QUARTERLY ECONOMIC REVIEW

SUMMARY AND CONCLUSIONS

(1) Although it tended to lose some momentum during the second quarter of 1962, the current economic upswing would appear to have regained its stride during the third quarter and to have continued into the fourth quarter.

(2) The main expansionist factors during recent months have been increases in private consumption and, to a lesser extent, in private fixed investment. These two important components of total expenditure on locally produced and imported goods and services have taken over the expansionist role played during the earlier stages of the revival by merchandise exports and current Government expenditures. Merchandise exports have declined slightly during recent months, while current Government outlays have been increasing at a considerably slower rate. The gold ouput, however, has continued its steady upward course.

(3) With merchandise exports no longer increasing and imports moving upwards as a result of increasing private consumption and investment spending, the current surplus on the balance of payments declined considerably during the third quarter of this year from the record level attained during the preceding quarter. But despite a further moderate net outflow of capital, the overall balance of payments still showed a substantial surplus, so that the official gold and foreign exchange reserves continued to increase. Similar tendencies prevailed during October.

(4) The monetary and banking situation continued to be characterised by an abnormally high degree of liquidity and short-term interest rates declined further. The Bank Rate was lowered from 4 to 3½ per cent on the 27th November.

(5) In the capital market most kinds of long-term funds remained readily available and the prices of gilt-edged securities as well as mining, financial, industrial and commercial shares showed a substantial further increase.

(6) Despite the increase in consumption and private capital outlays and the existence of a record supply of money and near-money in the economy, there has thus far been no indication of general *demand* inflation or aggregate *over-spending*.

NATIONAL ACCOUNTS

Gross National Product

After tending to slow down somewhat during the second quarter of 1962, the gross national product increased at a noticeably faster rate during the third quarter, i.e. after adjustment for seasonal changes.

Expenditure Tendencies

The main reason for the improvement during the third quarter would appear to have been a further increase in private consumption to a level well above the relatively low figure registered during the third quarter of the preceding year. Outlays on *durable* consumer goods, in particular, showed a marked increase.

A further stimulus was provided by an increase in gross domestic fixed investment to a level somewhat higher than that of the third quarter of last year. This was mainly attributable to an increase in fixed capital outlays by *private enterprises*: fixed investment by *public authorities* and *public corporations* showed little change. As during the second quarter, fixed investment by private *manufacturing* enterprises was again well above the level reached during the corresponding quarter of 1961.

These increases in private consumption and fixed investment occurred at an opportune time, since merchandise exports, which had been a major expansionist factor during the earlier stages of the revival but which had tended to level off during the first half of 1962, declined somewhat during the third quarter. Similarly, current expenditure by the Government and other public authorities, which had earlier also played an important role in bringing about a revival in economic activity, did not maintain its rate of increase during the third quarter, i.e. after allowance for seasonal movements. The gold production, however, continued to increase steadily and to exercise favourable primary and secondary effects on the economy.

Investment in inventories did not materially affect the level of activity during the third quarter. A decline in industrial stocks would appear to have been more or less offset by an increase in commercial inventories (including agricultural stocks), i.e. after allowance for the usual seasonal changes.

As a result of the increase in total domestic spending during the third quarter, the demand for imports of goods and services began to rise strongly from the relatively low level at which it had remained for more than a year, and this, as will be set out in more detail later on, helped to bring about a marked reduction in the large surplus on the current account of the balance of payments.

Saving

If allowance is made for seasonal changes, gross domestic saving decreased somewhat during the third quarter of 1962. This was largely attributable to a decline in personal saving, which, in turn, represented the counterpart of the upward movement in private consumption referred to above. Nevertheless, total saving is still estimated to have been higher than during the corresponding quarters of the two previous years.

