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Summary
No 1 - 1986 ECONOMIC REVIEW OF SOUTH AFRICA
January 24, 1986
The short term political outlook remains uncertain but continuing tensions, unrest and repression seem the most probable scenario for 1986. Labour unrest also seems likely to persist but the business mood has continued to improve and reasonable growth is still expected. The current account will stay very strong and inflation will moderate.
The state of emergency has continued and terrorism increased. The black education crisis has continued. The government is working on a new constitution and black property rights have been greatly extended. A new trade union federation, Cosatu, has been launched. Sanctions and boycotts are still being threatened. Relations with the USA have improved but those with neighbouring countries have worsened considerably.
The relaxation of austerity has continued and further steps have been taken to assist the private sector. Decentralisation incentives have been amended. GDP increased marginally in the third quarter, when manufacturing output stopped declining, but the building and transport s_ectorstremained in recession. Stocks stoppea falling but fixed investment fell further. vaa e consumgtion also declined again, partly because black consumer boycotts hit sales. u 10 consumption expenditure rose slightly. Unemployment news has been mixed. There was net emigration by Augst for the first time since 1978. Salaries and wa es ave continued to la behind inflation. Thunflation rate agelergted Lg Novem erz esgite slowing money supEly growth. The s’torEk market has remained strong and interest rates have fallen further.
The government plans to reduce the powers of the agricultural control boards. The new season maize crop could be above average if normal rainfall continues. Sugar prospects are brighter but the wheat crop is down and wool prices have fallen from their peak. Meat prices have shot up. Fruit marketing conditions have been very good.
Gold output was lower in 1985 than 1964. The minting of new gold coins could stimulate consumption. Anglo’s mine amalgamation plans have got the go ahead. Platinum and diamond markets have been strong but most other mineral markets have remained weak. E1ect_rLci_ty and Qetrol Qrices have risen again. Coal output and sales continued rising in the third quarter but the outlook is blighted by boycotts. Boycotts have also threatened the oil market. The Mossel Bay synfuel project has got the go ahead.
The current account has remained very strong but exports face further boycott threats. The rand has recovered some of its losses. Third luarter cagital outflows were very large. Exchange controls have been tightened and the debt repayment standstill has been extended but some new foreign capital has been attracted.

Economic Structure
LATEST AVAILABLE FIGURES
Macroeconomic Indicators 1980 1981 1982 1983 1934
GDP at market prim R bn 61.9 70.6 79.9 89.3 104.8
Real GDP growth 96 7.8 4.9 -1.2 -3.2 4.7
Consumer price inflation 96 13.8 15 2 14.7 12.3 11.7
Population mna 24.3 24.9 25.5 26.1 26.7
Exports fob $ bn 25.70 20.63 17.35 18.23 17.63!
Imports cif $ bn 19.18 22.12 18.56 15.78 16.36
Current account $ bn 3.5 -4.4 -3.1 0.3 -0.7
Rwervw minus gold $ bn 0.7 0.7 0.5 0.8 0.2
Total external debt $ bnb 15.6 21.9 22.6 25.5 22.4 -
Manufacturing production
1975:100 126.7 135.6 131.8 122.3 126.2
Mining production 19752100 110.6 111.2 108.4 108.5 113.0
Exchange rate (av) R per $ 0.778 0.872 1.084 1.114 1.476
January 15, 1986 R2.35 per $
Orig’ns of GDP 1984 Comggnents of GDP 1984
96 of total 96 of total
Manufacturing . 22.8 Private consumption 54.6
Mining 6c quarrying 13.9 Exports of goods 6: services 27.0
Financial services 13.8 Fixed investment 23.5
Public administration0 12.5 Public consumption 17.2 T
Agriculture, forestry 6c Change in stocks 0.2
fishing 5.2 Imports of goods 6c services -24.6
Electricity, gas 6c water 5.0 Residual item 1.9
Construction 3.8 GDP at market prices 100.0
Services 6c others 22.9
GDP at factor cost 100.0
Principal Exports 1984 Princig Imwrts 1984
8 mn 8. mn
Gold 7,920 Machinery 6: equipment 3,210
Other precious metals (Sc stones 1,620 Petroleum products 6c oild 1,700
Mineral fuels etc 1,220 Vehicles 6: plant 1,620
Iron & steel 1,050 Electrical machinery 1,100
Metallic ores 625 Cereals 485
Main Destinations of Emrts 1984 Main Origjns of Imp_orts 1984
96 of totale % of totale
USA 15.4 West Germany 18.4
Japan 14.3 USA 18.3
Switzerland 12 . 3 Japan 15 . 0
UK 7.8 UK 13.0
West Germany 7.2 France 4.4
a Excludmg "Independent" homelands. b Total forelgn hablllties mlnus total forelgn assets. 0 Including defence. d Estimate. e Partial data; trade in arms, oil etc not fully disclosed.

NOTE ON STATISTICS

Many of the statistics used in this Quarterly Economic Review have been changed to reflect a rebasing of all constant price statistical series using 1980 instead of 1975 as the base year. Before the Reserve Bank and the Central Statistical Services converted the data to the new base, all current price estimates from 1978 onwards were revised, in some cases substantially. Readers using South African statistics in future should be aware that data for years prior to 1977 are not strictly comparable with later data as they have been convertedrto 1980 prices on the basis of the weighting in terms .of 1975 prices, whereas subsequent data have been re-weighted in terms of 1980 prices. In all periods before 1978 components no longer necessarily add to their totals as a consequence of this change. According to the Reserve Bank the rebasing to 1980 is a temporary measure. The next rebasing will be done in 1988, when 1985 will be used as the base year.

Outlook

Political tensions are likel to rsist -

The political scene remains tense and uncertain with the country facing continued unrest and violence at home and more official and informal sanctions and boycotts from abroad. On the labour front, too, the stage seems set for further confrontations in the months to come. In the background there are many threats of more severe action against the country if "significant progress" towards dismantling apartheid is not made during 1986. At the same time, the authorities have continued to negate those positive steps which have been made, through insensitive handling of their opponents and international observers.

In the short term there seems to be no prospect of a significant change in the political climate though, as the year progresses, if the economy grows as expected and if the government continues with its reform programme as expected, then the situation may improve. The most likely changes to be offered by the government are further relaxations of influx controls, stepped up programmes to improve conditions in black areas, and more devolution of power to the lower levels of government. Such moves will evidentl tisf anti-a ar h ’d cam ’ t combined with continued re ressive act’ i r ’ a e townships. There is, by contrast, no end in sight to the guerrilla and sabotage attacks which have been on the increase in past months. The ANC has clearly stated its objective of stepping up the "armed struggle" and taking it into white areas. In these circumstances, South Africa is in turn likely to step up the pressure on neighbouring countries suspected of harbouring the ANC, which can only add to regional tensions and set back the country’s attempts to regain international "respectability".

It is not thought probable that punitive official sanctions will be imposed by the country’s main trading partners but further real sanctions are expected from smaller countries. The new moves to stop oil deliveries to the country may also be at least partially successful.

- but the business mood continues to imp_rove

Perhaps surprisingly in the light of such predictions, business confidence has continued to improve. This has been demonstrated not only in tangible ways such as the stock market boom, but also by surveys and "confidence indicators". The Association of Chambers of Commerce business confidence index increased in December for the fourth successive quarter to a level higher than the level it had reached before the country’s current crisis manifested itself in July. The Bureau for Economic Research’s year end survey of manufacturers also found that their pessimism had lifted a little despite a majority view that production and sales would still dip a bit further before improving.

The downswing seems to have ended

In the third quarter of 1985 there was a further small decline in gross domestic expenditure. This was the fifth successive quarter to experience such a decline. Gross domestic product, however, increased slightly as exports recovered from their second quarter setback and imports remained low. There was virtual unanimity among economists that the lower turning point in the business cycle was reached at some point in the second half of 1985 and that 1986 would experience some growth. In this respect the outlook is virtually unchanged from the picture which has been coming into focus for the past six months. Our forecast tables have been

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eworked to change to a 1980 price base and to take into account the revisions of he official data, but the overall picture shown is as before. For 1985 as a whole slight increase in GDP is still thought to have occurred. In 1986 GDP is xpected to rise by about 3.5 per cent.

Expenditure on GDPa
(R bn; 1980 prices;

	1984	% change 1984/83	1985	% change 1985/84	1986	% change 1986/85
Private consumption expenditure	35.1	2.8	34.1	-2.8	35.0	2.6
Government consumption expenditure	10.0	7.4	10.0	-	10.4	3.6
Gross domestic fixed investment	15.3	-2.0	14.6	-4.6	14.4	-1 3
Change in stocks	0.4		-0.6		0.4	
Residual item	-0.1		-1.4		-1.1	
Gross domestic expenditure	60.7	7.6	56.7	-6.6	59.1	4 2
Exports	21.3	7.6	23.5	10.1	24.0	2.1
Imports	-16.0	19.5	-13.9	-13.0	-14.5	4.0
Expenditure on GDP	66.0	5 0	66.3	0.5	68.6	3 5

a Perc)entage changes calculated before rounding. All figures revised (see page 3 .

Private comumgtion en_rggnditure will be uQ a bit

The mildly exansionary monetary and fiscal policies introduced during the second half of 1985 with the aim of increasing employment and stimulating private consumption expenditure seem likely to work. Further tax cuts are widely expected in 1986 and private consumption is now forecast to increase by about 2.6 per cent in 1986. This will still keep it at a lower absolute level than during 1984 for the year as a whole, but by the second half of the year it should be almost back to the pre-recession level in total. Spending on durable goods, however, is widely anticipated to be down further in 1986 for the fifth successive

Several other egnditure comp_onents will also rise

The main growth thrust in 1986 is expected to come from the higher government spending associated with the more relaxed official policy and with the ending of the rundown in stocks. Further falls are still expected in industrial and commercial inventories but they will be more than offset by the increased agricultural stocks which will be built up if normal rainfall continues and enables crop surpluses to be harvested once more. Again assuming normal rainfall, export volumes should show a further rise in 1986 despite the adverse impact of boycotts and sanctions because strongly increased agricultural exports should offset declines in some other areas.

Fixed investment will fall further

The only component of gross domestic expenditure expected to fall_further in 1980 is gross domestic fixed investment. Excessive surplus capacity in many economic sectors and the reduced profitability and constrained financial positions of a majority of businesses indicate a further significant decline in most private sector investment areas. An exception will be gold mining, where strongly increased

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investment iS antiCiPated in 1986. Some categories of public sector fixed investment are expected to increase in 1986, for example urban infrastructure, telecommunications, water and road schemes and afforestation. Others, such as the railways and airways, are likely to decline further. The net impact is expected to be a 1.3 per cent overall decline compared with 1985.

The current account outlook is still favourable

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The outlook for the current account is still that there will be another large surplus in 1986 following 1985's estimated R5.9 bn surplus, even if the gold price does not follow through the upward trend shown in early January. This will enable the country to remain relaxed about the continued unavailability of new foreign capital in the short term. Dr Leutwiler seems reasonably confident that he will be able to negotiate a rescheduling package acceptable to both sides before the end of March, although this can be assumed to be contingent on some quite substantial reforms being implemented before then. It also depends on how the creditor banks assess the public mood outside South Africa now that press coverage of the unrest is less prominent. In the meantime, debt outside the standstill will be able to be repaid if necessary from the strong current account proceeds though the authorities hope it will mainly be rolled over. The strong performance of the rand in the first half of January is perhaps an indication that short term debt is being rolled over. This improvement in the value of the currency from its worst point of R12$0.36 to about R12$0.44 is in line with previous forecasts and gives credence to the still widely held view that the currency will recover to an average value of around $0.45 for 1986 as a whole.

