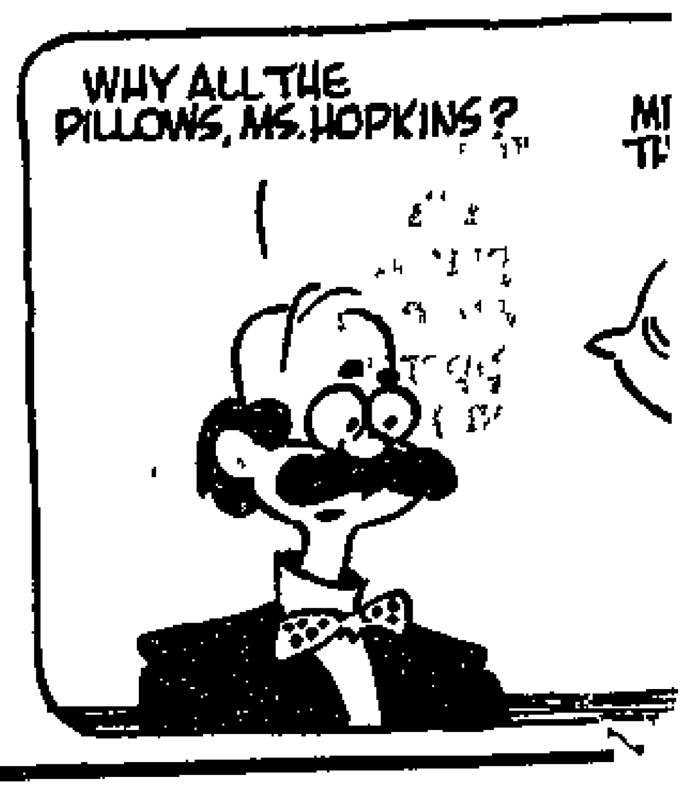
After being haunted for most of last year by high inflation figures and consequent fears of a continuation of a spate of interest rate hikes, the markets had swung 180 degrees and had started to look for a cut in rates as signs emerged that the economy was starting to slow, an analyst said.

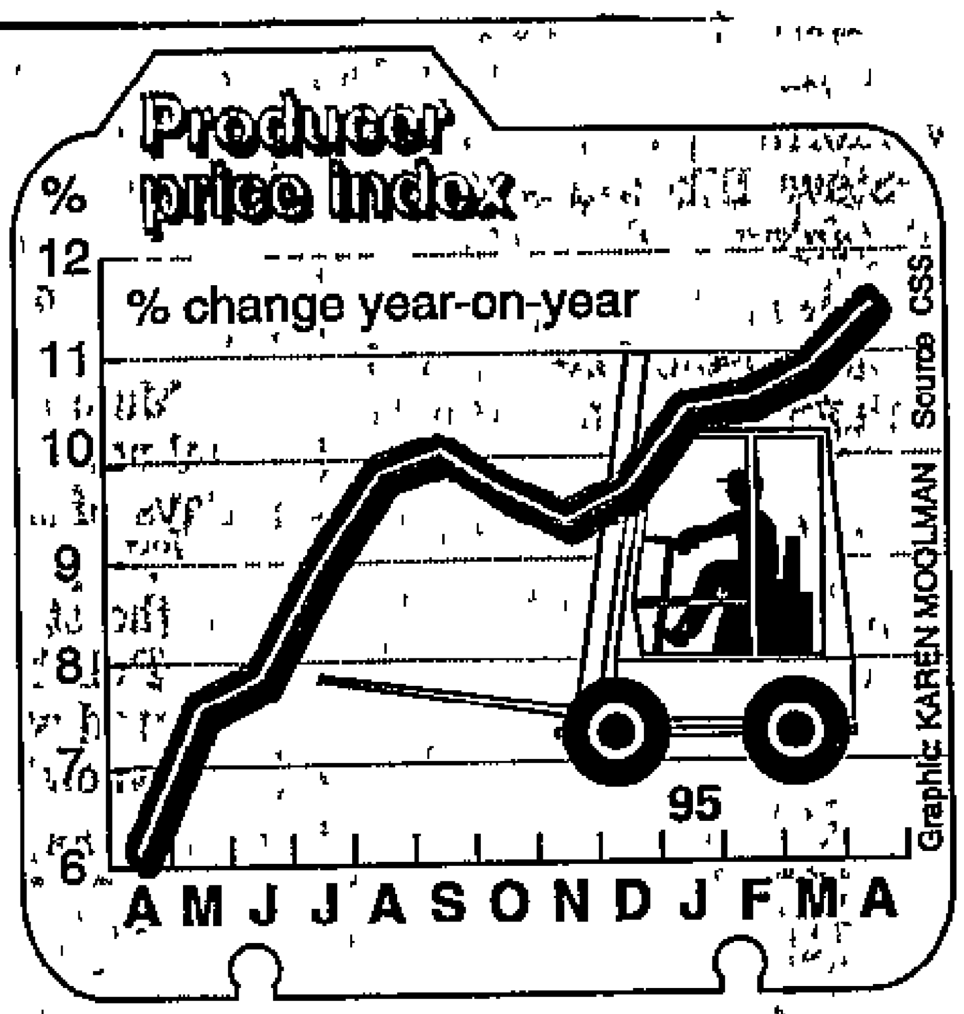
US Federal Reserve chairman Alan Greenspan recently said the slowdown in the US economy was pronounced and there was a possibility of the economy moving into recession.

But economists said subsequent comments had indicated that an imminent cut in rates was not on the cards as the Fed would want to defend the dollar for some time yet and because there was a strong possibility that the recovery would bounce back later in the year.

One said May consumer inflation figures were expected to reinforce the perception that for now inflation in the US was not a problem. In April there was a higher-than-expected 0,4% month-on-month increase in the consumer price index, helped by a record 113,1% jump in the lettuce price index

EXECUTIVE SUITE





Producer inflation jumps to 11,5%

Mungo Soggot (153)

PRODUCER inflation rose for the sixth month in a row in April, leaping to 11,5% from 10,9% in March, according to figures released yesterday by the Central Statistical Service (CSS)

The bond market reacted immediately to the figure, which was higher than many had expected The yield on government's R150 kicked up to 16,77% from 16,73% earlier in the day and closed at 16,78% from Monday's 16,77%

The CSS said the producer price index (PPI) had risen 1,7% from March, with substantial increases in imported and domestic inflation The former was up 1,4% and the local component up 1,7%

Most economists said that as the high figure was the latest indicator which pointed to strong inflationary pressures, it should encourage Reserve Bank governor Chris Stals to lift Bank rate.

Ed Hern Rudolph chief economist Nick Barnardt downplayed the figure, saying April was a seasonally high month and that this was probably the highest producer inflation SA would see this year.

An increase in imported oil prices — which made up 8% of the total PPI, and which were up 30% year on year — was the chief culprit

But the weak rand was having a muted effect on other imports as imported manufacturing inflation was low. The ever widening gap between imported and local manufacturing inflation — 5,6% year on

BD 14/6/95 Continued on Page 2

PPI (153) BD 14/6/95

Continued from Page 1

year for imported and 11,4% for local — suggested that relatively cheap imports would continue to hit the balance of payments (BoP) and could leave SA saddled with a deficit on the current account of the BoP this year of R12bn

Standard Bank's economics unit said a 21,6% monthly increase in the vegetable price index was probably due to drought. It said increases in the tobacco and beverage price indices, which rose 6,3% and 2,8% month on month respectively, stemmed from the hike in excise duties, while the 5,1% increase in the coal price index probably reflected higher contract prices.

At the manufactured level a large number of categories had shown substantial increases. Noteworthy increases included a 4,8% monthly increase in the paper and printing price index, 3,8% in the chemical price index and a 3,3% increase in the electricity price index.

ET (BR) 14/6/95

Producer inflation for April at four-year high

(180) (153)

By Claire Gebhardt
Economics Editor

South Africa's producer inflation surged in April to an annualised 11,5 percent — its highest level in almost four years after climbing to 10,9 percent in March, Central Statistical Service figures showed yesterday

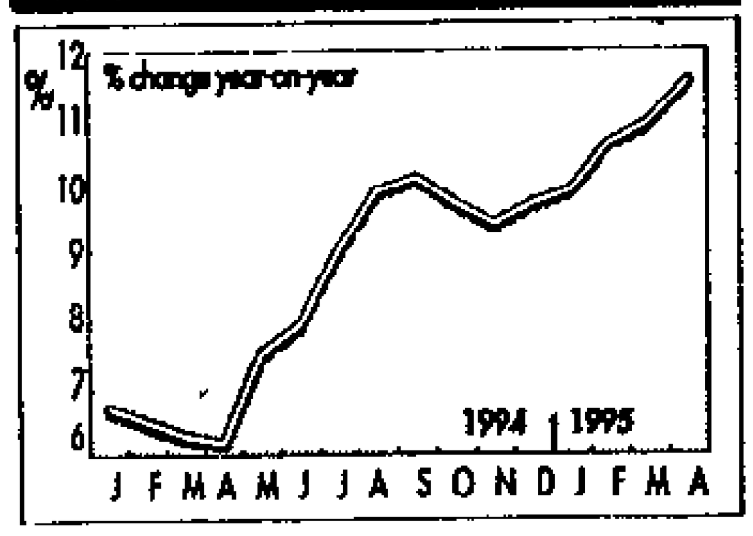
The massive increase, which exceeded market expectations by a significant amount, was attributed to large increases in the local and imported components of the producer price index (PPI).

Economists said the "PPI shocker" boded ill for the containment of inflationary pressures and predicted that consumer inflation forecasts would be revised sharply upwards Market expectations had centred on a figure of about 11 percent.

Old Mutual chief economist Dave Mohr said that if the Reserve Bank was waiting for more evidence to push up interest rates another piece of the jigsaw had fallen into place.

The PPI for locally produced commodities increased by 11,7 percent year-on-year. This was 0,6 percentage points higher than the corresponding rate of 11,1 percent for March this year. The monthly increase was 1,7 percent and 1,0 percent, seasonally adjusted

PPI



Food inflation remained a culprit with price increases for vegetables soaring month-on-month by a massive 21,6 percent — grain was up 5,7 percent. The imported component of the PPI rose 1,4 percent month-on-month and 10,5 percent year-on-year — the highest rate of increase since August 1991.

The monthly rate of increase from March to April was 1,4 percent, a seasonally adjusted increase of 1,5 percent. Economists attributed this to rand depreciation and an uptick in international oil prices.

Investec group economist Carole Mason said the PPI was well outside the range of most expectations and the increases in the local and imported components were "worrying".

She said the near-term upward trend in inflation would be disguised in coming months because of technical "aberrations".

Trade reforms 'will slash inflation rate'

(153)

DD 28/6/95

John Dludlu

SA's proposed trade reforms — characterised by progressive tariff reductions — will bolster GDP and employment by 0,7% and slash the inflation rate by 4,7% when they are finally phased in, according to preliminary results of an Industrial Development Corporation study.

The study, made available yesterday by the IDC's economic research and development department, showed reforms would boost exports 2% and imports 2,4%. Private consumption would rise 1,1% as a result of the changes in the trade regime.

The authors of the study said sectors that stood to benefit from the changes included agriculture, mining, basic metals and the services sector.

"The positive impact on the metal and metal producers indicates that the reduced input costs due to tariff reductions by far outweigh the negative impact of the removal of the general export incentive scheme," the study says.

The study updates earlier efforts to gauge the results of trade reforms, taking into consideration government's recently unveiled plans for clothing and textiles and motor manufacturing.

While the reforms would have a marginally positive effect on the overall economy, the highly protected sectors stood to pay a high price for the removal of protection, the study said. The most adversely affected sector was the textile industry, where employment was projected to decline 10%.

In the section dealing with car makers, the study said the net result of the phasing in of lower import tariffs and rebates on duties was that the price of intermediate inputs in the sector would decline nearly 7% and output prices would drop about 9%.

Although the domestic car manufacturers would benefit from lower input costs, they would be "squeezed" by higher levels of import penetration.

An IDC spokesman said the study did not take account of the way in which the economy would behave on its way to the final result. He said the study represented a worst case scenario.

However, the negative effects of the new regime could be negated by the introduction of GATT-friendly industrial support measures, including support for small enterprises, research and development, and training and investment.

A decline in the country's currency could also serve to boost exports in world markets — well above the projected 2%.

"Another positive factor is the good fortune that the changes are taking place during an economic upswing. This will go a long way towards mitigating against the negative effects," the study said.

Rate up 1% as CPI falls

CT (BR) 30/6/95 (153)

By Howard Preece
Special Writer

The Reserve Bank's decision yesterday to raise the discount rate from 14 percent to 15 percent came despite an unexpected slight decline in the annual inflation rate. The inflation dip resulted largely from a sharp decline in the rate of increase in food prices.

Reserve Bank governor Chris Stals said underlying inflationary pressures were still growing due to wage hikes, the rand's depreciation and rising money supply figures.

Earlier in the day, the Central Statistical Service announced that the overall annual inflation rate showed a surprising and important fall to 10,8 percent in May from 11 percent in April. The decrease raised the prospect that inflation would drop under 10 percent by the end of September.

This served to encourage hopes that Stals might continue to resist pressure from leading economists for a further increase in the Bank Rate, and thus in the prime and home loan mortgage rates.

On Wednesday, however, it was announced that broadly defined money supply (M3) rose by a worrying 15,8 percent for the 12 months to May, against 14,9 percent in April and the official M3 target growth range for the year of 6 to 10 percent. This added to the pressure on Stals for the rate hike.

"The Reserve Bank's tolerance with the untenable large increases in bank credit extension and in the money supply, which has already been criticised very widely recently, can no longer be defended," Stals said.

He said that if left unchecked, the trend would "force the abortion of the welcome improvement over the past year in real economic growth".

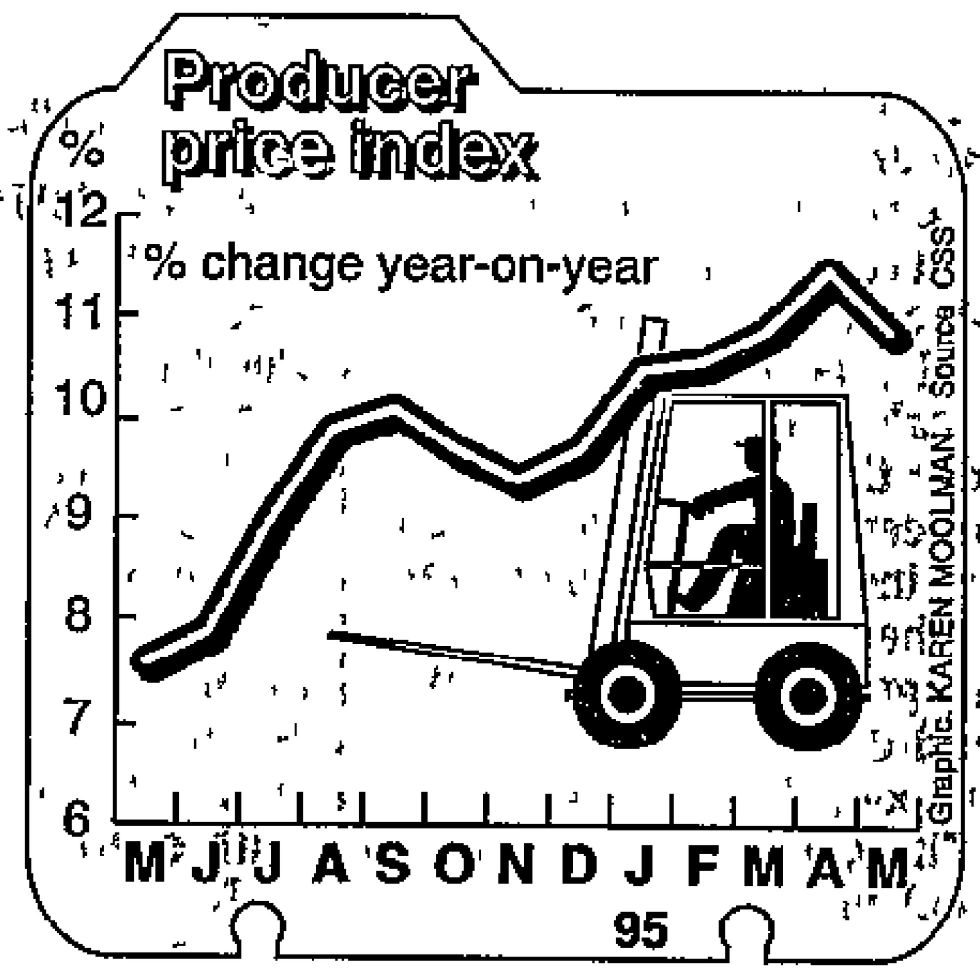
It had been taken for granted by all analysts that consumer price inflation would show a further uptick in May. This was because the CPI rose by only 0,6 percent in May last year and off that modest base an acceleration in inflation in May this year seemed inevitable.

But food prices, always volatile, came unexpectedly to the rescue. For the 12 months to May the rise in food prices dipped to 15,6 percent — the lowest annual level since last July's 14,9 percent — against 17,5 percent in April.

There was also, most unusually, an actual reduction in the total cost of food in May, by 0,1 percent due to falling meat prices.

Stals also disclosed that net foreign reserves were expected to rise again in June, although by less than the R1,3 billion proceeds of the government's Samurai Bond issue earlier this month.

The Bank's net reserves rose by R5,8 billion in May after falling R4,1 billion in April.



