

## QUARTERLY ECONOMIC REVIEW

### SUMMARY AND CONCLUSIONS

(1) During the first four months of 1963 the economic upswing in South Africa not only continued but tended to gain additional momentum. Income, production and employment increased substantially, while most other economic indicators revealed definite further upward tendencies.

(2) The main expansionary factors during the first quarter were increases in private consumption, gold output, merchandise exports and, to a much lesser extent, private fixed investment. Current as well as capital outlays by the public sector showed little change, while total inventories increased at a slower rate.

(3) Largely as a result of the marked further increase in aggregate demand, imports resumed the upward movement which had been interrupted towards the end of 1962. But since the gold output and merchandise exports also increased substantially, the seasonally adjusted surplus on the balance of payments on current account during the first quarter of 1963 was only slightly less than during the fourth quarter of 1962. Since this surplus more than offset a further net outflow of capital, the total gold and foreign exchange reserves held by the Reserve Bank, the commercial banks and the Government continued to rise, although at a slower rate than formerly. During April and May the current surplus actually increased, so that despite a substantial net outflow of capital, the total reserves moved further upwards.

(4) As a result of the continued upswing in economic activity and the decline in the overall balance of payments surplus, the liquidity of the private sector tended to level off during the first four months of 1963, i.e. in relation to the gross national product. In addition, the liquidity of the commercial banks declined more than seasonally, mainly owing to a further increase in their discounts and advances.

Money market conditions tightened somewhat and short-term interest rates moved up slightly from the abnormally low levels to which they had declined. In general, however, the monetary and banking situation remained one of comparative ease.

(5) In the capital market, conditions likewise remained conducive to economic expansion. But mainly owing to substantial new issues of securities by both the private and public sectors and the continued operation of the *permit* and *arbitrage* schemes of exchange control relaxation, the downward tendency in long-term interest rates and yields was arrested during the first quarter.

(6) Despite the continued existence of an abundant supply of money and near-money and the substantial further increase in the actual spending of the economy, both the consumer price index and the wholesale price index remained relatively stable between January and April of 1963.

(7) In general, the South African economy would appear to have succeeded, during the first four months of 1963, in attaining simultaneously the much desired objectives of reasonably full employment of available resources, rapid growth, balance of payments equilibrium (given the existence of exchange control) and price stability.

### NATIONAL ACCOUNTS<sup>1)</sup>

#### *Gross National Product*

During the first quarter of 1963 the real gross national product not only increased further but did so at a noticeably higher rate than during any quarter of the preceding three years.

1) The analysis in this section of the review is largely based on the Reserve Bank's quarterly estimates of the national accounts, **after adjustment for seasonal fluctuations**. Since these figures are not yet judged reliable enough for publication, the analysis is confined to pointing out broad tendencies.





### *Expenditure Tendencies*

An important factor in this improved performance of the economy was the behaviour of merchandise exports. Although still relatively high, exports had been showing a marked downward tendency since about May, 1962, and a continuation of this movement might have tended to offset expansionary influences emanating from elsewhere in the economy. From the beginning of 1963, however, this downward drift was sharply reversed, mainly owing to increased exports of maize, diamonds, sugar and copper. At the same time, the gold output showed a substantial further increase, and these two influences acting together would appear to have provided an important stimulus to general economic activity.

Another significant expansionary factor was a substantial further upward movement in consumer spending. Indeed, as a result of its steady increase during the last three quarters, real consumption per head of the population is now estimated to have recovered the ground lost after 1958. In addition, the current expenditure of the Government and other public authorities remained relatively high.

On the other hand, despite the increases in gold output, merchandise exports and private consumption, total fixed investment somewhat surprisingly did not maintain its upward movement. Private fixed investment still showed a slight increase, mainly owing to a further rise in the fixed capital outlays of manufacturing enterprises, but slight declines occurred in the capital spending of both public authorities and public corporations. Nevertheless, total fixed investment during the first quarter of 1963 still exceeded that of the first quarter of 1962 by about 8 per cent.

Mainly owing to increases in commercial and industrial inventories, total inventories again rose fairly substantially, although by a smaller amount than during the preceding quarter. Since this stocking-up process involved purchases of locally produced as well as imported goods, it tended to operate as an additional factor stimulating economic activity.