Inflation will moderate

The very sharp fall in the value of the rand in the latter part of 1985 and the imposition of a temporary 10 per cent surcharge on imports helped to push inflation rates higher than had been anticipated by most commentators for that period. However, only a small minority of economists believe that the very high inflation rates of the fourth quarter will persist in 1986. There is, however, little unanimity on what the actual inflation rate will turn out to be. Our forecast is unchanged. We still believe that prices in 1986 will only increase by around 1 per cent per month on average, but this is one of the lowest forecasts publicly aired in the last three months.

The outlook for interest rates also appears much the same as it did three months ago. Some of the expected further declines in short term rates occurred towards the end of 1985 and most people involved in the money market continued to expect short term rates to decline for a few months after- the year end before starting to rise again. The outlook for long term rates continues to be clouded by uncertainties surrounding the availability of foreign capital. If all of the financing requirements of the public corporations and other big borrowers, both for current commitments and to repay foreign loans, have to be met in the domestic capital market then the pressure on long term rates will remain basically upwards. If this situation eases then long term rates should also fall because the fundamental pressures on rates are downwards. Lower capital investment at a time when personal and corporate savings are rising and there is a large current account surplus would, under normal circumstances, allow for a big drop in long term rates.

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GDP Outturn, Estimates and Forecasta

Constant 1980 R bn; seasonally adjusted; at annual rates; quarterly percentage changes in brackets

Actual Estimate Forecast

1984 1985 1986

4 Qtr 1 Qtr 2 Qtr 3 Qtr 4 Qtr 1 Qtr 2 Qtr 3 Qtr 4 Qtr

Private consumption 34.6 34.8 33.7 33.6 34.4 34.5 35.0 35.2 35.3

(90.2) (0.8) (-3.2) (-0.5) (2.4) (0.3) (1.4) (0.6) (0.3)

Public consumption 10.1 10.2 9.9 10.0 10.1 10.2 10.4 10.6 10.5

(0.6) (0.8) (-2.5) (0.5) (1.0) (1.0) (2.0) (1.9) (-1.0)

Investment 14.8 15.2 14.8 14.6 13.8 14.0 14.1 14.5 15.0

(-2.5) (2.7) (-2.5) (-1.2) (-5.5) (1.4) (0.7) (2.8) (3.4)

Change in stocks 0 6 -0.9 -1.5 - -0.1 - 0.3 0.5 0.8

Residual item -0.4 -2.1 -0.8 -2.4 -0.3 -1.1 -1.2 -1.1 -1.1

Gross domestic expenditure 59.7 5.7-.3 5672’ 55.8 57.9 57.6 58.6 59.7 60.5

(-2.1) (-4.0) (-1.9) (-0.6) (3.8) (-0.5) (1.7) (1.9) (1.3)

Exports 21.9 23.5 22.6 23.5 24.2 23.5 23.8 24.2 24.5

(3.5) (7.6) (-4.0) (4.1) (3.0) (-2.9) (1.3) (1.7) (1.2)

Imports -15.8 -14.7 -13.5 -13.8 -13.7 -13.8 -14.5 -14.8 -14.9

(44.1) (-6.7) (-8.2) (2.4) (-0.9) (0.7) (5.1) (2.1) (0.7)

GDP 65.8 66.1 65.2 65.5 68.4 67.3 67.9 69.1 70.1

(0.2) (0.5) (-1.3) (0.4) (4 4) (-1 6) (0.9) (1 8) (1.4)

3 Percentage changes calculated before rounding.

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Review

THE POLITICAL SCENE

The state of eme enc continues

Events in South Africa have continued to move fast, but perhaps not at the bewildering speed of the three months following the declaration of a partial state of emergency (QER No 4 - 1985, page 8). The state of emergency remains in force in 30 magisterial districts, having been lifted in eight others early in December. Unrest has continued too, although the violence has reportedly been confined to relatively few urban trouble spots, having been evident over a much wider geographical area when the troubles were at their height. According to the latest survey by the South African Institute of Race Relations, the total death toll in political violence stood at 1,028 in the 16 months from September 1984 and 879 in 1985 as a whole. The rate of fatalities has fallen, from a peak of 163 in August to 92 in December, but within the global figures some areas have been suffering more since the emergency was declared and others less. The institute in particular notes a sharp increase in fatalities in Soweto after the emergency was declared.

Meanwhile, black protest has continued to take a variety of forms, including school and shopping boycotts and calls for a "black Christmas". In some cases viciously enforced, the latter involved a call on township residents to refuse to celebrate Christmas - or indeed any other events normally the cause of celebrations, such as weddings. The ANC has also been active over the past three months, with a number of bombings, including two by land mines close to South Africa’s borders. This was one of the factors contributing to a marked worsening of relations with several of the country’s neighbours; regional instability extended, among others, to Lesotho (where the prime minister, Leabua Jonathan, was deposed on January 20) and Angola, which was again the subject of raids by South African forces. Fuller details on all these points are given below.

Two incidents dominate the unrest

The two most dramatic incidents of unrest in recent months occurred in Mamelodi near Pretoria and in Queenstown in the Eastern Cape. In Mamelodi, a work stay-away was enforced on one day at the end of November by a complete withdrawal of buses and taxis from the area and by vigilantes preventing commuters from catching trains out of the area. Later in the day a crowd estimated at around 50,000 began to make its way to the local council office to deliver a list of grievances. The panic which followed when police fired at the restive, chanting crowd ended with 13 people dead. The police and residents as usual had completely different accounts of the incident and some residents claimed that the police deliberately massacred innocent protestors. A commission of inquiry has been set up by the black community to try to establish the truth of the matter. In Queenstown the deaths occurred after blacks attacked coloureds in a neighbouring residential area for not supporting the black school and consumer boycotts. Again the 13 dead died mainly from injuries sustained after the police began firing at the crowds.

In an incident that most agreed had nothing directly to do with political unrest, there was a faction fight between about 2,000 Zulus and 3,000 Pondos in a squatter area south of Durban during the Christmas holidays. This resulted in 63 deaths and 47 people seriously injured. Police were not involved in this incident at all.

South Africa

The army's mwers are extended

In December powers to search people and property, seize articles and, in some circumstances, detain people and disperse crowds in unrest sitUations were extended to members of the South African Defence Force (SADF), the regular army. SADF members already had such powers under the emergency regulations in areas affected by the state of emergency but the new powers apply to any part of the country. The new powers were in fact passed into law in 1984 but had not been used before as regulations giving effect to the 1984 legislation had not been promulgated. The authorities declined to comment on the timing of the promulgation of the regulations. Meanwhile the authorities began withdrawing police from border duty and replacing them with members of the SADF. The 9,000 strong railways police force is to be integrated with the regular police force in the interests of greater efficiency.

ANC attacks increase -

Conventional sabotage and guerrilla incidents - as opposed to general unrest - were stepped up towards the end of the year. In most cases the African National Congress (ANC) claimed responsibility. The majority of the attacks were in the D an area and involved limpet mine or grenade attacks on public facilities such as st offices. Most of the incidents caused property damage only, although five men were injured in an attack on an electricity sub-station. By far the most serious incident in the Durban area was a bomb attack on Christmas shoppers at an Amanzimtoti shopping centre. This left five people dead, two of them children, and many injured. The ANC denied that it was directly responsible for this incident though it conceded that its supporters might have carried it out without instructions .

The ANC did, however, claim responsibility for planting two groups of land mines which caused eight deaths. The first group was on remote farm roads close to the Zimbabwe border to the west of Messina, and the second close to the Botswana border near Ellisras in the north western Transvaal. In both cases the South African authorities claimed there was clear evidence that the attackers had crossed the country's borders. In another acknowledged ANC attack, this time an abortive one aimed at the Sasol plant in Secunda, police killed the three wouId-be saboteurs as they were trying to make their escape across the Swaziland border. Swazi police had arrested 16 ANC members a few days prior. to this incident and a few weeks previously had discovered an arms cache of land mines, hand grenades, 47 rifles and ammunition, apparently ready to be smuggled into South Africa. pite such evidence the ANC continued to insist that it had not based any attacks outside the country's borders and claimed that all of its units were based in and operated within South Africa.

- in line with the congres's new Elie!

The land mine attacks are part of the ANC's new strategy to intensify its campaign of violence and move it into white areas. White farms in particular are to be targets. At a press conference in January which was given wide international media coverage, the new strategy was spelled out. It was explicitly stated that selected targets would be attacked without regard to the risk to civilians. Johannesburg is to be a particular target for attack this year as it celebrates its centenary.

The black education crisis continues

The black education crisis (QER No 4 - 1985, page 9) has continued, with potentially serious long term consequences for the country. There was a decline of around 10 per cent in the number of black pupils who sat school leaving examinations at the end of the year. In some areas candidates were forced to write in unconventional venues (in one case a prison) for fear of intimidation. These fears were real. In schools in the Cape peninsula pupils smashed furniture, set fire to examination papers and set off fire hydrants to prevent others from sitting examinations. The results of the examinations reflected the disruption to education by the unrest during the academic year and only about half of the pupils passed. Only some 12 per cent obtained good enough marks for university admission. Some black commentators accused the authorities of deliberately failing the pupils.

There were strong rumours in December that activists were organising a total boycott of black education for the whole of 1986. These rumours galvanised parents into action. At the end of the year a mass meeting of parents', teachers' and pupils' associations was held to try to resolve the issue. The meeting agreed that pupils would return to school on January 28 but that parents would not pay school or book fees. Various demands were made at the meeting, including the lifting of the ban on the Congress of South African Students (Cosas) (QER No 4 - 1985, page 9) and the withdrawal of the SADF from the townships. The authorities were given three months to accede to these demands. Bishop Tutu, who addressed the meeting, threatened that there would be a general strike if the demands were not met.

The authorities welcomed the decision to send the children back to school but declined to delay the reopening of the schools to January 28 on the grounds that the children could not afford to lose yet another three weeks of schooling for no purpose. They did agree, however, that they would accept late school registrations from individual pupils who only returned on that date. When the schools opened on January 8 attendances were said to be fairly normal outside the centres of greatest unrest - Soweto, Pretoria/Mamelodi, the Eastern Cape and the Cape peninsula. In Mamelodi teachers were said to be sending home pupils who tried to attend school. '

Treason chggw against twelve UDF leaders are drogped

After about six weeks of high profile court proceedings the state suddenly dropped its case against twelve leaders of the United Democratic Front (UDF) on trial for treason. Four others accused in the same trial remained in the dock, while a further 22 anti-apartheid activists went on trial on January 20, also on treason charges. The decision to drop the charges against the twelve UDF members followed the discrediting of the evidence of a key state witness. This was seen as a major setback for the government's prosecution of its opponents but as yet another sign of the importance anoicontinued impartiality of the country's judicial system. Shortly after the ruling most of the Western Cape executive of the UDF was released from detention, though they were immediately placed under stringent restriction orders, including a prohibition on participating in UDF activities. The UDF patron, Allan Boesak, was not prosecuted for the offences which led to his temporary arrest in August but his passport was withdrawn.

The government has also considerably relaxed the restrictions on Mrs Winnie Mandela (QER No 4 - 1985, page 15). She was allowed to move away from Brandfort, where she had previously 'been restricted, and given permission to attend social gatherings. She was also relieved of the necessity to report frequently to the local police. She was still prohibited from attending political meetings and from being in the Johannesburg and Roodepoort districts. She immediately began acting as though all restrictions on her had been removed. She addressed a mass political gathering in 'Vlamelodi without hindrance from the police but when she returned to her Soweto home she was twice arrested and brought to court for being illegally in the Johannesburg district. The insensitivity of this move brought further foreign criticism to the government and overshadowed the more positive developments which were going on at the same time.