Sharp drop in food inflation

(153) BD 14/7/95

Mungo Soggot

TUMBLING food inflation helped push producer inflation down to 10,9% in May from 11,5% the previous month, Central Statistical Service figures released yesterday showed.

The figure, which was below market expectations, followed a 0,7% month-on-month increase in the producer price index (PPI) — sharply down on April's 1,7%

However, economists warned against reading too much into the figure as few of the basket of prices which made up the PPI were measured in May

The breakdown showed a fall in some food inflation and actual declines in other food prices The manufactured food price index fell 0,1% month on month, bringing year-on-year manufactured food inflation to 5,5%, after a 1,3% drop in the meat products index and a 3% fall in the fresh meat index. Fruit at an agricultural level dropped 3,6% month on month

Old Mutual economist Johan Els said although the headline year-on-year inflation figure was better than expected there were "dangers hiding in the detail". Stripped of the recent sharp fall in food inflation, inflation was 11,6% compared with 8,6% last December.

Another economist said "Food is the swing factor — it is volatile and unpredictable, so this drop should leave no room for complacency"

Standard Bank's economics division noted several manufacturing price indices had shown relatively large month-on-

Continued on Page 2

Food price

(152) BD 14/7/95

Continued from Page 1

month rises. Chemical products were up 0,9% month on month, glass 2,9% and metal products 2,6% A jump in vehicle prices drove the transport equipment price index up 2,5% month on month. The bank said its forecast of 10,5%-11% producer inflation for the year was unchanged

The 0,7% month-on-month increase in the PPI followed a 0,4% rise in its imported component and a 0,8% increase in its domestic component.

Capital market analysts said although the figure was better than expected, it had barely any impact on the market, particularly since May was a month in which little was measured.

However, "technical factors" had pushed the yield on government's R150 below the key 16,5% level. As many call options were written at 16,5%, players had started buying as rates edged towards that level, pushing up the price of bonds and driving rates down further. The R150 closed at 16,51% from a previous 16,55%.

Inflation rate dips as food prices retreat

ARG 27/7/95 (153)

Business Editor

INFLATION is on the way down again

Vegetable, meat and seafood prices fell in June, bringing down the inflation rate for the year from 10,8 percent in May to 10 percent in June.

Central Statistical Services figures issued today show the consumer price index (CPI) dropped 0,1 percent between May and June, mainly because of a 1,2 percent fall in food prices

Meat prices fell 0,8 percent, prices of fish and other seafood 1,1 percent, fruit and nuts 4,3 percent, and prices of vegetables a hefty 6,8 percent during the month

On the increase, though, were prices of grain, milk, fats, sugar (up 2,6 percent over the month) and coffee, tea and cocoa

Food inflation over the year to June slowed to 12,5 percent from 15,6 percent in May

The monthly increase in the CPI for all items, excluding food, was 0,3 percent

Stellenbosch Bureau for Economic Research economist Nils de Jager said the figures were in line with expectations

The bureau expected the downward trend in the inflation rate to persist provided weather conditions were good for agriculture

This should help Reserve Bank governor Chris Stals to postpone another rise in interest rates until next year

This would also depend on other economic indicators such as balance of payments and money supply figures

The highest inflation rate of 11,4 percent was recorded in the Port Elizabeth-Uitenhage area, while the lowest rate of 7,8 percent was recorded for the Nelspruit-Witbank area

CPI records first real decline in 25 years

(153)

Star 28/7/95

■ BY CLAIRE GEBHARDT
ECONOMICS EDITOR

South Africa's consumer price index (CPI), in one of the best news stories to date, registered it's first abolute month-on-month decline in at least 25 years in June, according to figures released by Central Statistical Services (CSS) yesterday.

In what economists described as "a magic figure likely to boost growth," the CPI dropped to a better-than-expected annual rate of 10% from 10,8% in May in the wake of another sharp dip in food prices Market forecasts had been for a CPI of at least 10,5% in June

Economists said the latest figure implied that interest rates were less likely to be hiked again this year – consumers would also find that their rands stretched a little further.

The CSS figures showed that the CPI decreased by 0,1% in June – in May the CPI had increased 0, 4% month-on-month, though the annual rate was on the decline

THE FIRST real decline in the CPI in 25 years is described as a magic figure to boost growth

In June, a monthly decrease of 1,2% in food prices was the major contribution to the lower CPI – contributing -0,3% – mainly due to decreases in the prices of meat, seafood, fruit and nuts and vegetables Meat prices fell by 0,8%, vegetable prices by 6,8%, fish and seafood by 1,1% and fruit and nuts by 4,3%

Sanlam economist Pieter Calitz predicted that inflation would dip into single digit figures from July and remain there for the rest of the year and possibly for the first quarter of 1996

"July's figure could be about 9%, though we are still waiting for the bond increases in the wake of the recent bank rate increase, to come through

This could add 0,5 percentage points to the August CPI," he said

Econometrix director Dr Azar Jammine attributed part of the decline in food inflation to the statistical distortions of high food prices last year but said the underlying inflation rate was definitely coming down Excluding food, the CPI was 9,3% year-on-year compared to 9, 5% in May He attributed the drop in meat prices to "a flood of cheaper imports"

Core rate

Standard Bank noted that the "core" inflation rate, excluding both housing and food, had increased by 0,2% on a monthly basis to an annual 8,5% compared to a figure of 8,8% in May Inflation would likely average around 10% for the year with the possibility that even the annual average might even fall to single digits once again, depending on what happened to food prices over the remainder of the year

South Africa's money supply, as measured by M3 growth, increased by an annualised 16,92% in June from 15,86% in May, Reserve Bank figures showed yesterday The annualised growth from the base of this year's guideline range of 19,27% far exceeded the Bank's guideline range of 6% to 10%.

Total domestic credit extension fell marginally to 14,99% in May from 15,04% in April.

Edey Rogers economic consultant Edward Osborn said the figure was still disturbingly high and would have been worse were it not for a substantial build-up of deposits in the Treasury's tax and loan accounts of R2,8-billion and was reflected in an effective drain on the balance of payments of about R0,6-billion as reflected in the change in net reserves after taking into account of the proceeds of the Sumaria bond.

"It is an endorsement of the action taken to raise the bank rate." Given the fall in inflation, however, it was extremely unlikely that Stals would decide on a further Bank Rate rise at least over the next couple of months, he said

Drop in inflation surprises market

(153) BD 28/7/95

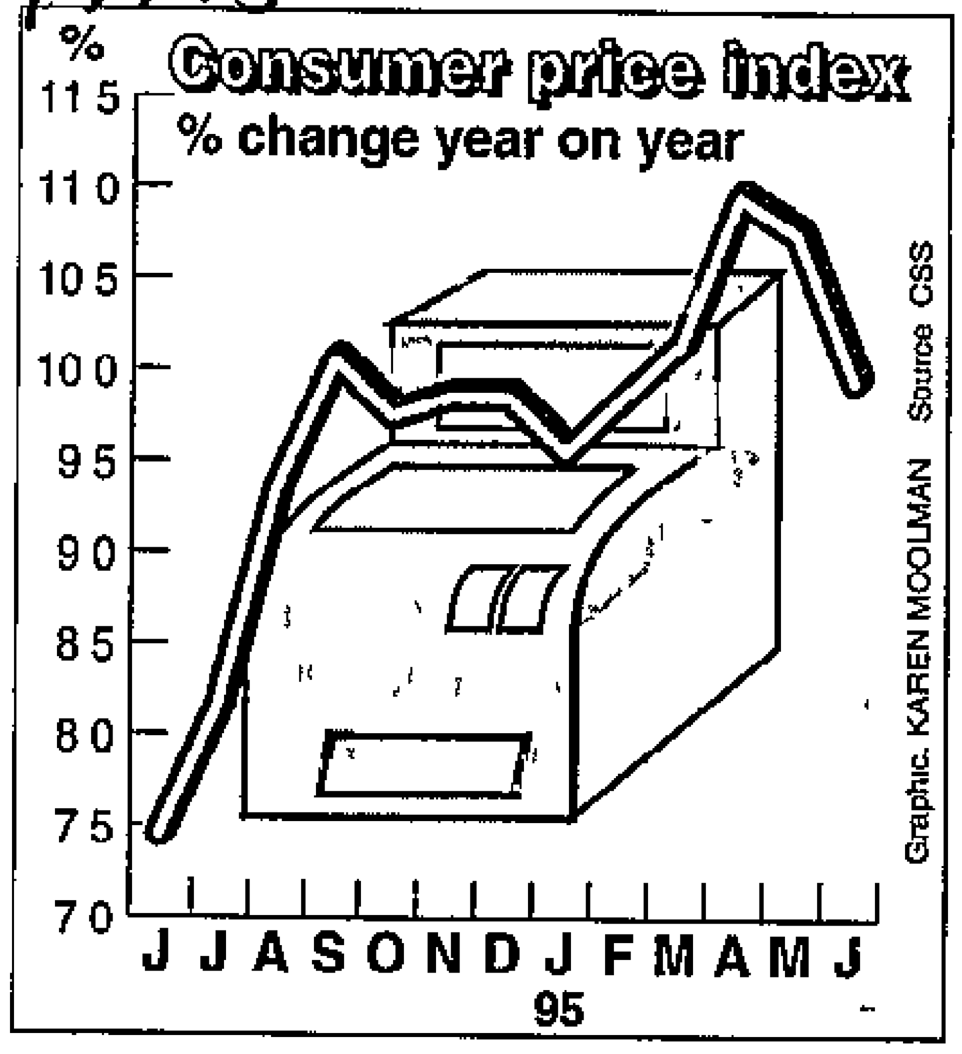
Mungo Soggot

INFLATION in June sank to 10% from May's 10,8% after a decline in food prices contributed to the first monthly decrease in the consumer price index (CPI) since January 1970, Central Statistical Service (CSS) figures released yesterday showed

The capital market reacted immediately to the figure, which was sharply below market expectations of about 10,7% The rate on government's R150 dropped to 16,645% from 16,670% just before the 9 30am release of the data It closed firmer at 16,650% from Wednesday's 16,680%

The CSS attributed the CPI drop mainly to the fall in food inflation The food price index was down 1,2% from May, taking year-on-year food inflation to 12,5%.

Economists said the encouraging figures had forced them to clip their forecasts for average inflation for the year to about 10% from 10,5% Standard Bank's economics division said average inflation for the year could slip into single digits



However, economists warned against excessive jubilation as volatile food inflation remained the joker in the pack

Excluding food, inflation was 9,3%

Continued on Page 2

Inflation

(153) BD 28/7/95

Continued from Page 1

against 9,5% for May

Old Mutual economist Johan Els said it was encouraging that there had been a number of negligible increases and some decreases in the basket of prices making up the CPI. The alcoholic beverages price index had dropped 0,3%, and there had been no increase in the price of fuel, power and tobacco products.

Economists said technical factors had played a large part in pulling down year-on-year inflation. Econometrix economist Tony Twine said last year's rapid rise in food inflation, which had an 18% weighting in the overall CPI, meant the sideways movement in food prices was dragging down the year-on-year inflation rate

Els said these technical reasons could cut inflation to less than 9% in September or October, while food inflation — which had fallen to 12,5% from 22% in September — could soon drop to less than 10%.

The CSS attributed the CPI's 0,1% monthly decrease to a 0,3 percentage point decline in the food price index, offset by a 0,1 percentage point increase in the housing index and all other items

CPI drops to 10% after food prices fall

~~244~~

CT 28/7/95 (153)

By Claire Gebhardt
Economics Editor

South Africa's consumer price index registered its first absolute month-on-month decline in at least 25 years last month, according to figures released by the Central Statistical Service yesterday.

In what economists described as a magic figure likely to boost growth, the index dropped to a better-than-expected annual rate of 10 percent from 10,8 percent in May in the wake of another sharp dip in food prices. Market forecasts had been for an index of at least 10,5 percent last month.

In another healthy economic signal, manufacturing output rose sharply in May, up 19,6 percent over May last year, the CSS reported. (See next page)

Economists said the latest inflation figure implied that interest rates were less likely to be hiked again this year despite money supply figures, also released yesterday, which were disturbingly high.

The CSS figures showed that the index decreased by 0,1 percent last month. In May the index increased 0,4 percent month-on-month, although the annual rate was on the decline. A monthly decrease of 1,2 percent in food prices, which contributed 0,3 percent, was the major contribution to the last month's lower index.

Meat prices fell by 0,8 percent, vegetable prices by 6,8 percent, fish and seafood by 1,1 percent and fruit and nuts by 4,3 percent.

Pieter Calitz, a Sanlam economist, predicted that inflation would dip into single digit figures from next month and remain there for the rest of the year and possibly for the first quarter of next year.

"July's figure could be about 9 percent, though we are still waiting for the bond increases in the wake of the recent Bank rate increase, to come through. This could add 0,5 percentage points to the August (index)," he said.

Azar Jammine, the director of Econometrix, attributed part of the decline in food inflation to statistical distortions of high food prices last year, but said the underlying rate was definitely coming down.

Excluding food, the index was 9,3 percent year-on-year compared to 9,5 percent in May.

Standard Bank noted that the core inflation rate, excluding both housing and food, had increased by 0,2 percent on a monthly basis to an annual 8,5 percent compared to a figure of 8,8 percent in May. Inflation was likely to average at about 10 percent for the year with the possibility that even the annual average might fall to single digits once again.

However, South Africa's money supply, as measured by M3 growth, increased by an annualised 16,92 percent last month from 15,86 percent in May, Reserve Bank figures showed yesterday.

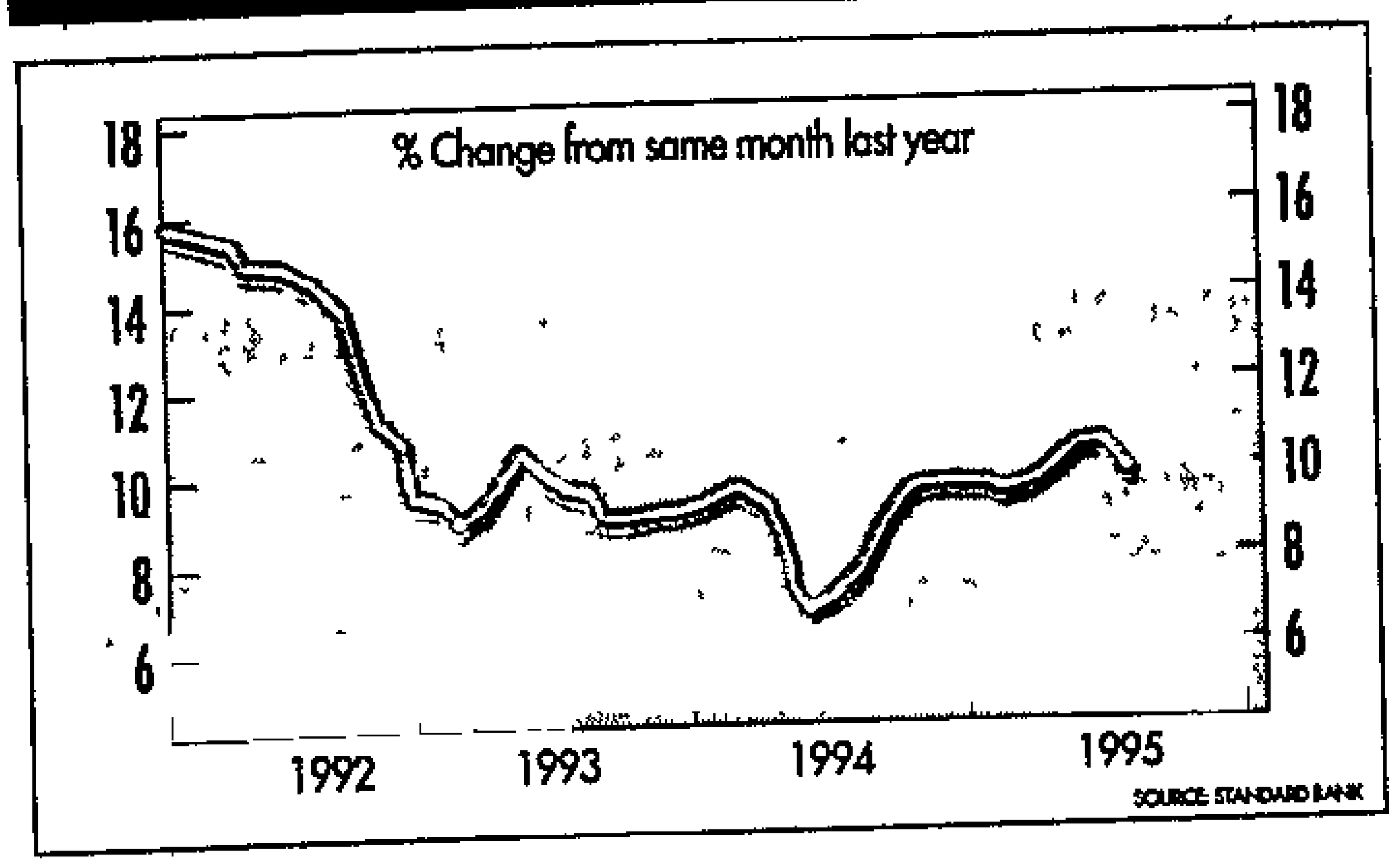
The annualised growth from the base of this year's guideline range of 19,27 percent far exceeded the Bank's guideline range of 6 percent to 10 percent. Total domestic credit extension was 14,99 percent in May from 15,04 percent in April.