Largely as a result of the increase in total domestic spending brought about by these various changes, imports increased sharply during the first quarter, thus resuming the upward movement which had been temporarily interrupted during the fourth quarter of 1962. The balance of payments on current account, however, continued to show a large surplus, as will be pointed out in greater detail later on.

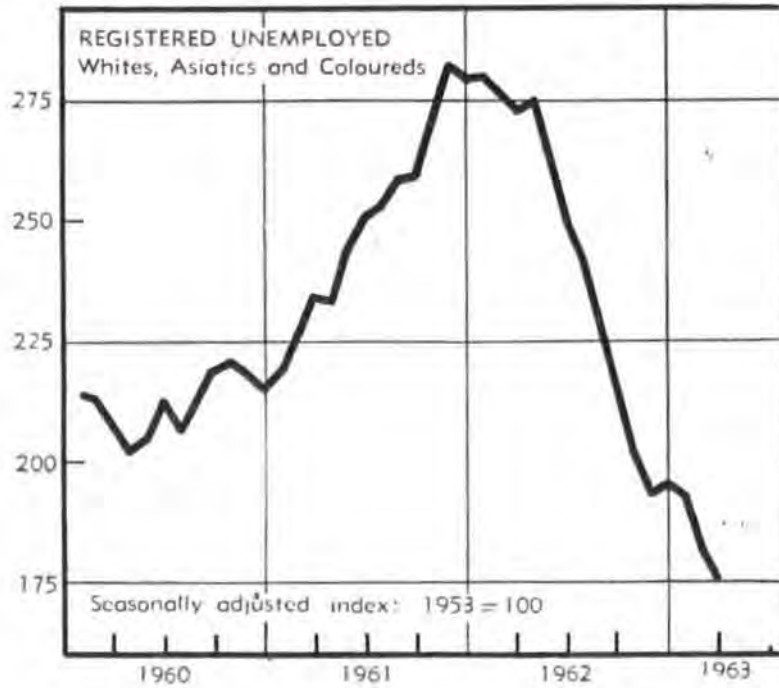
### *Saving*

Gross domestic saving declined slightly. Preliminary estimates suggest that an increase in public "saving", i.e. in the current surplus of public authorities, was more than offset by decreases in company and personal saving. The latter decline largely represented the counterpart of the increase in private consumption.

## PRODUCTION AND EMPLOYMENT

Production in most branches of secondary industry moved further upwards during the first four months of 1963. During this period the average index of the physical volume of manufacturing output was 11.3 per cent higher than during the corresponding four months of the previous year. The categories responsible for the largest percentage increases were transport equipment, basic metals and electrical machinery.





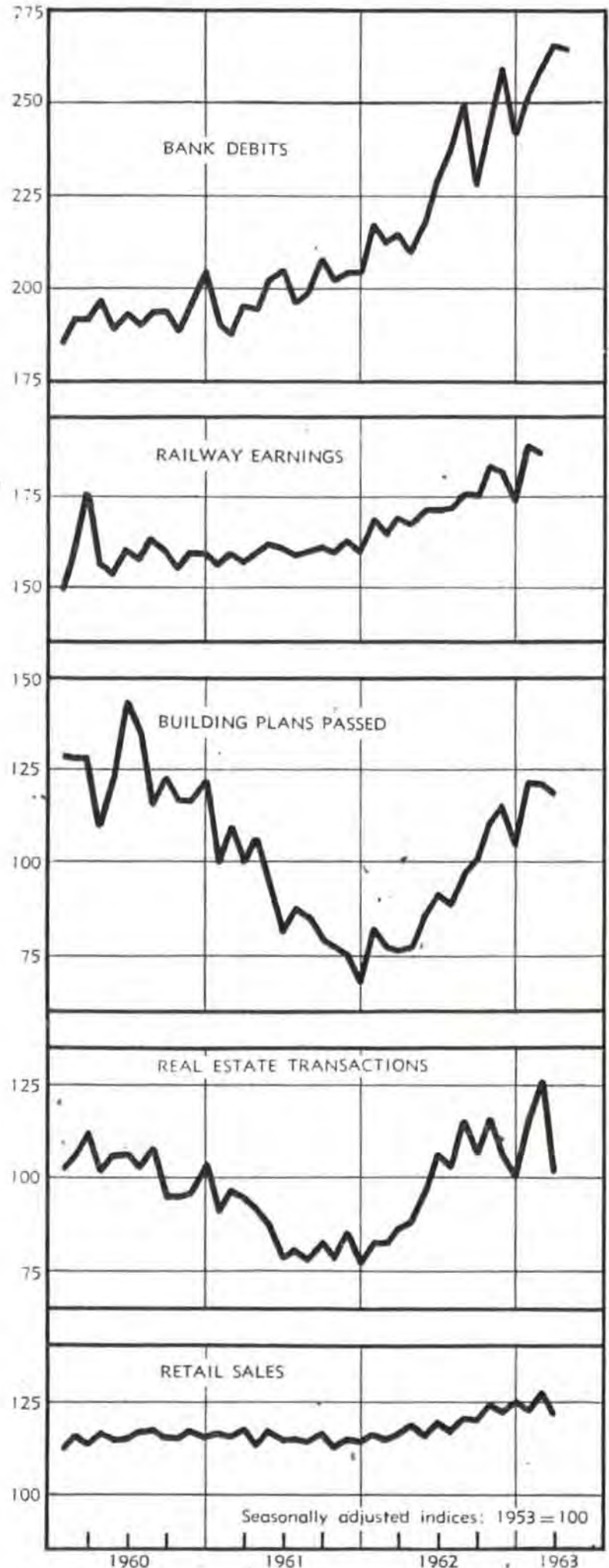
Employment likewise continued to rise during this period, while the seasonally adjusted index of unemployed Whites, Coloureds and Asiatics, which had already declined considerably during the course of 1962, continued to move sharply downwards.