Lebowans object to being taken over by KwaNdebele

Another public relations disaster was the unhappiness of the predominantly North Sotho residents of the Moutse area, which was transferred at the end of the year to administration by the adjoining KwaNdebele "homeland". The incorporation had been planned for at least a decade and the area was excised from another homeland, Lebowa, in 1980 and temp0rari1y administered by the South African Department of Cooperation and Development pending the incorporation. The government had offered any residents Who were not satisfied with the incorporation an opportunity to be resettled in LebOWa and compensated for the expenses of moving but, in line with its new policy, it did not forcibly remove anyone. Many meetings were held between the parties involved, including the Moutse residents, but the residents consistently refused either to move or to accept incorporation. Their main objection was said to be that they feared losing South African citizenship when KwaNdebele became independent. The KwaNdebele authorities died that this fear was well founded. Nevertheless, violence broke out on the e of the actual incorporation and twelve people died in the fighting between Sothos and Ndebeles over the issue.

Another new constitution is being devised

The government has now clearly given up hope of being able to negotiate change with its most vocal critics in the short term and is continuing to draft a new constitution itself. The foreign minister, Pik Botha, has claimed that the government is meeting black leaders all the time, often behind the scenes, to discuss their demands; and President PW Botha has said that consensus has already been reached on many important issues. The constitutional direction currently being pursued is rumoured to be a confederation along the lines of the Swiss canton system, with possible creation of a number of city states as members. Meanwhile the inclusion of blacks in the President’s Council is being urgently pursued.

Black to rt ri is are eatl extended

Another major breakthrough on black property rights was announced early in ember. Any black citizen or legal immigrant will in future be able to buy perty with freehold title in any of the urban areas where 99 year leasehold is now possible. It will no longer be necessary for the would-be purchaser to be "qualified" to live in the area concerned. In other words, anyone with sufficient cash to buy a home can move to any black urban area without regard to any other "influx control" laws or conditions. The provision of more land and an allowance for higher density residential occupation in black areas is being urgently attended to so that a shortage of housing does not make a mockery of this new concession. Other moves are expected to be announced when Parliament opens on January 31.

An immrtant new trade union gouging is formed

The most significant development on the labour- front in the last few months has been the formation of the Congress of South African Trade Unions (Cosatu) in November. This federation initially embraced 34 unions representing more than 450,000, mainly black, workers. These include the unions previously represented by the Federation of South African Trade Unions (Fosatu), which has now been absorbed into Cosatu. One of Cosatu’s main aims was stated to be to reduce the numbers of separate unions and in particular to have only one union in each major industry. Other labour related goals are to work for a legally enforced national minimum wage; improved unemployment benefits; the right of trade unions to establish strike funds; and the right for workers in essential services to strike. Cosatu also intends to have an important role in the political arena. At the inaugural conference its leader, Elijah Barayi, threatened that Cosatu would "take action" if influx control laws were not abolished within six months. He also called for the lifting of the state of emergency, said Cosatu supported disinvestment, demanded the release of all political prisoners and spoke of a future when mines and other big industries would be nationalised. In a public speech a few days later Mr Barayi threatened that blacks would refuse to pay taxes or rent "if the political order in this country does not change soon".

Within about a month of Cosatu’s formation there was reported to be friction between Cosatu and workers who are members of Chief Buthelezi’s Inkatha movement. Chief Buthelezi warned that the political stance of Cosatu was usurping the labour functions of trade unions and he warned that Inkatha may launch its own labour movement to concentrate on these functions.

Labour unrest Ersists

Labour unrest continued in the closing months of 1985 and there were a number of ugly confrontations between employers and employees. In many cases strikers were dismissed or threatened with dismissal. The largest dispute began on New Year’s day when about 30,000 workers at the Impala Platinum Mine in Bophuthatswana went on strike over wages and working conditions. After about a week when, according to management, it had been possible neither to hold meaningful discussions with the strikers nor to persuade them to return to work, about 20,000 strikers were dismissed. This was one of the biggest mass sackings in labour history and created a furore. The workers were not represented by the National Union of Mineworkers (NUM) because the NUM has refused to register in Bophuthatswana and is thus not recognised there. Nevertheless, the NUM interested itself closely in the strike and intended to take action to have the workers reinstated. A Cosatu spokesman said it would also be asking its affiliated unions to take "appropriate action" against Gencor, the owner of Impala. The Bophuthatswana National Union of Mine Employees (Bonume) has an access agreement with Impala but it, too, was not involved in negotiations with management. It claimed that the workers were unlawfully dismissed because the NUM had intimidated them from returning to work and announced that it would apply for a court order to have the workers reinstated. Meanwhile, Impala began recruiting to replace the dismissed workers and another 3,000 who voluntarily resigned.

The courts have increasingly been appealed to in recent labour disputes and have often supported the workers against management. The courts ruled in November for a reinstatement of the mineworkers dismissed from the Marievale Gold Mine during a strike in September. The ruling was upheld in January after an appeal. Another court ruling found that the authorities had wrongfully dismissed 940 student nurses involved in a strike together with 800 general workers at the Baragwaneth Hospital in November.

Rg’onal mineworkers’ unions combine

In November mineworkers from five Southern African countries including South Africa combined to form the Southern African Miners’ Federation. The South African National Union of Mineworkers’ leader, Cyril Ramaphosa, was elected as the federation’s first president. The federation will be based in Harare but will concern itself largely with South African issues. For example, one of the resolutions at its inaugural conference was to urge that total sanctions be imposed against South Africa and another was to threaten militant action if the South African government repatriated foreign mineworkers (see EMPLOYMENT below) .

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South Africa

Sanctions and boycott threats continue

Moves to isolate South Africa internationally have continued, although the focus has to some extent shifted from "official" action by governments and multilateral bodies to ad hoc, and sometimes temporary, measures by groups such as trade unions. Finnish postal workers, for example, boycotted the handling of all mail to and from South Africa for two weeks. However, there were some further official sanctions and other more serious measures threatened. Some details are given in the ENERGY and FOREIGN TRADE AND PAYMENTS sections below. At the franco-African summit in December a campaign was launched to ban the use of all African air space to planes of any nation flying to or from South Africa. The UN General Assembly planned to co-host a world conference on sanctions in June this year. Most of the moves that have been implemented so far involve countries with little economic significance to South Africa. The country's main trading partners - West Germany, the USA and the UK - continue to distance themselves from calls for severe sanctions.

Relatiors with the USA imEove again

.uth Africa's relations with the USA have improved again after a five month period during 1985 when they became very cool. The improvement was signalled by President Reagan's accepting the credentials of South Africa's new ambassador to the USA, Dr Herbert Beukes, in November. In December the Reagan administration set up a group to sell its southern Africa policy to both Washington and the American public. A second group was set up to make recommendations on amendments to the policy. This bipartisan Special Avisory Committee on South Africa will meet throughout 1986 and will be consulted by the administration. Its most important task is seen as being to report at the end of the year its perception of how the South African authorities are progressing towards the implementation of a new political order.

In January a small group of prominent US politicians led by William Grey, the chairman of the black caucus in Congress, visited South Africa to assess for themselves the need for tougher US action. The group travelled freely and met with several different factions. They expressed themselves most unimpressed with their meetings with officialdom, including President Botha, but "enchanted" with the UDF patron, Allan Boesak. Congressman Grey said the visit had convinced him that the earlier US sanctions decision had been justified but he would not comment the possibility of tighter sanctions being imposed. All the members of the group said, however, that the visit had made them determined to press for a more stringent policy against South Africa by the __Reagan administration.

A few days later the US assistant secretary of state for African affairs, Chester Crocker, visited South Africa. He met predominantly with government officials because UDF leaders he had planned to meet refused to see him in protest against the official US policy of "constructive engagement". Dr Crocker endorsed this policy with remarks such as: "We want to see South Africa back on its feet and building an equitable system. We want South Africa to succeed and that is the side we are on". He also said that the USA did not want to wage economic war against South Africa in an attempt to bring about change.

Dr Crocker had visited Angola prior to his South African visit and he hinted that US aid to Unita may be in the pipeline (see below) .

South Africa

Militar! tensions with Egon remain high -

Tensions between South Africa and Angola have remained high. Although reports that Cuba was considering declaring war on South Africa are probably not to be taken seriously, Angola has been taking steps to enhance its military strength by buying new French helicopters and British telecommunications equipment. The chief of the Angolan air force has said he considers it essential to gain air superiority over South Africa. Meanwhile, the Reagan administration is reported to have informed the Angolan government that unless the latter offers a rapid and substantial Cuban troop withdrawal in exchange for the South African withdrawal of forces from Namibia, the USA will assist Unita. By repealing the Clark Amendment last .July Congress has now freed the administration’s hands to resume aid to Unita, and it has been reported that a $15 mn covert military aid programme is being prepared. Full details and analysis are included in our Quarterly Economic Review of Angola (No 1 - 1986) .

- and there are new South African raids

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In December and January South African forces were once again operating inside Angola. South Africa defended its latest raids on the usual grounds that Swapo remained its sole target. Angola has continued to claim that South Africa’s purpose is to support Unita against the MPLA. At the time of writing, South African troops were still active inside Angola, according to Angolan sources. The SADF has refused to comment on detailed allegations in connection with the latest incidents.

Tensions between SOuth Africa and Lesotho climax in coug

On January 20 the Lesotho government led by Chief Leabua Jonathan was overthrown in a coup. This followed a period in which relations between South Africa and Lesotho hit new lows, with the South African authorities so thoroughly searching all vehicles and train coaches attempting to cross the border that in effect Lesotho was under siege. South Africa claimed its actions were aimed at keeping terrorists and arms that it claimed were based in Lesotho out of South Africa. It has been alleged that South Africa was also trying to put pressure on Lesotho to hand over South Africans that had sought political refuge in Lesotho. The South African authorities were said to believe that Lesotho had become the ANC’s main operations base against South Africa since the Nkomati Accord forced ANC activists to leave Mozambique. This state of tension followed several months of top level negotiations between the two countries during which South Africa produced evidence of its allegations and complained that the Lesotho government had not acted on this evidence. Just before Christmas nine people, including six identified as ANC members, were assassinated in Maseru. The Lesotho Liberation Army claimed credit for the killings but the Lesotho government and world opinion seemed certain that South African troops were responsible.

Relations with other neighbours are also tense

After the land mine explosions near the Botswana border and evidence that those responsible had crossed the border, the South African government urged Botswana to take measures against ANC guerrillas. The Botswana government repeated that it did not allow its territory to be used for operations against anyone. The Botswana Defence Force began to maintain a high profile presence in the border area ,_ apparently because of fears that South African forces would launch an attack across the frontier. These fears were sufficiently widespread that the British government made representations to South Africa to exercise "urgent

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restraint" in considering its response to the land mine attacks. No South African cross border raid into Botswana had taken place by the time we went to press, but some form of South African retaliation for the attacks was widely expected.
A similar situation of tension had occurred between South Africa and Zimbabwe following the land mine explosions near the Zimbabwe border. Here the South Africans were more openly aggressive and the defence minister, Magnus Malan, warned that South African-Zimbabwe relations could deteriorate into cross border conflict. Diplomatic contacts were established to discuss the issue and South Africa vehemently denied Zimbabwean claims that South African patrols had already been sent into Zimbabwe and that South African planes had violated Zimbabwean air space on intelligence gathering missions. After a week or two of tension both sides seemed to have accepted each other's bona fides and it was generally agreed that the possibility of an SADF strike into Zimbabwe was remote.
Nevertheless, at the end of the year, the foreign minister, Pik Botha, sent a statement to the country's neighbours. This statement contained the allegation that terrorist elements were continuing to operate against South Africa from their territories and warned that if such insurgency continued "all of southern African" wsld have a heavy price to pay.