Edward Osborn, an Edey Rogers economic consultant, said the figure was still disturbingly high and would have been worse except for a build up of deposits in the Treasury's tax and loan accounts of R2,8 billion. This was reflected in an effective drain on the balance of payments of about R0,6 billion after taking into account the proceeds of the Samurai bond.

"It is an endorsement of the action taken to raise the Bank rate."

Given the fall in inflation, however, it was highly unlikely that the Reserve Bank would raise the Bank rate again at least over the next couple of months, he said.

Consumer price inflation



PPI bodes well for inflation figure

Mungo Soggot BD. 16/8/95

PRODUCER inflation slowed to 10,5% in June from 10,9% the previous month, bolstering SA's positive inflationary outlook.

The figures showed food prices had again kept a lid on the overall figure. Few prices which made up the local component of the producer price index (PPI) showed noteworthy increases, bringing the PPI's month-on-month increase to 0,4% — down on May's 0,7% increase. Food at manufactured level was up only 0,1% month on month. Fresh meat prices had dropped 1,7% month on month and fruit and vegetables had shown no monthly increase.

Yesterday's Central Statistical Service figures showed the local component of the PPI was up 0,3% month on month and 10,7% year on year.

The imported component was up 0,7% month on month and 9,1% year on year, which most economists said was higher than expected. Standard Bank's economics division said the increase probably stemmed from earlier changes in the oil price and the rand.

The component of the price index, which includes oil imports, was up 1,5% month on month. One economist said this increase was surprising considering Dubai crude had dropped about 7% in June over the previous month, so the increase must have reflected an earlier rise. This price index

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PPI

Continued from Page 1

has a 7,55% weighting in the overall PPI.

The figures follow the release of June's encouraging consumer inflation figure, which showed the first month-on-month drop in the consumer price index for 25 years. Economists are expecting both consumer and producer inflation to slip into single digits before the end of the year, mainly because the figures will be coming off a high base from last year when food inflation was rampant.

One economist said the recent switch in SA's inflation figures showed SA was "not in the pre-Stals era. He said he would get inflation down and he has."

Old Mutual economist Johan Els said a continuation of the low food inflation trend should keep overall producer inflation low over the next few months. "But we can't ignore the possible impact of the recovery on inflation."

The largest month-on-month increases were in plastics products (3,8%) and printing (2,9%).

Inflation dips as food price rises slow

ARG 29/8/95 (153)

JOHANNESBURG — The official inflation rate fell by one percent to 9 percent in July as food price increases continued to slow, figures released today by the Central Statistical Services show

The consumer price index was 10 percent in the previous month.

Housing's monthly CPI increase was 0,4 percent, fuel and power 0,1 percent and transport 0,1 percent

These increases were counteracted by a 0,2 percent decline in the food price index Food inflation fell 4,4 percent to 8,1 percent annualised in July

CSS noted that it was the first time since March 1994 that food inflation was lower than overall inflation — Sapa.

Inflation down to 9% as food prices drop

CT (BR) 30/8/95 (153)

By Derek Tommey

Staff Writer

Helped by a further drop in food prices, South Africa appears well on the way to winning the war against inflation

Figures issued by the Central Statistical Service yesterday showed that following an 0,8 percent decline in the food price index last month, the year-on-year rate of inflation dropped to 9,0 percent from 10 percent in June and 10,8 percent in May

But an analysis of the constituents of the consumer price index (CPI) showed that the annual figures significantly understated the achievement given that the slowdown in price increases last month were masked by higher mortgage rates which were imposed at the end of June to help curb inflation.

The higher mortgage rates resulted in the housing index rising 2,6 percent in July and contributing 0,4 percent of the 0,6 percent rise in the overall CPI index last month.

However, the rise in the housing index was mainly the result of a temporary increase in interest rates on mortgages, which could easily be reversed

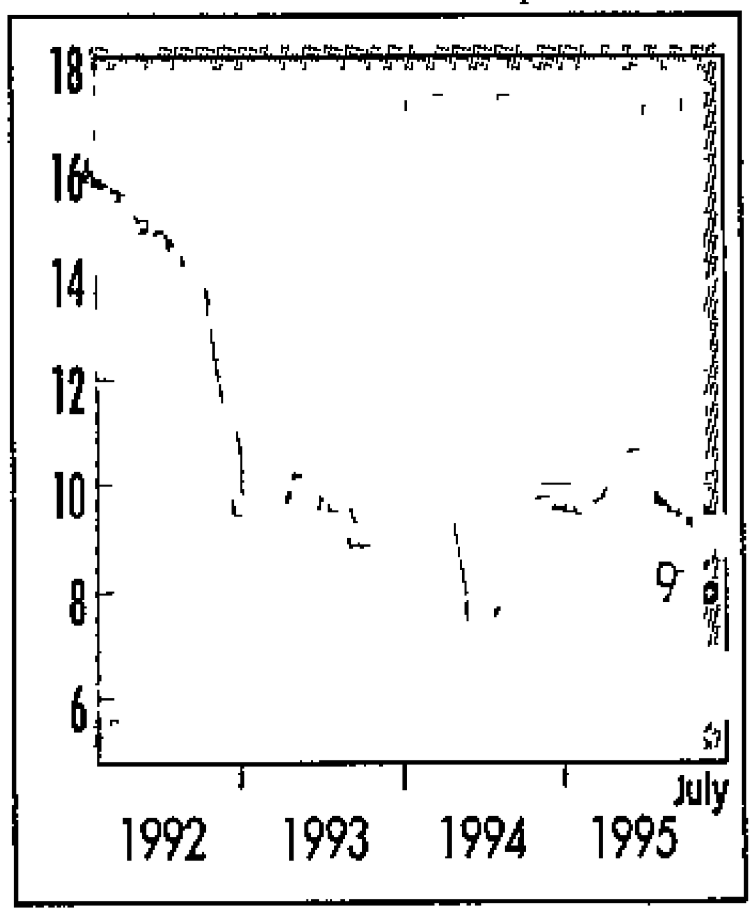
Consequently, there were good grounds for excluding this factor from the CPI calculations when assessing the long-term inflation rate If this was done the increase in the CPI last month was only 0,2 percent — equal to an annual inflation rate of about 2,5 percent

Because of the rise in mortgage rates last month the cost of living for people in the upper income group (who usually have bigger houses) rose by 0,7 percent But the cost of living for people in the middle income groups rose by only 0,5 percent and those in the lower income groups by 0,4 percent

The increase in the CPI last month for pensioners was 0,5 percent, bringing the increase for the 12 months ended last month to 9,0 percent

The price index for meat dropped 1,5 percent, the vegetables index by 1,4 percent and the fats and oils index by 0,3 percent.

CPI



Inflation sinks to year low of 9%

(153) 30/8/95 BD

Mungo Soggot

INFLATION fell back into single digits in July to 9% from 10% the previous month — its lowest level in a year

Central Statistical Service figures released yesterday showed a big drop in food inflation in the year to July had been a major reason for the fall For the first time since March last year food inflation, which has sunk dramatically in recent months, was lower than overall inflation.

Low food inflation and mostly modest increases in the rest of the prices which make up the consumer price index kept the monthly increase in the CPI to 0,6%

The capital market did not rally on the figure as many players had hoped for a figure below 9% and had already discounted a move to 9%. The market closed weaker — government's R150 finished the day at 15,60% from a previous 15,55%

Old Mutual economist Johann Els said the excellent figure was slightly better than he had expected. A further month-on-month drop in meat prices (-1,5%) and a drop in fruit and vegetable prices (-3,3% and -1,4% respectively) had helped to cut the total figure He expected the downward trend to continue — inflation could slide to about 8% by September

Mathison and Hollidge economist Liz Farquharson said the decline in meat prices was largely due to cheaper imports.

The year-on-year food inflation rate was 8,1% (compared with June's 12,5%). Between June and July, food prices fell 0,8%.

Standard Bank's economics unit said core inflation — excluding food and housing — was 8% from June's 8,5%.

The largest monthly increases were in fuel and power (2,4%) and housing (2,6%). Economists said the housing price partly reflected the bond rate hike after the last Bank rate increase However, most of the impact would be on the August figure

Food price inflation down

153
Star 30/8/95

Good news for people trying to balance household budgets.

For the first time since March last year inflation in food prices was lower than the country's overall rate of inflation.

The Central Statistical Service said the official figure for inflation was down a percentage point to 9% while food price increases were held down to 8,1%. Food's lower inflation was mostly due to a drop in the price of meat, fruit and vegetables.

However, CSS pointed out that food-prices at chain stores showed an annual rate of increase of 9% while it was only 6% at other retailers.

While the fiscus can be quite pleased with its fight on the inflation front, it's not so in Angola where inflation is running at 1 700% annually.

Their month-on-month inflation rate is running at around 22% reflecting a recent 300% raise for public servants and the introduction of the readjusted kwanza. — Business Staff.

Inflation will worsen by year end — AHI

(153)

Mungo Soggot

THE Afrikaanse Handelsinstituut (AHI) yesterday sought to dispel complacency about inflation, warning that it would be back on the rise towards the end of the year

Despite the recent fall in inflation, the underlying pressure remained upward, the AHI said

Central Statistical Service figures released on Tuesday showed inflation dropped to 9% last month, its lowest level in a year Economists were encouraged by a drop in the core inflation rate to 8% from June's 8,5% This rate represented overall inflation without the volatile influences of food and housing

BD 31/8/95

However, the AHI said its inflation barometer — which forecast inflation six months down the line — was being kept high by factors such as the strong growth in money supply and the large deficit on the current account of the balance of payments caused by strong imports Recent hikes in the fuel price would also force it up

Technical factors would keep the year-on-year inflation rate down for a few months but it would climb back to 10% by the end of the year

According to the barometer inflation stood in the third quater at 11,5% — lower than the second quarter's 12,4% mainly because of more favourable government expenditure figures, an increase in gold and foreign exchange reserves and a slight improvement in productivity

As the Reserve Bank had indicated that recent interest rate increases were not stifling credit demand, other indirect measures to raise banks' lending rates were on the cards Possible measures included increasing commercial banks' cash reserve requirements, the issue of government stock and exchange control reforms

Another increase in the Bank rate this year was unlikely, but there could be one in the first half of next year, the AHI said

Stals says he's determined to curb inflation

ARG 11/9/95 (153)

ALIDA DASNOIS, Business Editor

JOHANNESBURG — The battle against inflation has not yet been won, Reserve Bank Governor Chris Stals told the International Herald Tribune investment summit here today

He said the slightest relaxation in monetary policy could lead to the revival of inflation which was risky for investors, both South African and foreign

"To inspire more investor confidence, South Africa must continue to work against inflation," Dr Stals said

A major and concerted effort was needed to push inflation below its current level of around 10 percent

"It must be regarded as a national objective to bring the average rate of inflation down to a level in line with the average in South Africa's major trading partners and competitors," Dr Stals said

This meant bringing it down to below 5 percent a year This task would need the active support of the government, organised business and commerce, trade unions and the general public

"The Reserve Bank is determined and ready to lead the way"

● Speaking at the same conference, Deputy President De Klerk said that the government was considering using the army to take the pressure off the police in the fight against crime

He said new legislation was being considered to enable the army to "play a more supportive role"

Some of the tasks of the police, such as guarding borders or keeping order at political rallies, could be performed "by other people in uniform"

"This would untie the hands of policemen and women trained to investigate crime, to do what they have been trained for," Mr De Klerk said

Stals calls for campaign to beat inflation

John Dludlu BD 12/9/95 (153)

RESERVE Bank governor Chris Stals yesterday called for a national effort — by business, labour and government — to bring inflation down to 5% to boost investment confidence.

He made the call at a southern Africa investment summit organised by the International Herald Tribune and the European Federation of Financial Analysts' Societies in Johannesburg. He reminded the conference that the battle against inflation had not been won, although the rate was now down to single-digit levels

The Bank remained committed to a more restrictive monetary policy, and was determined to bring the rates of increase in money supply and bank credit extension back into line with its programme for financial stability.

"It is questionable whether measures taken so far will be sufficient to achieve this objective — if not, more restrictive measures will have to be applied in the months ahead."

The slightest relaxation against inflation would lead to a quick revival, and the resurfacing of the many underlying inflationary pressures

The next phase in the crusade against inflation — after being brought below 10% — should be an effort to bring it down "more or less in line" with the average experienced by SA's major trading partners and competitors.

"That will require inflation of below 5% — an objective which is not unrealistic, but will require active support from government, organised business and commerce, trade unions and the general public. The Bank is determined and ready to lead the way."

On the state of SA's foreign reserves, Stals expressed concern, saying

Continued on Page 2

Inflation campaign

Continued from Page 1 (153) BD 12/9/95

the current R15bn was "still uncomfortably low It therefore still remains an important priority of monetary policy to increase the foreign reserves to a more satisfactory level"

Turning to foreign exchange controls, Stals said a "more flexible" policy for outward direct investment had been applied for some years

The policy, which favoured investments in southern Africa, included as its criteria looking at the economic development resulting from SA investments, and placing less emphasis on the contribution of those investments to SA's balance of payment

To underline the importance of the policy, Stals said no investment proposals for Zambia had been refused in the past 18 months

Since last June, the Bank's mandate had been extended to enable institutional investors to make portfolio investments outside SA This programme had kicked off with asset swaps The intention was to make more concessions depending on improvements in the balance of payments, position and in foreign reserves

The Bank, he added, had also recently started to reduce its support for the forward foreign exchange market, to enable private banks to take over the function of providing forward cover

Depot strike hits petrol stations

~~(152)~~ (153) Star 14/9/95

Several Engen petrol stations in Gauteng were running out of stock after striking workers blockaded fuel depots yesterday.

The workers embarked on the illegal strike action after pay talks between the company and members of the Chemical Workers' Industrial Union had come to a halt yesterday

A number of BP stations in Cape Town were also hit by strike action when negotiations between the company and the CWIU broke down

An Engen spokesman said the company had demonstrated good faith during bargaining, had adhered to grievance procedures and had made "every attempt" to reach a settlement.

But the CWIU had withdrawn from the negotiations and begun an illegal strike, she said.

Engen had offered workers a pay rise linked to the profitability of the company for the first six months of the financial year beginning this month. It had also offered an 11% rise for the year March 1995 to February 1996, which would mean a new minimum wage of R2 243 a month.

Pay talks between BP and the CWIU broke down on Tuesday night. The union had demanded a 13% across-the-board pay rise while BP had offered a 12% rise for drivers and 11% for other staff, a BP spokesman said.

The union, however, had rejected the offer and it was consequently withdrawn, he said. – Sapa and Staff Reporter.

'Inflation psychosis' harms exporters

(153) CT (BR) 28/9/95

By Audrey D'Angelo
Cape Business Editor

Companies which push up prices unnecessarily in the domestic market are fuelling inflation and making South African exporters uncompetitive, said Colin Boyes, the assistant director of the Cape Chamber of Commerce and Industry.

"Exporters tell me they cannot pass on rising wage and raw material costs to overseas customers and it is only the depreciation of the rand that enables them to hang on in these markets

"Some companies or small groups of companies which are exclusive suppliers of basic material inputs seem to suffer from an inflation psychosis and push their prices up in line with our inflation rate — which is higher than that of our major trading partners — whether they need to do so or not.

"That does not happen overseas Other countries have brought their inflation rate down and are keeping it under control and we must do the same if we are to export to them "

Boyes said Cape Town-based group Irvin and Johnson was among exporters hit by rising costs Irvin and Johnson had written to Trevor Manuel, the minister of trade and industry, asking him to use his influence to limit an impending 40 percent rise in the cost of paper used for corrugated cartons and containers

"The chamber has established that the reason for the increase is a worldwide shortage of paper and pulp that has caused a dramatic escalation in prices and local manufacturers are now adjusting prices to meet world price parity," said Boyes

He said in the chamber's newsletter that companies still benefiting from "the protected environment inherited from the old South Africa have a duty to keep cost increases within reasonable bounds"

"Companies which enjoy a commanding position in supplying basic raw materials have an obligation to exercise restraint in passing on price increases.

"The endemic inflation which has persisted for so long has put South Africa out of step with all developed and most developing countries

"In South Africa there is a tendency to continue to float up prices, based on the argument that this is to adjust for inflation," said Boyes

Inflation tumbles to low of 7,5 percent

(153) Star 29/9/95

BY HOWARD PREECE

Consumer price inflation tumbled to 7,5 percent for the 12 months to last month — the lowest year-on-year figure since June last year.

A decline in the rate of increase in food prices from 21,9 percent in September last year to 2,0 percent this August was the main reason for the fall in overall inflation.

In the year to April this year the consumer price index (CPI) rose by 11,0 percent. By July the rate was down to 9,0 percent and in August it dropped another one-and-a-half percentage points.

A further fall in CPI is expected when the Central Statistical Service reports the September figures towards the end of October. CPI inflation could then fall to below 7,0 percent. If so, that would be the lowest level in 22 years.

The rate for the 12 months to April last year of 7,0 percent is at present the lowest CPI inflation level recorded in any month since early 1973. A further encouraging development came last night with the release by the Reserve Bank of the latest money supply figures.

These showed that on a provisional basis, broadly defined M3, the main official monetary aggregate, rose by 14,8 percent in the 12 months to August compared with a revised figure of 15,8 percent for the year to July. The August figure is about one percentage point lower than had generally been expected by private sector economists and although the expansion of M3 is still well ahead of the Bank's formal 6 to 10 percent target range for the period 1995 to 1996 the trend is satisfactory. Over the last quarter of this year, however, the CPI is bound to show an upward trend again. This is for two reasons. First, the rates of increase in the CPI for October, November and December last year were all unusually small, averaging only about 0,3 percent each month. It is effectively impossible for there to be a similar performance over the same months this year.