### PRICES

Although the further increase in spending on the gross national product during the first quarter not only brought the economy as a whole closer to full employment of the available labour and other resources than it had been for some time, but also began to reveal bottlenecks in respect of certain types of skilled labour, there was as yet no evidence of *total* demand pressing unduly upon available resources and pulling prices upwards. On the contrary, the consumer price index remained relatively stable, while the wholesale price index actually declined slightly after the end of 1962, mainly owing to a decline in the prices of South African (as opposed to imported) goods.

### OTHER ECONOMIC INDICATORS

As the accompanying graphs indicate, the seasonally adjusted indices for bank debits, railway earnings, building plans passed, real estate transactions and retail sales all reveal a definite further upward tendency during the first four months of 1963, although considerable fluctuations again occurred from month to month.



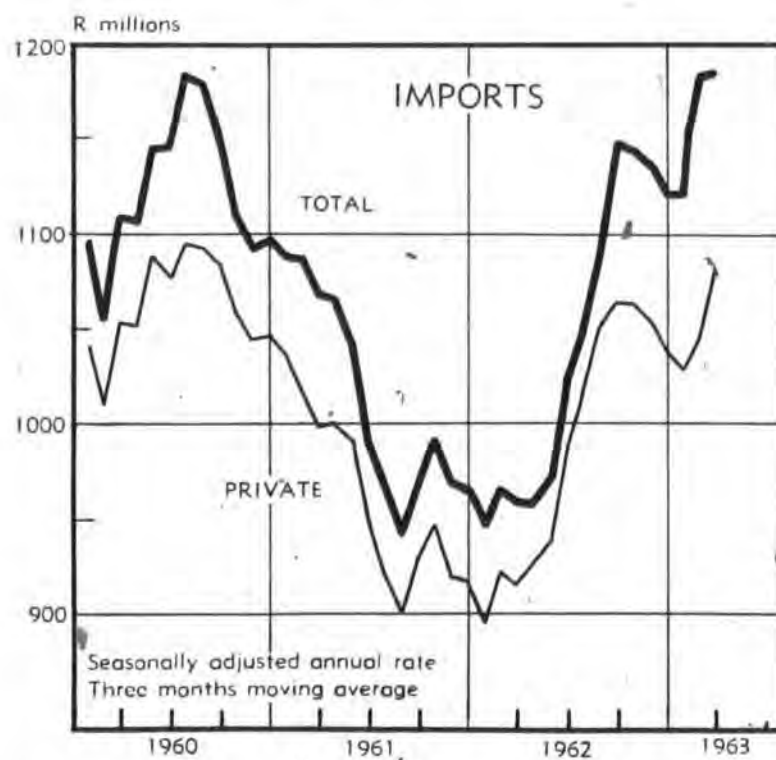


## BALANCE OF PAYMENTS

*Current Account*

Despite the continued improvement in internal economic conditions, the surplus on the balance of payments on current account only decreased from R52 million during the fourth quarter of 1962 to R25 million during the first quarter of this year, which was slightly more than the normal seasonal decline. After correction for seasonal movements, it remained at an annual rate of over R100 million which, although considerably less than the record rate of over R500 million attained during the second quarter of 1962, was still substantial.