ECONOMIC POLICY

The relaxation of austerity continues

The more relaxed economic policy which began to be implemented as early as August last year has remained in force. This policy was summarised by Dr de Kock, governor of the Reserve Bank, as "promoting economic recovery and growth while maintaining monetary and fiscal discipline". It entails reduced interest rates, less restrictive hire purchase conditions, increased government spending on job creation and manpower training schemes, and a 10 per- cent import surcharge to help discourage imports at the same time as financing the higher government spending. The policy was described in detail in QER No 4 - 1985 (pages 17-19) .
In line with this policy the 1979 loan levies due to be repaid in February 1986 were repaid before Christmass to put more money into the hands of consumers in the main spending period. A technical change was also made to the calculation of t taxable value of fringe benefits with effect from December 1, with the same in mind. It was also announced that, with effect from the beginning of the new tax year on March 1, 1986, the 7 per cent surcharge on personal income tax would be removed. These measures were widely welcomed as giving a "psychological boost" to the economy.

Further steE are taken towards Eivatisation -

A committee of cabinet ministers has been set up under the chairmanship of the minister of economic advisory services and administration, Eli Louw, to manage the government's privatisation programme. The committee is to be expanded to include private sector representatives. The goals of the privatisation programme are said to be: "to establish state participation in the economy as far as practically possible at an acceptable minimum level; to increase efficiency in the provision of services to the general public; and to get greater involvement of the general public in economic activity through the expansion of shareholding". To this end some public assets will be sold off but the main thrust of the programme in the short term is more likely to be in offering the private sector the opportunity to tender for services currently supplied by the state and other public undertakings. About 20 such possibilities had been identified by November 1985 but had not actually been opened up for private participation.

- and Eomotion of small business receives renewed attention

A sub-committee of the President’s Council completed an investigation into a strategy for small business development in November. The recommendations of the sub-committee were compiled into a report which received wide publicity. The recommendations included the immediate amendment or repeal of apartheid laws such as the Black Administration Act and influx controls which impose restrictions on non-white businessmen that are not applicable to whites; the introduction of mixed-use zoning to allow houses to be used for commercial purposes in low income areas; the standardisation of licensing procedures throughout the country; a review of the requirements on premises and health standards for particular businesses; and the removal of the requirement that holders of business licences must be fluent in one of the official languages. It is hoped that these recommendations will be taken up in the next session of Parliament.

Decentralisation incentives are amended

Some changes were also made to the decentralisation incentive scheme towards the vi end of the year, with a view to making it more cost effective and less confusing to would-be investors. Some new rules were also introduced to prevent blatant abuses of the scheme. It was reported that in the 1984/85 fiscal year there had . been 5,616 applications for decentralisation benefits, many of them from smaller, labour intensive undertakings, and 44 of them from foreign industrialists.

THE ECONOMY

GDP figgges are revised -

GDP figures are among those to have been substantially revised under the rebasing of statistical series to constant 1980 prices (see page 3 above) and the quarterly pattern of growth over the past year now looks somewhat different from the picture presented earlier by the Reserve Bank. The first quarter of 1985 is now shown to have experienced a small increase in real GDP compared with the previous small decline. Gross domestic expenditure in both cases is shown to have fallen quite strongly. The second quarter is now shown to have experienced a decline in GDP of 1.3 per cent, compared with a decline of 0.7 per cent shown in the earlier figures. In both cases the changes were largely to the export component and gross domestic expenditure (GDE) figures were similar. The preliminary figures for the third quarter show that GDE declined by 0.6 per cent. This is the fifth successive quarter to experience falling GDE, bringing it to a level some 9.3 per cent lower on a seasonally adjusted basis in the third quarter of 1985 than before it began its decline.

. South Africa

Gross Domestic Product

ZR bn; seasonally adjusted; annualised; at 1980 pricesi

	1984	1985		
	4 Qtr	1 Qtr	2 Qtr	3 Qtr
Private consumption expenditure	34.6	34 8	33.7	33.6
Government consumption expenditure	10.1	10.2	9.9	10.0
Gross domestic fixed investment	14.8	15.2	14.8	14 6
Change in stocks	0-6	-0 9	-l-5	-
Residual item	-0.4	ii	:_0._8	-2.4
Gross domestic expenditure	59-7	57-3	56-2	55.8
Exports	21.9	23.5	22.6	23.5
Imports	-15.8	-14.7	-13.5	-13.8
Expenditure on GDP	65.8	66.1	65.2	65.5

- and show a small increase in GDP in the third Ester

After a setback in the second quarter, exports recovered in the third quarter and this helped to turn the small decline in GDE to an increase of 0.4 per cent in real GDP despite a small increase in real imports. The only component of GDE to .ow any growth in the third quarter was public consumption expenditure, with only a modest 0.5 per cent increase. The largest single positive element on the expenditure side was that there was no further rundown in stocks in the third quarter. The small net increase in output was almost entirely attributable to strong performance by the primary sectors of the economy, particularly agriculture and gold mining. These gains were able to more than offset continued declines in manufacturing, construction and transport.

. Manufacturing outgt stabilise:

The latest data show total manufacturing output to have stabilised. In the three months to November, total output was 0.3 per cent higher than in the previous three months on a seasonally adjusted basis and the trend line has been roughly level for eight months. Overall capacity utilisation again fell in the three months to August.

A 48 nation survey of the clothing industry carried out by the National Clothing Federation and the National Productivity Institute revealed some interesting comparisons between the manufacturing industry in South Africa and abroad. It wed, for example, that in terms of average working hours and numbers of paid holidays South African conditions were about half way between those in Europe and those in Asia. In terms of absenteeism South Africa’s record is as bad as that of the industrialised countries. Productivity in the clothing industry was found to be roughly two thirds of that of the eight industrial countries in the survey but in line with that of the other developing countries outside Asia and better than the Asian countries. Manufacturing costs in the clothing industry were found to be less than half of those in the UK and only a quarter of those in the USA.

The building industry remains weak

Real fixed investment in residential buildings showed a small increase for the second successive quarter in the third quarter of 1985, but it still remained 9.2 per cent lower than in the corresponding period of 1984. Fixed investment in non-residential buildings continued to decline. The sharp downward trend in the real value of private residential building plans passed which began during 1983 seemed clearly to have ended and each of the four months to October registered increases compared with the previous month. October’s figure was 30 per cent we the low point reached in June. The trend in the real value of non-residential building plans passed was less clear but here, too, a low point seems to have been reached in June and the first four months of the second half of the year saw plans passed worth about 10 per cent more in real terms than in the previous four months. The value of commissions at the preliminary estimate stage in quantity surveyors' offices increased in the three months to July for the second successive quarter.

The trend in the release of funds for new housing development by building societies continued to be upwards but some people in the housing construction industry remained pessimistic. The Bureau for Economic Research said the positive factors on the housing front were outweighed by negative factors such as the impending higher fringe benefits tax on housing, an oversupply of existing homes in white areas, continuing high unemployment and reduced consumer confidence as a consequence of the country's political problems. It predicted that real investment in private housing would fall by a further 17 per cent in 1986. This would more than offset the 10 per cent real increase it expected in public authorities' housing expenditure. More positive views were taken by the Master Builders' Association and the Building Industries' Federation (Bifsa). The directors of both of these bodies expressed optimism about the longer term prospects for their industry and they both thought the easy financial positions of the financial institutions, combined with a great need for low income housing, would stimulate investment in building in 1986. The mood in the building industry was described by Bifsa's director as "upbeat" depite a continuation of the very tight tendering situation.

Construction investment rises slngtly

Revised data show that real investment in construction did not increase in the second quarter, as had previously been shown, but in the third quarter there was a marginal increase and the total value of investment in the third quarter was 2.2 per cent higher than in the third quarter of 1984. A spokesman for the South African Federation of Civil Engineering Contractors said, in November, that in the previous four months the industry had experienced an improved flow of new contracts but that in real terms the value of new work on hand continued to be lower than a year earlier. There was thus still cause for serious concern over the outlook for the industry. Again, the flow of new work was boosted by a number of major new road contracts.

Transmrt of goods and gaggengers continues to decline

Figures on the tonnage of goods transported by the railways after July 1985 were not available at the time of writing but in the third quarter there was a reduction of about 14 per cent on a seasonally adjusted basis in the tonnage of goods transported by road, compared with the second quarter, and it seems almost certain that the railways also experienced a further reduction in business. Public passenger transport movements also continued to decline overall, though there was a 4.5 per cent increase in the number of passengers carried by private transport undertakings in the third quarter. Municipal transport departments experienced the least favourable conditions with a seasonally adjusted 8.8 per cent decline in passengers carried in the third quarter. In the year to September 1985 the number of passengers carried by municipal transport undertakings was down by 13.4 per cent.

On January 1 SATS tariffs were increased by up to 15 per cent for goods. Passenger fares, which were increased in November, were not increased again despite an expected loss of close to R1 bn in SATS's passenger services this year. In order to help its cash flow, SATS announced that it was preparing to sell or lease many of its properties. Some 32,000 ha of property, much of it in prime city centre locations, is to be offered for private development.

SAA reduces its fleet

The decrease in air travel reported in QER No 4 - 1985 (page 21) has continued, and South African Airways has taken further steps to cut costs. These include further reductions in the numbers of flights, a reduction in the size of the aircraft fleet by the leasing of two Boeing 7475, the sale of a Boeing 737, the offering for sale of an Airbus A300 and the early retirement of about 25 pilots.

Vehicle manufacturing remains in crisis -

The tenuous recovery in new car sales which had begun in the third quarter continued into the fourth. Total sales were up 2 per cent in October compared with September, and November's sales were 1.7 per cent higher than October's. However, sales in November were still 11.2 per cent lower than in November 1984. Commercial vehicle sales did not continue their third quarter recovery. ht, medium and heavy vehicles all saw lower sales in October than in September and lower sales again in November. Heavy vehicles were the worst hit, with November sales 24.8 per cent lower than a year earlier. Light commercial vehicle sales were 16.8 per cent lower. An industry spokesman claimed that in the vehicle manufacturing industry as a whole capacity was some three times the present market.

- as Renault and Peugeot join the list of demgura

In November both Renault and Peugeot announced that they would cease local manufacture. This followed Alfa Romeo's earlier decision to pull out of the market, taking with it Fiat and Daihatsu. Prior to the Renault and Peugeot announcements there had been widespread speculation that they would amalgamate in order to reduce their losses. Seven manufacturers remain in the market which is, according to some motor industry sources, only potentially large enough for three companies to operate profitably.

In December top officials of the industry met to try to resolve the industry's oblems by cooperating to make rational use of thememaining production soilities. Participants at the meeting were guarded in their comments afterwards except to stress that further takeovers or mergers were not envisaged and no more manufacturers would pull out of the market entirely. Meanwhile 1,300 more workers were retrenched from the Ford Division of Samcor in Porthlizabeth in December and BMW announced that it would not be replacing 276 workers who had voluntarily resigned in October and November.

Stocks stog falling -

After two quarters of decline, total stocks increased by R365 mn in the third quarter in current money terms. In real terms the increase was negligible. Increased agricultural and diamond stocks were offset by further reductions in industrial and commercial inventories and other minerals stocks. The ratio of real commercial and industrial inventories to real non-agricultural GDP fell further to 21.8 per cent in the third quarter.

- but fixed investment does not

Real fixed investment fell by 1.2 per cent in the third quarter. This followed a
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Further figures and definitions are given
in the tables at the back of this Review
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fall of 2.5 per cent in the second quarter and brought total real investment to its lowest level since the first quarter of 1979.