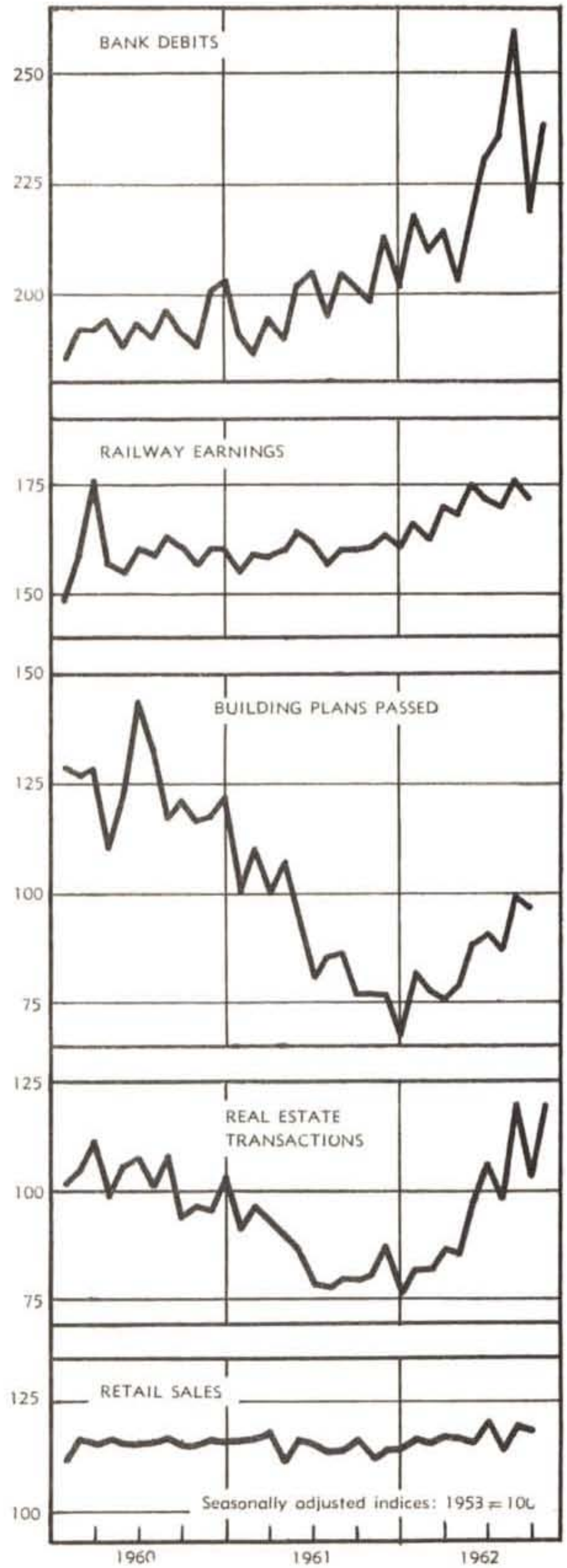
EMPLOYMENT

Employment as a whole would appear to have continued to increase during the third quarter of this year. The number of registered unemployed Whites, Coloureds and Asiatics, for example, declined further to 23,000 at the end of October, compared with the peak of 34,000 at the end of February, 1962. In addition, the available employment indices, after adjustment for seasonal changes, indicate some increase in employment in both private manufacturing and mining; a slight decline appears to have occurred in employment in construction.

PRICES

The index of *wholesale* prices (1953=100) increased slightly from 110.7 in June to 111.7 in October. The *consumer* price index likewise continued to edge upwards, although at a slower rate than during the second quarter, and reached 121.4 in October, compared with 121.2 in June.

Although the emergence of certain "bottlenecks" may have contributed to some price increases, this slight further upward movement in the price level would not appear to have been caused by an excessive increase in the total demand for South African goods and services, but rather by such factors as increases in money wages, tariffs and railway rates. In other words, such moderate "inflation" as there has been during recent months, would appear to have been more of the "cost-push" than the "demand-pull" variety.



OTHER ECONOMIC INDICATORS

The movements of most other seasonally adjusted economic indicators point to a continuing improvement in general economic activity during the third quarter of 1962. Bank debits, for example, increased substantially after the middle of the year, although it showed wide fluctuations from month to month. The indices for building plans passed and real estate transactions likewise attained considerably higher levels during the third quarter than during the second quarter.

Although railway earnings and retail sales did not increase further during the third quarter, they remained relatively high.

BALANCE OF PAYMENTS

Current Account

The surplus on the current account of the balance of payments declined substantially during the third quarter of 1962 to a total of approximately R58 million, compared with R75 million and R106 million during the first and second quarters, respectively. The decrease of R48 million between the second and third quarters was mainly the result of an increase of about R13 million in imports and a decrease of about R36 million in merchandise exports. The net gold output decreased by about R5 million,[1)] while net invisible payments to the rest of the world likewise registered a small decline.

Nevertheless, after correction for seasonal movements, the surplus on current account during the third quarter was still equivalent to to an annual rate of well over R200 million.