This continued surplus was mainly attributable to the further increase in the net gold output and the reversal of the downward tendency in merchandise exports referred to earlier, and was attained despite a sharp rise in total imports. After declining somewhat paradoxically towards the end of 1962 and the beginning of 1963, seasonally adjusted private imports resumed their cyclical upward movement, while Government imports remained high. In March seasonally adjusted total imports for the first time surpassed the previous record which had been set in January, 1958.

*Private Capital Movements*

The total net outflow of private capital during the first quarter is provisionally estimated at the relatively high figure of about R36 million. Of this amount, approximately R16 million was accounted for by net purchases by South African residents from foreigners of listed South African securities,<sup>2)</sup> largely under the *permit* and *arbitrage* schemes of exchange control relaxation. At the same time, it is known that substantial contractual repayments of foreign loans were made. It further seems probable that the monetary and financial ease and low interest rates which continued to exist in the country during this period were to some extent availed of by certain concerns to switch from foreign to local financing.

*Official and Banking Capital Movements*

Total official and banking capital showed a net inflow of about R17 million during the quarter. This was mainly attributable to an inflow of about R12 million in the form of short-term capital resulting from foreign trade transactions of the official sector. In addition, the Government received a further R3.5 million for its special blocked rand bonds, bringing the total amount invested in these securities during the fiscal year ended 31st March up to R13.6 million.

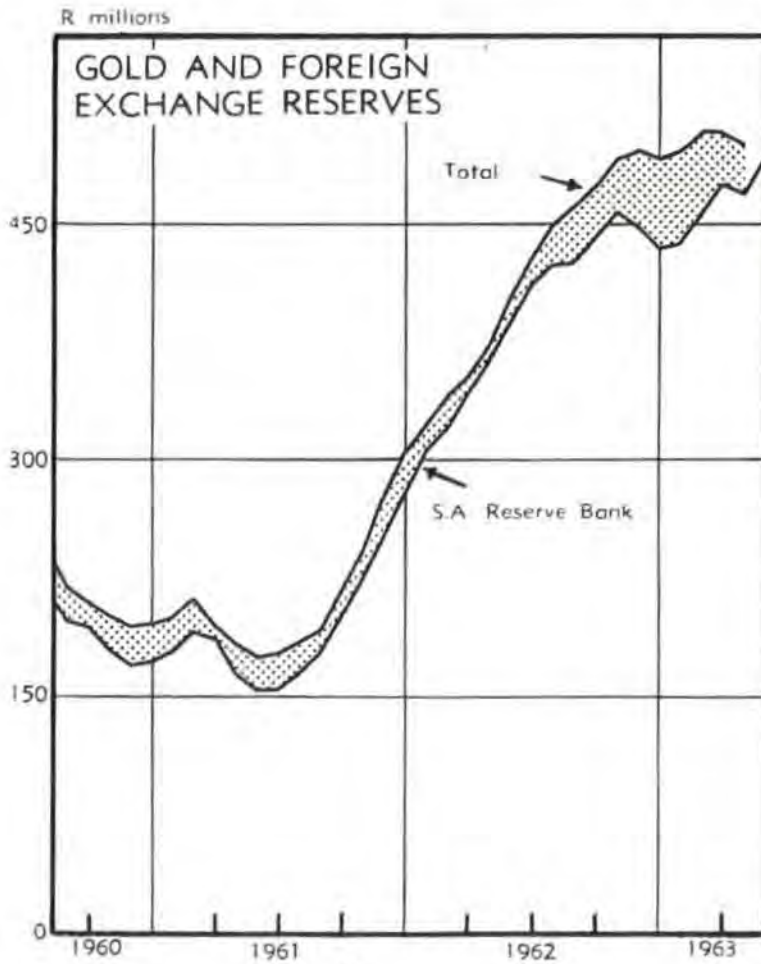
*Gold and Foreign Exchange Reserves*

As a result of the various tendencies in the balance of payments discussed above, the *total* official gold and foreign exchange reserves of the country increased by only R15 million during the first quarter, as compared with an average quarterly increase of R47 million