Gross Domestic Fixed Investment
(R mn; seasonally adjusted; annualised; at 1980 prices; quarterly percent-
age changes in brackets)
1984 1985
4 Qtr 1 Qtr 2 Qtr 3 Qtr
Mining 6: quarrying 1,631 1,692 1,873 1,773
(7.0) (3.7) (10.7) (-5.3)
Manufacturing 2,309 2,513 2,442 2,264
(-5.1) (8.8) (-2.8) (-7.3)
Electricity, gas 6: water 2,715 2,535 2,602 2,672
(0.6) (-6.6) (2.6) (2.7)
Transport, storage 6:
communications 1,685 1,841 1,814 1,592
(3.2) (9.3) (-1.5) (-12.2)
Finance, insurance, real estate
6: business services 3,043 3,075 2,819 3,030
(-8.0) (1.1) (-8.3) (7.5)
Community, social 6: personal
services 1,747 1,816 1,733 1,779
(-7.5) (3.9) (-4.6) (2.7)
Others 1,680 1,736 1,542 1,53
1 (-1.5) (3.3) (-11.2) (-0.6)
Total fixed investment 14,818 15,288 14,825 14,648
(-2.5) (2.7) (-2.5) (-1.2)

Fixed investment in the key mining, manufacturing and transport sectors was down quite sharply in the third quarter. In the case of mining this was the first setback in a year of rising investment, whereas in the case of manufacturing it was a continuation of a two and a half year trend which had been broken only by a short lived spurt of investment early in 1985. Investment in the transport sector tends to be rather erratic because of the small number of important participants in the sector and the high value of the individual investments, but the 12.2 per cent decline in investment in the third quarter was a good reflection of the poor operating conditions of the sector at that time. The sector which experienced the fastest growth in fixed investment in the third quarter was finance, insurance, real estate and business services, but the 7.5 per cent rise here did not even compensate for the 8.3 per cent decline in this sector’s investment in the previous quarter.

Public authorities decreased their investment by 4.4 per cent. This followed a decrease of 6.4 per cent in the second quarter. By contrast, public corporations increased their investment for the third successive quarter though the increase was only 1.3 per cent. Investment by private business enterprises was marginally down.

Public consumgtion continued to decline to the third garter

Revised data show the decline in private consumption expenditure in the second quarter to have been far greater than indicated by the preliminary data. A decline of 3.2 per cent is now shown to have occurred. The decline in expenditure on durable goods was a massive 16.7 per cent. Expenditure on semi-durable goods fell by 4.8 per cent while spending on non-durable goods fell by 1.8 per cent. Expenditure on services increased by 0.6 per cent. This dismal performance was followed by a further 0.5 per cent decline in total private consumption expenditure in the third quarter. In this quarter there was a partial recovery in spending on durable goods but the other components of private consumption all experienced declines. ’

Private Consumption Ex enditure

(R mn; seasonally adjusted; annualised; at 1980 prices; quarterly percentage changes in brackets)

	1984	1985		
	4 Qtr	1 Qtr	2 Qtr	3 Qtr
Durable goods	3,133	3,349	2,791	2,910
	(6.3)	(6.9)	(-16.7)	(4.3)
Semi-durable goods	5,966	6,082	5,793	5,698
	(2.0)	(1.9)	(-4.8)	(-1.6)
Non-durable goods	16,455	16,512	16,207	16,068
	(-0.4)	(0.3)	(-1.8)	(-0.9)
Services	9,007	8,901	8,952	8,886
	(-3.1)	(- 1. 2)	(0.6)	(-0.7)
Total private consumption	34,561	34,844	33,743	33,562
	(-0.2)	(0.8)	(-3.2)	(-0.5)

In the first three quarters of 1985 total real private consumption expenditure was some 3.5 per cent below that in the corresponding period of 1984. In current money terms, aggregate personal disposable incomes were up only 1.1 per cent in the third quarter compared with the previous quarter so it is not surprising that real spending was subdued. Even after the decline in consumption, personal savings fell slightly both in actual cash terms and as a percentage of personal disposable incomes in the third quarter on a seasonally adjusted basis. Absolute data for personal savings have also been substantially revised and the savings rate in the first three quarters of 1985 is now shown to have been an average 11.2 per cent compared with an average rate of 3.7 per cent in 1984 as a whole. This is an important reason for the lower level of private consumption in 1985.

Black consumer boycotts bite

Another reason for reduced consumption was the black consumer boycotts. These were organised with varying degrees of effectiveness in a number of centres throughout the country. As was reported in QER No 4 - 1985 (page 25), some were relatively short lived while others continued for several months. In the PWV area, for example, white businesses were boycotted for three months to December 7. Consumers were then given one week to buy their Christmas requirements from white shops and the boycott was then applied again until January 2, when it was again suspended. The boycotts were enforced by youths who confiscated or destroyed goods being brought in to the townships in defiance of the boycott call. The boycotts seemed to have fairly broad support among the black communities in the larger urban areas though a significant minority of township residents objected strenuously to the way they were being enforced. The boycotts were initiated as a form of political protest and the idea was that the affected white businessmen would involve themselves actively in trying to bring about a new political order. Specifically the boycott committees demanded an end to the state of emergency, the withdrawal of army units from the townships, the release of all detainees and an end to bus and rail fare increases as preconditions for ending the boycotts. In areas where the boycotts were in force they undoubtedly cut consumption, particularly of luxury goods such as liquor. Even spending on essentials such as food and clothing was restricted because of the limited ability of black shops in the townships suddenly to meet such an upsurge in potential demand.

South Africa

At the time of writing all boycotts, except that in Uitenhage, had been suspended. There was a threat that they may be reimposed on February 1 if the boycotters' demands have not been met by then.

Christmas retail sales are veg! low

The main chain store groups reported very poor turnover towards the end of the year, with December sales barely equalling those of December 1984 in current money terms in some cases. The Association of Chambers of Commerce surveyed its members and found that an average decline of around 7 per cent in real terms compared with 1984 was thought to have occurred. Early in December there was reported to be a mini-boom in spending on luxury goods entirely imported or with a large imported content after retailers warned that prices of such goods would have to rise dramatically when old stocks had been sold and the full impact of the decline in the value of the rand was felt. Sales of items such as dishwashers and video recorders were up between 20 per cent and 50 per cent at one large discount store chain.

Public consumgtion eggnditure bgg'ns to increase gain

Public consumption expenditure remained restrained in the third quarter. It grew by only 0.5 per cent, following a 2.5 per cent decline in the second quarter and very modest increases in the previous two quarters as well. However, as was discussed earlier, the government has now taken a conscious decision to increase spending in order. to stimulate economic growth. After reaching a low point in August, exchequer spending bounced back in September and edged further upwards in October and November. Economists commenting on the new trend speculated that by the end of the fiscal year in March exchequer spending could be as much as R1 bn above the budgeted figure of R31.5 bn. This would represent additional spending of about 3.3 per cent and would bring total exchequer spending to a level about 17 per cent higher than in the previous fiscal year - still virtually no increase in real terms.

EMPLOYMENT

Emgloment news is mixed

Total employment was up in about half of the sectors of the economy and down further in the other half during the third quarter. Detailed population survey data are only available up to August, but these show that in the case of blacks and Asians, employment was up; unemployment was still on a decreasing trend among both of these groups up to August. In the case of Asians the unemployment rate declined from 7.8 per cent in May to 7.5 per cent in August. In the case of blacks the unemployment rate was 8.1 per cent in both months as the month of August saw a sharp increase in the numbers of blacks unemployed. Figures for the numbers of people registered as unemployed are available up to November and these show the August surge in black unemployment to have been temporary; in September the situation improved again.

In the case of the coloured population the situation was much worse. All available data showed the number of coloureds in employment to have diminished and the numbers unemployed to have been rising Strongly to September. In October there was a break in this trend. By August the population survey estimate placed the. coloured unemployment rate at 8.4 per cent. The numbers of white males registered as unemployed climbed steadily to October but in the case of white females unemployment peaked in August.

At the end of the year it was reported that new graduates and school leavers were having great difficulty in finding jobs of any kind as companies were not prepared to take on people with no job experience when there were experienced people available to fill vacancies.

Job creation schemes show results

In December the Department of Manpower announced that 360,000 "work-days" had been created by the job creation schemes announced in October. Many of the jobs had been created in the private sector and R75 mn had been allocated for financing these private sector projects. In the first two months, 133 private concerns had also taken 31,680 unemployed people into training courses for which the government paid R22 per person per day to the company doing the training. By March 1986 about 160,000 people will have received some sort of training under this aspect of the job creation scheme.

There are sgggestions that foreign migrant labourers may be regtriated

In November the government suggested that if sanctions were introduced against South Africa it would be forced to consider repatriating foreign black workers in order "to give preference to the needs of its own citizens in the labour market". This suggestion met with strong opposition from mining industry employers as well as trade unions. A spokesman for the Chamber of Mines said that any large scale repatriations would be severely disruptive socially, economically and politically. The manpower minister, Pietie du Plessis, made it clear that there were no immediate plans to summarily repatriate large numbers of foreign workers but said that some repatriation could not be ruled out of the government’s contingency planning. One of the major mining houses said that it would attempt to increase its recruitment of urban black workers to replace migrants voluntarily resigning and to staff new sections of its mines.

Net emigation occurred in Awt and Segtember

The downward trend in immigration to South Africa has continued, and by September there were less than a thousand immigrants per month compared with over two thousand per month in January and February. At the same time the number of emigrants rose very sharply in the second and third quarters. Thus by August the country was experiencing net emigration again for the first time since 1978. A spokesman for the Department of Home Affairs claimed, at the end of October, that South African offices in Europe were still receiving a steady stream of enquiries about emigration to South Africa but that the department was rigidly applying its immigration standards in the face of the growing domestic unemployment .

Salaries and wages continue to lag behind inflation

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Official data show that the rate of increase in nominal salaries and wages per employee in the non-agricultural sectors of the economy has been falling. In the first half of 1985 remuneration per employee was 11.8 per cent higher than in the comparable period of 1984. This represented a real decline of 3.4 per cent. In 1984 as a whole an average real increase of 3.7 per cent had been noted. In the first half of the year labour productivity also declined, by 1.9 per cent. Publicised wage and salary increases towards the end of the year were mainly in the 10-12 per cent range and employment analysts were forecasting similar rises for 1986 from large organisations. Smaller firms were expected to give smaller increases or none at all. Low paid employees in the public service were given increases backdated to November 1, ranging from 10 to 50 per cent, but higher paid civil servants received no increases at all. The last general increases for civil servants came into effect in September 1983. The director’getneral of finance, Gerhard Croeser, said that neither the government nor the economy could afford wage increases in 1986. Trade union demands for massive wage increases have mainly been ignored.

PRICE AND MONEY SUPPLY

Inflation accelerates

In the three months to November the rate of increase in the consumer price index was in excess of 1 per cent each month and, by November, the index was 16.9 per cent up on November 1984. In the four months to September the increases in the production price index averaged less than 1 per cent per month and the year on year increase had fallen slightly to 16.7 per cent by September. In October the index rose by 1.8 per cent and in November by a further 4.2 per cent, bringing the year on year increase to 20.4 per cent. The sharp increase in November was largely attributable to an 8.8 per cent increase in the price index of imported commodities. This in turn was largely attributable to the 10 per cent surcharge on imports imposed that month, though the falling rand obviously had an . impact .

The stock market remains strong

After a short lived reversal in October, industrial share prices resumed their strong uptrend in November and by the year end were on average about 25 per cent higher than they had been at the beginning of 1985. November’s upsurge was supported by the news that the Mossell Bay synfuel scheme would go ahead and that the personal income tax surcharge would be removed. Small investors were said to have returned to the stock market in large numbers but the large cash flows of the long term financial institutions were still said to be the major factor in keeping prices high. By the end of the year many brokers and financial analysts were quoted expressing concern that the market had become overheated and the strong price performance of the market since August would not be sustainable.

Gold share prices rose sharply with the rand price of gold to the end of November but suffered a reversal in December as the dollar price tumbled. In January they reached new all time peaks as the gold price again soared. The .market was described in mid-January as "frenetic".

It was reported that US interests were again an important factor in the gold share market in November after a temporary absence when the political uncertainty was at its height. US fund managers were said to have been net buyers of shares in this period whereas US speculators were net sellers. European banks were also said to be switching to South African gold shares from South African fixed interest securities in November.