That might seem to be contradicted by the fact that the CPI rose by only 0,2 percent in August this year, but that leads on to the second reason.

Food price inflation is always volatile and the prospects of that increasing off the abnormally low 2,0 percent annual level for August are strong. For the year to September 1993 food prices edged up only 2,4 percent. But the rate soared to almost 22 percent one year later before declining steeply again.

However, it now seems certain that inflation will be at most 9 percent and more probably about 8,5 percent for this year. That means that South Africa is on track for the lowest inflation level this year for any year since 1972.

Lower inflation signals improved growth

(153) Star 11/10/95

■ BY AUDREY D'ANGELO

A more benign outlook for inflation and interest rates in South Africa translated into more favourable forecasts for economic growth, real corporate earnings and price-earnings ratios through next year and 1997, said Ed Hern, Rudolph economist Nick Barnardt

"Consequently the medium-term prospects for JSE equity prices have improved further, especially in real terms"

In a short check-list produced for clients Barnardt said inflation as measured by the consumer price index would fall to 7,8 percent this year, rise to 9 percent next year and 10 percent in 1997

As a result of this slowing down in inflation the rand was likely to depreciate more slowly

Barnardt expected an exchange rate of R3,70 to the dollar by year-end, R4 to the dollar by the end of next year and R4,35 to the dollar by the end of 1997

He said the banks' prime interest rate would be 18,50 percent by year end rising to 19,50 percent by the end of next year and 20,50 percent by the end of 1997

He said the JSE All Share index would be 5917 at year end, 6725 by the end of next year and 7515 by the end of 1997 The price-earnings ratio of the all share index would be 15,5 times by the end of this year and 14,5 times by end-1996 year

He expected export volumes to grow by 8 percent this year easing to 7,5 percent next year and 6 percent in 1997 while import volumes would grow by 20 percent this year, 15 percent next year and 10 percent in 1997.

INFLATION (153)

FM 13/10/95

Changing the rules

The August drop in the consumer price index to 7,5% supports predictions by Rand Merchant Bank chief economist Rudolf Gouws and property analyst Erwin Rode that the inflation rate is on a steady decline. They see inflation dropping to 5% within a few years.

Gouws says that if fiscal and monetary discipline continue, "there is no reason our inflation rate should not be the same as our trading partners' within five years."

They say inflation may rise next year but as a hiccup in the descending trend. But Rode says the property industry is not convinced the inflation bogy can be beaten. "Though the CPI is 7,5% and underlying inflation is 9%, the industry still has inflationary expectations of 14%. This is likely to continue for some years."

So Rode sees no change in rental escalation percentages in the short term. Eventually, though, he expects escalation rates to decline from 11%-12% to 5%-6%.

In the long term, says Rode, growth in rentals is likely to slow to equal building cost inflation. But other factors such as declining vacancies, contractors pushing up their building margins and generally higher demand for housing will tend to keep rentals buoyant.

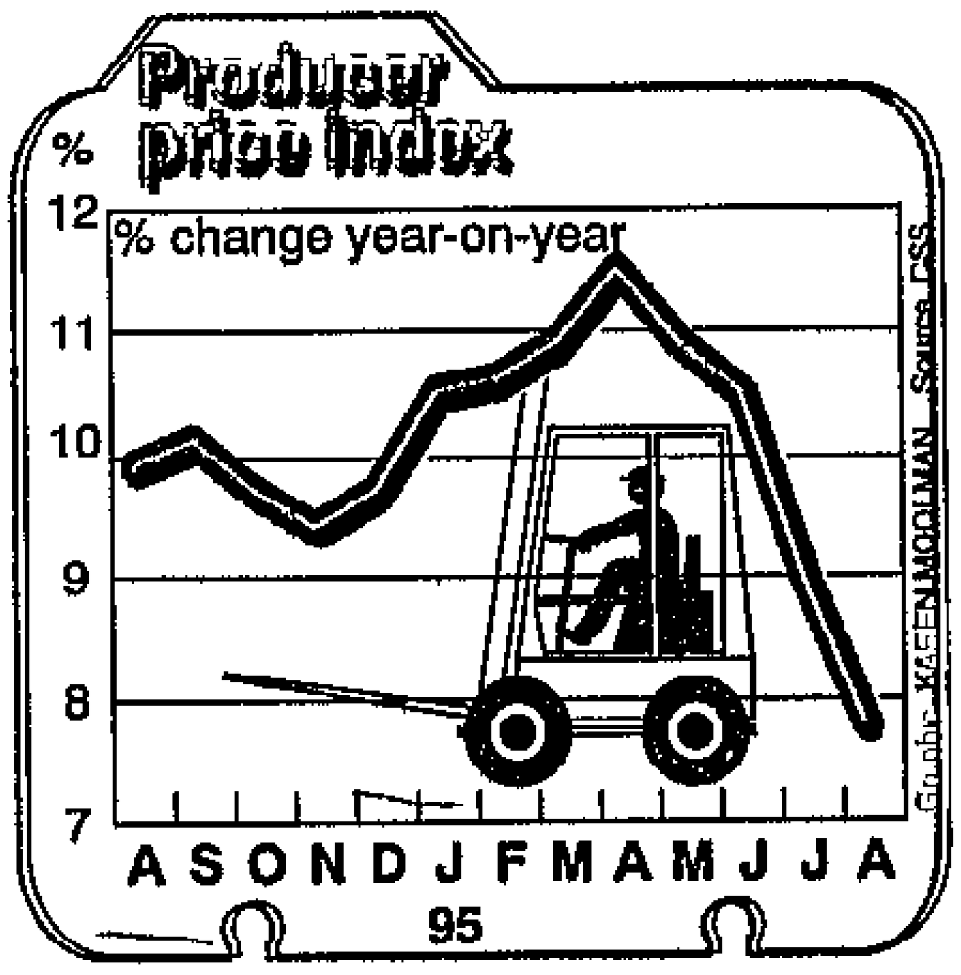
Falling inflation is bad news for highly geared property owners and developers who rely on high inflation to boost returns. But lower nominal interest rates make houses more affordable.

"In a low-inflation scenario, most of the total return comes from the income yield. Unfortunately, the yield is fully taxable unless the property is owned by a pension fund or, to a lesser degree, a life office," Rode says. ■

Producer inflation takes dive to 7,8%

BD 13/10/95 (153)

Mungo Soggot and Paul Richardson



PRODUCER inflation dived to 7,8% in August from the previous month's 9% as food prices tumbled, Central Statistical Service figures released yesterday showed.

Economists said that although widespread actual declines in food prices had been the main cause of the fall, most of the increases in the prices which make up the producer price index (PPI) had been subdued.

This kept the monthly increase in the PPI to 0,3% Year-on-year food inflation at -0,9% was in negative territory for the first time since November 1993.

The bond market shrugged off the figure, having already discounted such a drop But benchmark rates soared almost 20 basis points, after rumours that Deputy President FW de Klerk had resigned triggered panic selling shortly before the figures' release.

Government's key R150 ended the day 18,5 basis points weaker at 15,24% and the yield on Eskom's 168 climbed to 15,23% from a previous 15,04%.

Continued on Page 2

PPI

(153) BD 13/10/95

Continued from Page 1

Dealers said it had gone as high as 15,29% as players holding long positions panicked and dumped stock

NP sources denied the rumours.

A dealer said: "Whoever started the rumour was playing an extremely dangerous game, as the kind of moves we've seen today cannot have instilled foreign investors with any confidence in our market."

Dealers said the market appeared set to retrace its recent gains, possibly heading back up to 15,50% again. "The problem with the market at the moment is that it is all political and will remain that way until the elections are out of the way," one trader said.

Another said: "The market has good potential to go back to 15,50% based on the fact that after a run like we've had, there is a lot of profit to be taken out in the short term."

Yesterday's producer inflation figures showed there was slight pressure from imported prices, which were up 0,5% month on month despite the rand's solid performance in August. Economists said falling tariff barriers and the stable rand should keep a lid on imported prices in months to come.

They said technical reasons were partly responsible for the low year-on-year producer inflation figure — it came off a high base from last year.

Food inflation was expected to continue dropping for the same technical reason, but food price hikes were also expected to be capped by the promising summer weather forecast.

Juvenile release law may change

ET 20/10/95 (153) (298)

POLITICAL STAFF

JUVENILES arrested for serious offences such as murder, robbery and rape, should not simply be released, the Minister of Justice, Mr Dullah Omar, said yesterday

He said that since the government reformed prison laws a large number of youths who ought never to have been in jail were no longer in jail

"In general, this policy has been a great success"

There was, however, a problem with juveniles who had been arrested for serious offences

This matter had been raised in the cabinet and was receiving attention so the law could be amended to prevent the release of these juveniles

"I think there is general agreement with this proposal," he added.

● The RDP had allocated R200 million to fight crime, Mr Omar announced yesterday

He said a large part of this would be spent on strengthening the Department of Justice infrastructure and upgrading courts countrywide, particularly to help victims of rape and child abuse

There was agreement with the Minister without Portfolio, Mr Jay Naidoo, who is in charge of the RDP, that R200m would be made available from RDP funds to assist the Departments of Justice, Safety and Security, and Correctional Services in the fight against crime, Mr Omar said.

He also said negotiations were continuing with Mr Naidoo for further funding

"Some of our courts lack even basic amenities — existing in the virtual squalor of blocked toilets, leaking roofs and inadequate seating Many of them lack even basic legal texts.

"It is in these conditions that they are expected to administer justice to South Africans

"The facilities in all our courts, except a few, are inadequate or non-existent If you look at the rural areas, they are completely non-existent"

Inflationary pressures continue to ease

(153) BD 23/10/95

THE WEEK AHEAD

By Mungo Soggot

THE indicators due this week are expected to help convince even the most sceptical observer that the interest cycle has peaked for the time being — a possibility the Reserve Bank hinted at last week

Economists said September's inflation and money supply figures should show inflationary pressure in the economy ebbing further Inflation could fall as low as 6,6% — the bottom end of the range of forecasts from economists polled, all of whom said it would go below 7%. In August it fell to 7,5%. And money supply growth, the Bank's crystal ball for inflation down the line, is expected to have slowed further from August's 14,84% as it edges closer to the top end of the Bank's 6% to 10% guideline range set earlier this year.

Last Tuesday Reserve Bank Deputy Governor Jaap Meijer said about Bank rate: "At the rate things are going the next move could be downwards" — the first time a Bank official has mentioned the possibility of a rate cut

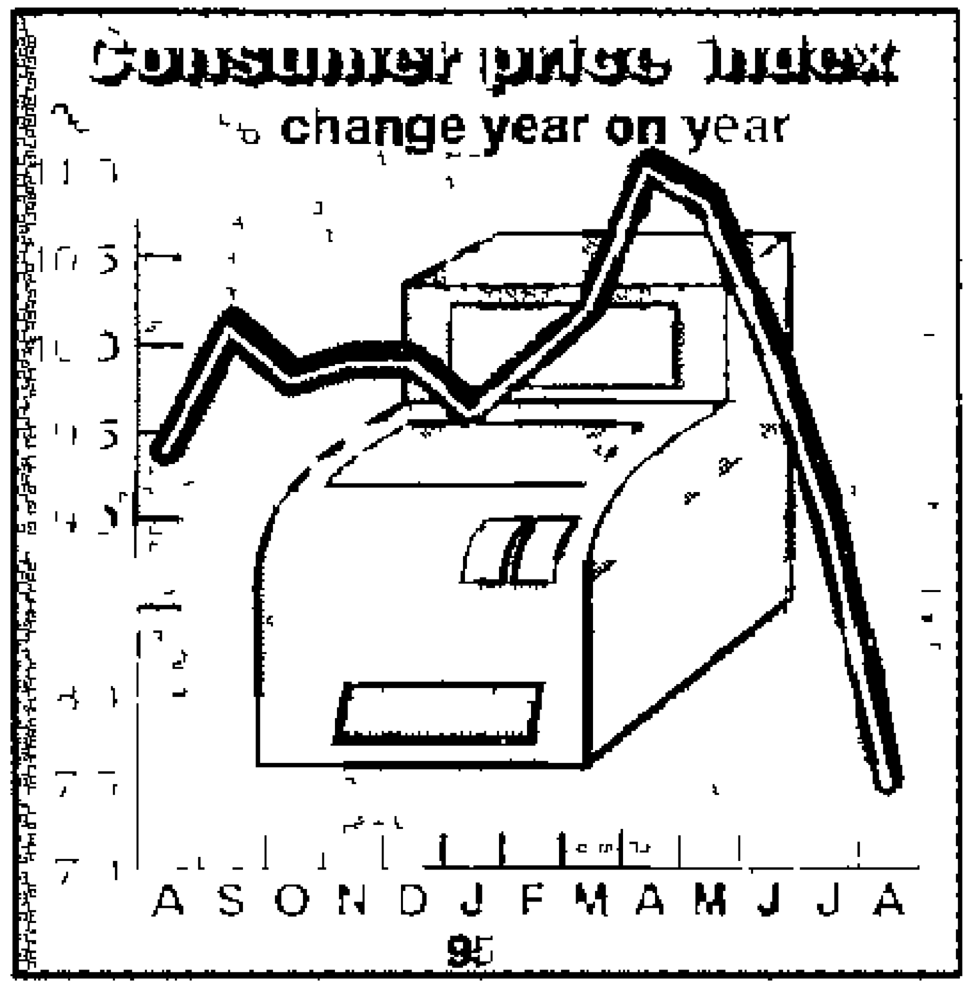
A day later governor Chris Stals said the Bank was cautious about cutting rates and would prefer to let the market take the lead, signalling that short-term money market rates would have to fall before he acted

"The inflation mindset has changed completely. There is really a feeling that Stals has got the better of it," was the type of bullish reaction from economists betting on a rate cut.

But despite the dramatic fall in inflation and the easing of money supply growth, some economists are cautious about getting too carried away by last week's glib statements from the Bank, and are prepared for more monetary policy tightening or, at least, for no move on interest rates for most of next year. "There is unlikely to be a cut until 1997," said one.

The main reason for their caution is the still hefty growth in credit extended to the private sector — the element of the money supply which the Bank watches particularly carefully for warning signals of future inflation. In August it was growing at an annual rate of 18,79%.

There is also the feeling that the rapid fall in inflation over the past few months has mainly been for technical reasons, with year-on-year rates coming off a high base from the same time last year. And the joker in the pack for inflation, food inflation — which has been tumbling — could always stage a comeback and start hauling up overall inflation again, they warn, saying there is a strong likelihood of inflation resuming its upward trend next year.



Frankel Pollak Vinderine economist Mike Brown said SA could be "heading for a credit crunch" as growth in credit extended to the private sector steamed ahead. And he said the substantial capital flows coming in to cover the large deficit on the current account of the balance of payments (BoP) would pile yet more pressure on the money supply.

All the same, he expected the rate of growth in the money supply to drop to about 12% by year end.

He said it was conceivable that the Bank would implement quantitative controls on capital inflows — the flavour of the month at the latest International Monetary Fund meeting. Another Bank rate hike could be on the cards, and if not, it would probably remain static for some time The Bank would be very wary of cutting Bank rate, only to see inflation start shooting up again next year

"We could see some monetary action this year — but not necessarily a hike."

One economist said the hazardous sport of Bank rate-predicting would be even more dangerous in the coming months as Stals wrestled with the monetary policy dilemma of attracting capital inflows to keep the BoP balanced, and wanting to limit the inflationary effect of the inflows on the money supply.

The next indicator for BoP watchers will be September's trade balance, also due this week. In August, the trade balance swung into the red to the tune of R516m, after registering a R320m surplus the previous month

Economists polled were even more wary than usual of making forecasts as so much doubt had been cast on the figures from the beleaguered customs and excise department over the past months. Two said they were hoping for a surplus as exports picked up and import growth paused for breath.

And now for the good news!

□ *Inflation 6,4% — lowest in nearly a quarter century*

ARG 26/10/95 (153)

ALIDE DASNOIS, Business Editor

HOPES that inflation may at last have been beaten rose today with news that the inflation rate dropped to 6,4 percent in September, the lowest level since 1972.

Economists said the figure was a welcome surprise.

Most had predicted the annual inflation rate would fall below seven percent from August's 7,5 percent, but the figure of 6,4 percent was better than expected.

A drop in food prices from high year-ago levels was the main reason for the lower inflation rate, according to figures issued today by Central Statistical Service (CSS) in Pretoria

Food prices have fallen 1,1 percent since September last year A year ago, food price inflation was running at nearly 22 percent a year, as the drought sent prices of meat, vegetables and fruit soaring

Since September last year, meat prices have fallen 3,9 percent and vegetable prices 22,1 percent In the month of September alone, food prices fell 1,1 percent, with drops in fruit and vegetable prices and meat prices offsetting higher prices of other staple items such as grain products, fish and dairy goods.

This is the sixth time in the past year that food prices have dropped

If food is excluded, the inflation rate was 8,6 percent over the year

Boland Bank economist Francois Jansen said there was a good chance that double-digit inflation was a thing of the past.

Rainfall levels in the northern part of the country were not encouraging, suggesting that food shortages — and higher prices — could surface again within the next few months. But this would probably be counterbalanced by lower housing costs, as interest rates on bonds fell

Mr Jansen said he did not think mortgage bond rates would change over the next year, but the next change would be downwards. This would make housing cheaper and offset the effects of food price increases if there was a drought

Housing and food are the two main components of the consumer price index, the official measure of inflation. Each accounts for about 20 percent of the "average" household budget which CSS uses to measure inflation.