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 stock-brokers (unadjusted for nominee and direct transactions):

	Purchases by S.A. Residents R mill.	Sales by S.A. Residents R mill.	Net Purchases R mill.
1962—			
First quarter .....	7.5	6.2	1.3
Second quarter .....	13.6	9.8	3.8
Third quarter .....	20.2	11.0	9.2
October .....	8.1	2.2	5.9
November .....	15.2	4.2	11.0
December .....	7.5	2.6	4.9
1963 —			
January (provisional)	8.5	2.9	5.6
February (provisional)	9.0	4.3	4.7
March (provisional) ..	8.1	3.9	4.2





during 1962. The accompanying graph shows the extent to which the total reserves tended to level off during the fourth quarter of last year and the first quarter of this year.

The Reserve Bank's gold and foreign exchange reserves actually increased by about R40 million during the first quarter of this year, but against this had to be set a decline of about R25 million in the foreign exchange reserves held by the commercial banks and the Government. This decline was partly due to the net repatriation of about R12 million of the funds which the commercial banks had temporarily invested abroad under special forward exchange arrangements with the Reserve Bank (the so-called "swop arrangements").

#### *Developments during April and May*

During April and May the surplus on the balance of payments on current account not only remained comfortable but actually increased. This enlarged surplus more than offset a substantial further net outward movement of capital, so that the total gold and foreign exchange reserves held by the Reserve Bank, the commercial banks and the Government increased further, namely by about R22 million to a level of R521 million on the 31st May.

## MONETARY AND BANKING SITUATION

### *Money and Near-Money*

Although the seasonally adjusted total of money and near-money<sup>3)</sup> held by the private sector continued to show an upward tendency during the first four months of 1963, the ratio of this total to the gross national product showed a considerably smaller increase than it had done during any of the preceding five quarters. In other words, the "income velocity of circulation" of money and near-money declined much less rapidly than it had done previously, which suggested that the liquidity of the private sector was at last tending to level off.

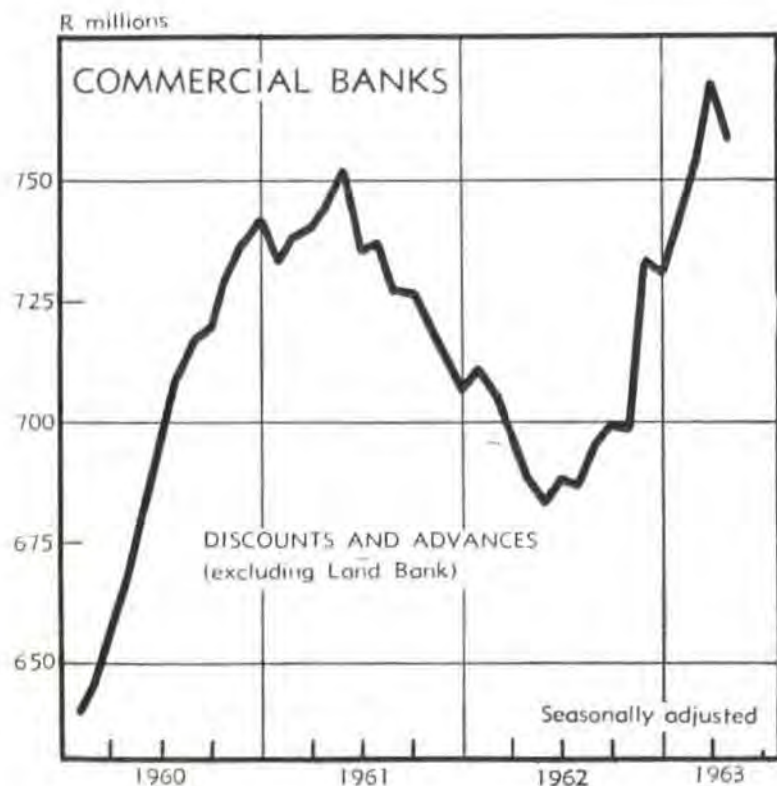
Moreover, as during the fourth quarter of 1962, the increase in money and near-money was no longer, in the first place, a reflection of a large surplus on the overall balance of payments, as had been the case during the second half of 1961 and the first three quarters of 1962, but was to a considerable extent the result of an increase in bank credit to the private sector, which, in turn, was related to the upswing in general economic activity. This shift in the "causes" of the changes in the supply of money and near-money was meaningful, as it affected the position of most classes of banking institutions in the country.

