

## REVIEW OF ECONOMIC CONDITIONS IN THE UNION IN 1957

AS pointed out in earlier reviews, the Union, following the rapid rate of economic expansion in 1954, resorted in 1955 and 1956 to a number of anti-inflationary monetary and fiscal measures in order to counter the inflationary tendencies which had reappeared in its economy. Thus a relatively high level of taxation was maintained with a view to making further large contributions out of current revenue to the Loan Account, interest rates were increased, the commercial banks were requested to restrict credit for consumption and fixed capital purposes, and stricter control measures covering hire-purchase transactions in the motor industry were made effective. These measures, in conjunction with external factors, such as a decline in the net inflow of capital, had the effect during 1955 and 1956 of slowing down the excessive rate of economic expansion in the Union which characterised the immediately foregoing years, and this was accompanied by a slowing down of the rate of increase in commodity prices.

Facing a different economic set-up in 1957, the Union's policy of "consolidation" was changed to one of "encouragement".

Late in 1956, the Reserve Bank's request to the commercial banks to restrict credit for consumption and fixed capital purposes was withdrawn, although it was intimated that some measure of restriction of credit for consumption should still be maintained.

As far as interest rates are concerned, the Union, as in February, 1956, when the Bank of England rate was increased from 4½ to 5½ per cent, decided not to increase local rates in September, 1957, when the Bank of England rate was raised from 5 to 7 per cent, but rather to control the transfer of Union-resident capital funds to Sterling-area countries. This control, which was regarded as a precautionary measure against the possibility of an outflow of Union-resident funds to the United Kingdom for the sole purpose of taking advantage of the higher rates of interest prevailing in that market, had meanwhile been withdrawn in February, 1957.

Furthermore, there was a considerable additional relaxation of import control during 1957, particularly on motor vehicles, while at the same time, the control measures covering hire-purchase transactions in the motor industry were relaxed.

These and other internal measures, as well as a

number of external factors, notably the decline in prices of raw materials such as wool, lead and copper, and the increased interest rate structure abroad, particularly in the United Kingdom, had an important bearing on the Union's economic development during 1957. This development is reviewed in the following pages as far as the available statistics permit.\*

### NATIONAL ACCOUNTS

The figures for national income recently published by the Bureau of Census and Statistics show that the Union's total geographical income increased from £1,797 million in 1955/56 to £1,931 million in 1956/57, while its net national income, i.e., after deduction of the income accruing to non-Union factors of production, increased from £1,589 million to £1,702 million, or by £113 million. Deflating these revised figures with the retail price index, it would appear that the Union's *real* net national income increased by about 5 per cent in 1956/57, compared with increases of about 3.8 per cent in 1955/56, 3.9 per cent in 1954/55, and 6 per cent in 1953/54.

While these figures refer to the years ending 30th June, it would appear that, also on a calendar year basis, there was a further increase in the net national income as well as in the gross national product in 1957.

As far as the expenditure side of the national accounts picture is concerned, the figures are not yet available, but very provisional estimates indicate that both consumption and gross domestic capital formation increased in 1957. In the case of the last-mentioned, it would appear that investment in inventories showed a substantial increase.

### PRODUCTION AND EMPLOYMENT

#### *Agriculture*

Estimates made by the Division of Economics and Markets, which refer to the years ending June, indicate that the total gross value of agricultural production, which had increased from £336 million in 1954/55 to £347 million in 1955/56, rose sharply

\* Unless otherwise stated, all indices quoted in this review refer to the base 1948=100.



further to about £376 million in 1956/57, or by approximately £29 million. Of this increase, wool accounted for about £19 million, and maize for about £4 million.

### *Mining*

According to preliminary figures obtained from the Government Mining Engineer, the Union's total mineral output, excluding quarry products but including the exports of uranium,<sup>†</sup> increased to the new high level of about £345 million in 1957, compared with £315 million in 1956 and £282 million in 1955.

The further increase of about £30 million in 1957, was largely accounted for by gold and uranium. Gold production increased from 15,897,000 fine ounces in 1956 to 17,032,000 fine ounces in 1957, or from £198.5 million to £212.6 million, while the value of exports of uranium rose from £38.7 million to £49.9 million.