People on low incomes and pensioners spend proportionately more on food.

Housing costs are up more than 15 percent over the year, mainly because of successive increases in bond rates.

The lower inflation rate will fuel hopes that Reserve Bank governor Chris Stals will consider lowering the bank rate — the rate at which banks borrow from the central bank — opening the way to a cut in bond rates

But Mr Jansen emphasised that Dr Stals would take into account other trends in the economy, such as the growth of credit to the private sector and the worsening balance of payments, and not just the inflation rate.

Good news for our pockets

(153) Star 27/10/95

Inflation at 6,4% lowest since 1972 and petrol price will drop

FOREIGN investors will now take heart seeing evidence of fiscal discipline beginning to pay off

■ STAFF REPORTERS

The inflation rate has plunged to its lowest level in 23 years and is being welcomed by industry for reducing costs, and by embattled consumers

And most importantly, it has also received a nod of approval from foreign investors

The rate is down to 6,4%, and Deputy Finance Minister Alec Erwin said this highlighted the success of the Government and Reserve Bank's anti-inflation drive. "It may drift up a little again, but the programme to contain inflation is working very well – certainly beyond my expectations "

The Central Statistical Service yesterday reported that annual inflation fell to 6,4% last month, down from 7,5% in August The rate is the lowest since the 5,7% of July 1972

The inflation drop was accompanied by further good news yesterday's announcement of a drop in the price of petrol by 3c a litre from midnight on Wednesday

Petrol will cost 187c a litre in Gauteng and 177c a litre at the coast – as it did in May this year

But there was also bad news a top bread producer announced a 17c a loaf increase in the wholesale price. Premier Foods will lift its price 9,9% on Wednesday.

While bread prices are no longer controlled, resulting in the price differing from retailer to retailer, the increase will mean a loaf of white bread will now cost about R2,60 and brown bread R2,40

Commenting on the latest inflation figure, economists said the drop would tempt, but not persuade, Reserve Bank governor Chris Stals to cut the Bank Rate from its current 15%.

"Stals will still be cautious We will have to wait before a decrease, maybe even until the third 1996 quarter," said Johan Louw, economist at Sanlam.

Nick Barnardt of stockbrokers Ed Hern, Rudolph Inc said the fall was driven not only by falling food prices – down 1,1% year on year – but also by slowing increases in non-food items, reflecting "a sea change" in the inflation picture

"It is not only a technical, food price-driven thing. This appears to indicate that the overall underlying inflation cycle has turned quite dramatically."

Econometrix chief economist Dr Azar Jammine said: "Even if the low inflation rate is not sustained, the fact is that prices are rising slower than salaries People's disposable incomes are doing well at the moment – but I don't think people must get too excited yet "

International Bank Credit Ratings director Mark Young said the inflation drop was a good indicator for foreign investors, who "will read this as Government's good fiscal discipline and see the economy as improving over the long term"

(153)

Inflation plummets to 23-year low

CT(BR) 27/10/95

By Claire Gebhardt

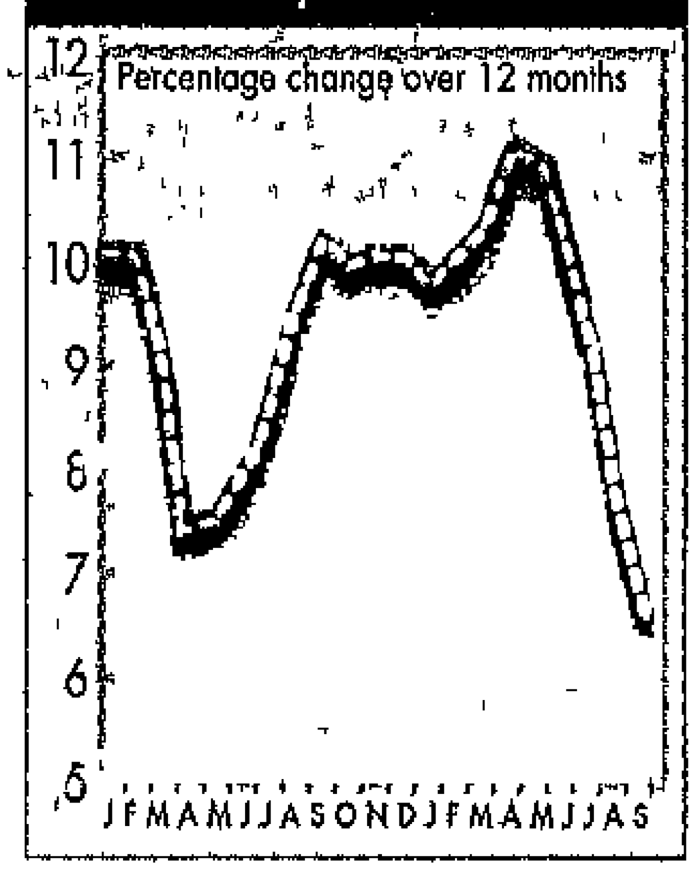
Johannesburg — South Africa's inflation rate plummeted to its lowest year-on-year level in 23 years in September to 6,4 percent from August's 7,5 percent as food prices continued to slide, the Central Statistical Service said yesterday

The latest figure trounced even the most bullish forecasts and sent a strong signal to the market that the interest rate cycle had almost certainly peaked

However, a downward move in interest rates was unlikely given high rates of credit demand and the widening current account deficit of the balance of payments, economists said yesterday

This means that consumers will continue to have to bear real interest rates — prime less inflation — of about 12 percent, among the highest in the world

Consumer price index



The bond market reacted strongly to the sea-change on the inflation front with a clean cut through the 14,88 percent resistance level in active trade

This was boosted by the release of trade figures which showed that the September trade surplus had notched up close to R2,5 billion with a swing from a R516,5 million deficit in August to a surplus of R1,9 million in September

The sharp drop in imports to R7,44 billion in September from R9,76 billion was partly attributed to importers holding back ahead of the import surcharge cut which came into effect on October 1

At midday, the government's benchmark R150 bond and the Eskom 168 traded 18 basis points firmer at a 14,805 percent yield from 14,985 percent

At the close, however, gains were shed amid profit-taking with the R150 closing at 14,88 percent and the E168 at 14,865 percent

For the consumer, the good news is that the average wage increase of 10 percent for this year now comfortably exceeds the inflation rate Lower inflation also creates more room for sustained growth

Yesterday, economists attributed the low monthly increase in the consumer price index of 0,1 percent to widespread declines in food prices which pushed the food inflation rate into negative territory for the first time in many years

The price index for food showed an annual rate of decrease of 1,1 percent for September against an increase of 2 percent in August — mainly due to the fact that prices of meat, vegetables and fruit were on a notably lower level than a year ago

Chantal Friedman of Standard Bank said that the sharp drop in consumer inflation was partly statistical and that the core inflation rate, minus food and housing, remained low but above the headline rate at 7,0 percent against August's 7,6 percent

The release by the Reserve Bank of the latest money supply figures, which showed year-on-year M3 money supply growth at 16,11 percent in September from revised growth of 15,09 percent for August, came as a bit of a disappointment to the market late in the afternoon

Azar Jammine, the director of Econometrix, said the figure went hand-in-hand with the strong surge in vehicle and retail sales which suggested that credit growth was still moving at "quite a lick" This negated any prospect of a cut in interest rates in the near future

Rate at its lowest since 1972

(153) BD 27/10/95

Victory for Stals in war on inflation

Mungo Soggot

INFLATION plunged to 6,4% last month — the lowest rate since August 1972 — signalling a major victory in Reserve Bank governor Chris Stals's war against inflation.

The Central Statistical Service figures buoyed hopes that the interest rate cycle had peaked, and overshadowed the release of worse-than-expected money supply figures Even pessimistic economists were confident that further hikes in Bank rate would be put off for a long time. Yesterday's figure will give ammunition to optimists betting that the next move in rates is down.

"If inflation sticks at these levels for the next few months, which is very probable, we could see a cut," said one.

A combination of tumbling food prices and muted non-food inflation caused the drop in the year-on-year rate and kept the consumer price index (CPI) increase from August to 0,1%

The capital market latched on to the figure and the rate on government's benchmark R150 dropped to 14,80% after the figures were released, climbing back to finish the day at 14,84% from Wednesday's 14,91% "Inflationary pressures are extremely subdued at the moment," a spokesman from Standard Bank's economics division said.

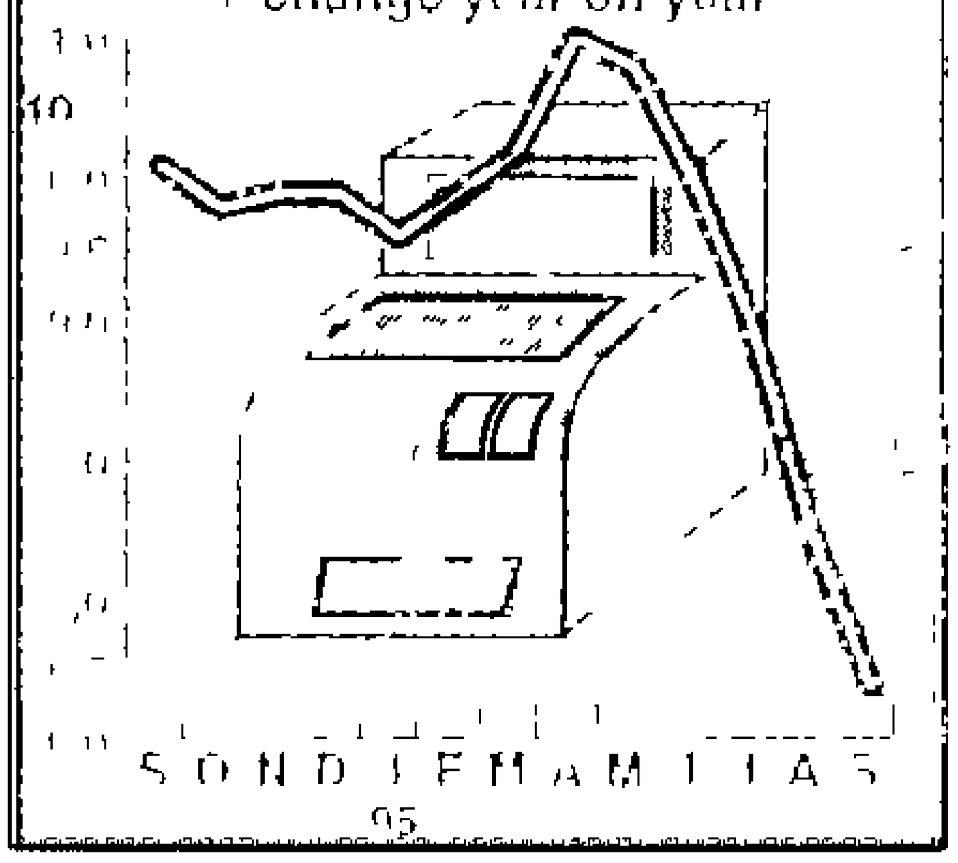
Year-on-year food inflation was 1,1%, and the food component of the CPI was down 0,4% month on month after fruit and nuts shed 2,6%, 1,6% was sliced off vegetable prices and meat prices were chopped 0,7%.

However, Standard Bank said it believed that the respite from food inflation was nearing its end and that the food price cycle was at, or close to, a trough This meant inflation could start creeping up again. Food prices had had a strong impact on inflation over the past two years, resulting in a rollercoaster down to 7,1% in 1994 and then up again to 11% this year.

Continued on Page 2

Consumer price index

% change year on year



Inflation

(153) BD 27/10/95

Continued from Page 1

Economists said the record low year-on-year inflation rate was in part due to technical reasons The figure had come off a relatively high base from last September when there had been a 1,2% month-on-month rise in the CPI Similar statistical factors would probably lift the rate in the coming months

The good inflation news was tempered by the release last night of September's money supply figures, which pegged money supply growth at 16,11% — up from the previous month's 14,84%. This indictator is a warning signal for future inflation.

Economists said although the figure was worse than expected, September's growth had been exaggerated by coming off a low base from last year.

This was offset by a slight slowdown in the rate of increase in credit extended to the private sector, which dropped to 18,6% in August from July's 18,8%

However, this crucial element of the money supply increased 1,7% between July and August. Standard Bank said until it slowed substantially, there was no chance of a Bank rate cut.

The figures also showed that if money supply growth continued at the same rate for the rest of the year, it would end up at 15,73%. In August the comparable figure was 15,74%.

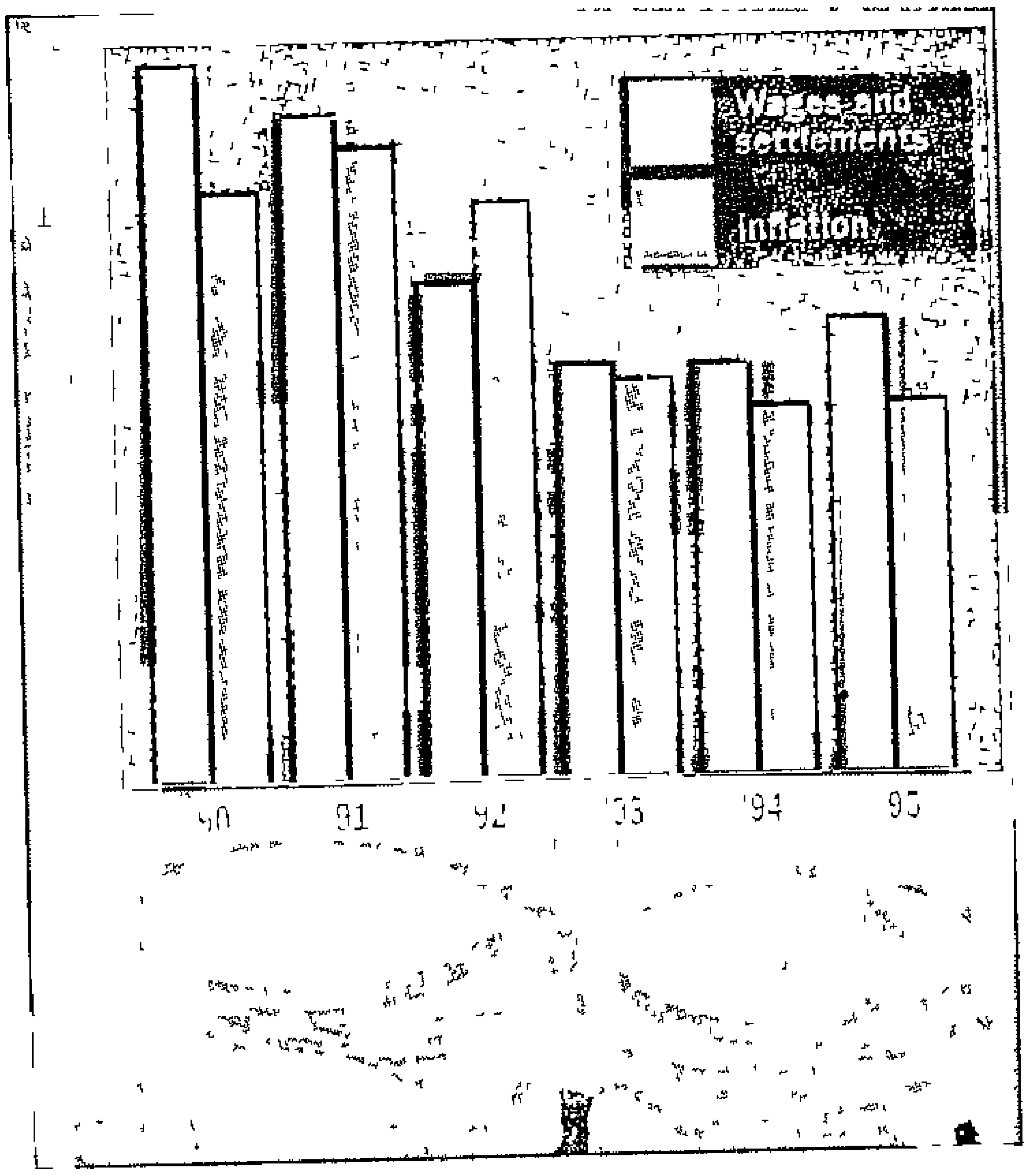
Money supply growth remains far out of the 6% to 10% target band set by the Bank earlier this year.

PETROL PRICE DROPS

Relief for consumers

(245) (153) CT 27/10/95

CONSUMERS are unlikely to face another increase in interest rates during the current financial year **MAGGIE ROWLEY** reports



THERE is both good and bad news for consumers in economic data released yesterday showing, among other things, that inflation is now running at a 23-year low of 6,4% and the petrol price is to drop 3c a litre from November

According to figures released by Central Statistical Services, inflation in the Western Cape last month was running at below the national average at 6,2% against a year ago

The lower-than-expected inflation rate, as measured by the Consumer Price Index (CPI), means it is highly unlikely consumers will face another increase in interest rates during the current economic upturn

Southern Life economist Ms Sandra Gordon said the September CPI, following August's 7,5%, put the country on track for an average inflation rate of about 9% for 1995 This compares favourably with the average annual wage increase this year of around 11% and should result in consumers having more money to spend now than they have had for the past five years.