Money g30wth continues to slow

The growth rate in money stock has continued to fall fast. By October 1985 money and near money (M2) was only 12 per cent higher than a year previously and the narrowly defined M1 was actually 5.9 per cent lower than in the previous year. The Reserve Bank attributed this to a shift from short and medium term deposits in response to changes in the structure of interest rates. The decline in net gold and foreign reserves was also an important factor in reducing the money supply. The rate of increase in bank credit continued to be much slower and some types of bank credit showed declining tendencies. Hire purchase and leasing successive drought years. The size of the crop'will depend crucially on rainfall during January and February and no confident estimates of its likely size will be possible until late in February. However, if rains are normal to good the plantings to date would be sufficient to produce a crop of as much as 10 mn tons. About half of the surplus from the 1985 crop was exported towards the end of 1985. The approximately 700,000 tons involved was sold to Taiwan and Japan. The Maize Board refused to disclose the magnitude of the loss that had been suffered on these sales.

Prosp_ects seem brighter in the sugar industrx

Further improvements in the world sugar price, the continued weakness of the rand and a good local crop contributed to an improvement in the business mood in the sugar industry in November. The South African Sugar Association's general manager said that if those conditions prevailed there was a prospect that the industry would not make further losses in the current year. The latest estimate is that the 1985/86 season will have seen 2.235 mn tons of sugar milled. The outlook for the 1986/87 cane season is that the crop itself will be about 18 mn tons with a sugar yield of about 2 mn tons. Ideal growing conditions in the remainder of the season could prove these projections overly pessimistic. The industry is likely to seek a modest increase in domestic sugar prices in April despite the declining size of the local market.

Once again the issue of using sugar as a feedstock for ethanol production has come to the fore. The minister of mineral and energy affairs has given the go ahead to the Umzimkulu Cane Growers' Association to produce ethanol for the use of its own members and the association has begun a detailed feasibility study for the plant. This will be on a very small scale and is expected to produce about 5,000 litres of fuel per day. A number of individual farmers have also been given the go ahead to produce ethanol for their own use. Meanwhile the South African Sugar Association has launched a major feasibility study into the production and wider use of ethanol as a fuel in the country. It has been suggested that sugar farmers may find it more profitable to use their "B pool" cane for ethanol manufacture than for them to continue exporting it in the longer run.

The 1985/86 wheat crog will be smaller

The 1984/85 wheat crop proved larger than had previously been estimated, at about 2.24 mn tons. However, the outlook for the 1985/86 crop is unfavourable due to poor weather conditions. In the Orange Free State drought hit the crop and in the Western Cape excessive rains were the culprit. It seems inevitable that the crop will be smaller than needed and estimates of 1.5 to 1.7 mn tons have been made. The general manager of the Wheat Board said imports would be needed from about March and the board was already investigating possible sources of supply.

Wool prices pgaked in October

Wool prices have behaved erratically since the new season began in September. Prices rose strongly to a new record high at the third sale in October and then fell back over the next month before again rising - though not quite to their October peak. The main reason for the October surge was the weakness of the rand, though demand for wool was also strong and 93.5 per cent of the offerings were sold up to October. The behaviour of the rand was again a main contributor in fluctuations in the price after October but reduced demand was also a factor as factories were said to be working at full capacity by the end of October and thus to have stabilised their purchases. By the end of the first half of the season in December the Wool Board described conditions as "firm". The first sale in

January saw prices up 2.5 per cent in hard currency terms and 96 per cent of the offering was sold.

Meat prices rise as farmers rebuild herds

Farmers continued to hold back stock to rebuild their herds as normal early rains enabled the veld to carry larger stock numbers. This caused fresh meat prices to rise steeply despite the continuing release of frozen meat stocks to the trade. This situation is expected to continue for some months.

Deciduots fruit emits were excellent in 1985

The Deciduous Fruit Board reported that the 1985 export season was the best on record, with almost 26 mn cartons of fruit earning R470 mn. Producers were thought to have doubled their net farm incomes as a consequence of this. As with most other export businesses, the weaker rand was the major contributor to the industry’s success but the high quality fruit and an efficient marketing programme were also said to have been important factors. The 1986 season is expected to be much less favourable as a consequence of boycott threats, a recovering currency ind high domestic inflation eroding South Africa’s competitiveness.

Dried fruit Eoduction is set to double

The South African Dried Fruit Cooperative has launched an incentive scheme aimed at doubling local dried fruit production in the next ten years. It was forced to take this step because production of fruit has not kept pace with the escalating demand for it. In particular, competition from the liquidising and fresh marketing sectors of the industry has kept dried fruit production well below estimated potential sales. The scheme will cost an estimated R50 rnn and will take the form of loans to finance expanded production and drying facilities.

MINING

The gold Eice stabilised in the fourth garter and then shot ug -

In the fourth quarter of 1985 the US dollar gold price mainly remained around $325 per ounce. In December it showed some weakening from this level before douncing back in excess of $360 per ounce in January. Changes in the relative alue of the dollar and fears of a new oil price war seemed to be the major factors influencing the price up to the end of the year. The January recovery came in tandem with a rise in the value of the dollar and was attributed to uncertainty surrounding the tough US stance towards Libya. The rand price of gold fluctuated rather more than the dollar price as the rand itself remained unstable, though broadly the trend was similar to the dollar trend. This was in complete contrast to the third quarter when the rand price rose dramatically. By January 17 the rand price of gold was only R820 per ounce compared with a peak of around R910 when the rand was at its nadir.

- but 1985 gold outggt was slightly below 1984

Gold output remained slightly down on 1984’s level except in October, when there was an unexpected increase in output. In the year to November 1985 output was 0.8 per cent lower than in the corresponding period of 1984. The main reason for the decline was a drop in the average grade of ore milled but the labour disputes earlier in the year were also a contributing factor as they reduced the total ore mined.

US gold coins are to be minted
In December President Reagan signed into law the bill allowing the US Treasury to mint and sell a new series of gold coins to compete with krugerrands. The law requires the Treasury to buy newly mined gold from US producers to use for the production of the coins provided that it is not overpriced relative to alternative supplies. In the event of insufficient US gold being available, gold from the US reserves may be used. It has been estimated that US mines will produce around 2.4 mn oz of gold in 1985 and that the potential US market for gold coins could be up to 4 mn oz. The new US gold coins may be joined by new Australian and Dutch coins. This proliferation of coins could considerably extend the market for coins and more than compensate for reduced krugerrand sales in their gold consumption.
Govermnent a ova lo’s OFS old mine amal amation
The minister of finance has finally given approval to the Anglo American Corporation to consolidate all of its Orange Free State gold mines into one entity for operating and tax purposes. The new combined company is to be known as Free State Consolidated Gold Mines Ltd. It will probably be the world’s largest . single gold mine. Its output is expected to be about 113 tons per annum or 17 per cent of South Africa’s current total output. No significant expansion is planned by the new mine after the projects currently under way are completed though negotiations are continuing with a view to the possible exploitation of reserves in areas adjacent to the existing mines. The major advantages of the merger were said to be that the life of the mining complex would be extended as the group would be able to exploit lower grade ores than would have been possible for the individual mines because operating costs would be lower.
Platinum Eices remain strogg
The platinum price continued to react strongly to events within South Africa because reduced Soviet platinum sales increased South Africa’s already major importance as a world supplier. It also moved in sympathy with gold price adjustments, though platinum has tended to out-perform gold. World demand is said to be increasing and precious metals analysts expect platinum prices to remain strong in the short term. However, when the price rose to $360 after a labour dispute at Impala Platinum Mines (see above) dealers thought there would . be a sharp price setback once the dispute was resolved because this price was considered too high for the metal in the current market circumstances.
Diamond sales strengthen again
Contrary to the normal sales pattern, diamond sales in the second half of 1985 exceeded sales in the first half of the year in dollar terms. This increase in demand was evident in all the major cutting centres and there was, for the first time in several years, a recovery in the demand for good quality gem stones. The total value of second half sales by the Central Selling Organisation was $986 mn. Dollar sales were 18 per cent higher than in the first half of the year and almost 50 per cent up on the corresponding period of 1984. In rand terms the increases were 40 per cent and 109 per cent respectively. 1985 sales in rand terms were the best ever and, even in dollar terms, were the best for five years. These favourable marketing conditions were partly attributable to "more orderly marketing" of Russian diamonds and De Beers was able to start selling some stones from its massive stockpile by the end of the year. The main reason was, however, that end use markets finally improved. Preliminary indications are that worldwide diamond jewellery sales for Christmas 1985 reached a new peak. The De

Beers share price rose strongly when news of these improved trading conditions was published. .

In November the Indian government urged the Australian government to switch at least part of the Western Australia Argyle diamond production to the Indian government's Metals and Minerals Trading Corporation instead of continuing marketing through the Central Selling Organisation. However, the Australian authorities decided against the switch. The Australian minister for resources and energy says such a switch would threaten the viability of the diamond industry in Australia.

Comer marketing conditions deteriorate -

Falling international demand and prices for copper faced South African producers in the period under review. Export sales for 1986 are expected to be about 9 per cent down in volume terms and barely up in rand terms. Palabora Mining, South Africa's largest copper producer, is faced with this marketing situation at the same time as its operating costs are escalating due to inflationary conditions in South Africa and the more costly production conditions of operating a deeper and .deeper open pit. In view of this it is thought that the company may be intending to advance its plan for an underground shaft. This would improve the mine's overall cost structure.

- as do those for asbestos

The asbestos market has also continued to weaken and at a faster pace than had been anticipated. In the face of this, Griqualand Exploration and Finance (Gefco) announced it would reduce its output at the Pomfret Mine in the north western Cape. Output will be cut by 13 per cent and about 600 jobs have been lost as a consequence. The Minerals Bureau expects asbestos exports to be virtually unchanged in volume terms in 1986 as a whole compared with 1985 but prices to be down by 10 per cent.

The ferro alloy outlook worsens

Ferro alloys producers continued to experience strong export marketing conditions in the closing months of 1985 but industry leaders expect both prices and volumes for the major products to weaken during 1986 as the world steel industry moves back into recession. As with copper producers, rising domestic price levels, particularly for electricity, indicate that local producers will be caught in a profit squeeze as a consequence of the worsening overseas marketing situation. Industry spokesmen remain optimistic over the longer term outlook for the industry, however.

ENERGY

Electricity tariffs are increased again -

Escom's electricity tariffs were increased by an average of 10 per cent from January 1 and it was announced that a further 10 per cent increase would come into effect in July 1986. These hikes follow two 10 per cent increases in 1985. Escom urged consumers to shift electricity consumption to off-peak periods in order to enable it to avoid further price rises of this magnitude later.

- along with Etroleum fuel Eices

On November 11 petroleum fuel prices were increased for the third time in 1985.

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With this increase, the price of-93 octane petrol, the most widely used liquid fuel, in inland areas rose by 5.9 cents per litre. The prices of most other products were increased by similar amounts though the price of diesel sold through filling station pumps was increased by 9.5 cents per litre. The minister of mineral and energy affairs said that on average these increases were only half the increases necessary to compensate for the decline in the value of the rand. He warned that if the rand did not quickly recover to about $0.42, further increases of a similar magnitude would be required at the end of January. As the rand did stage such a recovery at the beginning of the year this price hike may not be necessary. The department of mineral and energy affairs will review the situation at the end of January before taking its decision. The minister also indicated that frequent fuel price adjustments were likely in the 12 to 18 months ahead.

On January 3 there was another petrol price hike applicable to some parts of the country only. Some spokesmen - including one from the Department of Mineral and Energy Affairs - claimed that the increases were necessitated by rail tariff increases, but the Department of Transport denied that its higher tariffs were responsible. The increases ranged from zero at the coast to 4 cents per litre in some parts of Botswana.

.081 Eoduction and sales rose in the third gya_r_ter -

Total coal output rose by 6.7 per cent between the second and third quarters to a level almost 9 per cent higher than in the corresponding period of 1984. There was also an improvement in tonnages sold in the quarter but not as large as the increase in output.