Coal sales increased from 35,570,000 tons in 1956 to 37,833,000 tons in 1957, or in terms of value, from £20.8 million to £21.7 million, while the value of copper sales declined from £13.3 million to £10.2 million, although the quantity sold actually increased from 47,200 to 50,500 tons. The sales of all other base minerals combined increased from £22.0 million to £26.8 million, and those of other precious metals (excluding gold and uranium) from £8.8 million to £9.3 million. In addition, diamond sales increased from £13.4 million to £14.5 million, although the quantity sold declined slightly from 2,577,000 to 2,552,000 metric carats.

### *Manufacturing*

Up-to-date figures on manufacturing output in the Union are not available, but judging by the revised index of manufacturing employment recently published by the Bureau of Census and Statistics, and the index of Union wholesale prices, it would appear that there was a further increase in the value as well as the physical volume of manufacturing output in 1957.

The new and more comprehensive employment index for private manufacturing, published for the period 1947/48 to June, 1957, indicates a stronger upward trend than the index published formerly. Manufacturing employment rose, namely, from an index of 70.6 in 1947/48 to 100.0 in 1952/53 (the base year), and 117.8 in 1955/56. During 1957, it rose further to 119.1 in June, which is the latest figure available.

Figures of salaries and wages paid in private manufacturing industries have also been published by the Bureau, and these indicate an increase from an index of 52.3 in 1947/48 to 100.0 in 1952/53, 130.1 in 1955/56, and 142.2 in June, 1957.

### *Electricity*

The monthly indices of electric current generated, excluding seasonal changes, continued their upward movement throughout 1957, and the average monthly

index rose from 190 in 1956 to 204 in 1957, compared with 176 in 1955.

### *Building and Construction*

The average monthly index of building plans passed in the eighteen principal cities in the Union, which had decreased from 150.7 in 1955 to 128.6 in 1956, declined slightly further to 120.6 in 1957. As will be seen from the chart below, the much smaller decline in 1957 than in 1956, was due to the fact that the monthly indices, excluding seasonal changes, showed an upward tendency during the last ten months of 1957, compared with a downward trend during 1955, and a relative stable tendency during 1956.

According to the new index of employment in private construction, recently published by the Bureau of Census and Statistics, employment increased from 77.8 in 1947/48 to 100.0 in 1952/53 (the base year), and 107.8 in 1955/56. In June, 1957 the index stood at 111.9, and it would appear that the figure for 1957 was higher than for 1956.

## COMMODITY PRICES

While the average monthly index of wholesale prices (all goods) increased from 157.4 in 1956 to 159.7 in 1957, the monthly index rose from 159.6 in December, 1956 to 162.5 in October, 1957, and then declined to 159.2 in December, 1957. This small net decline over the year, was reflected in the indices of both Union and imported goods.

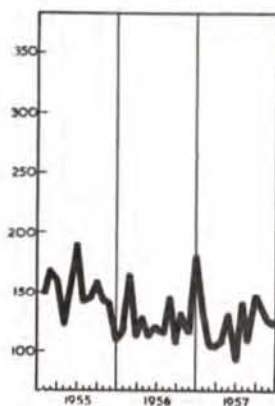
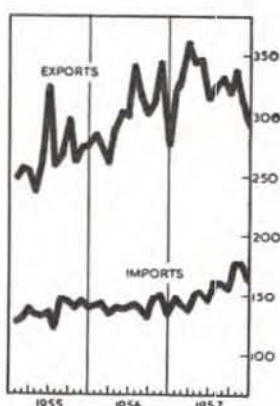
In the case of retail prices, the average monthly index increased from 139.3 in 1956 to 143.5 in 1957, but, as indicated by the Bureau of Census and Statistics in its Press Release dated 23rd September, 1957, this increase was partly due to the incorporation in the index in August, 1957, of the results of the rent census taken in May of that year, which was the first *complete* census taken since May, 1955. The Bureau states that "the complete census of 1957, reflects the correct average rent for 1957, but the increase compared with the previous year would be larger than normal. In effect, the figure for 1957 would incorporate the influence of new houses (although relatively small in number as compared with all rented houses) which entered the rental market during the two years since the previous complete census of 1955".