### *Commercial Banks*

In the case of the commercial banks, for example, their cash, money at call and investments continued to decline during the first four months of 1963 and their discounts and advances continued to rise, so that the ratio of their liquid assets to their liabilities to the public declined further, namely to 44.4 per cent at the end of April, compared with a peak of 53.3 per cent at the end of October, 1962. Although these movements were to a large extent the result of the seasonal shift of tax funds from the private to the public sector, they were also partly indicative of the cyclical changes taking place in the internal economy and the balance of payments.

3) Near-money includes interest-bearing deposits held with the "banking sector", Treasury bills, short-term Government stock and tax redemption certificates outside the banking sector. "Banking sector" includes the Reserve Bank, commercial banks, National Finance Corporation, discount houses and part of the Land Bank.





It is furthermore interesting to note that, if discounts and advances to the Land Bank are excluded and seasonal fluctuations eliminated, the commercial banks' discounts and advances not only continued the upward movement which had begun in May, 1962, but in March of this year surpassed the previous peak attained in May, 1961. During April, however, they declined slightly.

#### Merchant Banks

The increased demand for short-term credit was also reflected in a further increase in the acceptances of merchant banks to a level of R79 million at the end of April, 1963, compared with a low point of R44 million in October, 1962. At the same time, deposits with merchant banks, which had attained a peak of R53 million in August, 1962, moved slightly further downwards to R44 million in April of this year.

#### Building Societies

In common with the commercial and merchant banks, the building societies experienced a further increase in the demand for their loans. But during the period under review the total funds at their disposal still proved to be more than sufficient to meet this demand. Not only did their share capital continue to rise strongly but their total deposits increased sharply in March and April, following the usual seasonal decline during the last quarter of 1962 and the first two months of 1963.



#### National Finance Corporation and Discount Houses

The institutions most affected by the changes in underlying conditions were the National Finance Corporation and the discount houses, which suffered a sharp decline in the call money held with them, namely, from the record month-end peak of R408 million in October, 1962, to R279 million in February, 1963. This represented a considerably more than seasonal decrease. Subsequently, however, this total moved up again slightly to R291 million at the end of April, while it is known that deposits with the National Finance Corporation increased by a further R8 million during May.

#### Reserve Bank

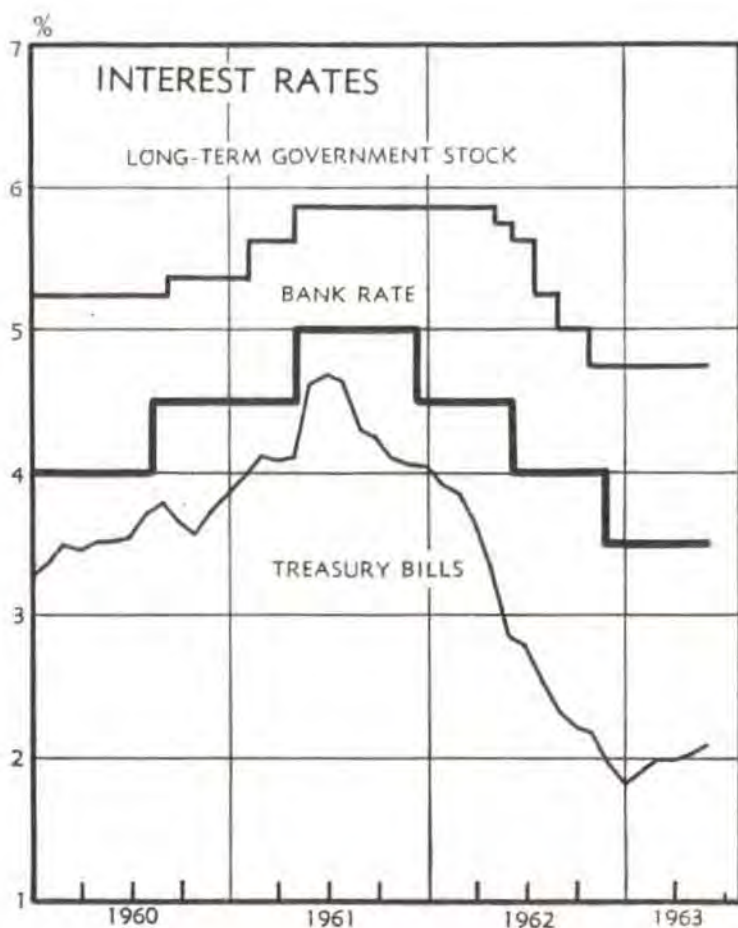
These various tendencies were, as usual, partly reflected in changes in the Reserve Bank's asset structure. Thus, after rising from a low point of R33 million at the end of October, 1962, to R145 million at the end of February, 1963, mainly as a result of credit extended to the National Finance Corporation and the discount houses to assist them in meeting the withdrawal of call money referred to above, the Reserve Bank's total discounts, advances and investments declined again to R89 million at the end of May. At that date the Bank's legal reserve ratio was still as high as 84.8 per cent.