Domestic sales increased by 2.8 per cent between the second and third quarters to a level 6.8 per cent up on a year earlier. This was the second successive quarter to experience increased sales after four successive quarters of declining sales. Export sales recovered after their drop in the second quarter. The third quarter figure was a new record high, but was still only 2.4 per cent above the sales achieved in the same quarter of 1984. The unit value of export sales in rand terms was up by 9.2 per cent in the third quarter but this represented declining unit prices in hard currency terms as the value of the rand deteriorated.

- but boycotts have dealt further blows to coal emrts

.owards the end of 1985 there were further developments in the boycott moves which have been threatening the coal industry for some time. In November the French prime minister, Laurent Fabius, personally intervened to prevent the state controlled coal buying agency, ATIC, from renewing its South African coal purchasing contracts. He also "requested" the country’s state owned energy companies to stop using South African coal. Energy industry sources believe that these moves will result in coal sales to France ending altogether by about 1987/88. In 1985 South Arica sold about 5 mn tons of coal to France.

At the end of the year Denmark decided to stop South African coal imports altogether by the end of 1986 instead of 1990 as had previously been decided. According to one source, 6.2 mn tons of coal covered by existing contracts will be affected by this move.

South African coal industry sources were agreed that these moves posed a serious threat to the industry and that there was a danger other countries might institute similar bans. However, South African exporters have been diversifying their markets and there have been no signs of any discrimination against South African coal in the important and growing markets of South East Asia. Sales to Japan, for example, were up 14 per cent in the first half of 1985 compared with the corresponding period of 1984. Nevertheless, South African coal can only be sold at a discount in most markets and exporters have taken a new look at the long term export development programme, which called for exports to increase to 80 mn tons per annum by the mid-19905. The expansion of capacity at the Richards Bay coal terminal to enable it to handle 44 mn tons which was scheduled to take place in 1986 has been postponed, thus putting back the whole programme for an unspecified period.

Electricity outgt gmth continues to slow

Electricity output in the third quarter of 1985 was only 4.3 per cent higher than in the corresponding period of 1984. The rate of growth in output slowed every quarter since the fourth quarter of 1984. October and November statistics indicated that this slower rate of growth was continuing. Imports of electricity fell to negligible proportions in the third quarter since more than 500 pylons inside Mozambique have been blown up, preventing supplies of electricity reaching South Africa from that source.

Tassel Bay is to go ahead -

The long awaited go ahead for the Mossel Bay gas project was given in November. The scheme calls for about R3.5 bn to be spent to bring offshore natural gas to a land based plant in which it will be converted into approximately 25,000 barrels of liquid fuel per day. This is about 80 per cent of the maximum capacity of Sasol 3 and would save about R800 mn per annum in foreign exchange at November 1985 prices.

The new plant is likely to begin production in 1990, with sales of petrol and diesel beginning in 1991 and full commissioning scheduled for 1992. Proven gas reserves give the project a forecast viable life of 20 years but a further drilling programme is under way and it is hoped that the project's life could be extended to 30 years as further reserves are proved in the near vicinity. The "maximum amount" of private sector participation in the project is to be sought from early in the project's planning stage.

- and so may other smfuel onects

.Vhen he announced the go ahead for the Mossel Bay scheme, President Botha said the government would be making further announcements on synfuel developments in the near future. Newspaper reports took this to be a reference to the AECI/Amcoal coal gasification project and the Gencor torbanite gasification project, both of which have been widely aired in public on previous occasions. Sasol is planning a fourth plant but will not be ready to launch such a project for several years.

Oil squiec may be disrugted

Towards the end of 1985 further steps were taken towards enforcing the oil embargo against South Africa which, up to now, has been relatively ineffectual. The new steps were taken, not by governments, but by seamen's and dockers' unions worldwide and by anti-apartheid groups in the USA. Maritime uni0ns from more than 30 countries agreed in November to "take action" against vessels belonging to companies involved in shipping oil to South Africa. The actions contemplated could include a refusal by union members to man the vessels and/or to handle them in ports. At the time of writing this new initiative had had no visible impact on South African oil supplies but even the director general of mineral and energy affairs, Dr Louw Alberts, admitted that "this appears to be

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the most organised effort so far" to disrupt supplies. In a move closely related to this union initiative, anti-apartheid activists in the USA selected Shell Oil as the target of boycotts, pickets and civil disobedience in protest against its alleged role in supplying oil to South Africa.

The mayor of Rotterdam announced in November that all major ports in Western Europe would cooperate to ban oil shipments to South Africa. No date for the commencement of the proposed ban was publicised.

Uranium outgt remains low

Uranium output increased in the third quarter of 1985 for the second successive quarter but remained 8.4 per cent down on the same period of 1984. Spot market prices, which had been falling steadily until May 1985, picked up marginally and stabilised in the $15 to $16 range in the third quarter. In the fourth quarter they improved again to about $16.50 per 1b.

FOREIGN TRADE AND PAYMENTS

. The current account remains strog -

In the third quarter the current account strengthened again, registering a surplus of just over R1.5 bn. The main contributor to the improvement was a strong recOVery in the value of gold output as the rand gold price shot up to new record heights. Other export values were virtually unchanged as were service receipts. Much of the increased revenue from gold sales was offset by higher payments for merchandise imports and services.

Balance of Pa ents
(R mn; quarterly;

	1984	1985		
	4 Qtr	1 Qtr	2 Qtr	3 Qtr
Merchandise exports, fob	3,679	4,387	4,978	4,954
Net gold output	3,426	3,563	3,156	4,080
Service receipts	1,222	1,378	1,337	1,362
Merchandise imports, fob	-5,672	-5,448	-5,412	-5,903
Payments for services	-2,577	-2,622	-2,752	-3,090
. Total goods & services	78	1,258	1,307	1,403
Transfers &	76	97	1 00	
Balance on current account	172	1,334	1,404	1,503
Long term capital:				
central government (It banklng sector	159	3	-48	-249
other	722	352	152	-100
Basic balance	1,053	1,689	1,508	1,154
Short term capital not related to reserves	-1,879	-2,808	-113	-2,618
Change in net reserves	-826	-1,119	1,395	-1,464
Liabilities related to reserves	64	855	-1,178	1,263
SDR allocations 6c valuation adjustments	498	-252	12_7	1,593
Change in gross reserves	-264	-516	344	1,392

Preliminary indications are that the current account remained very strong in the fourth quarter. The value of exports (including gold) was about 42 per cent higher in October and November than in the Same months of 1984, whereas import values were up only 2.3 per cent in the same period. The crude trade surplus was R3,406 mn in the two months compared with a monthly average of less than R950 mn in the first nine months of the year. t

- but emits. still seem threatened -

Again news of actual or intended boycotts raised questions. over the likelihood of such strong performance continuing. Over recent months, for example,'the Irish government has announced its intention to ban imports of some South African fruit and vegetables from March 1986; six major UK store chains have decided to stop stocking South African products; Sweden has decided to ban all imports of South African agricultural products and krugerrands from January 1; the Danish government has voted to outlaw all trade with South Africa, and the New York Post was threatened with advertiser and reader boycotts until it halted purchases of South African newsprint. These examples, while individually unimportant, are indicative of the increasing effectiveness of the anti-apartheid campaign against the country's export products.

Such boycotts are not the only threat to exports, however. Western protectionism has continued to be an inhibiting factor and South Africa was forced to sign a new agreement to limit textile exports to the USA after a sudden surge in such exports had stimulated objections lrom the US clothing industry. Further, the South African Department of Trade and Industry imposed export controls on certain kinds of capital equipment as many companies, hit by the recession, had been exporting temporarily redundant capital equipment. The authorities were concerned that the country would not be able to afford to replace such equipment when the next upturn necessitated increasing capacity again. Aircraft and construction equipment were being particularly closely monitored. No blanket ban had been placed on the export of such equipment at the time of writing but industry sources feared that such a ban may be introduced.

- thogg countermeasures are being taken

In partial response to such concerns, the government has announced that it is to review export incentives and to set up a "secretariat for non-conventional trade" within the Department of Trade and Industries. A leading export consultant warned that government assistance to exporters could be counter-productive at this stage as the foreign boycotters were aiming particularly at the government and bodies associated with it. He said the best policy was likely to be for companies to use any available expertise but to make their own deals in the end. A report in m Star newspaper indicated that South African exporters already have access to a Wplicated network of trade routes organised by private export houses to which they can turn if direct approaches fail to result in satisfactory sales. These organisations apparently employ staff fully experienced in circumventing sanctions and boycotts through worldwide networks of interlocking companies and business contacts which can disguise the South African origin of goods where this is necessary. Such export houses are credited with the 1985 boom in exports to other African countries.

Another encouraging sign for South African exporters is continued resistance to the boycott campaign in the countries concerned. In Ireland, for example, there was reported to be strong opposition from business and the media to the ban on fruit and vegetable imports from South Africa.

Import controls are rejected

Imports have continued to be restrained by economic conditions and not materially affected by embargoes. However, various moves indicate that oil imports may again become more difficult (see ENERGY above). As in the case of exports, traders seem to find ways around the embargoes in most cases. For example, despite a 31 year ban on trade with South Africa; the Indian authorities uncovered 13 Bombay-based exporting firms trading with South Africa in November alone. The country's uncertain international debt position and recessionary economy have prompted some calls for the reintroduction of import controls, but these were categorically rejected by the minister of trade and industries. He said it was important to continue to strengthen ties with other countries, not to weaken them.

The rand recovers some of its losses

The commercial rand fell further from an average value of $0.385 in October to a low point of about $0.36 at the end of November before starting to appreciate quite strongly again. Early in January the currency passed $0.40 and by the middle of the month had almost reached $0.44. The improvement was not confined to dollar terms. From the end of November to the middle of January the rand had appreciated by approximately 20 per cent relative to sterling. The main factors influencing the appreciation were the favourable developments in the gold market and the weakening of the dollar. Official policy also helped. There was a further tightening of exchange controls early in December (see below) which resulted in the unwinding of some leads and lags. At the same time, the Reserve Bank adopted the policy of allowing the currency to move upwards with market forces and then supporting it at the new level if it showed renewed weakness. This policy was defended on the grounds that the authorities wanted to avoid wild fluctuations in the value of the currency. Foreign exchange dealers and economists expected this favourable trend to continue for several weeks from the middle of January but warned that once the leads and lags had finished unwinding the currency would be likely to depreciate again unless political developments were strongly positive.

The financial rand market remained very thin and the exchange rate of the financial rand moved independently of the commercial rand to a large extent. It also fluctuated widely. The average financial rand discount was 28.2 per cent in October and this discount improved to about 20 per cent in December before opening up to 36 per cent at the beginning of the year. This discount was not abnormally large. After the 1976 Soweto riots the discount had opened up to 55 per cent. However, the discount soon narrowed again and by mid-January the discount was back to 22 per cent. Particular items of political news and individual large transactions seemed to be the most important factors influencing the financial rand's trading rate.

Balance of Ements figges confirm cagital outflows

The third quarter balance of payments figures on page 32 clearly illustrate the capital crisis which forced the loan repayment standstill and exchange controls which were introduced in September (QER No 4 - 1985, pages 38-40). There was an outflow of about R350 mn of long term capital and of over R2,600 mm in short term capital not related to reserVes. Thus, despite a R1.5 bn current account surplus there was a decline of almost R1.5 bn in the country's net reserves. The authorities managed to raise R1,263 mn to bolster the reserves but the gross reserves were only able to rise because the depreciation of the rand enabled existing reserves to be revalued upwards.