As far as agricultural prices are concerned, the average monthly index, covering all products, increased from 145 in 1956 to 157 in 1957. The monthly indices increased from 156 in December, 1956 to 168 in August, 1957, and then declined to 137 in December, largely as a result of a decline in wool prices.

In regard to the last-mentioned, the weighted average price of all types of wool, based on prices actually paid for wool in the grease at public auction in Union harbours, increased from 4.88 shillings per lb. in December, 1956 to 4.92 in September, 1957, and then declined to 3.57 shillings in December, 1957,

<sup>†</sup> Value figures of uranium production are not available.



BUILDING PLANS  
PASSEDFOREIGN  
TRADE

Value indexes (1948=100) — Seasonally adjusted.

## FOREIGN TRADE†

Both the Union's imports and exports rose to new high levels in 1957.

As a result of a substantial relaxation of import control, the Union's imports increased from about £494 million in 1956 to about £551 million in 1957, and, as will be seen from the chart above, there was a fairly strong upward movement in the monthly indices during 1957, compared with a slight downward tendency during 1956.

The increase of about £57 million in imports from 1956 to 1957, was largely accounted for by increases of £33 million and £11 million under the headings "Metals, Metal Manufactures, Machinery and Vehicles" and "Textiles, Apparel, Yarns and Fibres", respectively, although increases were also registered under most of the other classes of imports with the exception of "Food, Drink and Tobacco" which showed a decline of about £4 million. Of the increase of £33 million under the heading "Metals, etc.", approximately £20 million was due to increased imports of motor vehicles and parts, including motor cycles.

Turning to the Union's exports, the preliminary figures indicate that, excluding gold and ships' stores but including ships sold, there was an increase from about £402 million in 1956 to about £438 million in 1957, or of about £36 million. Uranium exports increased by £11 million, wool by about £5 million, fruit by about £4 million, and maize and diamonds by about £3 million each, while smaller increases were registered in the exports of a large number of other products. On the other hand, declines occurred in the value of exports of such items as lead (£4 million) and copper (£3 million), largely as a result of price declines.

The decrease in export prices, particularly in the

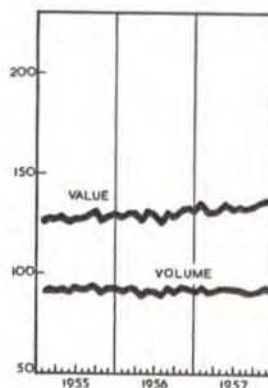
† Because of adjustments made for balance of payments purposes, the import and export figures quoted here differ somewhat from those published by the Department of Customs and Excise.

case of wool, was in large part responsible for the declining tendency in total exports during the second half of 1957 indicated by the chart above. In this connection, the preliminary figures indicate that the value of wool, lead and copper exported during the second half of 1957 would have been approximately £6 million higher if the average price levels had remained the same as during the first half of the year, and this does not take account of the fact that a bigger amount of wool would probably have been exported during the second half of the year, but for the declining trend in overseas prices.

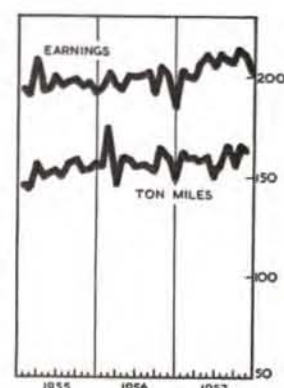
## INTERNAL TRADE

The available indices of retail sales published by the Bureau of Census and Statistics for a number of the principal cities in the Union, indicate further increases during 1957. Combined indices for the several cities indicate, namely, that the value of turnover increased by about 2.9 per cent from 1956 to 1957, compared with an increase of 1.1 per cent from 1955 to 1956, and that the physical volume turnover increased by about 0.4 per cent, compared with a small decline of 0.3 per cent, respectively. As shown by the chart below, the tendency in the monthly value indices was slightly more upward during 1957 than during 1956, while in the case of the physical volume turnover, the relative stable tendency during 1956, was continued during 1957.

## RETAIL SALES



## S.A. RAILWAYS



Indexes (1948=100) — Seasonally adjusted.