Private Capital Movements

It is provisionally estimated that there was a net outflow of private capital of about R26 million during the third quarter. Of this total, R14 million was accounted for by net sales of listed South African securities by foreigners.[2)] Part of these sales represented transactions entered into under the two exchange control relaxation schemes introduced during the course of this year, namely the *permit scheme,* in terms of which brokers may purchase in London, for approved local institutions, scrip which is short on the Johannesburg Stock Exchange, and the *arbitrage scheme,* in terms of which sterling quotas are allocated to arbitrageurs to enable them to buy South African shares in London for sale in South Africa. The figure of R14 million, however, also includes other sales, the proceeds of which were "blocked" and again appear elsewhere in the balance of payments as an inflow of *official and banking* capital, namely in the form of investments in blocked rand bonds and an increase in foreign deposits with financial institutions in South Africa.

The balance of the net outflow of private capital, namely R12 million, included repayments of uranium, Escom and Johannesburg City Council loans totalling R7 million.

It may be noted that "Net Errors and Omissions" in the preliminary balance of payments estimates for the third quarter amounted to plus R12 million, a part of which may represent an inflow of private capital, possibly in the form of temporary trade credits.

Official and Banking Capital Movements

For the first time since the first quarter of 1961, there was no net outflow of official and banking capital during the third quarter of this year, but actually a small net inflow of R1 million. A repayment of a Swiss loan of R5 million by the Government during September was more than offset by investments of about R2 million in blocked rand bonds and a net increase of about R4 million in foreign deposits with South African financial institutions, which largely represented blocked funds.