But the bad news is that household debt has risen to a record 60% of disposable income and the cost of servicing that debt is unlikely to lessen before the latter half of 1996 or early 1997, economists have warned

The strict monetary policy enforced by the Reserve Bank in recent years to keep inflation from spiralling out of control has ensured that interest rates have remained higher than inflation to encourage savings on the one hand and to deter the demand for credit on the other

However, with inflation dropping and interest rates looking stubbornly rigid, consumers are having to pay more now in real terms to service borrowings than they have for more than a decade For example, with the home loan rate currently at 18,25%, home owners are paying almost 12% more than inflation to cover their borrowings

And expectations are that even if inflation were to fall further, interest rates are unlikely to drop within the next 12 months. There are two main reasons preventing the Reserve Bank from lowering them — credit extension has been growing at a worrying pace and secondly, the fragile state of the current account of the balance of payments

While further good economic data were forthcoming yesterday showing that a trade surplus of R1,9 billion was recorded in September against a deficit of R520 million in August, economists expressed concern that this could be short-lived.

Mr Johan Els of Old Mutual said there were indications that many importers had been holding back on imports ahead of the reduction in tariffs that came into effect in October

A huge surge in imports could be expected for October, which would push the trade balance firmly back into the red

The Central Equalisation Fund announced yesterday that the price of petrol would decrease by three cents a litre from midnight on Wednesday next week

Diesel fuel, however, is to be increased by one cent a litre and paraffin by three cents a litre

● See Page 17

Inflation has a long way to go before it's licked, economists say

By DES PARKER

Do not be lulled into thinking that inflation has been licked and you can afford to steep yourself in debt because the banks will soon be charging borrowers less interest

That about sums up the reaction of economists and politicians to the 23-year low, 6,4% annual inflation rate for September, announced this week

Old Mutual thinks the Reserve Bank could still add another percentage point to the bank rate, particularly after the disappointing growth in money supply last month – resulting mainly from big jumps in sales of products traditionally bought on instalment, such as cars and electronic equipment

Most analysts still believe that the next change to the bank rate – and, in turn, mortgage and overdraft repayments – will be a cut However, the odds are on this happening only much later next year Sanlam economist Johan Louw says Reserve Bank Governor Chris Stals will want rates kept high to avoid too much money chasing about

Observers believe the cost of living will continue to rise relatively slowly However, if food prices pick up, and in the light of the possibility of an increase in the VAT tax rate in the next Budget, the consumer price index could rise in the new year

That could be alleviated by the rand's firming, particularly against the dollar It would help keep the lid on the price of imports, which, as South Africans develop a taste for goods from the world market, is an increasingly important guide to inflation

Next Wednesday's 3c-a-litre petrol price cut is attributable in part to rand strength If world petrol prices continue to fall, motorists could benefit over the festive season from substantially cheaper fuel

Star 28/10/95

(153)

'Battle against inflation not yet over despite progress'

Star 30/10/95 (153)

BY ROY COKAYNE

The battle against inflation has clearly not yet been won, despite the good progress that has been made towards greater price stability over the past few years, said At Engelbrecht, the economic adviser to the Northern Transvaal Chamber of Industries (NTCI)

Engelbrecht admitted the lower trend of the inflation rate had probably changed the inflation mindset of South Africans, after double-digit inflation for almost two decades up to 1992

However, he said in the latest NTCI Economic Outlook that the current lower level of inflation must at least be firmly established as a new point of reference with regard to inflationary expectations. This was essential to temper wage and price adjustments.

Engelbrecht said South Africa must not fall into the trap of becoming complacent about the current level of inflation

The average inflation rate for this year would probably still be double figures compared with the projected rate of 3 percent on average for South Africa's most important international trading partners

The current lower inflation rate afforded South Africa "the best opportunity in decades" to finally contain inflation properly and bring it more in line with inflationary trends in the economies of the country's foreign trading partners

"It will still be a hard nut to crack, specifically in view of the underlying inflationary pressures emanating from, among others, unrealistic demands and expectations, a rigid labour market, excessive wage increases, low productivity, the high level of government expenditure, high tax burdens and the large budget deficit," said Engelbrecht

'Inflation battle not over, despite progress'

CT (BR) 30/10/95 (153)

By Roy Cokayne

Pretoria — The battle against inflation has clearly not yet been won, despite the good progress that has been made towards greater price stability over the past few years, said At Engelbrecht, the economic adviser to the Northern Transvaal Chamber of Industries (NTCI)

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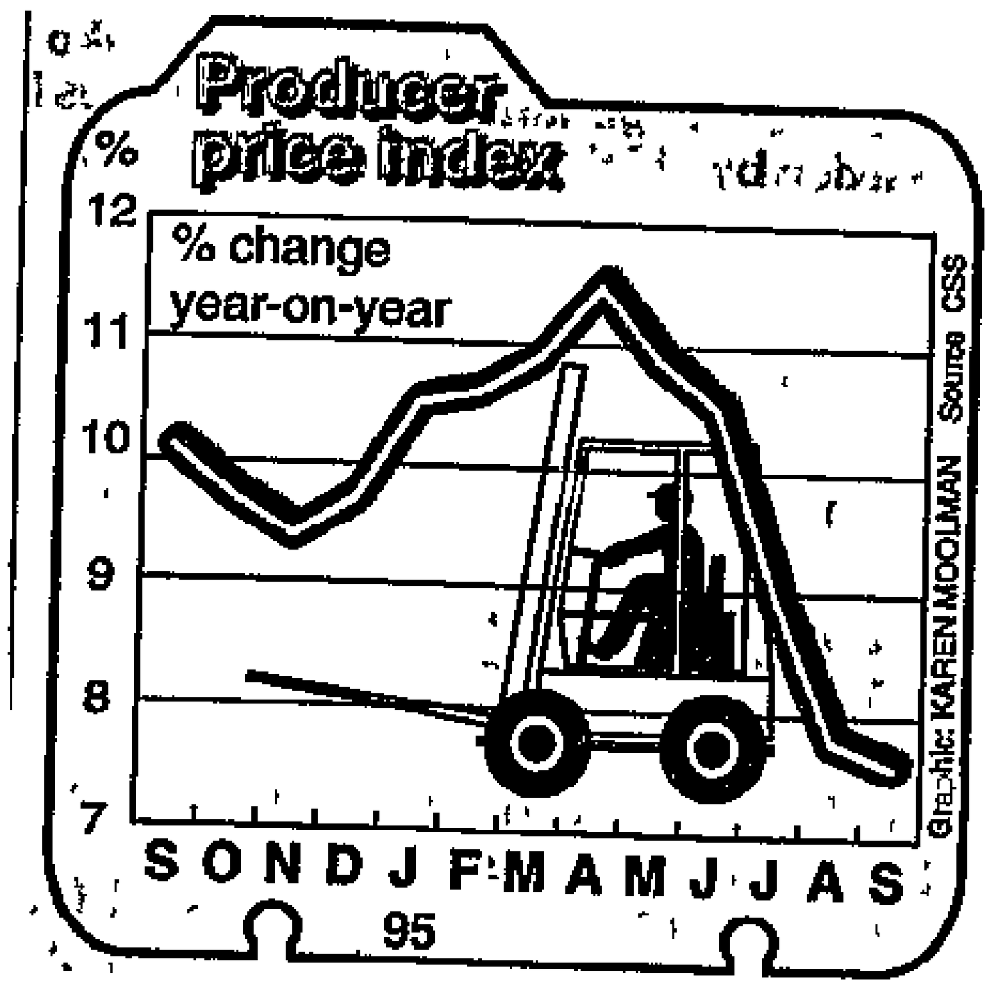
The current lower inflation rate afforded South Africa "the best opportunity in decades" to finally contain inflation properly and bring it more in line with inflationary trends in the economies of the country's foreign trading partners

"It will still be a hard nut to crack, specifically in view of the underlying inflationary pressures emanating from, among others, unrealistic demands and expectations, a rigid labour market, excessive wage increases, low productivity, the high level of government expenditure, high tax burdens and the large budget deficit," said Engelbrecht



Producer inflation drops marginally

Mungo Soggot (153)

BD 15/11/95

PRODUCER inflation fell to 7,6% in September from August's 7,8% as muted increases in most local producer prices and a drop in imported prices reinforced perceptions that single-digit inflation is here to stay.

Figures released yesterday by the Central Statistical Service (CSS) showed that the month-on-month increase in the producer price index (PPI) was only 0,1%.

Apart from worrying signs on food prices, economists were encouraged by movements in other prices making up the index. Many prices were static and few showed increases of more than 1% However, there was a month-on-month increase of 0,9% in food prices.

Ed Hern Rudolph chief economist Nick Barnardt said inflationary pressures would be light in the months to come He expected producer inflation to hover between 7,5% and 8% for the rest of the year and then drop towards 6% next year with some help from technical factors — the figure would come off a relatively high base from the beginning of this year.

Although yesterday's figure was slightly lower than most economists had expected, it did not draw any re-

Continued on Page 2

PPI (153)

BD 15/11/95

Continued from Page 1

action from the capital market, which had been banking on bullish inflation data for about two months

Econometrix economist Tony Twine said a stable rand and a drop in oil prices in September explained the 0,1% fall in the imported basket of prices, and a further softening in oil prices should feed through in the October figure

The month-on-month food price increase could mean food inflation was starting to bite back, he said.

A dramatic plunge in food inflation into negative territory has been the main cause of the overall drop in producer inflation. In August the food index was down 1% month on month.

The CSS figures showed that meat prices were up 1,1% month on month, while fruit prices were up 7,6%. Milk and eggs, however, were down 2,3% Year-on-year food inflation remained negative at -1,3%.

A more sanguine Barnardt said apart from possible rises in meat inflation, there was little to worry about on the inflation front in months to come Another economist said she expected producer inflation to average 7% next year.

Standard Bank said it was encouraging that producer inflation had fallen despite the month-on-month increase in food prices. It noted that textiles had shown a relatively large month-on-month increase of 1,8%.

Cosatu (1404)

BD 14/11/95

Continued from Page 1

in the case of defined benefit funds, in which they had in effect promised a definite payout If the funds were badly managed it was possible companies would still be required to make payouts even though they had no control over their funds' investment decisions

If this was the case companies would be less inclined to establish funds which would affect the economy Existing funds might also be closed, he said Coleman responded saying it was patronising to suggest employees would necessarily manage funds more poorly than employers In fact, many funds were affected by exorbitant administration charges

Employees wanted good returns, but they also wanted to be sure their contributions were being invested in companies with responsible employment policies

Finance committee chairman Gill Marcus said employer representatives would be consulted again

A decision would be made by the committee this week

Commission (1432)

Continued from Page 1

BD 14/11/95

The interviewing panel — NP senator Ray Radue, Freedom Front senator Rosier de Ville, Jody Kollapen of Lawyers for Human Rights, National Economic, Development and Labour Council executive director Jayendra Naidoo, ANC MP Baleka Kgotsitsile, IFP MP Harriet Ngubane and Methodist bishop Peter Story — will interview the 46 nominees in Cape Town, Durban and Johannesburg this week. They will then recommend 25 names to Mandela. Between 11 and 17 commissioners will be chosen

Asked about his political profile — those of "high political profile" are to be excluded from the commission — Tutu replied: "I was bang in the middle of politics " However, he had never been a card-carrying member of any party

Black Sash national president Mary Burton, nominated by the National Association of Democratic Lawyers, said she, too, had been politically involved "But the Black Sash has always treasured its independence from political parties." She said the organisation had been critical of the excesses of the opponents of apartheid as well as abuses committed by the state.

Father Michael Lapsley, whose hands were blown off by state agents, said that as a victim who had healed, he had a particular perspective to offer the commission

Mossgas (1433)

BD 14/11/95

Continued from Page 1

tants in Johannesburg, make up the Mossgas monitoring panel.

The minerals and energy affairs department said the money had been paid by the fund with the authorisation of the department. He said R3,5m had gone to KPMG and the rest to the international consultants

The panel last week rejected the fund's proposal, to spend a further R843m tapping new fields to extend the plant's life, as "flawed and incomplete" The plans were then thrown out by the parliamentary joint standing committee on public accounts, which called for a further in-depth study on what to do with the plant

The Chemical Workers' Industrial Union urged government to make up its mind about the plant.

Government's options include converting the plant, putting it up for sale or extending its life

One industry commentator said it would have been better to have the panel work alongside the fund instead of being a "very expensive watchdog".

Comment: Page 16

FALLING INFLATION

An economic windfall

(153) FM 3/11/95

Even before publication of favourable inflation data for August and September, economists were convinced the future inflation rate would be substantially below rates seen in the Seventies and Eighties

A recent survey of 30 economists, by Sanlam senior economist Pieter Calitz, showed all expected the highest rate over the next 10 years would be only fractionally over 10% in some years and below that level in others This is well below the 15% previously seen as the norm

He believes, in the light of the two latest consumer price figures from Central Statistical Service (see page 40), they will revise their consensus forecast for 1995, from 9,4% to below 9%

Most economists believe structural changes have reduced inflationary pressure Internationally, inflationary impulses are under the firm control of restrictive monetary policy Domestically, the real prime rate (nominal prime minus inflation) has risen to about 12% And tariff cuts and a more stable rand are moderating import price rises

More important, international experience is demonstrating that it is possible to have strong economic growth and low inflation Sanlam senior economist Eric Coetzee says US figures published on Friday show annualised GDP growth of 4,2% in the third quarter — "despite inflation in that quarter of 2,4% as measured by a broad measure of inflation Over the year, growth is running at 3%, while inflation is only 2%"

In many major countries monetary policy has compensated for big budget deficits but this balancing trick may be harder to achieve locally where inflationary expectations are deeply entrenched So economists' expectations imply there is confidence the government deficit can be reduced

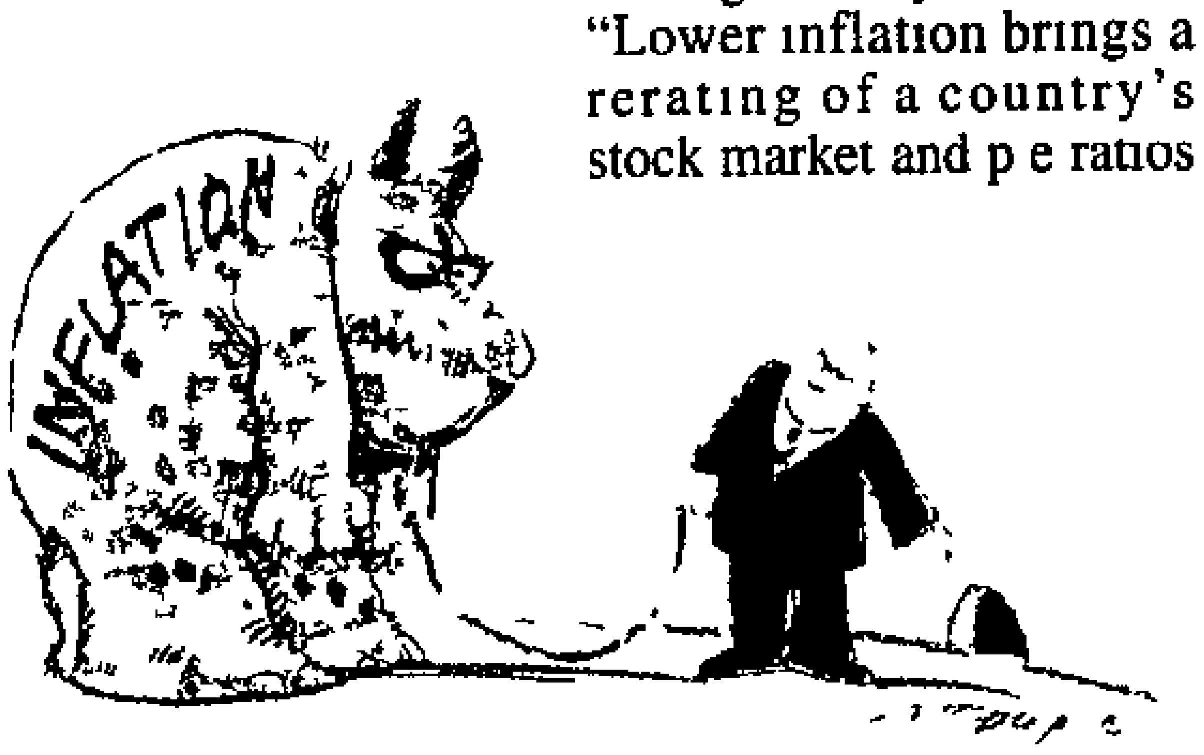
"One reason for this," explains Coetzee, "is that there will be a period when lower expectations about inflation reduce government wage costs, but revenue is still boosted by fiscal drag in years past" And reduced inflation means the cost of debt servicing will fall So there is a veritable window of opportunity for government to reduce the deficit to more acceptable levels

Though South Africans will be relieved to hear that prices should rise more slowly, many will find it difficult to adjust to the new environment. After nearly two decades of double-digit inflation, most people became comfortable with the idea

Wage and salary increases were negotiated around the expectation of 15% inflation, purchasers of life assurance products looked forward to what seemed at the time the policy was purchased, astronomical returns at maturity, investors in equity knew the value of their holding would outstrip inflation over time, and home-owners expected even modest properties to make them wealthy within a few years

Because inflation eroded the value of the currency, investors bought into rand hedges such as containers or companies with offshore earnings

People will have to rethink investment strategies Says Coetzee "Lower inflation brings a rerating of a country's stock market and p e ratios rise over time But the immediate effect is that nominal revenue rises more slowly than previously And high real interest rates improve the comparative value of fixed-interest investments."



The same process may take place in the property market, he says. "But eventually both markets will absorb the impact and the value of these investments will rise again."