## RAILWAY TRANSPORTATION

As will be seen from the chart above, the monthly indices of railway earnings showed a more distinct upward movement during 1957 than during the year before, and the average monthly index rose from 198 in 1956 to 207 in 1957, compared with 197 in 1955. Similarly, judging by the figures available for the first ten months of the year, the average monthly index of total ton miles of revenue earning traffic was higher in 1957 than in 1956.

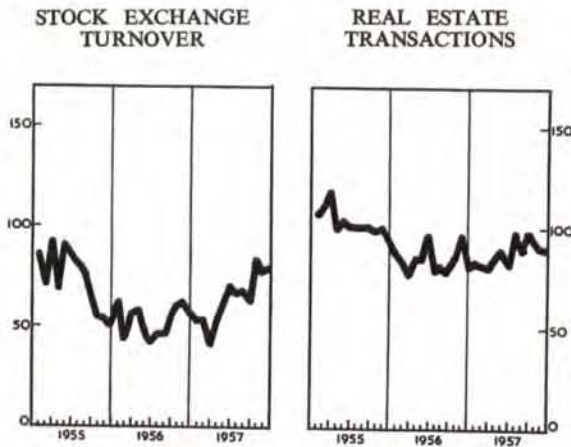
## STOCK EXCHANGE TRANSACTIONS

Stock exchange activity increased during 1957. After declining from 113.1 in 1954 to 74.5 in 1955,



and 52.7 in 1956, the index of turnover, based on the total value of transactions in marketable securities by Johannesburg Stockbrokers, increased to 63.0 in 1957, and, as will be seen from the chart below, the monthly indices, excluding seasonal changes, showed a fairly strong upward movement during 1957, especially after the first quarter of the year.

As against the increased turnover, the average monthly price index of the shares of producing gold mines, which had decreased from 74 in 1955 to 63 in 1956, declined further to 57 in 1957. The monthly indices, however, reached a low point of 52 in May, 1957, and then increased to 61 in December. In the case of industrial shares, the average monthly price index increased slightly from 55 in 1956 to 56 in 1957, while the monthly index stood at 57 in December, 1957, compared with 55 in December, 1956.



Value indexes (1948 = 100) — Seasonally adjusted.

#### REAL ESTATE TRANSACTIONS

After revealing a declining tendency during 1955, which was continued to a lesser extent during 1956, the monthly indices of the value of property transactions showed an upward movement during 1957, as shown in the relevant chart above. The average monthly index, which had dropped from 103 in 1955 to 85 in 1956, increased to 89 in 1957.

#### BALANCE OF PAYMENTS

Preliminary estimates indicate that, in spite of a very substantial increase in imports and a declining tendency in the prices of some of the major export commodities, the Union had a relatively small net current deficit with the outside world in 1957. As indicated above, imports amounted to about £551 million, and exports, excluding gold and ships' stores but including ships sold, to about £438 million, leaving a trade deficit of about £113 million. As against this deficit, the net gold output amounted to £214 million, but, on the other hand, net current invisible payments are provisionally estimated at about £106 million, so that the net current deficit

with the outside world would appear to have been about £5 million.

Compared with this net current deficit, the gold and foreign exchange reserves of the Reserve Bank, the commercial banks and the Union Government declined by about £31 million. This reflects a net outflow of capital which was largely due to net repayments of loans, net repatriation of securities, net foreign investments by Union residents, and a net outflow of trade credit and other short-term funds. These net outward movements, the bulk of which could be associated directly or indirectly with the higher interest rates ruling in the United Kingdom, would appear, however, to have been partly offset by a net inflow of capital in other forms, such as direct investment capital.

During the year, the Union received loans totalling £7.2 million from a foreign banking institution, and drew £6.9 million under the I.B.R.D. loans, but repaid £3.7 million on the latter account as well as a Swiss loan of £2.5 million, while Union Government Stock to an amount of about £3.5 million was repatriated from the United Kingdom. Furthermore, the Government paid its subscription of £0.4 million to the International Finance Corporation, while the banks' short-term foreign liabilities declined by about £2 million. Thus the foreign capital movements of the official and banking sector accounted for a net inflow of about £2 million.