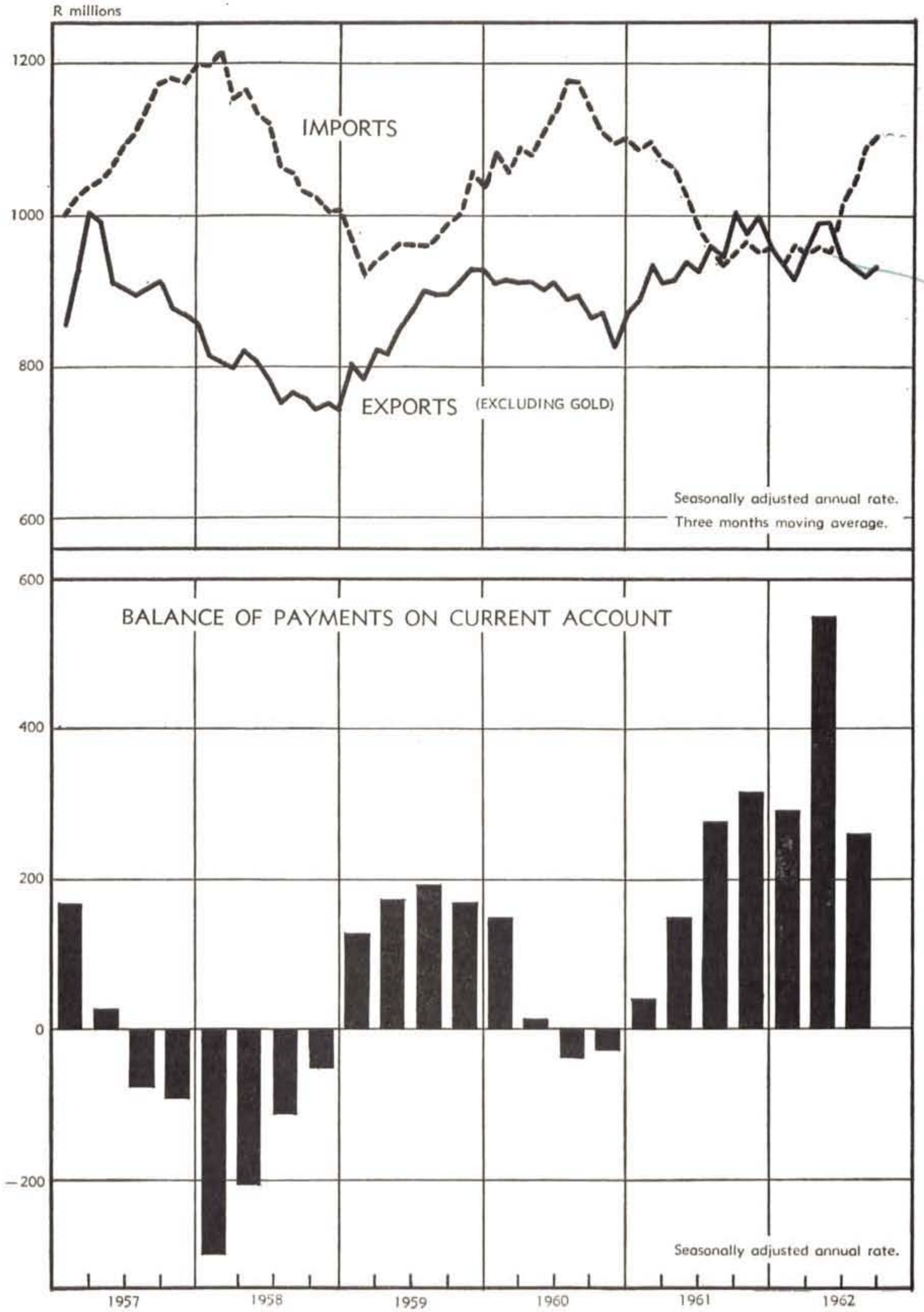
Gold and Foreign Exchange Reserves

As a result of the various transactions mentioned above, the total official gold and exchange reserves held by the Reserve Bank, the Government and the commercial banks increased by a further R45 million during the third quarter to R473 million at the end of September.

1) As mentioned earlier, the actual gold production continued to increase during the third quarter. But for balance of payments purposes, use is made of the concept "net gold output", which in practice is roughly equivalent to the value of the gold purchased by the Reserve Bank from the mines during the period concerned, and which may at times differ somewhat from the value of the actual gold production. More details concerning this discrepancy can be found in Table XXXIV.

2) The following table shows the purchases and sales by South African residents from and to foreigners of securities listed on the Johannesburg Stock Exchange, as reported by stockbrokers (unadjusted for nominee and direct transactions):

1962 —	Purchases by S.A. Residents R mil.	Sales by S.A. Residents R mil.	Net Purchases R mil.
January	1.9	1.5	0.4
February	2.6	2.4	0.2
March	3.0	2.3	0.7
April	2.3	1.5	0.8
May	5.5	3.8	1.7
June	5.7	4.4	1.3
July	7.0	4.1	2.9
August	6.3	4.2	2.1
Sept. (provisional)	6.9	2.7	4.2
Oct. (provisional)	6.0	2.2	3.8


R millions
1200
1000
800
600
IMPORTS
EXPORTS (EXCLUDING GOLD)
Seasonally adjusted annual rate.
Three months moving average.
600
400
200
0
– 200
BALANCE OF PAYMENTS ON CURRENT ACCOUNT
Seasonally adjusted annual rate.
1957
1958
1959
1960
1961
1962

Developments during October

During October imports increased more than seasonally to R97 million, while exports showed little change and amounted to R79 million. This resulted in a trade deficit of about R18 million. But after taking into account the net gold output of R57 million and net invisible foreign payments, the balance of payments on current account still showed a considerable surplus.

On capital account, the limited information available at this stage points to a small net outflow of private as well as official and banking capital during October.

As a result of all these transactions, the gold and foreign exchange holdings of the Reserve Bank, the Government and the commercial banks increased further by about R18 million to a total of R491 million at the end of October.

MONETARY AND BANKING SITUATION

Supply of Money and "Near-Money"

An exceptionally high degree of liquidity continued to prevail in the South African economy throughout the third quarter and October of this year. Indeed, mainly as a result of the continuing surplus on the overall balance of payments, the seasonally adjusted total of money and "near-money"[3)] increased further from R1,772 million at the end of June, 1962, to a new record of R1,843 million at the end of October, 1962.

Commercial Banks

In these circumstances, the cash, money at call and investments of the commercial banks increased further from R537 million at the end of June, 1962, to R676 million at the end of October. During this period their discounts and advances declined from R744 million to R710 million. The result was that the ratio of their liquid assets to their liabilities to the public increased further from 47.8 to no less than 53.3 per cent.

If allowance is made for seasonal movements, however, the banks' discounts and advances (excluding those made to the Land Bank) tended to move upwards from the relatively low level reached by the middle of the year.

3) Other liquid assets held by the private sector with the banking sector (in the form of interest-bearing deposits) and with the Government sector (in the form of Treasury bills and Tax Redemption Certificates).