Past benefits, of course, were largely illusory Inflation eroded income and capital gains were overstated But, with interest rates often negative, borrowers benefited and the "feel-good factor" grew The victims were those on a fixed income and savers who received negative real after-tax returns

Another casualty was savings The ratio of gross domestic savings to GDP fell from 22,5% in 1984 to a low of 17% in 1992, before recovering slightly This has left SA highly dependent on imported funding to finance fixed investment needed for strong and sustained economic growth

High positive interest rates, which played such an important part in the reduction of inflation from a 16,8% peak in October 1991, have helped restore the ratio, which rose to 18% in the second quarter of 1995 (seasonally adjusted at annual rates) And the inflation differential between SA and its trading partners narrowed, bolstering the rand, which in turn tempered the rate of price increases

Now structural distortions have eased their stranglehold on growth This is an unexpected windfall for the economy and will have more lasting benefits than the gold booms of the past — provided government keeps spending under control ■

TAX COLLECTION

New dawn

FM 3/11/95

The grand plan to reform revenue collection has been announced and, if it works well enough, could bring relief for burdened middle-income taxpayers

Secondary tax on companies could also be cut, says Finance Minister Chris Liebenberg.

The plan is to introduce legislation early next year enabling Inland Revenue to merge with Customs & Excise to form SA Revenue Services. But only when work on the new administrative structure is advanced will it be possible to determine whether it meets expectations.

Liebenberg will appoint a board of directors and a CEO to manage the service. The board will appoint subsequent CEOs

The new body will still be managed within the discipline and guidelines of government including the Public Service Commission, which will still set salary and service guidelines.

But Deputy Finance Minister Alec Erwin says new guidelines for the public service should be flexible enough to attract competent staff

Liebenberg says analysis of the administrative problems in the two departments showed many problems could not be blamed on the commission So removal from its control was not the answer

The board will control key resources needed to run the service This implies office space and funds to pay staff and establish modern electronic systems

It is tempting to believe the continued role of the commission was a necessary face-saving device And Customs and Revenue commissioners will still administer tax laws under the changeover This suggests they will have to surrender administrative responsibilities to the new director — still to be appointed.

The commissioners might be relieved to relinquish some responsibilities and restrict themselves to the many vital legal issues

Stable import prices help counter effects of inflation

ET (BR) 15/11/95 (153)

By Derek Tommey

Johannesburg — The year-on-year increase in the production price index for all commodities dropped to 7,6 percent in September from 7,8 percent in the 12 months to the end of August

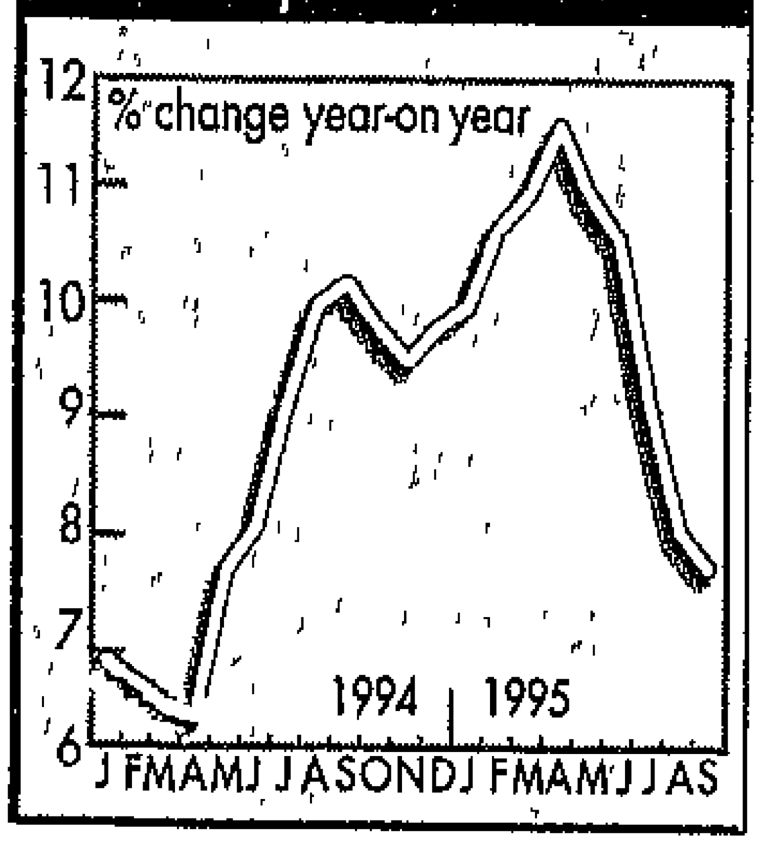
Centres of inflation in September included the textile, clothing and footwear sectors, where the production price index rose by 1,6 percent.

Inflation was pronounced in the food sector where the index rose by 1,1 percent in September after declining by 0,2 percent in August The price index for tobacco and beverages gained 0,8 percent.

The latest production price indices, released yesterday, show that a fair degree of inflation remains in the South African economy but stable import prices are helping to counter its effect on the local price structure

The Central Statistical Service reported that the index for locally produced commodities spurted by 0,6 percent in September to 100,6

This reversed the recent downward trend in the production price inflation rate and led to the year-on-year increase in the index for locally produced commodities rising to 8,3 percent against 8,1 percent in the 12 months to the end of August



More cheerful news is that the index for imported commodities was barely changed in September, which resulted in the year-on-year increase in the price of imported goods falling to 4,9 percent

This is a sharp decrease on the 5,8 percent for the 12 months to the end of August, reflecting the steadier rand exchange rate and the degree to which foreign suppliers are controlling their prices

The combined effect of the movements in these two indices was a modest 0,3 percent increase in the production price index for all commodities for South African consumption, seasonally adjusted in September.

'96 inflation average 8%?

ARG 28/11/95 (153)

Business Staff

INFLATION could average below eight percent next year, Standard Bank says in its latest economic review.

The next round of wage settlements would be critical for future inflation, as would the continued relative stability of the rand — a significant weakening of the currency would result in a marked increase in imported inflation

Food prices would remain a wild card in the consumer price index because of the index's high food weighting.

The positive outlook for inflation ought to reinforce the case for an easing in short term interest rates, the bank said If inflation stayed at its present levels, a major adjustment of the high interest rates would have to follow in due course.'

For the time being, concerns over strong credit extension, high money supply growth, and the need for high interest rates to facilitate the abolition of exchange controls would necissitate the retention of rates at near current levels, the bank said.

Credit growth was expected to fall in 1996 largely for technical reasons Continued strong investment growth next year would underpin credit growth as business took up the slack left by fully-stretched consumers

Monthly growth rates in both money supply and credit demand were, however, expected to begin tailing off toward the end of next year, in line with decelerating economic growth.

Although high real interest rates were likely to be a feature of the "new" South African economy from some time yet and the balance of payments remained vulnerable to the whim of foreign investors, the outlook for the economy was considerably better than it had been for over a decade

The short recovery of the late 1980s, while characterised like the present one by a fairly high level of fixed investment, had been principally driven by rapid growth of personal consumption expenditure

That turned out to be a "boom-bust" recovery, unlike the present phase

However, rates of even four percent growth in the Gross Domestic Product were entirely inadequate in terms of making even a small dent in the general well-being of the economy and its populace

Significant socio-economic restructuring was necessary to attain much higher levels of growth and the bank proposed a set of economic policies to help achieve this including

■ Pragmatism rather than politically advantageous populist policies

■ Boldly tackling the privatisation of state assets and the abolition of remaining exchange controls

■ Replacing the entitlement culture with one of increased social discipline

■ Firm steps to replace the bureaucracy with an efficient but small civil service

■ Immediate action to ensure that law and order become a dominant feature of society

■ Replacing counter-productive labour militancy with a spirit of co-operation between labour and management and seeking pragmatic approaches to employment creation

Low inflation's winners and losers

CT (BR) 30/11/95. (153)

By Ross Herbert

Johannesburg — Whether inflation will remain in single figures is anyone's guess But it will bring winners and losers

High wages, a currency slide and unrestrained consumer credit all could help fire-up inflation again But booming industrial output and increasing price competition from low-cost imports offer restraint

The surprise so far this year has been the extent to which domestic manufacturing output has boomed, counteracting the inflationary effects of high consumer credit

Here is a list of winners and losers, according to conventional wisdom

Winners:

☐ Pensioners Retirement benefits, particularly among lower-paid groups like miners, have consistently lost real value over the past decade By one estimate miner's disability pensions have lost half their value Low inflation will slow down the decline in purchasing power among the old and disabled

☐ Property and equipment lessors Many property and equipment leases have built-in double-figure inflation hikes each year To the extent that such clauses are not tied to official inflation rates, property leasing companies stand to reap a small windfall.

☐ Taxi drivers Minibus taxi drivers have not had a price hike in years but pay higher costs. Lower inflation will lessen the squeeze, but still will not make passengers more amenable to paying higher, potentially violence-inducing prices

☐ Gilt holders Lower inflation will drive up gilt prices as long-term rates come down.

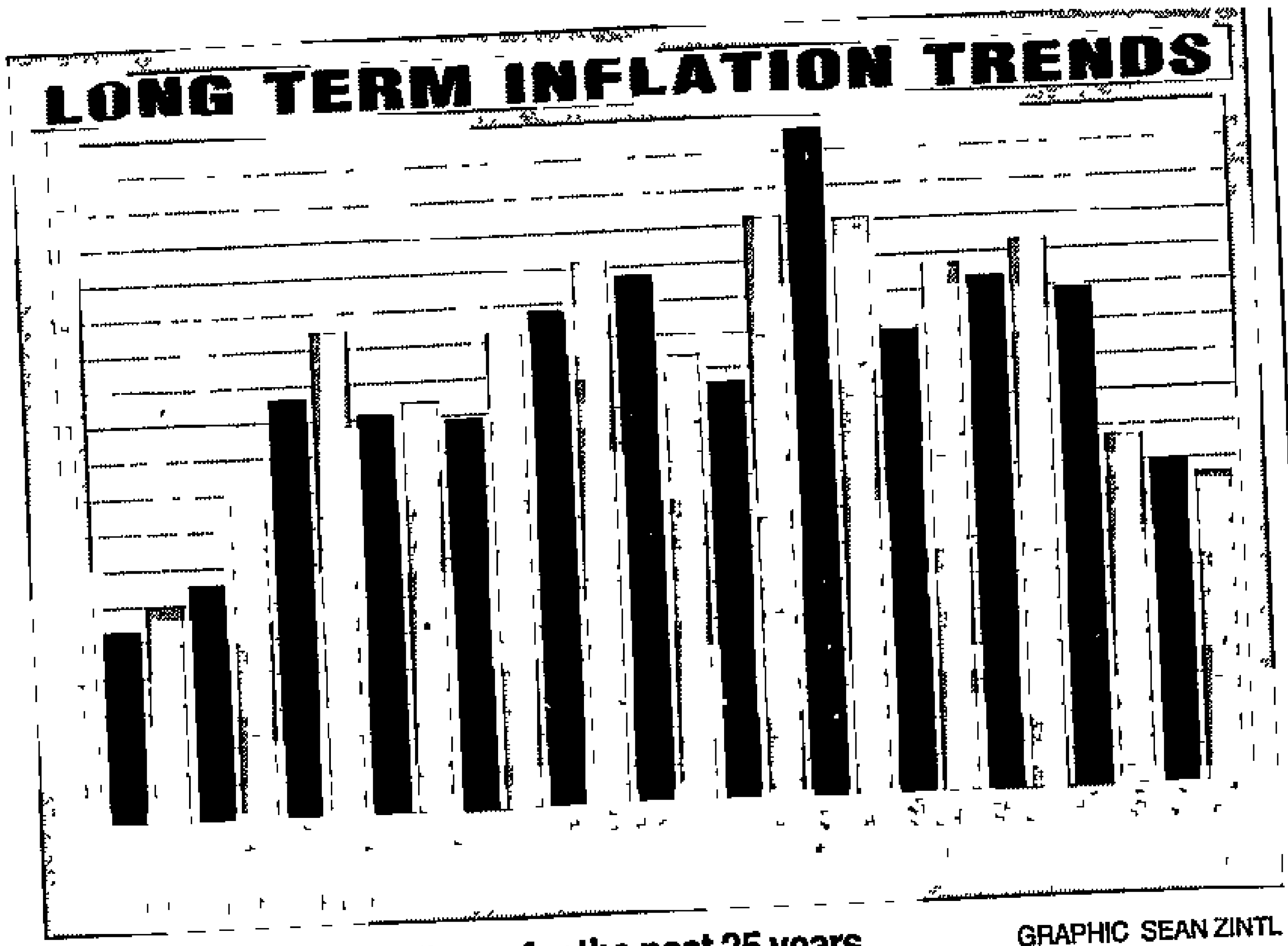
☐ Local government: The rate at which the already uneconomical flat charges for services grow more uneconomical will decrease, giving Masakhane more time to catch on and officials more time to convince rate payers about economic realities

Losers:

☐ National government: Lower inflation means less tax-bracket creep and more money staying in the pockets of those just under high-rate brackets But about 90 percent of government spending goes to staff and pension payouts tied to inflation Low inflation will help justify lower wage hikes to government workers, leaving more for the RDP

☐ Less competitive companies "Someone who performs inefficiently can mask that with high inflation," says First National Bank chief financial officer Viv Bartlett Lower inflation will make the difference between strong and weak companies clearer.

☐ Home owners The consensus seems to be if inflation drops, interest rates will remain high to attract capital If inflation drops, mortgage payments will not fall substantially even though pay rises will stay pegged to inflation



Fluctuating inflation: Figure for the past 25 years

GRAPHIC SEAN ZINTL

Scales of SA inflation

M+G (Bm) 1-7/12/95 (153)

Simon Segal

WITH South Africa's inflation rate, down to 6,3 percent in October, at levels last seen in the early 1970s, much is being said about the economy entering a lower inflationary environment.

Most economists (there are a few exceptions) see South Africa's inflation rate remaining in single digits both next year and in 1997, averaging seven to nine percent in 1996 and a slightly higher eight to 9,5 percent in 1997. This year's average should be around 8,6 percent compared to nine percent last year

The falling rates on long-term bonds indicate that the bond market also believes lower inflation is here to stay.

The Reserve Bank's primary motivation in maintaining relatively high real (inflation-adjusted) interest rates is more to do with concerns about the country's foreign reserves than with inflationary pressures — although the Bank's governor Chris Stals has built his reputation on being tough on inflation and is not about to relinquish his record of bringing it down

His concern is that talk about a low inflation era is tempered by pressures on real wage increases, government spending, dwindling manufacturing capacity and M3 money supply growth which, despite falling to 14,8 percent in October, is well outside the Bank's six to 10 percent target range for the year

If this growth rate in M3 continues, M3 would end the year almost five percentage points above the upper limit of the target.

While less emphasis is being placed by the monetary authorities on money supply, Stals has said growth in credit extension to the private sector — 18 percent in September — should be under 12 percent before a cut in the Bank rate can be considered

Finally, it can be argued that South Africa's inflation, while low relative to the last two decades, is still high when compared to its major trading partners. Inflation is 1,8 percent in Germany, 3,2 percent in Britain, 2,8 percent in the United States and 0,2 percent in Japan.

For all these reasons Stals, ever cautious, is in no hurry to believe that lower inflation is sustainable and hence to reduce the Bank rate

South Africa will have to live longer with high real interest rates The real prime rate is now 12,2 percent compared to 4,45 percent in Germany, 4,55 percent in Britain, 5,95 percent in the US and 1,43 percent in Japan

Economists are not even agreed that the next Bank rate move will be down. Some feel it could yet be raised further if inflationary pressures emerge and the capital flows into the country start to slow and put further pressure on the country's reserves

The real victory against inflation will be when inflationary expectations are snuffed out and will thus not be presented at wage negotiations and price setting meetings. Only then can one talk about a new era of low price rises.

At present, there is still scepticism not only about the outlook for inflation but about the accuracy of the figures Many consumers do not believe the figures.

While the basket comprising the index used to calculate the inflation rate might be outdated and thus not accurately reflect spending patterns, there is little evidence that the inflation figures are grossly inaccurate and that the trend it reflects is wrong

However accurate the figures, perceptions are what count in economics — workers and managers are still linked in to a high-inflation mind-set.