As far as private capital is concerned, net repayments of uranium, municipal and other identified private loans amounted to about £10 million, while stockbroker returns indicate a net purchase by Union residents of about £12 million of Union securities from foreigners. In addition, net identified foreign investments by Union residents amounted to about £5 million, and it would appear, furthermore, that there was a net outflow of trade credit and other short-term funds, since, judging from the available analysis of foreign exchange transactions, a net amount of some £3 million was invested by foreigners in the Union in the form of direct investment capital.

Of the identified outflow of private capital during 1957, an amount of at least £20 million could be directly or indirectly associated with the higher rates of interest ruling in the United Kingdom. As reflected in the figures quoted, residents of the United Kingdom, in particular, were influenced by the difference in interest rates to sell Union securities, to withdraw short-term funds from the Union, and to pay for Union goods as late as possible, while Union residents preferred to repay rather than to renew foreign loans, and to raise new money locally instead of overseas. Moreover, Union-resident funds were attracted abroad, i.e. as far as was permitted by the regulations governing the outflow of such funds during the periods when these funds were subject to control.

In connection with the figures quoted above, it should be stressed again that the total figure for



private capital movements in the balance of payments statement published by the Reserve Bank, is determined as a residual, and that it represents the difference between the inflow and the outflow of private capital, in other words, that it is a net figure. Due to the lack of data on the Union's foreign assets and liabilities, the Bank has up to the present not been in a position to calculate this figure directly, and it has accordingly been obtained by estimating all the other items in the balance of payments statement, and taking the balancing figure as representing private capital movements. Thus it has been pointed out that the figure so derived includes the so-called "omissions and errors" which arise on account of the estimates involved in determining the other items in the statement, particularly the item "current invisibles". While the results of the Union's first census of foreign assets and liabilities covering the year 1956, which was conducted last year, are not yet available, a general impression gained from the returns submitted is that the figure for net current invisible payments in the balance of payments statement has been underestimated. To the extent that this has been the case, it would mean that the net inflow of private capital, for example, in 1956, has been understated, and that the net outflow, for example, in 1957, has been overestimated. The indications are that a substantial inflow of direct investment capital occurred in 1956, and this would be in line with the figures published by the Department of Commerce of the United States which indicate that direct investment by the United States in the Union increased by a considerable amount in that year. Similarly, as indicated above, it will not be surprising if the final figures for 1957, when they become available, reveal a substantial inflow of direct investment capital as against the already identified net outflow of portfolio investment capital.

During the coming months, after the results of the census become available, the published balance of payments statistics for the Union will be revised.

### MONEY AND BANKING

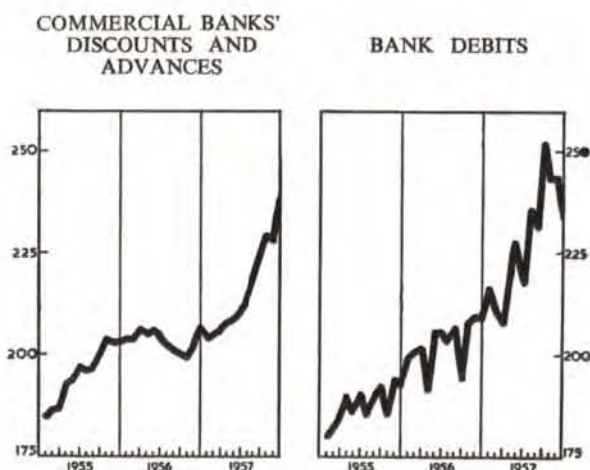
While the average monthly amount of money in circulation in the Union, which had declined from £447 million in 1955 to £434 million in 1956, rose again to £445 million in 1957, the amount in circulation at the end of 1957 was somewhat smaller than that at the end of 1956, namely, £458 million compared with £462 million. This decline of £4 million in the money supply during 1957, was the net result of a decrease of about £14 million in the amount held by the Government, and increases of about £3 million and £7 million in the amounts held by local governments and the private sector, respectively.