Exchange controls are tightened

The exchange controls instituted in September were supplemented by additional measures on December 7. Some of these were small technicalities but others were of more significance. Exporters were - with immediate effect - required to cover their export earnings forward within seven days of shipping their goods. This move was aimed at unwinding some of the lags which had been keeping the market short of foreign exchange. The gold mines were also again paid entirely in rands for their gold instead of receiving half of the proceeds in dollars. Foreign exchange dealers were required to pay over all amounts held in special restricted accounts under the standstill arrangements to the Reserve Bank and to pay all future money collected in this way to the bank immediately. The Reserve Bank also announced that export credits and payments would be monitored more closely in future. Further, it announced that it would continue gradually to reduce the maximum net amount that foreign exchange dealers would be permitted to buy or sell forward with the Reserve Bank. The bank's governor, Dr de Kock, describing these new measures shortly afterwards, said: "Recent changes are a backward step from the long-term point of view but we decided the short-term advantages outweighed long-term considerations. If all goes well and the rand regains some strength, we will probably revert to the situation where gold mines receive half their receipts in dollars."

The debt standstill is extended

As expected, the debt standstill has been extended - from January 31 to March 4, 1986 - and no agreement has so far been reached between South Africa and creditors on a schedule for repaying the affected debt. South Africa's initial proposals called for the first repayments of capital to begin in 1990 and offered no compensation for this conversion of short term debt into medium term debt. These terms were not acceptable to the creditor banks.

Dr Leutwiler, the official mediator between the South African authorities and the creditor banks, visited South Africa in January. He said the next meeting of creditors would be in the second half of February and that he hoped to secure an agreement on his new proposals by the time the new standstill deadline of March 31 is reached. The new proposals he will be submitting in February will differ significantly from the earlier proposals. He also said that he was optimistic that the new proposals would result in a resolution of the crisis and permit the lifting of the standstill. He was far less critical of the government's political stance than he had been previously and he expressed confidence that further positive statements on reforms would be announced before his creditors' meeting. President Botha's speech on the opening of Parlimament on January 31 has been mentioned in this context. He made it clear that the South African debt problem was one of liquidity and not bankruptcy and said that, were it not for the political aspect, , the rescheduling would have been a relatively easy task. South African spokesmen continued to stress that the negotiations were not being approached as a "winding down" exercise but were aimed at normalising the foreign borrowing situation.

Details on the outstanding debt remain sketchy

Details on the maturity structure, currency and creditor identity of the debt both inside and outside the standstill net remain patchy. Latest half yearly BIS figures relate only to June 1985. They show total debt of $17.2 bn, of which some $11.3 bn had a maturity of less than one year. $7.6 bn was owed by banks, $2.7 bn by various public sector bodies and $6.4 bn by private non-bank clients. (The balance was unidentified.) At the same date the quarterly BIS figures show outstanding debt of $16.5 bn. This is roughly the same as at the previous two quarter ends but some $2 bn less than a year earlier. Figures from the South African Department of Finance relating to March 1985 showed that public sector or publicly guaranteed debt had been R16.2 bn (roughly $8 bn at the exchange rate prevailing at the time) and that the bulk of this money was due to be repaid before 1989. Some R3.3 bn was due in 1986. It was not clear how much of this debt was covered by the standstill but Dr de Kock stated that very little of the $10.3 bn debt outside the standstill was due for repayment in 1986 and that much of that would be rolled over in the normal course of business rather than being repaid, even though it was nominally falling due.

If the Reserve Bank's confidence about being able to roll over its own debts is taken at face value then a question still hangs over the ability of borrowers to roll over the approximately $5 bn trade credits that were outstanding when the debt repayment standstill was announced. These all remain outside the standstill net and if they cannot be rolled over there could be renewed problems. The performance of the rand in January indicates that this is not a short term problem.

Some new cagital is attracted

News on disinvestment has been mixed. A small number of foreign companies have announced their imminent departure from South Africa over the past three months. Renault, Peugeot, General Electric and Valor Appliances were the most prominent. All these companies cited business rather than political reasons for their decisions. At the same time a number of companies, including two large US and one large West German business, announced increased investment plans. Several small industrialists from Europe, the Far East and Israel were said to be bringing in new funds to establish factories, mainly in the "homelands", or national states.

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APPENDIX - 1 QUARTERLY INDICATORS OF ECONOMIC ACTIVITY IN THE REPUBLIC OF SOUTH AFRICA
1983 1984 1985
Mining
(301d:
vol of production
sales
Other:
vol of production
sales
Coal:
vol of production
sales
Diamonds:
vol of production
sales
Manufacturing Prodna
Total
Food
Basic iron 6c steel
Metal products
Industrial chen0cals
Constructiona
! Building plans
passed (private)
Emgloment
5 Mining
2 Manufacturing
0 Construction
1 RetaH Tradea
Sales: const values
K
Monthly av
1980:100
mn rand
1980:100
mn rand
1980:100
mn rand
1980:100
mn rand
1975:100
N
I!
H
H
mn rand
End qtr
’000
H
H
Monthly av
19802100
3 Qtr
102.1
835
99.3
508
120.8
205
98.7
42
123.4
124.9
150.0
93.5
109.9
499
696
1,393
416
108.1

4 Qtr
99.9
751
99.5
504
120.7
216
98.0
33
125.9
131.4
150.5
90.6
119.6
500
639
1,394
412
102.2
1 Qtr
2 Qtr
100.9
851
105.5
573
134.3
266
91.8
30
128.5
129.5
153.2
98.1
142.0
479
712
1,399
415
120.8
3 Qtr
102.3
984
108.7
638
142.0
300
99.7
43
125.4
134.3
147.0
91.1
134.0
471
721
1,396
403
107.9
4 Qtr
1 Qtr
102.0
1,188
113.3
805
145.8
373
103.4
58
121.5
136.1
146.3

92.4
137.4
403
709
1,359
401
122.9
2 Qtr
97.1
1,052
112.7
783
149.7
391
97.1
65
119.0
132.3
158.2
90.3
133.8
385
725
1,346
399
111.2
3 Qtr
100.7
136.0
119.0
904
158.6
416
109.0
67
117.8
139.6
161.9
81.4
136.3
395
734
1,344
400
103.2
4 Qtr
100.9f
119.7f
140.7
160.7
34.5
135.3
404f
96.1f
(continued)

QUARTERLY INDICATORS OF ECONOMIC ACTIVITY IN THE REPUBLIC OF SOUTH AFRICA (continued)
3 Qtr 4 Qtr 1 Qtr 2 Qtr 3 Qtr 4 Qtr 1 Qtr 2 Qtr 3 Qtr 4 Qtr
Prices Monthly av
Consumer prices: 1980:100 202 . 1f
change year on year 96 . . .
Prodn: all items 170.3 177.0 182.9 192.1f
1980:100
" 169.4 175.6 181.6 189.5f
domestic goods
173.6 181.6 187.7 201.0f
imported goods
Ind 6c commercial
I!
96.10 115.7 121.0 123.0%
shares "
Gold mining shares " 110.3 123.3 111.0 125.03
Monex & Banking End gtr
Money 6: near money: bn rand 38.7 39.3 40.5 40.7h
change year on year 96 .
Commercial banks 96 of total
excess liquidjty liabilities 1.3 3.7
Discount ratel % 13.5 13.5 13.0
" 25.0 22.0 19.5 16.5
Prime overdraft rate
Longer term govt
s'tock yield
Foreig Trade
Pamnts
Exports, fob
excl gold
Gold exports
Imports, fob
Terms of trade,
16.8 15.1 17.1 18.8
N
Qtrlx totals
mn rand
H
"
excl goldac 1980:100
Current balance mn rand
Exchange Holding End qtr
Reserve Bank:
gomd
foreign exchangee
Exchange Rate
Market rate
mn $
'1
$/rand
NB: annual figures of most of the series shown above will be found in the Annual Supplement.
a Seasonally adjusted. b Including Botswana, Lesotho, Namibia and Swaziland. c Monthly averages. (1 End quarter holdings at 90 per cent of the last ten London fixing prices in the relevant month. e Including SDRs. f Average for two months. g One month only. h End of October. i Bank rate, reintroduced August 1985.

APPENDIX - 2 REPUBLIC OF SOUTH AFRICA'S TRADE WITH MAJOR PARTNERS
monthly averages '000 $
Imports from the
Republic of South Africa, cit
Jan-Oct Jan-Oct
1984 1985 1984 1985 1984 1985
Foodstuffs
78,770
of which:
60 ,977
meat ck fish 6t products 14,098 11,420
cereals 6c products 3,166 2,324
fruit, veg 6: products 46,361 34,827
sugar 6: products 9,584 8,165
animal feeding stuffs 3,127 2,209
Beverages 6t tobacco 2,625 2,021
Hides dc skins, undressed 9,781c 8,793c
Pulp 13,816 14,272
Wool 6: other animal hair 34,730d 26,662d
Asbestos 7 , 371 5 , 035
Metal ores 6: scrap 54,085 48,286
Mineral fuels 97,276e 128,4448
Animal dc veg oils 6: fats 2,200 2,516
Chemicals 50,483 31,339
oins 70,498 21,826
83,611 172,094
'etals 6: manufactures 145,508 159,969
of whichziron & steel 89,755d 105,193d
Machinery 6c transport equipment 27,381 28,819
107,122
Total, including other items 1,515,775 1,393,089 218,278 172,360
DIRECTION OF
SOUTH AFRICAN EXPORTSa
monthly averages '000 3
USAg 129,806 119,839
Japan 113,280 113,091
UK 67,249 87,415
Africa 57 ,084 66 ,317
Switzerland 112 , 568 55 , 157
West Germany 60,858 49,239
Netherlands 34,133 47,470
Italy 38,231 39,898
Hong Kong 32,021 26,272
France 32,880 22,810
Total, all countries _, 1,515,775 1,393,089
(continued)

REPUBLIC OF SOUTH AFRICA’S TRADE WITH MAJOR TRADING PARTNERS (continued) ’
monthly averages ’ ’000 $
Exports to the
Republic of South Africa, fob
Jan-Oct Jan-Oct
1984 1985 1984 1985
Food, drink 6: tobacco
Textile fibres
94 ,602
46,521
Crude minerals 6: fertilisers ’ 8,911 8,029
Mineral fuels 3,7148 4,333e
Animal 6c veg oils 6: fats 12,476 8,463
Chemicals 63 ,469 60 , 084
Leather 6: rubber manufactures 17,583h 9,998h
Paper 6: manufactures 23,085 16,449
Textile yarn, cloth 6: mnfrs 53,488h 29,547h
Non-metallic mineral mnfrs 20,061 14,112
Iron 6: steel
Non-ferrous metals
Metal manufactures
Machinery, non-electric
Electric machinery dc appliances
34,593d 25,238d
16,708d 9,627d
20,347 15,115
303,337 197,315
93,235 72,436
Road vehicles 130,936 71,368
Aircraft 9,828 15,548
Clothing 12,526 6,873
Scientific instruments, etc 50,361 36,955
195,850 103,363
Total, including other items 1,325,286 932,900 138,554 109,457
SOURCE OF
SOUTH AFRICAN IMPORTSa
monthly averages ’000 $
1984 1985
West Germany ’ 199,235 153,542
USA 221,201 124,081
UK 146,106 111 ,483
Japan 172,626 88,570
France 52 , 903 47 , 811
Italy 46,291 29,505
Africa 28,567 18,834
Switzerland 22 , 582 18 , 550
Netherlands 23 , 833 17 , 809
Belgium 20,460 15,857
Total, all countries 1,325,286 932,900
NB: for partners’ trade, commodity totals are the sum of items shown in the trade accounts and may be
incomplete.
a Figures from South African statistics; exports, fob, imports, fob. Including imports of SW Africa,
Lesotho, Swaziland and Botswana. b Imports, fas. 0 Excluding fur skins, including leather. d Including
manufactures. e Excluding crude petroleum. f Including non-metallic manufactures. g Uranium is not
included in South African exports by country, hence the discrepancy between US imports as above.
h Including raw materials. ’