Building Societies

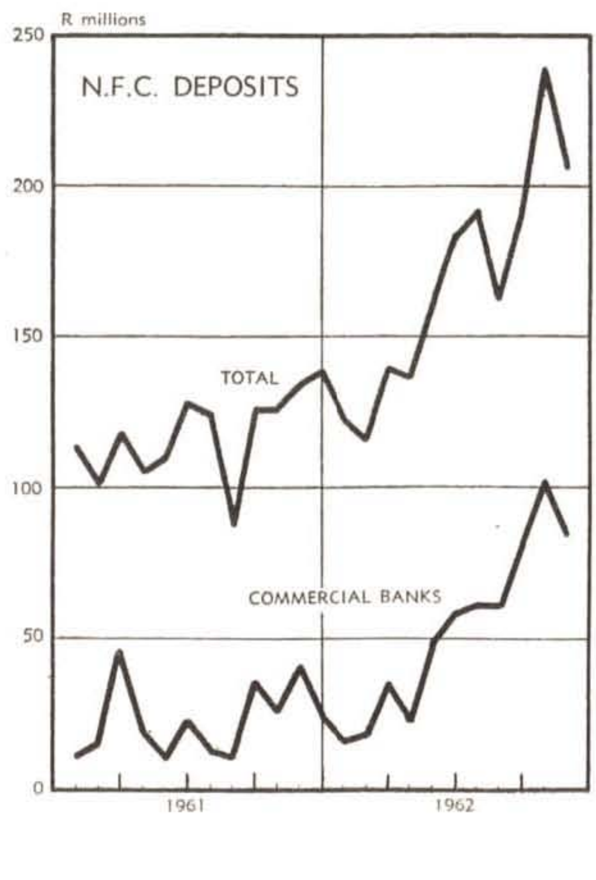
The building societies continued to be able to meet all reasonable demands made on them for housing loans. Their total share capital increased from R689 million at the end of June, 1962, to R718 million at the end of October, while their deposits rose from R612 million to R632 million. During the same period, their total mortgage advances outstanding increased from R1,079 million to R1,093 million.

Merchant Banks

The total deposits of merchant banks increased from R49 million at the end of June, 1962, to R53 million at the end of August, before declining to R48 million at the end of October, while their acceptances decreased from R48 million to R44 million over this period.

National Finance Corporation and Discount Houses

In view of the continued increase in the liquidity of the economy as a whole and of banking institutions in particular, the National Finance Corporation experienced a further upward movement in its deposits from R183 mil-



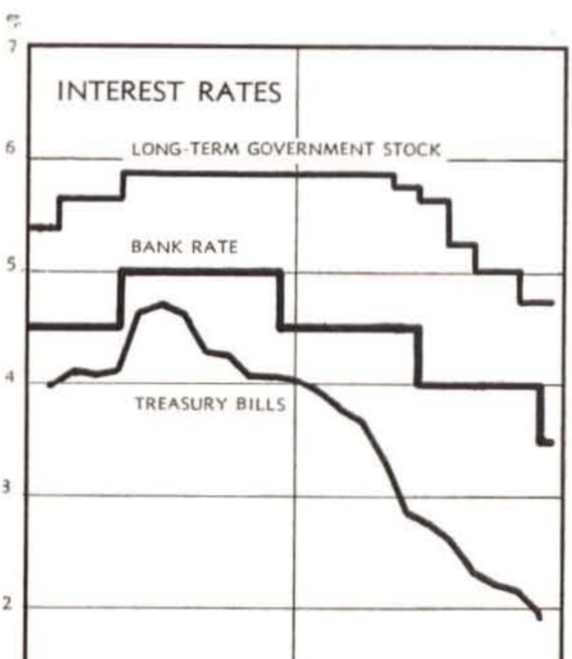
lion at the end of June, 1962, to R239 million at the end of October, while call money held with the discount houses increased steadily from R138 million to R170 million.

Reserve Bank

The Reserve Bank's own position continued to reflect the exceptional ease and liquidity of the general monetary and banking situation. Its total discounts, advances and investments, after rising from R37 million at the end of June, 1962, to R86 million at the end of August, mainly owing to a seasonal increase in its discounts of Land Bank bills, declined again to R60.7 million at the end of November. Its holdings of Government and other gilt-edged securities actually decreased further from R24 million at the end of June to R9 million at the end of November, while its legal reserve ratio at the end of November was still as high as 90.2 per cent.

CREDIT POLICY AND SHORT-TERM INTEREST RATES

With the official gold and foreign exchange reserves continuing to rise and with no indication in the economy of general demand inflation or aggregate over-spending, the monetary authorities, throughout the period July to November, 1962, continued to adhere to the view that the immediate aim of short-term economic policy was to assist the recovery in economic activity by stimulating investment and consumption outlays. In the prevailing conditions, however, it was not necessary for the Reserve Bank to create a favourable monetary environment by, for example, buying securities in the open market, since such an environment already existed as a result of the large and sustained balance of payments surplus. As indicated earlier, the supply of money and near-money in the economy had increased to record levels and most forms of credit had for some time been readily available.