The fact that the money supply declined by only £4 million during 1957, in spite of a decline in the country's gold and foreign exchange reserves and a further increase of about £35 million in the commercial banks' fixed and savings deposits, was largely due to an increase of about £54 million in bank

credit extended in the Union. Reserve Bank credit increased by £23 million, of which £19 million represented discounts of Treasury and other bills for the National Finance Corporation, while commercial bank credit rose by £31 million as a result of an increase of £45.6 million in the banks' discounts and advances, and declines of £14.7 million in their balances with the National Finance Corporation and £0.4 million in their investments. These figures indicate a reversal of the tendencies in 1956, when there were substantial increases in the commercial banks' investments and balances with the N.F.C., and only a small increase in their discounts and advances. In that year their total liquid assets increased by about £47 million, whereas in 1957 there was a decline of about £4 million.

In regard to the short-term movement in the commercial banks' discounts and advances, the chart below shows that, excluding seasonal changes, the trend was strongly upward throughout 1957, compared with a relatively stable tendency during 1956. The average month-end index of discounts and advances stood at 217 in 1957 compared with 203 in 1956.

As far as interest-bearing deposits are concerned, there was, apart from the above-mentioned increase of £35 million in the commercial banks' fixed and savings deposits, an increase of £21 million in the deposits with Permanent Building Societies during 1957, while the share capital of these Societies increased by about £23 million. On the other hand, deposits with the National Finance Corporation (excluding deposits of banks), and those with the Post Office Savings Bank, declined by about £2 million each.



Value indexes (1948=100) — Seasonally adjusted.

### BANK DEBITS

The index of bank debits, which covers all debits to current accounts in banks in the Union, except Government accounts, increased from 203 in 1956 to 228 in 1957, i.e. by over 12 per cent compared with increases of about 9 and 8 per cent in 1955 and 1956, respectively. As shown in the chart above,

there was a much stronger upward tendency in the monthly indices during 1957, than during the previous two years.

The further increase in bank debits in 1957, caused the index of the velocity of circulation of the money supply in private hands to increase to 256, compared with 235 in 1956 and 210 in 1955.

### CONCLUSION

The foregoing brief review indicates clearly that economic activity in the Union increased further in 1957 in terms of both value and physical volume. Unfortunately, detailed figures on gross national product, investment and consumption are not yet available, and the actual rate of expansion is, therefore, difficult to determine. However, judging by the indices available on a calendar year basis, the rate of increase in the monetary volume of economic activity was higher from 1956 to 1957, than from 1955 to 1956. This is reflected in the table below which summarises the percentage changes in the average monthly figures of a number of the more important indices.

<i>Value Indices</i>	<i>Percentage Change</i>	
	<i>1955 to 1956</i>	<i>1956 to 1957</i>
Bank Debits — — — — —	+ 8.2	+12.2
Money in Circulation — — — — —	- 3.0	+ 2.7
Discounts and Advances of Commercial Banks — — — — —	+ 4.1	+ 6.4
Imports — — — — —	+ 2.6	+11.3
Exports (including gold production) — — — — —	+10.5	+ 9.5
Railway Earnings — — — — —	+ 0.7	+ 4.4
Retail Sales — — — — —	+ 1.1	+ 2.9
Property Transactions — — — — —	-17.5	+ 4.7
Stock Exchange Turnover — — — — —	-29.3	+19.5
Building Plans Passed — — — — —	-14.7	- 6.2

Considered on a monthly basis, most of the value indices reviewed above, also indicated a stronger upward movement during 1957 than during 1956, after correction for seasonal changes.

This upward movement in the monetary volume of economic activity in 1957 is to be attributed to the considerable increase in productive capacity during recent years, the large increase in imports and exports, and in bank credit to the private sector, and these increases were recorded in the face of several foreign factors which were unfavourable to expansion in the Union.

These foreign factors, over which the Union's authorities had little or no control, had a strong influence on the country's balance of payments with the outside world in 1957. While, as indicated above, the balance of payments estimates presented are provisional and subject to revision, pending the results of the census of foreign assets and liabilities, it is clear that the decline in overseas raw material prices during the second half of the year, and the severe credit squeeze and higher interest rates ruling in the United Kingdom, were in large part responsible for the decline in the Union's gold and foreign exchange reserves during the year.

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