This is a major reason why South Africa will not experience the inflation levels of its major trading partners for some time to come

PPI increase signals latent inflation trend

CT (BR) 12/12/95 (153)

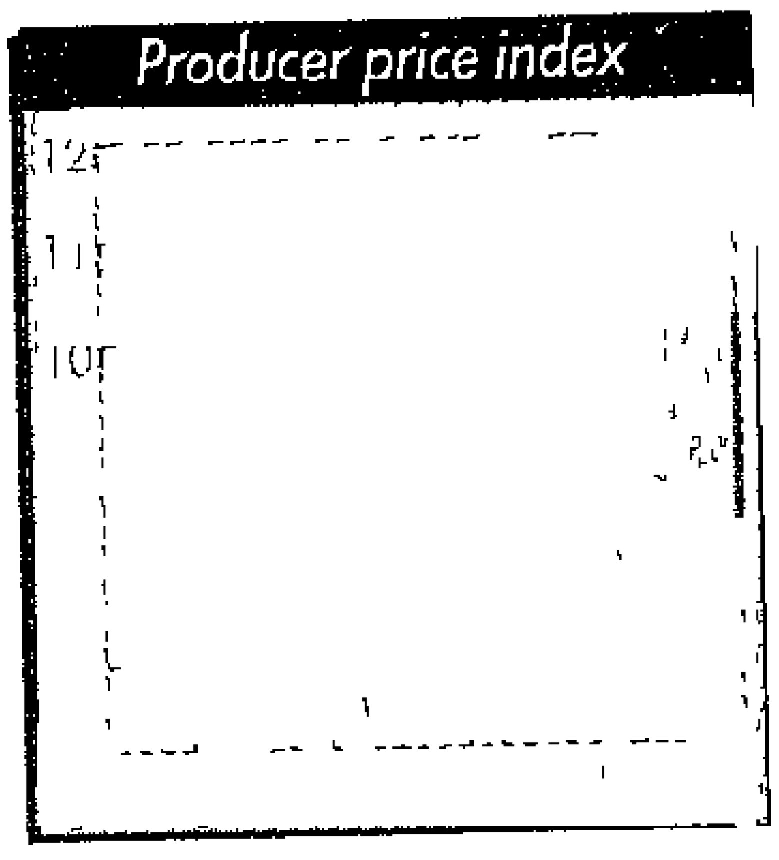
BY DEREK TOMMEY

Johannesburg — South Africa's producer price index (PPI) shot to 8,2 percent in the 12 months ended October, from 7,6 percent in September, according to figures released by the Central Statistical Service yesterday

The higher than expected figure came in the wake of significant increases in the price of grains and fruit, paper and paper products, basic chemicals and plastic products However, intense competition among millers and bakers has led to their absorbing the increased costs and this has limited the increase in food prices at consumer level, says Gareth Ackerman, the managing director of Pick 'n Pay Group Enterprises

The overall index rose 0,7 percent to 101,4 in October, reflecting an 0,9 percent rise in the price of South African-produced goods.

A modest 0,1 percent rise in the price of imported goods helped moderate the overall increase.



The Reserve Bank recently warned that the lower price of foodstuffs and imported goods had been concealing fairly strong inflationary pressures in the economy.

It says in its latest quarterly bulletin that if food and imported goods are excluded from the index, the year-on-year increase in the 12 months ended September would have been 12 percent — though this was an improvement on the corresponding 13,2 percent increase for the 12 months ended June

However, this downward trend was reversed in October by a 3,0 percent rise in the price of grain, which brought the increase for the 12 months ended October to 21,3 percent for what could be a politically sensitive product

Fruit prices jumped 33,2 percent in October to increase to 47,0 percent for the year.

Fruit has a weighting only one-third of grains, so the impact was not so great

However, the price of meat, the most important constituent of the food index, slid another 1,0 percent in October to show a decline of 16,2 percent since October 1994

Reflecting the effects of competition, the price index for manufactured food increased by only 0,7 percent in October to bring the year-on-year increase to a modest 2,6 percent

Referring to the increase in grain prices, Ackerman said the establishment of mini-mills and in-house bakeries had increased competition, which had kept prices down

Inflation 1996 estimated at seven percent

153

Business Staff ARG 13/12/95

INFLATION during 1996 will average seven percent — compared with an estimated rate for 1995 of 8,6 percent, according to Sanlam chief economist Johan Louw

Sanlam has revised its earlier prediction of 8,5 percent inflation for 1996 because of better than expected prospects.

Mr Louw says in Sanlam's latest economic survey that the favourable inflation and growth trends should continue for some months.

Although the prices of most foodstuffs — which has an 18,5 percent weighting in the inflation index — had already reached a low, various factors would prevent increases in the food price index from accelerating sharply again, he said

These included more favourable climate, the continued deregulation of the food industry and other sectors, along with increased competition

Other factors that contributed to the slide in the inflation rate and which were expected to have a decisive effect on the course of inflation in the future included:

- Lower unit costs owing to slower rises in labour costs and increases in productivity, which is helped by the replacement of labour by capital,
- Greater imports at lower costs as a result of subdued overseas inflation and a more stable rand — this also includes the scaling down of import tariffs and the scrapping of import duties;
- A stable oil price,
- Lower inflation expectations, and,
- The positive affect of a disciplined monetary and fiscal policy

These factors, together with slower rises in housing costs in due course, would ensure an average rate of inflation of seven percent in 1996

Mr Louw expected that, in spite of a shortfall on the current account of the balance of payments of R13 billion in 1995 and an estimated R15 billion in 1996, the capital account would continue to experience a net inflow of more than the estimated defecit on the current account.

Such a situation could lead to a significant rise in the country's gross foreign reserves

South Africa's improved rating of BB+ by Standard and Poor's in respect of foreign denominated debt should also have a favourable effect on the flow of foreign capital

Sanlam expected further decreases in international interest rates, and agreed with the feeling among other forecasters that South African short-term rates had probably peaked.

A reduction in the bank rate set by the Reserve Bank and a corresponding reduction in the prime overdraft rate of banks before late 1996 seemed unlikely

Mr Louw blamed this on the relatively strong rate of expansion of the economy and the fact that total spending far exceeded production, and a continued sharp rise in private credit extension accompanied by rapid growth in the money supply

The monetary authorities would also want to keep interest rates at high levels with a view to the further relaxing of exchange control.

The Katz Commission proposals could place upward pressure on the long-term interest rates, he said

Sanlam expected the more favourable economic growth trends of the past few quarters to be continued next year For 1995 and 1996, real growth rate of about three percent was expected

Better-than-expected agricultural conditions and higher gold production could push up the economic growth rate by a further half percent in 1996

The sustained and considerable inflow of foreign capital expected in 1996 should support the external value of the rand, he said

"We in fact forsee the real effective exchange rate of the rand remaining largely unchanged in 1996. In our opinion the average weighted exchange rate of the rand will weaken by about five percent in the next 12 months."

The rand/dollar exchange rate would be about R4 by the end of 1996

SA's inflation dragon is not yet tame

BD 18/12/95 (153)

THE WEEK AHEAD

By Greta Steyn

THE inflation dragon has been slain. At least, that appears to be the case in industrialised countries.

SA is not there yet despite the strides made this year, and is probably still a long way off from truly conquering inflation.

The main reason SA has managed to push inflation into an unexpected retreat is the fall in food prices earlier this year.

However, food prices are on the comeback trail and are expected to bump up inflation in November from October's 23-year low of 6,3%.

The figures are scheduled to be released on Thursday.

November's increase in the consumer price index (CPI) will be calculated off a low base, as last year's month-on-month increase was a tiny 0,25%.

The month-on-month increase this year is likely to be 0,3%-0,6% — yielding an annual inflation rate for November of 6,4%-6,7%.

At those levels, inflation is still in respectable territory and can be expected to remain there before resuming a downward trend next year.

One economist said that price increases ahead of Christmas should add to the upward impetus from food prices, although this should be counteracted by a fall in the petrol price, and the fact that November is a low survey month.

Inflation forecasts for next year are generally optimistic, with an average rate of about 7% expected if there is no increase in the VAT rate.

However, this is still a far cry from the 5% rate Reserve Bank governor Chris Stals would like to see. The Bank, in its Quarterly Bulletin, lists reasons why SA is unlikely to slay the dragon in the near future. These include rising capacity utilisation, strong money supply and credit growth, an inflexible labour market, an uncompetitive production structure and large budget deficits.

It is also possible that the trade figures and money supply will be released this week.

The November trade balance is expected to register a small deficit or surplus, after October's R1,07bn deficit.

The major revision in October of chemical exports distorted the figures, as chemical exports were negative in the month.

If chemical exports return to normal, the trade deficit will not be as big again, although imports are likely to remain high.

Money supply growth, which will be off a high base, might well surprise by not falling again in November. The annual rate of growth in M3 fell to 14,81% in October from 16,06% in September.

Survey reflects mixed views on cost of living

(153)

Trevor Bissekér

BD 19/12/95

MORE blacks than whites believe the cost of living is easing, according to a survey conducted for Business Day by Market Research Africa

This could be the result of cheaper education and health services coming into effect for some groups since last year's general election.

The poll was conducted in October as part of MRA's regular Multibus Survey. It dealt with perceptions of costs of eight categories of goods and services. Respondents were asked to say whether or not they thought that the items were cheaper, the same price or more expensive than at the same time last year

The categories were clothes, food, transport, education, health care, rent and housing, electricity and water

The survey used an area-stratified probability sample of 2 502 urban households, drawn from MRA's computerised dwelling unit database.

The procedure enables projections to be made onto the whole urban population Coverage represents about 92% of the urban adult population and about 53% of all SA adults

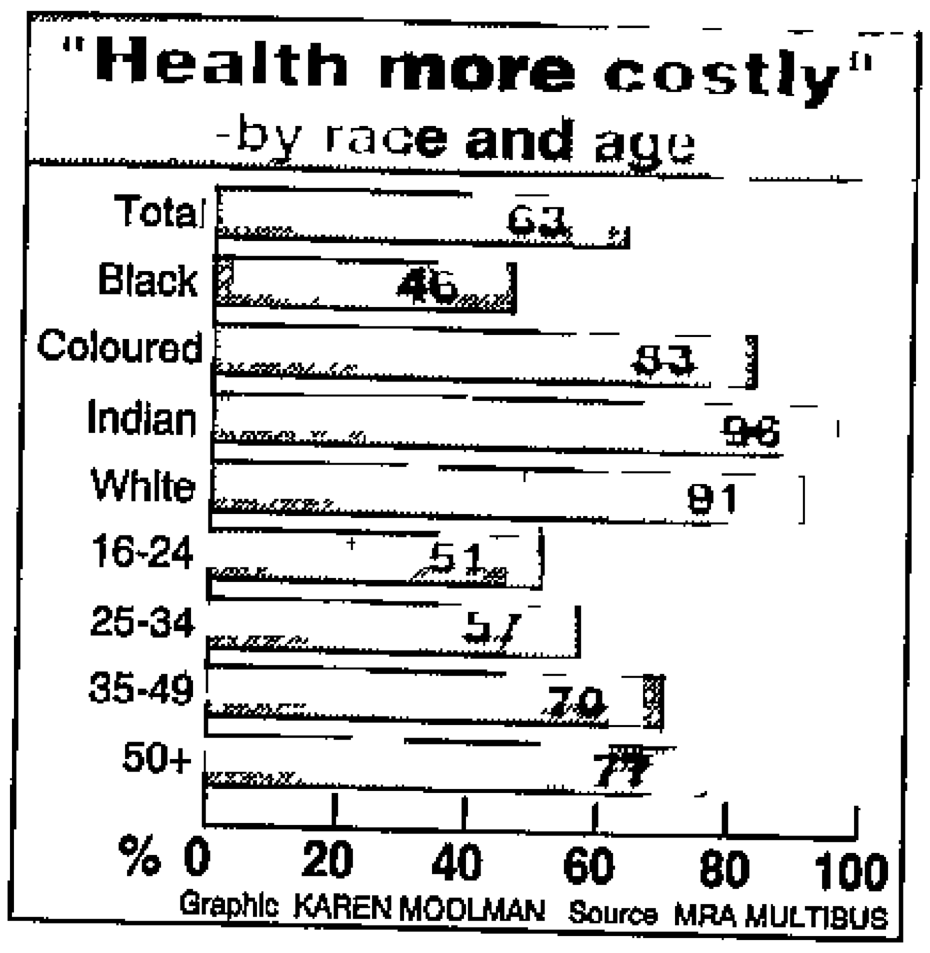
Although most people said prices had risen across the spectrum, the survey found that blacks were more likely than the other race groups to believe that prices were lower than a year ago

This applied to all eight categories, but especially in the last five in the list, where only five or six black respondents out of 10 perceived prices to be higher, compared with eight or nine out of 10 from the other race groups

The results could also reflect the steadily lower rate of price increases shown by the consumer price index in the past year

"It is particularly interesting that half or more of black respondents thought education and health care were cheaper than a year ago," said MRA MD Hanna Fourie "This is possibly reflecting the changes such as free health care in certain circumstances since the 1994 elections

"Differences between the races are substantial. Of black respondents, 46% feel health care is more expensive, as



Graphic KAREN MOOLMAN Source MRA MULTIBUS

compared with an overwhelming 96% for Indians "

In the categories of rent, electricity and water, the relatively low figures for black respondents who felt costs had increased could partially reflect a prevailing culture of non-payment

In clothing, food and transport, there was no significant differences of opinion between the various income groups, but when it came to the five service sector items, the number of respondents who felt that costs had increased was significantly greater among the higher income groups.

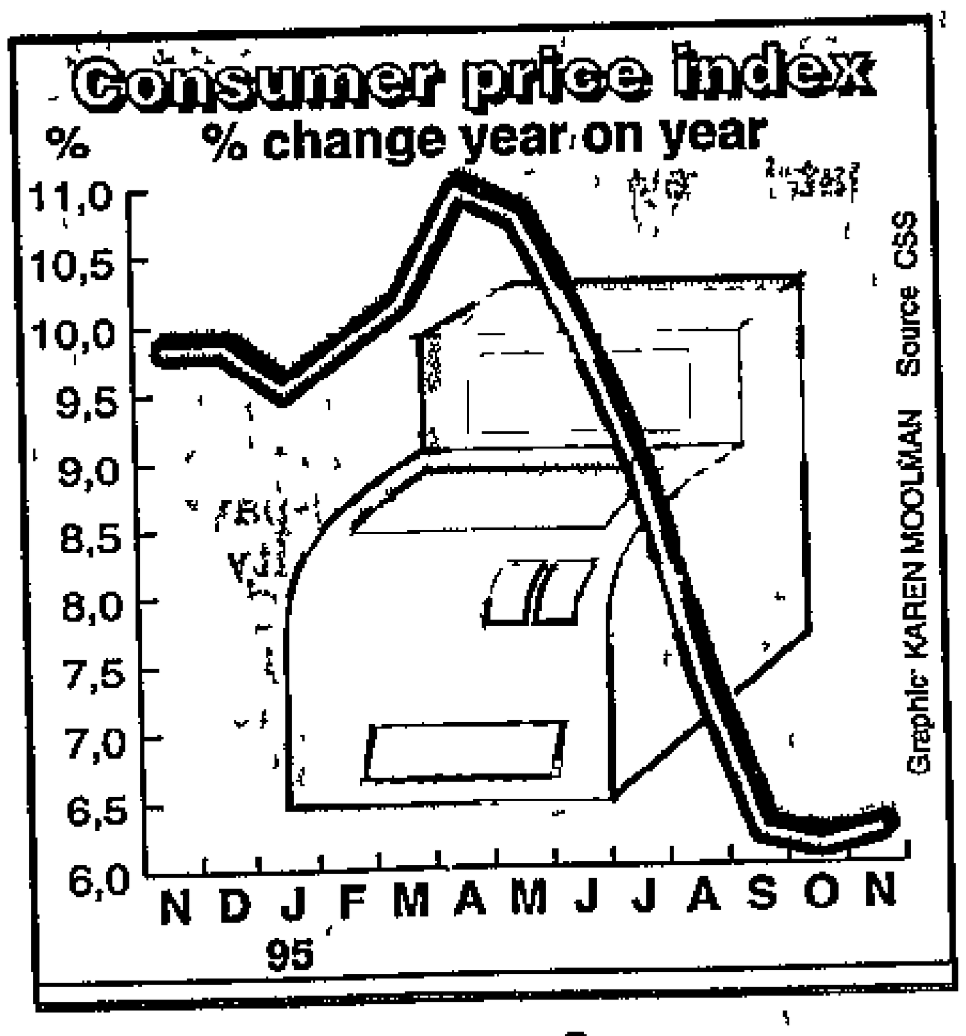
Older respondents were invariably more likely than the younger sector to perceive that prices were higher, and heavy TV exposure was similarly correlated to the "high price" outlook.

There was little difference of opinion between the sexes.

Regionally, the largest difference in perceptions was between the Western Cape and Free State, with respondents in the former far less optimistic than the Free Staters

The survey did not investigate why there should be differences between the perceptions of the race groups.

"While there is likely to be an element of improved living standards among blacks, or more awareness of economic trends among groups with greater exposure to the media, the most likely explanation is simply that there is a general perception among black South Africans of a brighter future," said Fourie



Inflation takes a small step upward

(153)

Greta Steyn

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CONSUMER inflation started to creep upwards again in November with a 0,1 percentage point rise to 6,4%, after falling without interruption for six months

Central Statistical Service (CSS) figures released yesterday showed that, as expected, food prices were the main culprit behind the rise But economists were pleased at the muted rise in food prices, which they hoped would prove to be the shape of things to come They added that inflation excluding food was particularly encouraging, given expectations of price hikes ahead of Christmas

CSS said the consumer price index (CPI) rose 0,3% between October and November this year, with food accounting for 0,2 of a percentage point and housing for 0,1

The CPI is calculated using a basket of consumer goods. The basket cost R173,20 in November, from R100,00 in 1990 Food makes up almost a fifth of the basket. Between October and November, the food component of the basket rose 0,8%, bringing the annual rate of increase for the year to November to 10,9%. There was a decrease of 1,5% for the year to October

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Inflation

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Mathison & Hollidge economist Liz Farquharson said food prices had risen across a wide range of products, but were surprisingly muted for important categories such as vegetables and meat. A fall in fuel prices had counteracted part of the food price hike.

She noted clothing and footwear prices had fallen month on month, which probably reflected foreign competition "The fall in prices so soon before Christmas is very encouraging"

Unexpectedly large falls in food prices due to import liberalisation, agricultural deregulation and the mild winter dragged inflation down from 11% in April to a 23-year low of 6,3% in October It is expected to rise further in December, bringing the average for the year to about 8,6% — the lowest since 1974 Next year inflation is expected to average about 7% if there is no VAT rate increase