Indeed, supply and demand conditions in the money market during the period under review were such that short-term interest rates continued to drift downwards. The Treasury bill tender rate, for example, declined from 2.65 per cent on the 29th June to 1.80 per cent on the 7th December.

In these circumstances, the Reserve Bank decided, with effect from the 27th November, to lower the Bank Rate for the third time in less than a year, namely from 4 to 3½ per cent. This step was taken "not only in recognition of the changes which have occurred in the monetary and banking situation during recent months, but also to reduce the cost of short-term financing and to indicate to the business community and the general public that the way appears to be clear for the continuation of the current economic revival and for a further acceleration of the rate of economic growth".

The commercial banks reacted almost immediately by announcing a reduction of ½ per cent in their lending and deposit rates, with the exception of their rate for six months notice deposits, which was reduced by only ¼ per cent, and their savings deposit rate, which remained unaltered at 2½ per cent. This brought their minimum overdraft rate down to 5½ per cent and their 12-months' deposit rate to 3½ per cent.

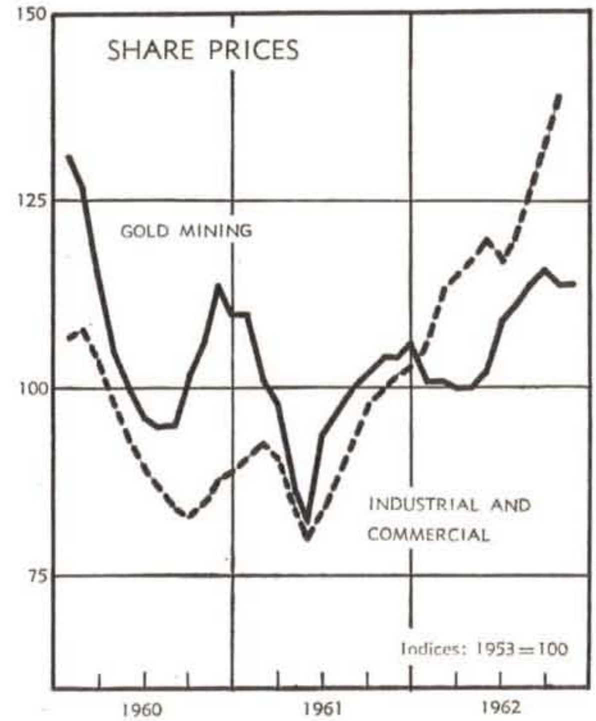
CAPITAL MARKET

With the continuance of a high rate of domestic saving, coupled with the substantial further increase in the liquidity of the economy, the demand for securities in the capital market tended to increase during the months July to

November. On the other hand, despite the relaxations of exchange control referred to earlier, the supply of scrip remained limited. The result was that most security prices showed a substantial further increase.

In the gilt-edged market, for example, the pressure of funds induced the Reserve Bank to reduce its pattern of rates for Government stock by $\frac{3}{8}$ per cent in July, by a further $\frac{1}{4}$ per cent in August (0.275 per cent in the case of stocks with maturities between 3 and 11 years) and by another $\frac{1}{4}$ per cent on the 1st November. This brought the rate for stock with a maturity exceeding 11 years down to $4\frac{3}{4}$ per cent.

The prices of mining shares also continued to rise and by October a level had been reached which was not far below the peak of early 1960. Industrial and commercial share prices, which had earlier in 1962 already passed the 1960 peak, likewise increased further, and by October had attained the highest level in about 14 years.



Indices — Excluding Seasonal Changes
(1953=100)

	1961		1962			
	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	October
Bank Debits	201	205	214	217	238	239
Discounts and Advances of Commercial Banks	189	187	187	182	181	180
Stock Exchange Turnover	175	180	193	299	384	371
Value of Gold Production	196	200	207	212	219	225
Value of Imports	110	112	114	113	128	136
Value of Exports	160	168	155	167	156	156
Railway Earnings	159	162	166	172	172	....
Value of Retail Sales	115	114	117	118	118	....
Value of Property Transactions	79	82	84	96	107	120
Value of Building Plans Passed	83	74	78	86	91	....
Employment:						
Private Manufacturing	120	120	120	121	123	....
Private Construction	102	104	107	110	109	....
Mining	124	126	125	122	124	127
Unemployment	257	273	280	264	230	....