## CREDIT POLICY AND SHORT-TERM INTEREST RATES

Since the reduction of Bank Rate from 4 to  $3\frac{1}{2}$  per cent in November of last year, no major changes have been effected in official credit policy. Notwithstanding the tendency for the liquidity of the private sector to level off and that of the banking system to decline somewhat from the high level previously attained, the general monetary and banking situation has remained one of comparative ease, and since the current upswing in total spending and economic activity has not yet exerted undue pressure on either the general price level or the balance of payments, the monetary authorities have not deemed it necessary to apply restrictive credit measures of any kind.

Nevertheless, as a result of the decline in the liquidity of the banking system and the moderate tightening of the money market, the Treasury bill tender rate and related money rates have gradually moved upwards. The Treasury bill rate, for example, increased from a low point of 1.80 early in December of last year to 2.16 on the 21st June of this year. In consequence, the gap between these rates and Bank Rate, although still disproportionately large, has narrowed noticeably.



As in former years, the authorities again transferred a part of the Government's deposits from the Reserve Bank to the money market during the period March to June in order to help relieve the strain caused by the movement of tax funds. During the earlier part of the year the position was also prevented from tightening further by the return of some of the funds which the commercial banks had been allowed to invest abroad during the preceding months, when the pressure of funds in the money market had been strong.

## CAPITAL MARKET

In the capital market there has been a better balance between demand and supply during recent months than for some time previously. Although this was partly the result of the *permit* and *arbitrage* schemes of exchange control relaxation, which helped to increase the supply of scrip, it would appear to have been mainly attributable to the further upswing in economic activity and the spate of new issues by both the public and private sectors which have accompanied it.

In these circumstances the Reserve Bank was only called upon to make moderate sales and purchases of Government securities, and gilt-edged rates remained stable at the relatively low level to which they had declined by the fourth quarter of last year.

After rising to a fifteen-year peak of 171 in February, the index of industrial and commercial share prices (1953=100) moved slightly downwards to 168 in April. This was the first decline since June of last year. Similarly, the index of gold mining share prices rose to a peak of 121 in February, before declining slightly to 119 in April.

In general, therefore, it would appear that while capital market conditions have remained comparatively easy and conducive to economic expansion, with most kinds of funds readily available, the downward tendency in both interest rates and yields which gradually began from about the second half of 1961 and gained momentum during 1962, has now been arrested.



## Indices — Excluding Seasonal Changes (1953=100)

	1962				1963	
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	Apr.
Bank Debits .....	215	219	238	248	259	264
Discounts and Advances of Commercial Banks .....	186	183	181	183	192	195
Stock Exchange Turnover .....	197	299	373	387	397	453
Value of Gold Production .....	206	212	219	225	229	231
Value of Imports .....	114	115	129	134	139	144
Value of Exports .....	156	171	163	151	158	167
Railway Earnings .....	167	170	174	180	185	.....
Value of Retail Sales .....	116	118	119	124	124	130
Value of Property Transactions .....	84	97	108	107	114	132
Value of Building Plans Passed .....	79	85	96	111	120	120
Employment:						
Private Manufacturing .....	120	121	123	124	126	.....
Private Construction .....	106	109	110	107	100	.....
Mining .....	125	122	124	126	122	120
Unemployment .....	276	262	230	191	183	181